BALANCED REGULATORY REPORTING, JOURNEY-ORIENTED FRAMING, AND ROOT-CAUSE IDENTIFICATION

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NANYANG BUSINESS SCHOOL

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Doctor of Philosophy

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Statement of Originality

I hereby certify that the work embodied in this thesis is the result of original research, is free of plagiarised materials, and has not been submitted for a higher degree to any other University or Institution.

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Venkatasubramanian Sreekrishnan

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यादेवी सर्वभूतेषू बुद्धिरूपेण संस्थिता।
नमस्तस्यै, नमस्तस्यै, नमस्तस्यै नमोनमः ||
(*"I repeatedly prostrate in reverence to that divine mother, who manifests herself as the intellect in all creatures in this universe"* – Chapter 5, Devi Mahatmyam)

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सर्वेषां शान्तिर्भवतु

(May peace prevail everywhere and upon every creature in this universe)

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SUMMARY

I conduct two experiments to study how regulatory reporting of good auditing practices affects investor judgments when there is an audit deficiency subsequently in a similar audit area ("undesirable volatility'), and whether regulatory framing of audit quality in terms of a journey ("Journey-oriented framing") moderates investor judgments in this specific situation. Experiment 1 also examines whether investor judgments, give the undesirable volatility, are incrementally affected by awareness that the audit firm had identified root-causes for the reported good audit practice ("RCI awareness"). I predict that an audit deficiency will have a stronger negative impact when a good auditing practice in a similar audit area was reported previously, and that the stronger negative impact will be attenuated with a journey-oriented framing of audit quality. Findings from both experiments support my prediction. I do not make a directional prediction about the incremental effect of RCI awareness. Findings from experiment 1 suggest that RCI awareness may have an incremental positive effect, but only when there is no journey-oriented framing. These findings have practical implications for regulators and audit firms.

Chapter 1: Introduction

I study how regulatory reporting of good auditing practices ("Balanced reporting"/"GP reporting") affects investor judgments if there is a subsequent audit deficiency in a similar audit area, and whether regulatory adoption of a journey-oriented framing of audit quality moderates the effect. In this context, I also study whether investors' awareness that a root-cause was identified for the reported good practice ("RCI awareness") incrementally affects their judgments.

The PCAOB's current inspection reporting style - *reporting only deficiencies* - is overly pessimistic and critical, causing audit firms to be antagonistic about inspections (Johnson et al, 2019) and adopt dysfunctional approaches aimed just at inspection management. (Bhaskar, 2020; Hendricks et al, 2022; Austin, 2023; Winn, 2021; Detzen et al, 2024). This atmosphere has increased the stress levels of US auditors, casting doubts on the ability of the auditing profession to retain and attract talent. (Johnson et al, 2019; Westermann et al, 2019; Hermanson et al, 2016). It is also questionable whether the current regulatory atmosphere can foster a truly balanced assessment of audit quality among stakeholders. In the backdrop of this concern, the PCAOB has considered reporting good auditing practices observed in inspections (Dunhke, 2019). Reporting good auditing practices constitutes a more balanced reporting and marks a significant shift in the inspection philosophy. A balanced reporting regime may re-orient audit firms to focus on holistic enhancement of audit quality instead of inspection management. Balanced reporting may also foster a more balanced assessment of audit firms and audit quality among stakeholders.

Auditing research on the effects of reporting audit strengths/good auditing practices is nascent. The only other study that looks at this phenomenon is by Cohen et al (2022). Cohen et al show that reporting audit strengths positively influences investor judgments. While this

constitutes important initial evidence in support of balanced reporting, little is known about whether and how balanced reporting affects stakeholder judgments in future time periods. Studying how balanced reporting can affect future judgments is essential to understand the holistic impact of the regulatory policy over a period of time.

In my study, I examine the effects of balanced reporting on future time periods by adopting a multi-period setting.[1] I study how investor judgments change from time "t" to time "t+1", when good auditing performance is volatile. I adopt a particular setting where the regulator reports a good auditing practice in an audit area (at time "t") and there is an audit deficiency subsequently in a similar area (at time "t+1') – "*undesirable performance volatility.*"[2] Undesirable performance volatility is common in practice. For example, in 2023, the FRC reported that Deloitte was very effective in examining inputs into provision models, but in 2024, it observed that there were deficiencies in testing the accuracy of inputs into provision models. Similarly, in 2019, the FRC reported that KPMG had deployed high quality auditing procedures to assess going concern, but in 2020, observed that the audit procedures to assess going concern were insufficient. Appendix A provides another five real-life examples. From a theoretical standpoint, contributing factors to this phenomenon include reduced audit efforts, increased difficulty to perform audit procedures, strategic gravitation towards client satisfaction, and other firm dynamics.[3]

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[1] While I cite different examples from practice to highlight different regulatory practices, I do not write this paper for any specific audit regulator. I also do not make any overt insinuations about any specific regulatory practice, which might have been adopted and practiced for reasons best known to the regulator.

[2] I label this phenomenon as undesirable performance volatility (or just "undesirable volatility') because a good practice is followed by a deficiency. This can also be considered a type of performance reversal. Since, the subsequent deficiency is not the reversal of the exact good practice reported earlier, I limit the reference to this setting as a performance reversal.

[3] These theoretical reasons are discussed in more detail in Chapter 2 (Section 2.3). These reasons for undesirable performance volatility significantly explain volatility in the performance of the same audit engagement between two time periods. An essential question to consider is whether the same audit engagement will be chosen for inspection in two consecutive time periods. Regulatory inspectors usually follow a risk-based approach while selecting engagements for inspection and it is well possible that a particular engagement is judged necessary to be inspected in the current inspection cycle even if it was inspected in the previous cycle. Further, regulators also select engagements on a random basis to ensure unpredictability. Hence, even if not on a risk-basis, on a

When a good auditing practice is followed by an audit deficiency subsequently, how the situation is construed becomes important in how judgments are made. Prior research shows that events which have an element of surprise can trigger sensemaking (Maitlis and Christianson, 2014; Louis, 1980). Balanced regulatory reporting, although holistic and broader, introduces the need for *active sensemaking* when there is an undesirable volatility in the reported good performance. A large proportion of individual retail investors may not possess expertise in accounting and auditing, and may generally lack visibility into audit engagements and the overall functioning of audit firms. Hence, they will greatly benefit if they receive credible guidance in sensemaking of the situation.

In this study, I look at one possible mechanism by which regulators can constructively guide investor sensemaking. I examine whether adopting a *journey-oriented framing* of audit quality moderates investor judgments when they are faced with an undesirable volatility in auditing performance. Audit quality, in simple terms, refers to the quality of work done by auditors to provide assurance. Journey-oriented framing refers to metaphorically framing a firm's audit quality initiatives/outcomes in terms of a journey.[4] For example, framing an audit firm's initiatives to improve quality as a part of an ongoing audit quality journey is an example of journey-oriented framing.

Studying the effect of journey-oriented framing is important from practical and theoretical perspectives. In practice, inspection reports differ in their level of journey-orientation. For

random unpredictable basis, an engagement may be chosen for inspection in two consecutive cycles. Having said this, it is also possible that a good auditing practice reported in time period "t" could be related to a certain audit engagement and the subsequent deficiency in time period "t+1" could be related to a different audit engagement. Or perhaps the good practice can be from one audit office and the subsequent deficiency could be from another audit office (Large audit firms may have more than one office). However, inspection reports are usually issued at the firm-level. According to prior research, individual investors are prone to heuristic information processing and therefore may make firm-level judgments based on inspection observations. Hence it is important to understand how investors make such firm-level judgments when there is undesirable volatility at the firm-level. Future research can focus on whether investor judgments change when they are explicitly told about these dynamics pertaining to the performance volatility.

[4] For this study, I adopt a very simple definition of journey - movement from one point to another across a time continuum.

example, the PCAOB's inspection reports and the ASIC's inspection reports are not journey-oriented – they just list out their observations. On the other hand, the FRC's reports are journey-oriented, since they describe an audit firm's "audit quality journey" (See Appendix B and Appendix C for examples). Prior research at the intersection of linguistics and cognitive psychology has established the usefulness of metaphors in enhancing understanding/sensemaking. Metaphorical framing is shown to impact understanding of concepts and sensemaking of related situations. For example, framing "crime" as a "virus" versus as a "beast" differentially impacts how the concept of crime is viewed and how the solution to reduce/eliminate crime is made sense of (Thibodeau et al, 2011). Metaphorical framing of audit quality in inspection reports will likely impact investor understanding and sensemaking of audit quality and connected situations (example: volatility in audit quality/performance). Inspection reports which adopt a journey-oriented framing of audit quality are likely to lead investors to also adopt a journey-oriented understanding of audit quality and therefore a journey-oriented sensemaking of the performance volatility situation. At the outset, little is known at the outset about how journey-oriented understanding/sensemaking impacts investor judgments when reported good auditing performance is volatile.

To the extent the underlying goal in a balanced reporting regime is to foster balance in assessment, judgment, and decision making, it is imperative to know whether journey-oriented framing positively contributes. Promoting balanced judgments is explicitly necessary in situations when they can be easily jeopardized otherwise. An undesirable performance volatility naturally jeopardizes the propensity to make balanced judgments. Studying whether journey-oriented framing can moderate judgments in this setting helps to unearth the power of such framing in contributing to the larger goal underlying a balanced reporting regime.

In summary, by examining the moderating effect of journey-oriented framing given undesirable volatility, my conceptual model shows how balanced reporting can create the need for active sensemaking in certain practical situations and whether journey-oriented framing can aid sensemaking in such situations.

As an add-on to this model, I examine whether investor judgments are incrementally affected by awareness that the audit firm had identified root-causes that led to the good auditing performance which is volatile – *"RCI Awareness"*. Incremental effect (if any) informs whether and how RCI awareness affects sensemaking of the undesirable volatility situation. The pattern of interaction (if any) of RCI awareness with journey-orientation can help establish whether investor awareness of RCI offers incremental sensemaking power of the situation when investors have already adopted a journey-oriented mindset. Studying the effects of RCI awareness is also important from a practical standpoint. Regulators motivate audit firms to perform root-cause analysis to foster audit quality in the longer run.[5] While root-cause analysis is traditionally performed in connection with audit deficiencies, audit firms are also seen extending it to areas of good performance.[6] Firms issue public responses to inspection reports where they report findings from their root-cause analysis.[7] Little is

[5] The ICAEW defines root-cause analysis as a technique for identifying the underlying root-causes for the identified deficiencies reported in reviews and regulatory inspections. In the context of quality control (QC 1000), PCAOB highlights the need and importance of performing root-cause analysis.

[6] I provide 4 examples of auditing firms extending root-cause analysis to areas of good performance. These examples are taken from public responses issued by audit firms to inspection reports issued by the FRC.

- Example 1 – KPMG (2025): "We have performed RCA for all findings, ***including areas of good practice***…"
  (Critical thinking mindset, targeted supervision, proper resource planning/allocation were identified as the key contributing factors)
- Example 2 – EY (2024): "Our RCA process also ***focuses on positive quality outcomes***…."
- Example 3 – Deloitte (2023): "We have performed root-cause analysis for all findings across all FRC inspections, ***including areas of good practice***."
  (Early involvement of senior management, regular interaction among audit team members and with specialists, and strong project management were identified as key contributing factors)
- Example 4 – PwC (2022): "…the CIT has focuses on the factors leading to higher rated engagements ***and examples of good practice identified***…"

[7] I observe that audit firm responses to PCAOB inspection reports are very brief and usually do not discuss root-cause analysis. On the other hand, audit firm responses to FRC inspection reports are more detailed and discuss root-cause analysis.

known about how investors respond to information about root-cause identification. Findings are important to inform audit firms about the effects of public reporting of root-cause analysis, especially when there is an undesirable volatility in good performance for which root-causes were identified already.

I focus on investor judgments because regulators consider investors as the key stakeholder group to which audit quality is directed (Brown and Popova, 2019) and investors value regulatory information as important signals of audit quality (Christensen et al, 2016). The PCAOB believes that the key purpose of regulation is to foster public interest in the preparation of informative, accurate, and independent reports. Public statements of the PCAOB underscore the board's commitment to investors and that information on audit quality is targeted towards investors. For example, in the words of Erica William, the PCAOB chairperson – "*We challenged the audit profession to do better for America's investors, and these significant improvements demonstrate real progress in protecting investors*" (Wall Street Journal article dated 31st March 2025).[8] Investors value information on audit quality indicators and form affective reactions against auditors based on the valence of audit quality indicators (Brown and Popova, 2019). Inspection reports serve as a direct independent source of information about audit quality, which largely remains unobservable to the public. According to survey findings of Christensen et al (2016), non-professional investors consider inspection findings as important indicators of audit quality and view reported deficiencies as indicators of poor audit quality.[9] It is therefore important to study

[8] https://www.wsj.com/articles/big-four-auditing-shortfalls-wane-in-latest-inspections-after-regulator-push-19705221

[9] While investors view inspection outcomes as important indicators of audit quality, an important question is whether non-professional retail investors read inspection reports in detail. Inspection observations, especially those pertaining to larger audit firms, get significant media coverage. News articles on famous media like the Wall Street Journal (WSJ) sufficiently summarize inspection outcomes. WSJ articles not only emphasize the firm-level deficiency rates and how they compare to previous years, but also summarize the audit deficiencies at a firm-level. For example, WSJ article dated 15th August 2024 (https://www.wsj.com/articles/big-four-auditing-deficiencies-level-off-in-latest-inspections-962f3142) compares deficiency rates among the Big-6 audit firms and summarize reported deficiencies at a firm-level. The article also talks about audit firms' investments in audit

investor judgments in a balanced reporting regime when they learn not only what the auditors have not done well, but also what they have.[10] While Cohen et al (2022) have shown that balanced reporting positively influences investor judgments, my chosen setting of performance volatility helps understand practical situations when balanced reporting can negatively influence investor judgments and whether this can be overcome through a journey-oriented framing by the regulator.[11]

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quality initiatives. These news articles help to fluidly carry inspection information to investors. Further, upon the release of inspection reports and the media's coverage, investors are seen to discuss inspection related information in online forums like r/investing – a reddit investor community (Example: https://www.reddit.com/r/investing/comments/13dzrqc/us_watchdog_says_it_found_unacceptable_problems/)

[10] The WSJ article (15th August 2024) discussed in footnote 9 has information about audit deficiencies. An important question is whether media articles also include information about good auditing practices reported by the regulator, information about root-cause analysis by audit firms, and some journey-oriented framing in general. At the outset, the PCAOB has yet to start reporting good auditing practices at the firm-level. Therefore, articles focused on the US setting have yet to start including information about good auditing practices. It is expected that media articles in the US setting will incorporate information about good auditing practices at the firm-level once PCAOB begins to report good auditing practices at the firm-level. Similarly, audit firm responses to PCAOB's inspection reports do not discuss root-cause analysis in detail. Therefore, media articles in the US setting also do not usually contain information about root-cause analysis at this point. That said, I provide some examples which are non-US based. These examples are certainly not of articles appearing in media as famous as the Wall Street Journal or Financial Times. However, these are media which are accessible to investors:

- Example 1- Good practice reporting: An ***article dated August 5, 2024*** in ***Accountancy Age*** clearly summarizes the good auditing practices reported by the FRC at the firm-level. For a couple of audit firms, the summary is also in a bullet-point format, making the information easily digestible even for someone who just chooses to skim through (https://accountancyage.com/2024/08/05/what-did-we-learn-from-the-frcs-latest-audit-quality-review/)
- Example 2 – Root-Cause analysis: The ***ASIC newsroom*** features a media release (dated October 19, 2022) which details how the Australian regulator observes the voluntary root-cause analysis performed by six large audit firms (https://www.asic.gov.au/about-asic/news-centre/find-a-media-release/2022-releases/22-283mr-asic-reviews-root-cause-analysis-at-six-largest-audit-firms/) and ***THE BULL***, a large stock market news website in Australia, published an article (dated October 19, 2022), summarizing the ASIC's observations of root-cause analysis at audit firms in Australia (https://thebull.com.au/news/asic-reviews-root-cause-analysis-at-six-largest-audit-firms/)
- Example 3 – Journey-oriented writing: The Accountant Online published an article (dated August 1, 2024) which covers the FRC's annual inspection results (https://www.theaccountant-online.com/news/frc-publishes-annual-tier-1-audit-firm-inspection-results/?cf-view). As a part of the coverage, some "journey-oriented sentences" of the FRC find place in the article. As far as the article is concerned, these would be journey-oriented framing. For instance, the FRC's statement about *how audit quality improvements can take time* and *how audit firms have taken audit quality efforts over years* suggest how the pursuit of audit quality forms part of a longer ongoing journey.

[11] When investor judgments are studied in a performance volatility setting, an important consideration for external validity is whether investors can remember inspection information from a previous time period when they read inspection information for a particular time period. Regulators may choose to make references to prior period outcomes in the inspection report, facilitating the reader to connect the current time period with the prior periods. A couple of examples from the FRC context:

Example 1 (2024 inspection report of PwC): "*The findings that contributed most to this year's inspection results related to the audit of impairment assessments. We have previously identified key findings and examples of good practice in this area."* In this example, the regulator explicitly links the current period deficiency with a

To replicate the findings of Cohen et al (2022), albeit with important differences in the experimental design, I first predict an independent effect of good practice reporting on investor judgments.[12] Given the credibility that public audit regulators generally hold among investors (Christensen et al, 2016), I hypothesize that regulatory reporting of good auditing practices will increase investor judgments about the audit firm and also their willingness to invest in companies audited by the audit firm.

The main focus of my study, however, is to examine how investors respond to undesirable volatility in good auditing performance reported by the regulator. To develop hypothesis in this regard, I consider theory on expectancy formation and violation and theory on metaphorical framing. According to the former theory, an audit deficiency will be judged more severely when it follows a good auditing practice in a similar area in a prior period. When the regulator reports a good auditing practice, investors are likely to increase their future expectations of good performance. A subsequent deficiency in a similar area constitutes a violation of expectations, which will negatively impact investor judgments. The degree of negative impact, however, can vary based on how investors view the undesirable volatility situation and make sense of it. When good auditing performance is followed by deficiency in a similar area, the violation of expectations triggers concerns about waning audit quality. Therefore, how the concept of audit quality is construed will impact how the situation is made sense of and responded to. From an investor standpoint, audit quality is a relatively abstract concept, and investors would greatly benefit from constructive guidance on

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good practice in the same area in a previous period. This exactly mirrors the setting I have adopted for my experiment.

Example 2 (2024 inspection report of KPMG): *"The findings that contributed most to this year's inspection results related to the audit of estimates and risks. Both areas have arisen on previous cycles and the latter was mirrored in the firm's internal quality monitoring process."* In this example, the regulator connects the current period deficiency with the previous cycles.

[12] Footnote 21 in section 2.4 explains the important differences in the experimental design that Cohen et al have adopted for their study and the design that I have adopted for my study.

how to construe the concept of audit quality, thereby impacting their sensemaking of the situation.

Theory suggests that the understanding of abstract concepts can be enhanced by metaphorical framing of the concept, whereby an abstract concept is framed in terms of a seemingly dissimilar concept which is more concrete and simpler (Landau et al, 2010; Thibodeau et al, 2017). I predict that a journey-oriented framing of audit quality can temper investors' negative reaction to the undesirable volatility situation. A journey-oriented framing is more likely to lead investors to adopt a journey-oriented mindset about audit quality outcomes. Since fluctuations and impediments are usually a part and parcel of journeys, the undesirable volatility situation will be relatively more acceptable and forgivable when audit quality is construed in terms of a journey than when it is not. Higher acceptance and forgiveness of the situation will reduce the negative impact on investor judgments.

In summary, I predict that an audit deficiency will lead to more negative investor judgments when it follows a good auditing practice in a similar area, and that this negative effect will be attenuated by a journey-oriented framing of audit quality. Regarding the incremental effects of RCI awareness in this context, I do not make directional predictions but only ask an open-ended question.

To test my hypothesis and answer my open-ended questions, I conduct two experiments. Experiment 1 is between-participants study with 211 investor participants from Prolific. Participants read textual information describing the outcomes of regulatory inspection of an audit firm for two successive time periods – "t" and "t+1". For time t, the participants are shown excerpts from the regulatory inspection report. In these excerpts, I manipulate the regulator's good practice reporting at 3 levels – no good practice reported (No GP), good practice reported (GP), good practice reported and the audit firm reports root-cause

identification (GP+RCI).[13] In the No GP condition, the excerpts from the inspection report contain just two audit deficiencies. In the GP and GP+RCI conditions, these excerpts also contain one good auditing practice that the regulator reported. The excerpts include the audit firm's response. In the No GP and the GP conditions, the audit firm's reference to root-cause identification is only with respect to the reported deficiencies. In the GP+RCI condition, the audit firm's root-cause identification is also for the reported good practice. I also manipulate the presence or absence of journey-orientation in these excerpts. Across all conditions, the excerpts mention the audit quality initiatives of the audit firm. In the journey-orientation absent condition, the regulator just mentions the different audit quality initiatives. In the journey-present condition, the regulator weaves these audit quality initiatives in a progressive timeline and makes a metaphorical reference to audit quality in terms of a journey. The weaving of audit quality initiatives into a timeline and the metaphorical reference constitute the journey-framing manipulation. There are 6 (3X2) experimental conditions in total, and I randomize participants across these conditions. At t+1 (Subsequent period), participants are informed briefly about a certain audit deficiency. Participants in the GP and GP+RCI conditions have seen a good auditing practice in a similar area at time t, while those in the No GP condition have not. Hence, the No GP condition serves as a control group. Participants make audit quality and investment judgments at both time periods after reading information about the inspection outcomes. At t+1, participants also indicate their vote in favor of appointing/re-appointing the audit firm. Finally, participants answer some post-experimental process-oriented questions and demographic-related questions.

[13] The regulator reports the good practice in the inspection report. The audit firm reports the root-cause identification for the good practice in its response. The complete inspection report posted for public viewing consists of the audit firm's response too. Therefore, I nest the root-cause identification in the good-practice reporting construct by having Level 3. *More details about this experiment can be found in the section on research design. The instrument of the experiment can be found in the appendix.*

The results of experiment 1 do not show a significant effect of good practice reporting on Stage 1 judgments made at time t. Therefore, the hypothesis on the independent positive effect of good practice reporting on investor judgments does not seem to be supported. Regarding the hypothesis about investor response to undesirable performance volatility, results show an interaction as predicted. Following the audit deficiency at t+1, the drop in investor judgments is significantly greater when a good practice was reported at t, but only when journey-oriented framing is absent. Similarly, investors' vote in favor of auditor appointment at t+1 is significantly lower when a good practice was reported earlier, but again only when journey-oriented framing is absent. This shows the moderating effect of journey-orientated framing as predicted. To gain some insights into the potential mechanisms, I analyze the GP condition further.[14] For this subgroup, I study how journey-orientated framing affects investor judgments and auditor appointment vote. I find that journey-orientated framing has a significant indirect effect through *acceptability and forgiveness*. Journey-orientated framing increases investors' acceptability of performance fluctuations and forgiveness of the situation, thereby positively affecting investor judgments. Regarding the incremental effects of RCI awareness, I find that the incremental effect is conditional based on the absence or presence of journey-orientated framing. RCI awareness attenuates the negative impact of undesirable volatility, when journey-oriented framing is absent. However, when the negative impact is already attenuated by journey-oriented framing, RCI offers no incremental attenuating effect.

Experiment 2 is conducted to replicate the findings, with a manipulation of journey-orientation that is relatively clean. Although the manipulation of journey-oriented framing in

[14] I focus on the GP condition specifically because this condition is the most important from the perspective of my study. The chief focus of my study is to understand the moderating role of journey-orientation when there is an undesirable performance volatility. Participants in the GP condition learn about good performance in t and the reversal of good performance in t+1.

experiment 1 closely mirrors practice, the manipulation has a couple of confounding factors which could potentially introduce some noise. Further, the manipulation of journey-orientation in experiment 1 was significantly tied to specific audit quality initiatives undertaken by the audit firm (example: the firm's investment to coach staff). Experiment 2 adopts a manipulation which is not linked to any specific initiatives or investments that the firm has undertaken, thereby focusing exclusively on the psychological construct underlying journey-oriented framing. Since the primary focus of the study is on good practice reporting and journey-orientation, the focus of experiment 2 is also on these two. RCI awareness is outside the scope of this experiment.

For experiment 2, 302 participants were recruited from Prolific. Participants first read some background information about a fictional audit firm and then about a fictional audit regulator. This was followed by excerpts from the regulatory inspection report which contains inspection outcomes for the first period ("t"). The manipulation of good practice reporting and journey-orientation were embedded in the excerpts that participants read. Good practice reporting was manipulated at 2 levels – No GP and GP. Participants assigned to both conditions saw an audit deficiency, but participants assigned to the GP condition also saw one good auditing practice. The good auditing practice is about effectively challenging management assumptions in the context of intangible assets. Journey-oriented framing was manipulated at 3 levels. The two levels that were included in the primary analyses are "No Journey" and "Journey". In the "Journey condition", the excerpts contain regulatory statements about the audit firm's ongoing audit quality journey and about continuing the journey. The metaphorical framing explicitly uses the word "journey". In the "No Journey" condition, there is no metaphorical framing of audit quality. The excerpts do not contain any regulatory statements about the audit firm's audit quality journey. The third level of manipulation – "Endeavor" condition – is similar to the journey condition with the only

difference that the word “journey” is replaced with the word “endeavor”. This condition is not included in the primary analyses and is only used for comparison in the additional analyses. Comparison between the “Journey” condition and the “Endeavor” condition help to understand the importance and efficacy of specific metaphorical references to the word “journey”. The regulatory statements in all the conditions do not make any reference to any specific audit quality initiatives that the audit firm has undertaken or any specific audit quality investments. Assignment of participants to conditions were on a random basis. In experiment 2, in addition to reading the regulator’s journey-oriented framing, participants are also prompted to engage in a short reflection exercise. Participants in the Journey condition are asked to think about what an audit quality journey means and what it would entail. Those in the No Journey condition are asked to think about what audit quality refers to. Those in the Endeavor condition are asked to think about what audit quality endeavors mean. After reading the excerpts and engaging in the reflection exercise, participants judge audit quality, indicate their vote to retain the auditor for the next period, indicate their willingness to invest in companies audited by the audit firm and the amount of money they are willing to invest. These Stage 1 judgments are made at time t. Subsequently, participants learn about the inspection outcome for the subsequent period – t+1. They learn about the audit firm’s deficiency in auditing inventory. The deficiency is about testing the assumptions made by the client in the context of inventory valuation. For those participants in the GP condition, this deficiency marks an undesirable volatility in good performance. After learning about the inspection outcomes for the period t+1, participants make the same judgments that they made earlier. Finally, participants answer some post-experimental questions which include demographic questions.

Results of experiment 2 show a significant positive effect of good practice reporting on stage 1 judgments that investors make at time t. This supports the hypothesis about the positive

effect of good practice reporting. Regarding the hypothesis about investor response to undesirable volatility, the results replicate the findings from experiment 1. Following the audit deficiency at t+1, the drop in investor judgments is significantly greater when a good practice was reported at t than when a good practice was not reported, but this negative effect materializes when there is no journey-oriented framing and it does not materialize when there is journey-oriented framing. This finding underscores the moderating effect of journey-orientated framing as predicted and as seen in experiment 1. Additional analyses suggest that judgments of participants in the Endeavor condition drop significantly more than those of participants in the Journey condition when they are exposed to an undesirable volatility in good auditing performance. This finding further highlights the power of the journey metaphor in attenuating the negative impact of the volatility and the centrality of it in a regulator's journey-oriented framing.

My study makes several contributions. Mine is the first study to look at the effects of balanced inspection reporting on investor judgments in subsequent time periods. My overall findings inform regulators that reporting good auditing practices can have carryover effects on investor judgments in the future. Reporting good auditing practices in addition to audit deficiencies may ease the situation for audit firms in the moment, but may bind them to higher standards of responsibility to keep up the good performance not just in the same area, but also in similar areas, lest they face harsher investor judgments. With a balanced reporting regime, audit firms may want to ensure they maintain consistency in good performance over time. My novel findings regarding the moderating role of journey-orientated framing shows how metaphorically framing audit quality in terms of a journey can foster balanced assessment even in situations which naturally trigger harsh judgments. This finding informs regulators about the power of metaphorical framing audit quality in terms of a journey, and thereby how they can perhaps promote metaphorical thinking among investors.

My study establishes that balanced assessment can be truly achieved only when both balanced reporting and journey-oriented framing are adopted. The former without the latter may arguably be less effective. While my findings about journey-oriented framing are in the context of the regulator adopting such framing, these findings are also informative to audit firms. Audit firms issue public responses to inspection reports, and given the efficacy of the journey metaphor, audit firms can also perhaps adopt a journey-orientated framing of their audit quality pursuits (Refer Part 3 of Appendix B for real examples). Finally, my findings regarding RCI awareness (experiment 1) suggest that reporting root-cause identification can be helpful, but not incrementally when regulators already frame audit quality in terms of a journey.

Chapter 2: Background, relevant literature, theory, hypotheses, and open-ended research questions

In Chapter 2, I briefly discuss the institutional background for audit regulation (Section 2.1), review the relevant literature (Section 2.2), discuss the theoretical motivation for my study's setting – *undesirable performance volatility* (Section 2.3), develop testable directional hypothesis for testing (Section 2.4), and raise testable non-directional open-ended research questions (Section 2.5).

2.1 Institutional Background

Accounting scandals around the globe led to the rise of public audit regulation, wherein independent public regulatory bodies oversee the auditing profession. Following the infamous Enron scandal, the Sarbanes-Oxley (SOX) Act (2002) was passed, leading to the formation of the Public Company Accounting Oversight Board (PCAOB). The PCAOB regulates the auditing profession in the United States. Counterparts in other nations undertake public audit regulation in their respective nations. For examples – the Financial Reporting Council (FRC) in the United Kingdom, the Australian Securities and Investments commission (ASIC) in Australia, the Dutch Authority for Financial Markets (AFM) in Netherlands, the National Financial Reporting Authority (NFRA) in India, etc.

Public regulators are tasked with a variety of responsibilities, including registration, standard-setting, oversight and inspection, and enforcement. Firms which audit publicly listed companies are usually required to be registered with the regulator and these firms are periodically inspected. When there are serious deficiencies and audit firms do not take reasonable and appropriate remedial actions, regulators may levy sanctions and enforce disciplinary action. Auditing research for about two decades has contributed to a vast literature on independent regulation of the auditing profession (Elshandidy et al, 2021).

Of direct relevance to this study is the responsibility of oversight and inspection and therefore the literature on the inspection function. When an audit firm is inspected, select audit engagements are reviewed in detail. A common practice followed by regulators is to adopt a risk-based approach when selecting audit engagements and audit areas for inspection. A risk-based approach is one where the regulator selects those engagements and areas which are deemed to have a higher risk of material misstatement. A sample selected based on a risk-weighted approach may be topped with engagements selected on a random basis to ensure unpredictability and increase representativeness of the sample of engagements inspected (Franzel, 2016).

After inspection, the findings are communicated to the firm and firms have the right to issue public responses. Usually, audit firm responses are centered around acknowledging the inspection observations and expressing commitment to work with the regulator on improving audit quality. Audit firms may also share more details on audit quality initiatives undertaken and the outcomes of root-cause analysis (if any). The inspection report, along with the audit firm's response, may be posted for public consumption.[15] Since the specifics of audit work done are usually not visible to the public, the inspection report serves as a significant source of audit quality indicators for retail investors and many other stakeholder groups.

Most research on regulatory inspections has been in the American context, focusing on PCAOB inspections (Abernathy et al, 2013), with some studies focusing on inspections in other geographies.

[15]The format and contents of the inspection report vary from regulator to regulator. Some reports may be more descriptive and long-winded, while others may be very brief and just to the point. Similarly, audit firm responses may also vary in length and contents, with some responses very brief and some others more descriptive.

2.2 Relevant literature

2.2.1 Overview

Outcomes of regulatory inspection affect different stakeholders – clients, litigators, jurors, and investors. Auditors therefore take regulatory inspections very seriously and aim to "pass" these inspections at any cost. In an overly critical inspection atmosphere, passing regulatory inspections may require auditors to adopt dysfunctional approaches which aid in inspection management but not necessarily in holistic enhancement of audit quality. Balanced reporting is a step forward to a less critical and more balanced oversight of audit firms, potentially impacting the different entities relevant in an auditing context.

In this backdrop, I organize my review of relevant literature into the following broad sections – (1) effects of regulatory inspections on stakeholder judgments, (2) auditor approach to inspections and the effects of a critical inspection atmosphere, and (3) balanced inspection reporting. I finally describe how my study offers novel contributions to auditing literature.

2.2.2 Effects of regulatory inspections on stakeholder judgments

Inspection findings are shown to significantly impact client decisions regarding auditors. Aobdia and Shroff (2017) show how non- US auditors gained 4% to 6% market share when they were inspected by the PCAOB and the reports made public. Clients view inspection outcomes as signals of audit quality (Abbott et al, 2013; Acito et al, 2018) and use them to make decisions regarding appointing, retaining, and replacing auditors. Prior research shows that clean inspections reports are important to clients (Johnson et al, 2019) and those whose specific audit engagement was judged by the deficient by the PCAOB are more likely to switch auditors and those whose audit engagement was not judged deficient are less likely to

do so (Aobdia, 2018). Therefore, not obtaining clean reports increases risk of losing business prospects.[16]

Unclean inspection reports not only pose a business risk to the auditors but also litigation risk. Litigation attorneys use PCAOB inspection reports as an important source of information when they contemplate about suing an audit firm (Christensen et al, 2021). When client-specific events are triggered, the public release of PCAOB reports with audit deficiencies increases the litigation against the auditors (Christensen et al, 2021). While deficiencies work against the auditor, clean findings work in favor. According to Grenier et al (2025), the defense attorney's introduction of a clean inspection finding reduces jurors' negligence assessment of auditors.

Finally, auditors care about their reputation among investors (Zhang et al, 2024). Although it is the client which generates revenue for the auditors, the audit deliverables are ultimately targeted at investors (shareholders) of the client. Unhappy investors can increase the auditor's litigation risk, the risk of public scrutiny, and consequently the risk of a damaged reputation. Investors are interested in audit related information to make related decisions. For example, the investor advisory group's recommendation to the board (recommendation #4 for meeting on June 7, 2023) that it release the inspection reports on time before shareholders have to vote on the auditor appointment, underscores the importance that investors place on audit related information.[17] Prior research also shows that inspection findings are direct indicators of audit quality to investors (Christensen et al, 2016) and that they develop affective reactions against the auditors based on the valence of the indicators (Brown and Popova, 2019).

[16] Despite its audit quality not being different from that of other Big-4 firms in the pre-censure (2005 to 2007) and post-censure (2008-2010) periods, Deloitte's ability to retain existing clients and attract new clients significantly dropped after the 2007 disciplinary order from the PCAOB.
[17] The IAG's recommendations can be found at https://assets.pcaobus.org/pcaob-dev/docs/default-source/about/advisory/documents/iag-june-7-2023/6.-sidt-recommendations.pdf

In essence, inspection findings affect the judgments of different stakeholders and consequently impact the auditors' business risk, litigation risk, and reputation risk. Auditors have every motivation to obtain clean inspection reports at any cost.

2.2.3 Auditor approach to inspections and effects of a critical inspection atmosphere

To avoid negative findings and obtain clean inspection reports, audit firms are shown to adopt both functional and dysfunctional approaches. Functional approaches include actions targeted at holistic enhancement of audit quality in spirit and cleaner inspection reports are just by-products. Legitimate efforts to remediate deficiencies (DeFond and Lennox, 2011; Kim, 2024) are examples. Dysfunctional approaches, on the other hand, focus purely on inspection management, with an aim just to pass the inspection. These approaches are not targeted to improve overall audit quality in spirit. Some examples include reducing audit efforts on engagements with low inspection risk (Bhaskar, 2020; McCallen et al, 2021; Winn, 2021), reducing audit efforts on engagements which were reported clean (Aobdia, 2018), unjustified shifting of audit efforts among account balances based on the level of inspection risk (Detzen et al, 2024), reducing reliance on data analytics when there is a high level of inspection risk (Cao et al, 2022), and focusing disproportionately on defensible documentation (Westermann et al, 2019).

In a study conducted by Austin (2023), auditors are shown to perceive fraud tasks as relatively less important and pay lower attention to fraud cues during substantive testing, if the audit partner does not emphasize defensible documentation. Dysfunctional approaches to manage inspections not only hurt overall audit quality, but also render several firm level initiatives like investments in technology and investments in fraud brainstorming moot.

Prior studies suggest that an overly critical and pessimistic inspection approach might be instrumental for these dysfunctional approaches. There is overarching antagonism and

unhappiness among auditors who dislike the aggressive, negative, and trial-like approach of the PCAOB inspections (Westermann et al, 2019; Johnson et al, 2019). These auditors comply with the inspections merely to avoid negative findings and enforcement (Hanlon and Shroff, 2022), while remaining skeptical about whether these inspections are well-aligned with misstatement risk and whether they are value-adding (Johnson et al, 2019). They believe that compliance with inspections causes them to place more emphasis on defensible documentation than on thoughtful auditing (Johnson et al, 2019; Westermann et al, 2019). However, given the several risks that arise from unclean inspection reports, auditors prioritize passing inspections. Hendricks et al (2022) show how audit firms even resort to hiring former PCAOB officers who can help on how to satisfy inspectors and pass inspections.

Audit firms are concerned that the stress and tension caused by inspections can affect the retention of auditors in the profession and the attraction of new talent (Johsnson et al, 2019; Westermann et al, 2019). This constitutes a serious issue, since turnover in audit firms is already flagged as a concern by the PCAOB and the CAQ. Interview findings of Hermanson et al (2016) show that PCAOB reviews have caused experienced managers and senior managers to leave. Audit partners believe that the stressful atmosphere under which staff auditors work increase the turnover likelihood and unattractiveness of the auditing profession (Hermanson et al, 2019).

In summary, a critical oversight atmosphere is shown to increase the stress levels faced by auditors, causing them to adopt dysfunctional approaches to manage inspections.

2.2.4 Balanced inspection reporting

In this background, the PCAOB has acknowledged the need to bring changes to its inspection approach (Duhnke, 2019). To mark a more balanced approach to inspections and to enable a more balanced assessment of audit firms, the PCAOB has considered reporting good auditing

practices in addition to audit deficiencies. In an open boarding meeting, prior chairman William Duhnke mentions the progress made in reporting not just failures but also good practices. At the outset, however, the good auditing practices observed during inspections are reported in inspection summaries at an aggregate level and not at the firm-level in firm specific inspection reports. It may be a matter of time that the PCAOB starts reporting good practices at the firm-level, since only firm-level reporting can foster a proper assessment of individual audit firms. The FRC, on the other hand, is already reporting firm-level good practices in firm-specific inspection reports.[18]

Balanced regulatory reporting may have many positive consequences. For one, audit firms may perceive the environment as less pessimistic and reduce their inspection management efforts. Stakeholders may be able to make a more balanced assessment of the audit firms, which was arguably not as possible hitherto. Auditing research about balanced reporting is nascent, with the only other published study by Cohen et al (2022) who provide initial evidence that balanced reporting significantly affects investor judgments.

2.2.5 Novel contributions to auditing literature

I build on this line of literature by studying how balanced reporting affects investor judgments in future time periods. For this study, I focus on a setting where there is an undesirable volatility in specific good auditing performance reported by the regulator – *a commonly occurring phenomenon in practice*. To my knowledge, my study is the first study to examine the effects of balanced inspection reporting on future period judgments. By leveraging the setting of undesirable volatility, my study is also the first to show how

[18] Throughout this paper, I cite examples from the inspection reports of PCAOB and FRC. This does not mean that other regulators or their reporting styles are less important or immaterial. I have just selected these two regulators as they represent the regulatory atmosphere in two large economies – United States and United Kingdom. Further, these regulators post firm-level inspection reports for public consumption, making it easy to observe different features of inspection reports in practice.

balanced reporting can introduce difficulty in sensemaking in some situations, thereby impacting investor judgments.

Given the above setting, I examine whether journey-oriented framing of audit quality moderates investor judgments. Prior studies in psychology and related domains have studied the effects of metaphorical framing in general and journey-oriented framing in specific. However, in an audit-regulatory context involving investment decisions, this will be the first study to examine the effects of journey-oriented framing.

Finally, my study also looks at the incremental effect of RCI awareness (if any). Prior research on root-cause analysis in audit firms is nascent. Nolder and Sunderland (2025) develop a hierarchical taxonomy for classifying the underlying causes of auditing deficiencies. However, little is known about what happens when audit firms share the outcomes of their root-cause analysis and how stakeholders respond to it. To my knowledge, mine is the first study to examine the effect of root-cause identification on investor judgments.

2.3 Theoretical motivation for study setting – *undesirable performance volatility*

In this section, I lay out the theoretical arguments in support of why good auditing performance can be volatile *(*refer to Appendix A for real-life examples*)*. I discuss 4 broad theoretical contributors – (1) reduction in audit efforts and resources, (2) gravitation towards client satisfaction, (3) increased difficulty of auditing procedures, (4) and audit firm dynamics.

2.3.1 Reduction in audit efforts and resources

Auditors may reduce audit efforts and resources between time periods for different reasons. For example, a fee pressure from the client may motivate auditors to reduce their budgeted

audit hours (Houston, 1999) and consequently reduce the depth of their testing (Asare et al, 2000) to stay within budget. On top of business dynamics, auditors may also reduce efforts strategically on engagements which were judged clean by the PCAOB or by internal inspection teams (Aobdia, 2018; Aobdia and Pettachi, 2023). Whatever the reason, a reduction in efforts can reduce audit performance and cause an undesirable volatility between time periods.

2.3.2 Gravitation towards client satisfaction

Auditors have always to trade-off between audit quality and client satisfaction. Prior studies in psychology on the moral licensing effect suggest that auditors might gravitate towards their client satisfaction goals if prior pursuit of quality enhancing actions are perceived as a license to do so.[19] To the extent regulatory reporting of good practices is a "regulatory praise", there are chances it could be construed as a moral license to shift focus to client satisfaction. A shift in focus can reduce audit performance and cause an undesirable volatility between time periods.

2.3.3 Increased difficulty of auditing procedures

Due to various factors, the difficulty of performing an audit procedure could increase from one period to another. This is especially true for audit of subjective estimates like fair value estimates, where the inherent uncertainty could fluctuate (Bratten et al, 2013, Ben and Griffin, 2012) across time. If auditors do not correspondingly increase their audit efforts it could lead to a reduction in performance.[20]

[19] Kim (2024) finds that clients record larger and more timely impairment of intangibles if their auditors were judged deficient by the PCAOB in auditing the valuation of intangibles. This could be because the auditors looked to remediate the deficiencies, and if so, they might look for opportunities to be more "client-friendly."
[20] Houston (1999) shows that auditors do not always increase their efforts when the situation warrants. In their study, they find that auditors who face a fee pressure from the client do not increase their budgeted audit hours even when the client risk increases.

2.3.4 Other audit firm dynamics

Finally, certain audit firm dynamics can also cause volatility in good performance. For example, changes in the composition of an engagement team may lower performance on the engagement, especially if the change involves removing members who were significant drivers of audit quality. Prior research (example: Choi et al, 2010) also shows that audit performance can differ between/among offices of an audit firm, contributing to performance volatility at the firm-level.

2.4 Hypothesis development

This study is about how balanced reporting affects judgments of investors when there is an undesirable volatility in auditing performance between two time periods. Correspondingly, a two-stage experimental design is adopted where investors make judgments at time period "t" (Stage 1) and time period "t+1" (Stage 2). Change in investor judgment from Stage 1 to Stage 2 helps to capture the effect of undesirable volatility between the time periods. However, before proceeding to develop hypotheses about the effect of undesirable performance volatility, I first develop hypothesis about the effect of balanced reporting on investor judgments at Stage 1 (time period "t").

2.4.1 Hypothesis 1 (effect of good practice reporting on investor judgments at Stage 1)

I predict that investor judgments at time "t" will be more positive when a good auditing practice is also reported in addition to audit deficiencies than when only audit deficiencies are reported. Investors lack direct visibility into the quality of audits performed and have therefore to rely on inspection information. As mentioned earlier, investors consider inspection reports to be credible sources of audit quality related information (Christensen et al, 2016). Therefore, whether the inspection reports are unbalanced or balanced in nature will affect how investor make judgments about the audit firm. When the regulator reports only

audit deficiencies, the unbalanced nature of the information will lead to investors to be relatively more critical of the audit firm and consequently less willing to invest in companies audited by the audit firm. To the contrary, when the regulator also reports good auditing practices, the balanced nature of the information will lead investors to make more balanced judgments about the audit firm and consequently be more willing to invest in companies audited by the audit firm.

Formally stated:

Hypothesis 1: *Investor judgments about the audit firm at Stage 1 will be more positive when the regulator reports good auditing practices in addition to audit deficiencies than when the regulator reports only audit deficiencies.*[21]

2.4.2 Hypothesis 2 (Effect of undesirable volatility in good auditing performance and the attenuating effect of journey-oriented framing)

Given the professional authority of a public regulator, investors will consider regulatory inspection reports as a credible source of insights into audit quality and form expectations based on inspection findings. When the regulator reports good performance in an auditing

[21] This hypothesis is not without tension. To the extent investors strongly believe that the purpose of regulatory inspection is just to unearth audit deficiencies, they may be less concerned about good auditing practices observed during the inspection. This may lead them to be indifferent to the information on good auditing practices.
Further, while this hypothesis about the positive main effect of good practice reporting at STAGE 1 is a replication of the finding from Cohen et al (2022), there are differences in the experimental design between Cohen et al (2022) and my study. ***First***, Cohen et al. adopt the label of "audit strengths" while I chose the label of "good auditing practices". It is possible that participants (investors) may understand "audit strengths" as innate/acquired/mastered ability to perform well in the specific audit area as the word "strength" has a reasonable connotation on these lines. On the other hand, the label "good auditing practices" is relatively less likely to insinuate innate/acquired/mastered ability in a certain audit area, instead just convey good performance/practices in a certain area for a certain observed period of time. ***Second***, in the textual material that participants read, Cohen et al share a definition of what audit strengths are ("exemplary procedures or best practices in going beyond requirements…."). In my study, I do not provide a definition to participants. ***Third,*** in Cohen et al.'s experimental design, there are 3 audit deficiencies in the condition where no audit strength is reported, while only 2 audit deficiencies in the condition where no audit strength is reported. In my study, I keep the number of audit deficiencies constant across all conditions and vary just whether a good auditing practice is reported. Given these differences, I posit that there is a higher chance of finding a positive effect of good practice reporting with the design of Cohen et al. Hence, I believe that replicating the findings in the setting that I adopt is essential to demonstrate the robustness of the positive main effect of good practice reporting.

procedure/domain, investors will have higher expectations for future audit performance in that or very similar audit procedures/domains. A subsequent audit deficiency marks a violation of expectations regarding audit performance. Violation of expectations triggers sensemaking (Louis, 1980; Maitlis and Christianson, 2014), and how individuals "make sense" of the situation can affect how they respond to it.

Theory on expectancy violations (Burgoon and Walther, 1990; Burgoon, 1993) suggests that violation of expectations regarding auditing performance will negatively affect investor judgments about the audit firm. In this setting, an audit deficiency negatively violates expectations, if a good auditing practice was reported earlier in a similar area. This violation could have a negative impact on investor judgments.[22] However, I posit that the degree of any negative impact will depend on how investors make sense of/construe the situation.

Since the violation of audit performance expectations automatically triggers concern about waning audit quality, how investors think about the concept of audit quality will impact how they construe the situation and how they respond to it. However, from an investor standpoint, audit quality is a relatively abstract concept since individual retail investors usually do not have visibility into the audits performed by audit firms. The abstractness of the concept underscores the need for constructively shaping its construal and the possibility to do so using appropriate tools. In this regard, individual investors may greatly benefit from any constructive guidance from audit regulators. I posit that a regulator's *journey-oriented framing of audit quality* – framing audit quality in terms of an ongoing journey - will influence how investors think about audit quality and how they respond to the undesirable performance volatility situation.

[22] A mild but interesting point of tension is that the very same source credibility that led to the formation of expectations in the first place can also encourage cutting of some slack. That is, to the extent the regulatory praise is inherently seen as prestigious and something invaluable, investors may also tolerate the violation a bit.

Prior research in cognitive psychology shows that metaphorical thinking enhances the comprehension of abstract concepts. A conceptual metaphor is a cognitive tool used to understand abstract concepts ("target domains") in terms of superficially dissimilar concepts that are more concrete and easier ("source domains") to comprehend (Gibbs, 1994; Landua et al, 2010; Thibodeau et al, 2011). Metaphorical thinking is a cognitive process of "metaphorical entailment", whereby characteristic knowledge about the source domain is transferred to the target domain to facilitate thinking about the latter (Landua et al, 2010).

When regulators adopt a journey-oriented framing of audit quality, investors are more likely to think about audit quality in terms of a journey, leading to a metaphorical entailment that maps the concept of audit quality to the concept of a journey.[23] Mapping audit quality to a journey will facilitate investors to view the pursuit of audit quality as an ongoing journey and audit firms as travelers in the journey. Importantly, audit quality will be perceived as lying on a continuum and performance outcomes are more likely to be viewed as a part of an audit quality journey than in isolation. Prior studies in other contexts support my theory. For example, following a conflict, couples are shown to express more satisfaction with their relationship, if love was framed as a journey (Lee and Schwart, 2014), and cancer patients are better able to make peace with fluctuations in the treatment/recovery process if cancer is framed as a journey instead of as a battle (Hendricks et al, 2018).

In the context of my study, when there is an undesirable volatility in auditing performance, investor judgments will first depend on much they accept the situation and then how much

[23] I leverage on the findings of Morris et al (2007) study the effects of metaphorical framing on individual investor judgments. In their study, they examine how investors respond to metaphors about price trends in market commentary. They find that agent metaphors which map price movements to volitional actions of an animate entity are more likely to increase investors' belief that the trend will continue than object metaphors which map price movements to external forces. An important take-away from this study is that investor judgments and decision making are shaped by metaphorical framing by entities of relevance like market commentators. In the context of audit quality, audit regulators are entities of relevance who can shape investors thinking through their use of metaphors.

they forgive the audit firm for it. In this context, it is unlikely that investors will forgive the audit firm without accepting the situation first. However, given acceptance of the situation, forgiveness is also particularly essential when investors have to form judgments/make decisions regarding continuing their economic relationship with the audit firm in some form. Since fluctuations and impediments are a part and parcel of journeys, I posit that journey-oriented framing will increase investors' acceptance and forgiveness, when there is an undesirable volatility in auditing performance. This will positively contribute to reducing the negative impact of the situation on their judgments. I formally state my hypothesis as follows:

Hypothesis 2: *An audit deficiency will have a stronger negative impact on investor judgments if the regulator had previously reported a good auditing practice in a similar area, and the stronger negative impact will be attenuated when the regulator adopts a journey-oriented framing of audit quality than when the regulator does not adopt this journey framing.*

2.5 Open-ended research questions (RQs)

2.5.1 RQ 1 (Moderating effect of journey-oriented framing on Stage 1 judgments)

Hypothesis 1 was about the positive effect of good practice reporting on investor judgments at Stage 1. Regarding whether journey-oriented framing moderates this effect at Stage 1, I do not make a directional prediction. At Stage 1, participants are yet to experience an unsettling event like an undesirable performance volatility. Further, in the experimental setting, Stage 1 information that participants are exposed to serve as a baseline. Therefore, the point of primary consideration is whether journey-oriented metaphorical framing will work in the first place.

According to prior research (example: Muller and Tag, 2010) the working of a metaphor depends on how much the metaphor is activated, thereby impacting the metaphoricity.

Sleeping/dormant metaphors are not activated or are only minimally activated while waking metaphors are highly activated. Activation of metaphors is a dynamic process (Muller and Tag, 2010), impacted by many factors including familiarity (Blasko and Connine, 1993), aptness (Blasko and Connine, 1993), context (Bambini et al, 2016), etc. The need for metaphorical thinking may also determine the level to which the metaphor is activated. At Stage 1, the need for visualizing audit quality initiatives/outcomes as a part of an ongoing journey is relatively lesser. Further, as mentioned above, since there is no unsettling event that requires the construal of the event as a part of a larger ongoing journey, it is possible that the journey metaphor may not be activated enough to impact Stage 1 judgments of participants. Inadequate activation may not lead to a significant moderation effect of journey-oriented framing. Therefore, I ask the following research question:

RQ 1: *Does journey-oriented framing moderate the effect of good practice reporting on investor judgments at Stage 1?*

2.5.2 RQ 2 (Incremental effect of RCI awareness, given undesirable volatility)

I do not make any directional predictions about the standalone incremental effect of root-cause identification or its interaction effect with journey-orientation. When a good performance is followed by an audit deficiency in a similar area, awareness that a root-cause was identified for the good performance may work in one of two ways.

One possibility is that investors may judge the situation more severely, leading to a stronger negative impact on their judgments. This could happen if the root-cause identification leads investors to have higher expectations regarding sustained good performance and view the subsequent deficiency as stemming from a poor implementation or continuation of the identified factors. The other possibility is that the investors consider root-cause identification as the audit firm's best effort to keep up good performance and view the subsequent

deficiency as happening despite these efforts. In this case, investors will judge the situation less severely, reducing the degree of negative impact on their judgments.

Whether journey-orientation can have a moderating effect is unclear. It is possible that the positive effect of journey-oriented thinking, discussed above, can cause investors to give the audit firm the benefit of doubt and be less harsh in their judgments. However, the tension in this argument is that those adopting a journey-oriented thinking could also believe that the audit quality journey is almost at its end because root-causes have been identified. The audit deficiency towards almost the end of the audit quality journey may be judged more seriously to the extent investors believe that end of the journey must mark stability and the lack of volatility. Owing to the different possibilities, I refrain from making directional predictions and instead ask an open-ended research question.

RQ 2*: Does reporting root-cause identification for good auditing performance incrementally affect investors' judgments when there is a subsequent audit deficiency in a similar area?*

Chapter 3: Experiment 1– Design

3.1 Participants

I recruit investor participants from Prolific, an online platform.[24] I prescreen the participant pool to only recruit those who currently reside in the United States, whose primary language is English, who are of a minimum age of 21, who have invested in equity stocks before, and who have an approval rate between 95% and 100%. I received 211 responses in total. Participants were paid GBP 2 if they completed the study. The average age is 39.73 years. All participants reside in the United States and about 92% are American citizens. 100 participants (47%) report their gender as "female" and the remaining 111 (53%) report their gender as "male". 172 participants (81.5%) have at least a bachelor degree, with 12 participants (5.7%) holding a doctorate degree. 55 participants (26%) hold a professional qualification in accounting and finance like the CA, ACCA, CPA, CFA, and FRM. On average, participants have taken 2 accounting courses and 1.68 finance/investment courses. On average, full-time work experience of participants is 14 years and their investment experience is 6 years.

3.2 Experimental flow and manipulations

Participants first provide their informed consent to participate in the experiment. After participants convey their informed consent to participate, they first read some background information about an audit firm – XYZ LLP, and then some background information about the concept of public regulation of the auditing profession. After reading background information, they proceed to read some excerpts[25] from a regulator's inspection report for 20X3.[26] These excerpts contain two parts – the regulator's section and the audit firm's

[24] The design has been reviewed and approved by the Institutional Review Board (IRB) at Nanyang Technological University (NTU), Singapore.
[25] Participants read excerpts from inspection reports. These excerpts are worded very similar to inspection reports found in practice. This is done to enhance the external validity of my experimental material.
[26] In this experiment, I do not name any specific regulatory institution. In experiment 2, I name a fictional regulator. In both experiments, I avoid naming a real institution (example: PCAOB, FRC, AFM, etc.) so that pre-conceived notions (if any) about any specific institution do not affect my findings.

response. The regulator's section briefly summarizes the inspection performance, refers to some audit quality initiatives, and lays out some specific observations. The audit firm's response acknowledges the regulatory observations, refers to a root-cause analysis performed, and acknowledges support to the regulator in the inspection process.

I embed all the experimental manipulations in these excerpts. In the journey-orientation absent condition, the regulator's section of the excerpts just mentions a few audit quality initiatives undertaken by the audit firm. In the journey-orientation present condition, the same audit quality initiatives are woven together in a timeline and the regulator makes a metaphorical reference to audit quality in terms of a journey.[27]

In the No GP condition, the specific observations are only about a couple of audit deficiencies. In the GP and GP+RCI conditions, the specific observations include one good practice about satisfactory challenge of management estimates, in addition to the same couple of audit deficiencies.[28] In the No GP and the GP conditions, the audit firm's response refers to root-cause analysis and identification of root-causes for the deficiencies alone. In the GP+RCI condition alone, the audit firm's response mentions that the root-cause analysis was also extended to the reported good practice and that a couple of key contributing factors were identified.

[27] I ensure that the audit quality initiatives are kept constant in all conditions to avoid informational differences about quality initiatives per se. Hence, the only difference between the journey-orientation - absent and present - conditions is the regulator's weaving together of these initiatives into a timeline and the metaphorical "journey" reference. Prior studies (examples: Lee and Schwartz, 2014; Hendricks et al, 2018) have shown that verbal cues that suggest continuity/ongoing nature or use the word "Journey" explicitly, can trigger a journey-oriented thinking. In this study, the timeline is expected to prompt the construal of audit quality as lying on a continuum and indicate continuity/ongoing nature. The usage of the word "Journey" is expected to strength the journey-orientation.

[28] Across all conditions, I report the couple of audit deficiencies. This is to mirror practice. A condition where only good practice is reported without any deficiency is a theoretical possibility but not commonly observed in inspection reports.

After reading these excerpts, participants answer a couple of questions on audit quality and their investment likelihood.

Subsequently, they read very brief information about the 20X4 inspection outcomes where they learn that the regulator is wrapping up the inspection and that there is an audit deficiency that have flagged. This audit deficiency is about testing management estimates regarding inventory value and obsolescence. Participants in the GP and GP+RCI conditions, have seen a good auditing practice in a similar area in 20X3. Those in the No GP condition serve as a control group. After this piece of information, the participants first answer the same couple of questions on audit quality and investment likelihood once again. They then answer a couple of questions regarding their vote in favor of re-appointing XYZ LLP as the auditor to one of its existing clients and their vote in favor of making a fresh appointment. Finally, they indicate how much they are willing to top-up on an investment in one of XYZ LLP's clients. These questions pertain to the main dependent measures of this study. Finally, participants answer some post-experimental questions, which include process-oriented questions and demographic questions.

The entire instrument used for administering this experiment is available in Appendix D.

3.3 Dependent measures

For this study, I calculate two dependent variables – "*change in judgment*" and "*auditor appointment vote".*

Change in judgment is the average of a change in investors' audit quality judgment and change in investment likelihood.[29] Audit quality judgment and investment likelihood have a

[29] I refrain from combining the audit quality judgment and investment likelihood in the two stages and then calculating a change in the combined measure. Instead, I calculate the change in each measure separately and then combine the two "change" measures. I adopt this approach because audit quality judgment and investment likelihood are conceptually different measures, but a change in either measure necessarily captures the affectation that stems from an undesirable volatility in auditing performance.

very high level of internal consistency, evidenced by a Cronbach's Alpha of 0.79 and 0.84 in Stages 1 and 2 respectively. Change is calculated as the difference between participant responses to these questions in Stage 2 (t+1) and their responses to these questions in Stage 1 (t). Therefore, negative values indicate a drop in judgment and positive values indicate an increase in judgment. Larger negative values indicate a larger drop while larger positive values indicate a larger increase in judgment. In the context of this study, a drop in judgment suggests that investor judgments are negatively impacted while an increase in judgement suggests that investor judgments were positively impacted. To measure audit quality judgment, participants are asked to judge the quality of audits performed by XYZ LLP. Responses are measured on a 7-point scale with endpoints -3 ("Very poor") and +3 ("Excellent"). Similarly, to measure investment likelihood, participants are asked to their likelihood to invest in a company audited by XYZ LLP. Responses are measured on a 7-point scale with endpoints -3 ("Very unlikely") and +3 ("Very likely"). Change in judgment captures how investor judgment changes from t to t+1. Since mine is a multi-period setting where I study how investors react to a volatility between two periods, change in judgment is an important and appropriate measure to test my hypothesis.

Auditor appointment vote is an average of investors' re-appointment vote (for an existing client) and fresh appointment vote (for a new company). Both of these measures have a high level of internal consistency (Cronbach's Alpha = 0.89). Investors were asked how likely they are to vote in favor of re-appointing XYZ LLP as the auditor for an existing client ("re-appointment vote") and how likely they are to make a fresh appointment of XYZ LLP as the auditor for a company which is looking to replace its auditor ("fresh appointment vote"). Re-appointment vote and fresh appointment vote were both captured on 7-point scales with -3 ("very unlikely") and +3 ("very likely") as the endpoints. These votes were captured at t+1 after the participants learn about the deficiency.

Chapter 4: Experiment 1 – Results

4.1 Overview and manipulation check

4.1.1 Overview

I hypothesize that an audit deficiency will lead to a larger negative impact on investor judgments if a good auditing practice in a similar area was reported previously, and that the larger negative impact will be attenuated by journey-oriented framing.[30] I also ask an open-ended question about the incremental effects of RCI awareness. To test my hypothesis and answer my open-ended question, I analyze the change in investor judgment from t to t+1 and the vote in favor of auditor appointment at t+1. Results from the main and supplementary analyses on these measures are provided in Tables 3 and 4 and Figures 1, 2A, and 2B. Before proceeding to test my hypothesis, I first briefly look at the findings with respect to Stage 1.

4.1.2 Manipulation Check[31] [32]

Good auditing practice: All Participants were asked whether the regulator had reported a good auditing practice in the excerpts they read for the first period 20X3. Out of 105 participants assigned to GP conditions (GP and GP+RCI), 75 participants (71%) answered "yes" and 30 participants (29%) answered "no". Out of 106 participants assigned to the No

[30] I use the phrases – "Journey-oriented framing", "Journey-orientation", and "Journey" interchangeably.

[31] 59 participants remain after excluding the good practice and journey manipulation check failures, but not excluding root cause analysis check failures. I reconduct the analysis with these 59 participants. The findings are similar and continue to support the hypothesis about the interaction of good practice reporting and journey-orientation. When there is an audit deficiency, the negative impact on investor judgments is larger when a good practice was reported than when no good practice was reported. However, journey-orientation attenuates the larger negative impact. ***Average change in investor judgment:***

- No Journey orientation: GP vs No GP is significant (-1.08 vs 0.25, two-tailed p = 0.021)
- Journey orientation: GP vs No GP is not significant (-0.47 vs -0.45, two-tailed p = 0.958)

[32] Among the 59 participants who passed both the good practice and journey manipulation check failures, 12 participants failed the root-cause analysis manipulation check. 47 participants remain after removing these 12 participants. I reconduct the analysis with these 47 participants. The findings are similar and continue to support the hypothesis about the interaction of good practice reporting and journey-orientation. When there is an audit deficiency, the negative impact on investor judgments is larger when a good practice was reported than when no good practice was reported. However, journey-orientation attenuates the larger negative impact. ***Average change in investor judgment***:

- No Journey-orientation: GP vs No GP is significant (-1.13 vs 0.25, two-tailed p = 0.025)
- Journey-orientation: GP vs No GP is not significant (-0.55 vs -0.45, two-tailed p = 0.795)

GP condition, 66 participants (62%) answered "Yes" and 40 participants (38%) answered "No".[33]

Root-cause analysis: All the 105 in the GP conditions (GP and GP+RCI) were asked whether the audit firm extended its root-cause analysis for the reported good practice. Out of 52 participants assigned to the GP+RCI condition, 38 participants (73%) answered "Yes" and 14 participants (27%) answered "No". Out of 53 participants assigned to just the GP condition where root-cause analysis was not extended to the reported good practice, 28 participants (53%) answered "Yes" and 25 participants (47%) answered "No".

Journey-oriented framing: All participants were asked whether the regulator mentioned the audit firm's journey. Out of 105 participants assigned to the journey condition, 84 participants (80%) answered "yes" and 21 (20%) answered "No". Out of 106 participants assigned to the No Journey (control) condition, 78 (74%) answered "Yes" and 29 participants (27%) answered "No".[34]

[33] Participants in the No GP condition who answered "yes" are deemed to have failed the check. A failure rate of 62% appears high. However, the lack of specificity of the question could have been the contributing factor. The question asked to the participants was whether the regulator reported a good auditing practice for the period 20X3. *Since this question does not clearly ask whether the regulator reported a specific good practice or whether there was a separate section in the excerpts that reported a specific good practice, it is possible that participants view anything positive about the audit firm as a good auditing practice. The regulator mentions several audit quality initiatives that the audit firm has undertaken. This increases the chances that investors construe any one or more of these as "good practices" and answer the question in the affirmative*. Information about these audit quality initiatives could narrows the gap between the No GP and GP conditions, such that the incremental positive effect of good practice reporting on Stage 1 judgments may be jeopardized. This might explain why I do not find significant findings in support of hypothesis 1. However, results of the experiment also show that investor judgments following an audit deficiency drop more if a good auditing practice was reported in a similar area earlier (if there is no journey-orientation). This finding suggests that participants indeed paid attention to the specific good practice reported such that they reacted negatively when there was an undesirable volatility subsequently.

[34] Participants in the No Journey condition who answered "Yes" are deemed to have failed the check. A failure rate of 74% appears alarming. However, a strong contributing factor could be the vagueness of the question. The question asks participants whether the regulator reported the audit firm's audit quality journey, instead of more specifically asking whether a specific metaphorical reference to journey was made. For instance, the mere two-stage design of the experiment can lead to investors to answer in the affirmative when explicitly asked whether the audit firm's journey was mentioned. However, as mentioned in the previous footnote results of the experiment show that exposure to the journey manipulation attenuates the negative impact of the undesirable volatility, suggesting that the manipulation has subtly worked in the predicted direction.

4.2 Hypothesis 1 and RQ 1

Hypothesis 1 is about the positive effect of good practice reporting on investor judgments at Stage 1. RQ 1 is about whether journey-oriented framing moderates the positive effect of good practice reporting on stage 1 judgments.

The findings regarding audit quality judgment and investment likelihood at Stage 1 are tabulated in Table 1 and Table 2 respectively. Overall, my results pertaining to Stage 1 are not statistically significant. I do not find a significant main effect of good practice reporting. I also do not find an interaction effect with journey-oriented framing. Hence Hypothesis 1 and RQ 1 do not seem to be supported.[35] [36]

4.3 Hypothesis 2

4.3.1 Change in judgment

Table 3 presents the results for change in judgment. Panels A, B, and C present the descriptive statistics, ANOVA results, and test of simple main effects respectively. Negative values in Panel A suggest that investor judgments have dropped in general from t to t+1. Larger negative values suggest a steeper decrease in judgment.

[35] When I analyse Stage 1 judgments with only the 59 participants who passed the good practice and journey checks, I find the following:

- A significant main effect of good practice reporting on audit quality judgment such that the audit quality judgment is higher when good practice is reported than when it is not ($p < 0.001$). *This is supportive of the hypothesis about stage 1.*
- A significant interaction between good practice reporting and journey-orientation such that the positive effect of good practice reporting on audit quality judgment is larger without journey orientation (GP vs No GP: 1.83 vs -1.00, $p < 0.001$) than with journey orientation (GP vs No GP:1.33 vs 0.64, $p = 0.056$).

[36] When I analyse Stage 1 judgments with the 47 participants who passed all the checks (including the root-cause analysis check), I find the following:

- A significant main effect of good practice reporting on audit quality judgment such that the audit quality judgment is higher when good practice is reported than when it is not ($p < 0.001$). *This is supportive of the hypothesis about stage 1.*
- A significant interaction between good practice reporting and journey-orientation such that the positive effect of good practice reporting on audit quality judgment is present when there is no journey orientation (GP vs No GP: 1.75 vs -1.00, $p < 0.001$) but not when there is journey orientation (GP vs No GP:1.30 vs 0.64, $p = 0.133$).

ANOVA results show an interaction effect between good practice reporting and journey-orientated framing in line with my hypothesis (F = 2.53, p = 0.082). As per the test of simple main effects, when journey-orientation is absent, investor judgments drop by a larger extent when a good auditing practice was reported than when a good auditing practice was not reported (GP vs No GP: -1.12 vs -0.62, t_{78} = 1.788, one-tailed p = 0.039). However, when journey-orientation is present, the larger drop in judgments is attenuated (GP vs No GP: -0.48 vs -0.75, t_{78} = 1.326, p = 0.269). A comparison within the GP condition shows that drop in judgment is significantly lower when journey-orientation is present than when it is absent (-0.48 vs -1.12, t_{51} = 2.096, one-tailed p = 0.021) These results confirm hypothesis 2.[37]

4.3.2 Auditor appointment vote

Table 4 presents the results for the auditor appointment vote. Panels A, B, and C present the descriptive statistics, ANOVA results, and test of simple main effects.

ANOVA results show an interaction effect between good practice reporting and journey-orientation, in line with my hypothesis (F = 2.53, p = 0.084), confirming my hypothesis. As per the test of simple main effects, following an audit deficiency, the vote in favor of auditor appointment is lower if a good auditing practice was reported earlier when journey-orientation is absent (GP vs No GP: -0.27 vs 0.31, t_{78} = 1.371, one-tailed p = 0.087). Findings show that the presence of journey-orientation attenuates the lower likelihood to vote in favor (GP vs No GP: 0.76 vs 0.23, t_{78} =1.439, p = 0.154).[38] A comparison within the GP condition

[37] Since investment likelihood is directly connected with market impact, I also analyse change in investment likelihood separately. Results are in line with my hypothesis. I observe an interaction between good practice reporting and journey-orientation (F = 2.27, one-tailed p = 0.053). An audit deficiency significantly reduces the investment likelihood when a good practice was reported earlier, but only when there is no journey-orientated framing (GP vs No GP: -1.25 vs – 0.52, p = 0.018). When there is journey-orientation, this difference is attenuated (GP vs No GP: -0.73 vs -0.55 vs -0.73, p = 0.660). When analyzed separately, change in audit quality judgment shows the same directional pattern but is not statistically significant.

[38] The one-tailed p value is 0.077, suggesting significance at the 10% level in a one-tailed test. I do not predict ex-ante the positive effect of good practice reporting when journey-orientation is present. Therefore, I do not interpret these findings as suggesting a positive effect of good practice reporting when journey-orientation is present.

shows that the auditor appointment vote is significantly higher when journey-orientation is present than when it is absent (0.76 vs -0.27, $t_{51} = 2.282$, one-tailed p= 0.013). Overall, these results lend support to hypothesis 2.

4.3.3 Process Model

The moderating role of journey-orientation is a very important element of my hypothesis. To examine this more clearly, I focus on the GP condition for additional analyses.[39] I choose the GP condition specifically because this is the condition where participants see the reversal of good performance in a similar area, and this where the effect of journey-orientation is most important and interesting to be examined. I run a simple analysis to observe the effect of journey-orientation on change in judgment and auditor appointment and the potential mechanisms. Figure 1 depicts the findings in connection with the effect of journey-orientation through Acceptability and Forgiveness. Participants are asked how acceptable it is if XYZ LLP's performance fluctuates between time periods. Responses are measures on a 7-point scale with endpoints 1 ("Least acceptability") and 7 ("Highest acceptability"). Participants are also asked to indicate how forgiving they can be about XYZ LLP's audit deficiency in the second period (20X4). Responses are measured on a 7-point scale with endpoints 1 ("Least forgiving") and 7 ("Most forgiving"). Acceptability and Forgiveness have a Cronbach's Alpha of 0.798 and load on one single factor, with factor loadings of 0.912 each. This factor explains about 83% of the variance. These two measures were hence combined to form one single variable labelled "Acceptability and Forgiveness", and this variable is used in the process analyses as the mediating variable. The findings suggest that the presence of journey-orientation significantly increases acceptability and forgiveness (Link

[39] I repeat the analysis in the GP+RCI condition and the No GP conditions. I do not find a positive effect of journey-orientation through acceptability and forgiveness. A positive effect of journey-orientation in the GP condition but not in the GP+RCI condition suggests an interaction between RCI and journey-orientation. I explore this in section 5.4 where I analyse whether RCI has an incremental effect.

1: coefficient = 0.7795, two-tailed p = 0.0463), which in turn has a significant positive effect on change in judgment (Link 2: coefficient = 0.3081, two-tailed p = 0.0016) and auditor appointment vote (Link 2: coefficient = 0.8424, p = 0.0000). There is a significant indirect effect of journey-orientation on change in judgment (effect = 0.2402) and auditor appointment vote (effect = 0.6566), with the 95% confidence intervals for these effects not containing zero. This finding confirms that journey-orientation, increases acceptability and forgiveness, which in turn reduces the drop in judgment and increase the auditor appointment vote.

4.3.4 Conclusion

An audit deficiency leads to stronger negative investor judgments when it follows a good auditing practice in a similar area. However, this effect is attenuated by a journey-oriented framing of audit quality. Journey-oriented framing increases acceptability and forgiveness, which reduces the negative impact of the undesirable volatility in good auditing performance reported by the regulator.[40]

4.4 RQ 2

RQ 2 is about the incremental effects of root-cause identification when there is an undesirable volatility. To answer this question, I first analyze the results in Tables 3 (change in judgment) and 4 (auditor appointment vote).

4.4.1 ANOVA results

As reported above in section 4.3.1, ANOVA results pertaining to Change in Judgment show a marginally significant interaction between Good practice reporting and journey-orientation (F

[40] As a part of the post-experimental questions, participants are also asked about their expectations regarding future audit performance, their belief regarding inter-period consistency in audit performance, and their belief regarding the avoidability of the audit deficiency in the second period (20X4). I do not find any significant differences between/among experimental groups on these measures. These measures also do not mediate any of the main results.

= 2.53, p = 0.082). According to test of simple main effects, RCI might have an incremental effect only in the absence of journey-orientation. To infer the incremental effect of RCI awareness, I compare the GP and GP+RCI conditions. When journey-orientation is absent, investor judgment drops by a lower extent when there is RCI awareness (GP vs GP+RCI: -1.12 vs -0.57, t_{49} = 1.567, one-tailed p = 0.062). But when journey-orientation is present, there is no significant difference (GP vs GP+RCI: -0.48 vs -0.44, t_{52} = 0.186, p = 0.853). This suggests that when adoption of journey-orientation already attenuates the negative impact of an undesirable volatility, RCI awareness may not be incrementally helpful. However, when there is no journey-orientation, RCI awareness might have attenuate the negative impact of an undesirable volatility situation. Process analysis described below in Section 4.4.2 confirm this interaction effect and show how it is indirect.

With respect to auditor appointment vote, I observe a marginally significant interaction in the ANOVA (F = 2.523, two-tailed p = 0.084) as reported earlier in section 4.3.2. Given the undesirable volatility situation, when there is no journey-orientation, RCI awareness increases the likelihood to vote in favor of the auditor, but the effect is not statistically significant (GP vs GP+RCI: -0.27 vs 0.31, t_{49} = 1.129, one-tailed p = 0.105). When journey-orientation is present, there is no significant difference between the GP and the GP+RCI conditions (GP vs GP+RCI: 0.76 vs 1.14, t_{52} = 1.010, p = 317). Since, the difference between the GP and GP+RCI conditions in the absence of journey-orientation is not statistically significant, I do not form any conclusion. Instead, I just observe the similarity in directional pattern as observed in the findings pertaining to Change in Judgment. However, results described below in section 4.4.2 show that the interaction effect is indirect.

4.4.2 Process Model

To examine this potential interaction further and understand the mechanism, I examine the GP and GP+RCI conditions to analyze differences based on the absence or presence of journey. I run a moderated mediation analysis with Root-cause Identification as the independent variable, journey-orientation as the moderator, Acceptability and Forgiveness as the mediator, and change in judgment/auditor appointment vote as the dependent variable. Figure 2A (effect on change in judgment) and Figure 2B (effect on auditor appointment vote) depict my findings.

Effect on change in judgment: Figure 2A shows how the interactive effect on change in judgment is mediated through acceptability and forgiveness. Link 1 shows that when journey-orientation is absent, root-cause identification has a significant positive effect (effect = 0.8356, two-tailed p = 0.0440) on acceptability and forgiveness. Link 2 shows that acceptability and forgiveness positively affect change in investor judgment (effect = 8051, p = 0.0000). Overall, root-cause identification has a significant indirect positive effect on change in judgment (effect = 0.2359), when journey-orientation is absent. But when journey-orientation is present, there is no significant effect. These findings confirm a conditional indirect effect of root-cause identification through acceptability and forgiveness.

Effect on auditor appointment vote: Figure 2B shows how the interactive effect on auditor appointment vote is mediated through acceptability and forgiveness. Link 1 suggests that when journey is absent, root-cause identification has a marginally significant positive effect (effect = 0.8356, two-tailed p = 0.0440) on acceptability and forgiveness. Link 2 suggests that there is a significant positive effect of acceptability and forgiveness on auditor appointment vote (effect = 0.8051, p = 0.0000). Overall, Root-cause identification appears to have a marginally significant indirect positive effect on auditor appointment vote (effect = 0.6728),

when journey-orientation is absent.[41] But when journey-orientation is present, there is no significant effect.

4.5.3 Conclusion

Awareness that a root-cause was identified for the reported good auditing performance reduces investors' negative reaction to an undesirable volatility in the performance. However, there is no incremental attenuating effect than what the adoption of a journey-oriented thinking offers.

4.6 Analysis of the conditional effect of journey-orientation

My hypothesis is about the interaction effect focuses on how journey-orientation moderates the effect of good practice reporting. However, my results also suggest that the effect of journey-orientation differs based on whether good practice and root-cause identification were reported. Prior research in cognitive psychology suggests that there are different factors that affect the activation and efficacy of metaphors. Findings discussed below show how the effect of journey-oriented metaphorical thinking about audit quality differ based on a couple of situational factors.

4.6.1 Effect of journey-orientation in the No GP vs GP condition

Journey-orientation significantly reduces the drop in investors' judgments (-0.48 vs -1.12, t_{51} = 2.096, one-tailed p = 0.021) and increases their auditor appointment vote (0.76 vs -0.21, t_{51} = 2.282, one-tailed p = 0.013) only in the GP condition, where participants are exposed to the undesirable volatility. In the No GP condition, where participants are not exposed to the undesirable volatility, there is no significant effect of journey-orientation on change in

[41]The 95% CI for the indirect effect is [0.0000, 1.3061]. Since the 95% interval contains zero, I consider a 90% CI which is [0.1046, 1.2237]. Given that the 90% CI does not contain zero, I conclude about a marginally significant indirect positive effect of RCI on auditor appointment vote through acceptability and forgiveness.

judgment (-0.75 vs -0.62, t_{105} = p = 0.495) or on auditor appointment vote (0.23 vs 0.31, t_{105} = 0.266, p = 0.790).

To confirm this pattern, I run a moderated-mediation analysis with journey-orientation as the independent variable and the absence or presence of undesirable volatility (No GP vs GP) as the moderator, and acceptability and forgiveness as the mediator. Figure 3A and Figure 3B depict the findings. Journey-orientation has a significant indirect positive effect on change in judgment (effect = 0.2164, 95% CI [0.0055, 0.4633] – *refer figure 3A*) and on auditor appointment vote (effect = 0.6427, 95% CI [0.0167, 1.2640] – *refer figure 3B*) only given the GP condition. Given No GP, the indirect effect substantially reduces and is not statistically significant.

These findings regarding the overall conditional indirect effect suggests that the power of the journey metaphor is more pronounced and perhaps more activated when there is a triggering situation that could jeopardize balanced assessment than when there is no such situation.

4.6.2 The effect of journey-oriented thinking in the GP vs GP+RCI conditions

Given an undesirable volatility in good performance, journey-oriented thinking reduces the drop in investor judgments (-0.48 vs -1.12, t_{51} = 2.096, one-tailed p = 0.021) only when RCI was not reported (GP condition). When RCI was reported (GP+RCI condition), there is no significant effect of journey-orientation (-0.44 vs -0.57, t_{50} = 0.478, p = 0.636).

To confirm this pattern, I run a moderated-mediation analysis with journey-orientation as the independent variable, root-cause identification (GP vs GP+RCI) as the moderator. I analyse the interaction effect on change in judgment and auditor appointment vote (dependent measures) through acceptability and forgiveness (mediator). Figure 4A and Figure 4B depict the findings regarding change in judgment and auditor appointment vote respectively. The analysis suggests that journey-orientation has a significant indirect positive effect on change

in judgment (effect = 0.2200, 95% CI [0.0017, 0.4955] – *refer figure 4A*) and on auditor appointment vote (effect = 0.6275, 95% CI [0.0310, 1.2442]) – *refer figure 4B*) only when RCI is absent and not when RCI is present.

The overall conditional indirect effect on investor judgments suggests that the power of the journey metaphor probably diluted when there is RCI awareness. The specific conditional effect (Link 1) on acceptability and forgiveness suggests that despite a journey-orientation, investors may still be unwilling to accept volatility in good performance if root-causes have been identified.

Chapter 5: Experiment 2 – Design

5.1 Overview

The main objective of experiment 2 is to replicate the findings from experiment 1 with a relatively clean manipulation of journey-orientation. In experiment 1, the manipulation of journey-oriented framing has a few confounding factors which could potentially contribute to some noise. For instance, time-stamping the audit quality initiatives in the journey manipulation could unintentionally suggest a growth pattern regarding audit quality investments. Further, the journey manipulation is significantly tied to specific audit quality initiatives (example: initiatives to promote psychological safety in audit teams, staff training initiatives, technological investments etc.).[42] While this manipulation in experiment 1 is externally valid and mirrors practice, it is essential to replicate the findings with a manipulation which is relatively free of confounding factors and not tied to specific audit quality initiatives. Such a replication is essential to isolate the effect of the pure psychological construct underlying journey-orientated framing.

Further, although journey-oriented framing was manipulated between-participants in experiment 1, a question that remains is whether participants indeed adopted a journey-oriented thinking. While there a couple of process oriented-measures in experiment 1 that can reasonably suggest this, experiment 2 focuses more on connecting the regulator's journey-oriented framing with participants' journey-oriented thinking. To this end, experiment 2 involves participants briefly visualize an audit quality journey after they read the regulator's journey-oriented framing and measures participants' journey-oriented thinking. A set of

[42] Including information about specific audit quality initiatives may also dampen the effect of good practice reporting since these audit quality initiatives make the audit firm appear reasonably good even in the No GP condition, narrowing the difference between the No GP and the GP conditions. As explained in footnote 36, specific information about the firm's audit quality initiatives could have contributed to why the positive main effect of good practice reporting on Stage 1 judgments in experiment 1 was dampened.

analyses shows the effect of higher versus lower journey-oriented thinking on judgments of interest. In experiment 2, the focus is just on good practice reporting and journey-orientation since the main hypothesis is about the interaction of these two constructs. RCI is not in the scope of this experiment.

5.2 Participants

I recruit participants from the Prolific platform. I prescreen the participant pool to only recruit those who currently reside in the United States, whose primary language is English, who are of a minimum age of 21, who have invested in equity stocks before, and who have an approval rate between 95% and 100%. I received 302 responses in total. Participants were paid GBP 1.5 if they completed the study. All participants reside in the United States and about 95% are American citizens. The average age is 45 years. 192 participants (63.58%) reported their gender as "male", 103 participants (34.11%) reported their gender as "female", 5 participants (1.66%) reported their gender as "others", and 2 participants (0.65%) did not report their gender. 162 participants (53.64%) had at least a bachelor degree, while 15 participants (4.97%) had a doctorate. 35 participants (11.59%) reported having a professional qualification in accounting and finance like the CA, ACCA, CPA, CFA, and FRM. On average, participants have taken 1.73 accounting courses and 1.53 finance/investment courses. On average, full-time work experience of participants is about 20 years and their investment experience is about 11 years.

5.3 Experimental flow and manipulations

Participants first provide their informed consent to participate in the experiment. After voluntarily consenting to participate, they first read some background information about a fictional audit firm – *Clearstone LLP*, and then some background information about a fictional public regulator – *Public Council for Audit Regulation (PCAR)*. After background

information, participants were shown an excerpt from the PCAR's inspection report issued to Clearstone LLP for the first period -20X3. The manipulation of journey-orientation is embedded in this excerpt.

Journey-orientation is primarily manipulated at 2 levels – *No Journey* and *Journey*. In the Journey condition, audit quality is metaphorically framed in terms of a journey. The excerpts contain regulatory statements about the Clearstone LLP's ongoing audit quality journey and about continuing the journey. The metaphorical framing explicitly uses the word "journey". In the No Journey condition, there is no metaphorical framing of audit quality.[43] The excerpts do not contain any regulatory statements about Clearstone LLP's audit quality journey.[44] An additional (third) level of manipulation – *"endeavor"*- is similar to the journey manipulation but for a subtle difference. In the Endeavor condition, the excerpts replace the word "journey" with the word "endeavor".[45] The regulatory statements in the excerpts are about

[43] On a 11-point scale, participants were asked to indicate how supportive they believed the regulator was to the audit firm to improve audit quality. There is no significant difference in how supportive the participants believe the regulator is, between the No Journey and the Journey conditions ($F = 0.013$, $p = 0.911$). Similarly, participants were also asked to rate how rigorous the regulator's oversight is. There is no significant difference in perceptions of rigor, between the No Journey and the Journey condition ($F = 0.038$, $p = 0.845$). These findings suggest that the effect of journey-orientation, if any, is not because the participants perceive the regulator as being more supportive or less rigorous.

[44] Screen 4 of Appendix E presents the relevant portion of the manipulation. While the journey-oriented sentences in the Journey condition are not present in the No Journey condition, the No journey condition has one sentence about the regulator "continuing" to work with the audit firm. This choice of design mirrors practice, and was made to ensure that the No Journey condition does not suggest a lower involvement or engagement of/support from the regulator with/to the audit firm, compared to the Journey condition. However, it is possible that this sentence in the No Journey condition indicates some level of continuity by itself and therefore induces some level of journey-orientation. To this extent, any comparison between the No Journey and the Journey conditions could arguably be inferred as a comparison between "low"/ "weak" journey-oriented framing and "high"/ "strong" journey-oriented framing respectively. This constitutes a limitation of the study, and future research can focus on a comparison of the Journey condition with a very strict control condition that does not indicate any continuity/ongoing journey.

[45] The endeavor condition was included to primarily have a condition which exactly matched the journey condition but for the word "journey", so that the effect/power of metaphorical reference to the word "journey" can be highlighted. Any difference in investor judgments between the journey and endeavor conditions can underscore this. In practice, inspection reports may either explicitly use the word "journey" when they talk about the audit firm's audit quality journey or may not do so. Here, I provide 3 examples from FRC inspection reports:

- **Example 1**: *"The firm must continue its audit quality JOURNEY…."* (2023 – BDO)
- **Example 2**: *"While the firm continues to work on improving audit quality…."* (2025 – BDO)
- **Example 3**: *"…it is soon to identify it as a trend. Continued EFFORT is needed…"* (2025 – Mazars)

The three examples show how a regulator can talk about a journey with or without using the word "journey". Example 1 uses the word "journey" specifically while example 2 does not. Example 3 uses the phrase

Clearstone LLP's ongoing audit quality "endeavors" and about continuing these endeavors. Participants were randomly assigned to one of the 3 conditions.

After reading this excerpt, participants engage in a short reflection exercise of minimum 30 seconds, based on a specific thinking prompt. Those in the No Journey condition are asked to think about what audit quality refers to. Those in the Journey condition are asked to think about what an audit quality journey means and what it would entail. Finally, those in the Endeavor condition are asked to think about what audit quality endeavors mean. While participants are required to mandatorily spend 30 seconds on this reflection exercise, they could also spend more time if they wanted to.

After the reflection exercise, participants were shown another excerpt which contained specific regulatory observations about audits performed by Clearstone LLP for the period 20X3. The manipulation of good practice reporting is embedded in this excerpt. Good practice reporting is manipulated at 2 levels – *No GP* and *GP*. Participants were randomly assigned to one of the two conditions. In the No GP condition, the excerpt reports just one audit deficiency on the part of Clearstone LLP. In the GP condition, the excerpt reports a good auditing practice in addition to the audit deficiency. The audit deficiency is kept constant between both conditions and is about not obtaining external confirmations. The good auditing practice, reported only in the GP condition, is about effectively challenging management assumptions in the context of intangibles audit.

After reading this excerpt, participants answer a few questions. The responses to these questions constitute the Stage-1 dependent measures. Participants indicate their judgment

"continued effort" which is very close to the word "endeavor". Studying the differences between the journey and endeavor condition helps to inform the regulator about the potential differential effects on investor judgments. However, the primary analysis looks at only "No Journey" (control) versus "Journey" (treatment). The endeavor condition is brought in only in the additional analysis.

about quality of audits performed by Clearstone LLP (*"audit quality judgment"*), their willingness to retain Clearstone LLP as the auditor for one of the companies in which they hold investments (*"auditor retention vote"*), their willingness to invest in companies audited by Clearstone LLP (*"investment willingness"*), and the amount they would invest in a company audited by Clearstone LLP (*"investment amount"*).

After providing Stage 1 judgments, participants proceed to read about PCAR's regulatory inspection of Clearstone LLP for the subsequent period – 20X4. They read a very small portion from the inspection report issued by PCAR and learn about Clearstone LLP's deficiency in auditing inventory.[46] The deficiency is about testing the assumptions made by the client in the context of inventory valuation. For those participants in the GP condition, this deficiency marks an undesirable volatility in good performance. After reading the above information, participants answer the same set of questions they answered earlier - *audit quality judgment, auditor retention vote, investment willingness, and investment amount*. The responses to these questions constitute the Stage-2 dependent measures. After Stage 2 judgments, participants answer a set of post-experimental questions, which include process-oriented questions and demographic questions.

The entire instrument used for administering this experiment can be found in Appendix E.

[46] In this excerpt, there is no journey-oriented framing. Journey-oriented framing is embedded only in the excerpt pertaining to Stage 1 outcomes. The choice of design for this experiment was made to ensure that the manipulation of journey-orientation is not too strong (given that both stages/periods are studied in one experimental session), and to study how journey-oriented framing at Stage 1 affects subsequent stage judgments. However, in practice, readers of inspection reports may be exposed to journey-oriented framing at every period/stage for which they read the inspection report. The lack of journey-oriented framing in the Stage 2 excerpt in my design is a deviation from practice and constitutes a limitation. Future research can examine whether and how investor judgments change if they are exposed to journey-oriented framing in the second/subsequent stage(s) too.

5.4 Dependent measures

My dependent variables are *audit quality judgment*, *auditor retention vote*, and *investment willingness*, and *investment amount*. The first three variables are all measured on a 11-point scale, and investment amount is measured on a slider.

Participants are asked to rate the quality of audits performed by Clearstone LLP. The endpoints of the 11-point scale are 1 ("Poor") and 11 ("Excellent"). After measuring audit quality rating, participants are asked about their likelihood to vote in favor of retaining Clearstone LLP as the auditor for one of the companies in which they hold stocks. The endpoints of the 11-point scale are 1 ("Least likely") to 11 ("Most likely"). After obtaining participants' vote regarding retaining Clearstone LLP, participants are asked to indicate their willingness to invest in companies audited by Clearstone LLP. The endpoints of the 11-point scale are 1 ("Least likely") to 11 ("Most likely"). Finally, participants are asked to indicate how much they are willing to invest in companies audited by Clearstone LLP, if they are given $5,000. Response is measured on a slider from $0 to $5,000. Responses to these questions constitute the four dependent measures - audit quality judgment, auditor retention vote, investment willingness, and investment amount respectively. Across these four measures, higher values indicate more positive judgments. Each of these measures are captured at two stages – after participants read 20X3 information (Stage 1) and they read 20X4 information (Stage 2).

Given the two-period setting of this study, a "change" variable is also calculated for each of the four measures mentioned above. The change measure helps to capture how judgments change from "t" to "t+1". Change is calculated as the difference between Stage 2 ("t+1") response and Stage 1 ("t") response. Hence, negative values indicate a drop in judgment and positive values indicate an increase in judgment. Larger negative values indicate a larger drop

and larger positive values indicate a larger increase. In the context of this study, a drop in judgment suggests that investor judgments are negatively impacted and an increase in judgment suggests that investor judgments are positively impacted.

Hypothesis 1 is about the positive effect of good practice reporting on Stage 1 judgments. To test hypothesis 1, stage 1 measures of audit quality judgment, auditor retention vote, investment willingness, and investment amount are analyzed. Hypothesis 2 is about the interaction effect of good practice reporting and journey-orientation when there is an undesirable volatility in auditing performance. To test hypothesis 2, the change measures calculated are analyzed.

Chapter 6: Experiment 2 – Results

6.1 Overview

The primary analyses are based on a 2X2 ANOVA with good practice reporting at 2 levels (No GP vs GP) and journey-orientation at 2 levels (No Journey vs Journey).[47] I first analyze the findings pertaining to Stage 1 judgments and then look at the change in investor judgments between the two stages. In the additional analyses, I compare the journey-condition to the endeavor-condition.

6.2 Attention Check

6.2.1 Attention check statistics

The journey-oriented sentences in the journey condition were shown to all participants and asked whether they remember reading the following sentences.[48] Only those participants who were assigned to the journey condition would have seen these sentences. Out of 99 participants assigned to the Journey condition, 90 (91%) answered "yes" while 9 participants (9%) answered "no". Out of 101 participants assigned to the No Journey condition, 52 (51%) answered "No" and 49 (49%) answered "Yes". Participants in the Journey condition who answered "No" and participants in the No Journey condition who answered "Yes" are deemed to have failed this question.

[47] Participants in the No Journey condition and those in the journey condition do not perceive any difference in how supportive the regulator is to the audit firm (F = 0.911, two-tailed p = 0.911) and how rigorous the regulatory oversight is (F = 0.038, two-tailed p = 0.845). These findings suggest that any effects of journey-orientated framing by the regulator are not because the regulator is seen as more lenient to the audit firm or about the audit firm's performance or more supportive to the audit firm.

[48] The following were the sentences from the manipulation – *"The audit quality initiatives form part of Clearstone's* ***ongoing audit quality journey.*** *We encourage Clearstone to* ***continue its audit quality journey.*** *We will continue to work with the firm in its* ***audit quality journey****".*
Participants were asked to answer "yes" or "no" to whether they remember seeing these sentences. This was the last question after which participants were only asked some questions about their demographics.

6.2.2 Exclusion of failures

Participants who failed the attention check are excluded for the main analyses of the study. In the No Journey condition, 49 participants of out a total of 101 participants are excluded, while in the Journey condition, 9 participants out of a total of 99 participants are excluded. *After exclusion, there are 142 participants*[49] *across 4 conditions for the 2X2 analyses*. [50] [51]

Out of the 58 participants who failed the attention check and are excluded, 49 (84%) are from the No Journey condition. I find that these 49 participants in the No journey condition are inherently more Journey-oriented in their thinking than the other 52 participants in the No Journey condition who passed the attention check. The No Journey condition is meant to be a control condition to compare the Journey condition with. Retaining these 49 participants introduces unnecessary noise and reduces the legitimacy of the controlled group.[52] To justify that these 49 participants are significantly more Journey-oriented without any exposure to the Journey manipulation, and that it justifiable to exclude them from the analyses, I conduct a few tests.

[49] All the 142 participants reside in the United States. 83 participants (58.45%) report their gender as "male", 55 participants (38.73%) report their gender as "female", 2 participants (1.41%) reported their gender as "others", and 2 participants (1.41%) did not prefer to disclose their gender. 72 out of 142 participants (50.71%) had a bachelor degree at minimum. On average, participants had taken 1.91 accounting courses and 1.54 finance/investment courses. On average, participants had about 10.47 years of investing experience and about 20.42 years of full-time work experience.

[50] Out of these 142 participants, only 21 (13 in the No GP condition and 8 in the GP condition) failed the GP check question where participants were asked whether a good auditing practice was reported by the regulator in the first period (20X3).

[51] When I do not exclude the failures (49 in the No Journey condition and 9 in the Journey condition), the analyses have 200 participants across the 4 conditions for a 2X2 analyses. The results are similar. Stage 1 judgments remain intact – I find a significant main effect of good practice reporting, supporting hypothesis 1. Regarding the change in judgment between periods, I find a significant interaction effect for change in audit quality judgment in line with hypothesis 2.

[52] As mentioned in footnote 44, the No Journey condition has a sentence about the regulator "continuing" to work with the audit firm, and could by itself induce some level of journey-orientation. This could plausibly explain why some participants in the No journey condition were more journey-oriented than others. For reasons explained in footnote 44, inclusion of this sentence in the No journey condition was a conscious design choice but introduces a limitation to the study.

First, I conduct a t-test within the No Journey condition comparing these 49 participants who failed the check with the 52 participants who passed the check. The comparison was based on participants' level of belief that the audit firm is pursuing an ongoing audit quality journey. Responses to the question about Clearstone LLP pursuing an ongoing audit quality journey were used for this test. Higher response values on this question indicate a higher journey-orientation *(refer section 6.3.1 below for a detailed explanation about how this question captures participants' Journey-orientated thinking)*. Results suggest that these 49 participants are significantly more Journey-oriented in their thinking than the other 52 participants (6.47 vs 5.06, $t_{99} = 2.561$, $p = 0.012$). I repeat this test by comparing these 49 participants in the No Journey condition to all the 99 participants in the Journey condition who were exposed to the experimental manipulation of Journey. Results suggest that these 49 participants were marginally more Journey-oriented in their thinking compared to all the 99 participants in the Journey condition (6.47 vs 5.61, $t_{146} = 1.874$, $p = 0.063$).

I then conduct a 2X3 ANCOVA with good practice reporting and journey-orientation as the independent variables and Stage 2 audit quality judgment as the dependent measures. Stage 1 audit quality judgment is included as a covariate. Journey-orientation has 3 groups – 52 participants in the original No Journey condition who passed the attention check ("Control group"), 49 participants in the original No Journey condition who failed the attention check ("Journey-1"), and all 99 participants in the original Journey condition ("Journey-2"). The purpose of this analysis is to confirm whether participants in the "Journey-1" group and those in the "Journey-2" group behave similarly. According to the results, when there is an audit deficiency, participants in the control group judge audit quality significantly lesser when a good practice in a similar area was reported previously (GP vs No GP: 4.38 vs 4.85, $p = 0.026$). However, participants in the Journey-1 group and those in the Journey-2 group

showed no significant difference. These findings confirm that participants in the Journey-1 group behave very similarly to those in the Journey-2 group.

Finally, I conduct mediation analyses (*Refer Figures 6A, 6B, 6C, and 6D for a depiction)* that show how these 49 participants in the No Journey condition who failed the attention check update their judgments between Stage 1 and Stage 2 more positively. The effect is serially mediated by Journey-oriented thinking and Acceptability and Forgiveness *(Refer to section 6.3.1 below for an explanation regarding how Acceptability and Forgiveness are measured).*

In summary, all the above tests suggest that the 49 participants are inherently more Journey-oriented and therefore worthy of exclusion from the control group.

6.3 Journey-oriented thinking

6.3.1 Overview

All participants were asked to indicate how much they agreed with the statement that Clearstone LLP was pursuing an ongoing journey towards better audit quality. Responses were measured on a 11-point scale with endpoints 1 ("Complete disagreement") and 11 ("Complete Agreement"). Response to this question is indicative of participants' Journey-oriented thinking, with higher values indicative of higher journey-orientation.

To confirm this, I split all the participants by their median response on this question to form two groups – "No Journey" (below median) and "Journey" (above median), and analyze the interaction of journey-orientation with good Practice Reporting by way of a 2X2 ANOVA. ANOVA findings show a significant positive main effect of journey-orientation on change in audit quality ($F = 6.240$, $p = 0.013$), change in auditor retention vote ($F = 3.957$, $p = 0.048$), and change in investment willingness ($F = 6.555$, $p = 0.011$). ANOVA findings also suggest a marginally significant interaction effect between Good Practice Reporting and journey-orientation on change in audit quality ($p = 0.089$). Test of simple main effects show that an

audit deficiency leads to a significantly higher drop in audit quality judgment when a good practice in a similar area was reported earlier, but only in the absence of journey-orientation (GP vs No GP: -2.59 vs -1.65, $t_{109} = 2.823$, $p = 0.006$). Journey-orientation attenuates this difference (GP vs No GP: -1.39 vs -1.43, $t_{87} = 0.077$, $p = 0.930$). These findings are in line with hypothesis 2 and similar to the findings when journey-orientation is experimentally manipulated.

With the two groups created based on the median split, I also conduct mediation analyses to study the indirect effect of journey-orientation. For these analyses, journey-orientation is the independent variable and is coded as 0 (No Journey; below median group) and 1 (Journey; above median group) respectively. Acceptability and Forgiveness (explained below) is the mediator and the individual change measures are the dependent variables.

To measure acceptability of fluctuations, participants are asked how acceptable is it if Clearstone LLP's audit performance fluctuated between two time periods. Responses were measured on a 11-point scale with endpoints 1 ("Least acceptable") and 11 ("Most acceptable"). To measure forgiveness, participants are asked how much they will forgive Clearstone LLP's audit deficiency in the second period. Responses were measured on a 11-point scale with endpoints 1 ("Least forgiving") and 11 ("Most forgiving"). Acceptability and Forgiveness have a Cronbach's Alpha of 0.836, and both measures load on one single factor (factor loadings = 0.928 each) that explains 86% of the variance. Therefore, these two measures are combined to form one single variable called "Acceptability and Forgiveness", which is used in the mediation analysis.

Results of the mediation analyses suggest that journey-orientation significantly increases Acceptability and Forgiveness *(coefficient = 0.8923, two-tailed p = 0.0262)*. This finding is in line with the theoretical expectation about how journey-orientation would work when

experimentally manipulated. Acceptability and Forgiveness positively affect change in audit quality judgment *(coefficient = 0.4278, two-tailed p = 0.0000)*, change in auditor retention vote *(coefficient = 0.4511, two-tailed p = 0.0000)*, change in investment willingness *(coefficient = 0.4180, two-tailed p = 0.0000)*, and change in investment amount *(coefficient = 107.9149, two-tailed p = 0.0001)*.

Journey-orientation has a significant positive indirect effect on change in audit quality judgment *(effect = 0.3817, 95% CI [0.0441, 0.7659])*, change in auditor retention vote *(effect = 0.4025, 95% CI [0.0646, 0.8056])*, change in investment willingness *(effect = 0.3730, 95% CI [0.0384, 0.7413])*, and change in investment amount *(effect = 96.2942, 95% CI [11.3430, 209.8163])*.

6.3.2 Manipulation Check

Since responses on the above question correspond with the level of journey-oriented thinking, I use the responses for manipulation checks.

No Journey versus Journey conditions: A t-test was performed to test the difference between participants assigned to the No Journey condition and the Journey condition. Results suggest that participants exposed to the Journey manipulation adopted a marginally higher journey-oriented thinking than those who were not exposed to the manipulation (Journey vs No Journey: 5.72 vs 5.06, t = 1.484, one-tailed p = 0.07).[53]

Within Journey condition: The journey manipulation had two components – (1) reading excerpts that contained the regulator's journey-oriented framing (2) Briefly reflecting on what an audit quality journey is and what it entails. For the second part of the manipulation,

[53] One plausible reason for why the difference is only marginal is that the comparison between the No Journey and the Journey conditions might perhaps be a comparison between "low"/ "weak" journey-orientation and "high"/ "strong" journey-orientation, owing to one sentence in the No journey condition that might by itself induce some journey-orientation. Refer to footnote 44 for a detailed explanation of my design choice and the limitation it introduces.

participants had to take a minimum of 30 seconds to think, but could spend longer than 30 seconds if they wished to do so.

I split the participants by the median extra time taken into two groups – "Low time" (extra time below median) and "High time" (extra time above median). If extra time spent reflecting on/visualizing an audit journey increases participants' journey-orientation, low-time versus high-time must have a differential effect on investor judgments.

I performed a serial mediation analysis to study the indirect effect of low-time versus high-time on change in investor judgments. Journey-oriented thinking (mediator 1) and Acceptability and Forgiveness (mediator 2) were the mediators in the model. The measurement of these two mediators is explained in the previous section (Section 6.3.1).

Figures 5A, 5B, 5C, and 5D depict the findings pertaining to the mediation analyses.

Compared to low-time, high-time participants are more journey-oriented in their thinking *(Figures 5A to 5D - Link 1: coefficient = 0.9556, two-tailed p = 0.0736, one-tailed p = 0.0368).* Journey-oriented thinking has a positive effect on acceptability and forgiveness *(Figures 5A to 5D - Link 2: coefficient = 0.6448, two-tailed p = 0.0000).*

An increase in acceptability and forgiveness positively affects change in audit quality judgment *(Figure 5A – Link 3: coefficient = 0.4572, two-tailed p = 0.0002)*, change in auditor retention vote *(Figure 5B – Link 3: coefficient = 0.4968, two-tailed p = 0.0002)*, change in investment willingness *(Figure 5C – Link 3: coefficient = 0.4203, two tailed p = 0.0018)*, and change in investment amount *(Figure 5D – Link 3: coefficient = 190.0057, two-tailed p = 0.0004)*.

Overall, low-time versus high-time has a marginally significant indirect effect on change in audit quality judgment *(Figure 5A: effect = 0.2817, 90% CI [0.0146, 0.5826])*, change in auditor retention vote *(Figure 5B: effect = 0.3061, 90% CI [0.0263, 0.5997])*, change in

investment willingness *(Figure 5C: effect = 0.2589, 90% CI [0.0055, 0.5308])*, and change in investment amount *(Figure 5D: effect = 117.0695, 90% CI [6.5027, 238.6279])*.

Findings from the mediation analysis show how more time spent reflecting on what an audit quality journey increases journey-orientated thinking, thereby differentially affecting judgments.

6.4 Hypothesis 1

Hypothesis 1 is about the positive effect of good practice reporting on investor judgments at Stage 1. Stage 1 judgments are tabulated in Table 5 (Audit quality judgment), Table 6 (Auditor retention vote), Table 7 (Investment willingness), and Table 8 (Investment amount). Panels A, B, and C present the descriptive statistics, ANOVA results, and test of simple main effects respectively.

ANOVA results suggest a significant main effect of good practice reporting. When the regulator reports good auditing practices in addition to audit deficiencies, investor judgments at Stage 1 are significantly higher than when the regulator reports only audit deficiencies. When good practice is reported, investors judge audit quality higher (GP vs No GP: 7.12 vs 5.81, $F = 12.233$, $p < 0.001$ – *refer Table 5*) and are more willing to retain the auditor for the next period (GP vs No GP: 6.51 vs 5.61, two-tailed $p = 0.074$, one-tailed $p = 0.037$ – *refer Table 6*). Reporting good practice also increases investors' willingness to invest in companies audited by the audit firm (GP vs No GP: 6.85 vs 5.91, $F = 3.921$, $p = 0.050$ – *refer Table 7*).[54] Overall, these findings confirm hypothesis 1.

[54] Regarding the dollar value of investment, the amount is higher under the GP condition (overall) than the No GP condition (overall). However, the difference is not statistically significant. Hence, I do not make a conclusion about the positive main effect of good practice reporting on investment amount.

6.5 RQ 1

RQ 1 is about whether journey-orientated framing moderates the effect of good practice reporting on Stage 1 judgments. As mentioned in the previous section, Tables 5 to 8 tabulate the findings regarding Stage 1 judgments. The test of simple main effects suggests that journey-orientation *might* have a moderating effect.

The positive effect of good practice reporting on audit quality judgment at Stage 1 is slightly more in magnitude and significance when there is journey-orientation (GP vs No GP: 7.17 vs 5.73, $t_{88} = 3.251$, $p = 0.001$) than when there is no journey-orientation (GP vs No GP: 7.04 vs 5.96, $t_{50} = 1.392$, $p = 0.061$). However, the positive effect of good practice reporting on audit quality judgment is still marginally significant even when there is no journey-orientation.

Regarding the other judgments, however, the positive effect exists only when there is journey-orientation. Given journey-orientation, good practice reporting significantly increases the auditor retention vote (GP vs No GP: 6.63 vs 5.41, $t_{88} = 2.323$, $p = 0.023$) and investment willingness (GP vs No GP: 7.10 vs 5.78, $t_{88} = 2.584$, $p = 0.011$). When there is no journey-orientation, however, the effect of good practice reporting on the auditor retention vote (GP vs No GP: 6.31 vs 6.00, $t_{50} = 0.480$, $p = 0.634$), and on investment willingness (GP vs No GP: 6.46 vs 6.15, $t_{50} = 0.492$, $p = 0.625$).

These findings suggest that journey-orientation *might* moderate the effect of good practice reporting such that the positive effect of the latter exists only when the former is present.[55] That is, when audit quality is not framed in terms of an ongoing journey, investors *may* discount the reported good auditing practices while making judgments. *As a post-hoc explanation*, I posit that this *could be* because investors are more interested in the effect of a

[55] I make a cautious claim for the reason that the ANOVA results across all the Stage 1 judgments (Tables 5 to 8 – Panel B) do not show a significant interaction even at the 10% level. It is from the test of simple main effects (Tables 5 to 8 - Panel C) that I infer a potential moderation effect.

good auditing practice if it forms part of an ongoing audit quality journey than if it is a mere one-time outcome.[56] Investors who are exposed to the journey-oriented framing are more likely to view the good auditing practice as a part of a longer journey than those who are not.

6.6 Hypothesis 2

6.6.1 Overview

According to hypothesis 2, an audit deficiency has a stronger negative impact on investor judgments when a good auditing practice in a similar area was reported previously and that the stronger negative impact will be attenuated by a journey-oriented framing of audit quality.

To test hypothesis 2, I analyze the change in investor judgments from Stage 1 to Stage 2. Change is calculated separately for audit quality judgment, auditor retention vote, investment willingness, and investment amount as the difference between Stage 2 values and Stage 1 values. Hence, negative values indicate a drop in judgment (negative impact) and positive values indicate an increase in judgment (positive impact).

6.6.2 Average change in investor judgment (Variant 1)

I first analyze the average change in investor judgment. The first variant of the average change is the average of change in audit quality judgment, change in auditor retention vote, and change in investment willingness. The Cronbach's Alpha for these 3 change measures is 0.874, suggesting a high level of internal consistency. Results of a factor analysis show that these 3 change measures also load on one single factor which explains 79.916% of the variance. The factor loadings of change in audit quality judgment, change in auditor retention

[56] It is also possible that journey-orientation brings about a sense of balance such that the positive effect of good practice reporting is toned down when there is journey-orientation compared to when there is no journey-orientation. Therefore, I interpret this finding with caution as being one possibility and not the only possibility.

vote, and change in investment willingness are 0.870, 0.908, and 0.903 respectively. Therefore, combining the 3 change measures by averaging them is justified.

The findings are tabulated in Table 9. Panels A, B, and C present the descriptive statistics, ANOVA results, and test of simple main effects. ANOVA results suggest an interaction between good practice reporting and journey-orientation ($F = 2.244$, one-tailed $p = 0.068$) in line with my prediction. When there is an audit deficiency, investor judgments drop significantly more if a good audit practice in a similar area was reported earlier, but only when there is no journey-orientation (GP vs No GP: -2.54 vs -1.45, $t_{50} = 2.495$, one-tailed $p = 0.008$). However, when there is journey-orientation, the difference is attenuated (GP vs No GP: -1.94 vs -1.82, $t_{88} = 0.284$, $p = 0.777$), suggesting that journey-orientation attenuates the larger drop in investor judgment. These findings confirm hypothesis 2.

6.6.3 Average change in investor judgment (Variant 2)

The first variant of average change did not include change in the investment amount. In this second variant, the change in investment amount is also included in the average change. Since audit quality judgment, auditor retention vote, and investment willingness were measured on 11-point scales but investment amount was measured on a slider (from $0 to $5,000), change in each measure is first standardized before they are averaged. The Cronbach's Alpha for these 4 standardized change measures is 0.889, suggesting a high level of internal consistency. Results of a factor analysis show that these 4 standardized change measures also load on one single factor which explains 75.084% of the variance. The factor loadings of change in audit quality judgment, change in auditor retention vote, change in investment willingness, and change in investment amount are 0.834, 0.901, 0.893, and 0.835 respectively. Therefore, combining the 4 standardized change measures by averaging them is justified.

The findings are tabulated in Table 10. Panels A, B, and C present the descriptive statistics, ANOVA results, and test of simple main effects. The findings are similar to those obtained for the previous change variant. When there is an audit deficiency, investor judgments drop more if a good practice in a similar area was reported earlier, but only when journey-orientation is absent (GP vs No GP: -0.27 vs 0.17, $t_{50} = 2.067$, one-tailed $p = 0.022$). When there is journey-orientation, this difference is attenuated (GP vs No GP: 0.01 vs 0.05, $t_{88} = 0.210$, $p = 0.834$), suggesting that journey-orientation attenuates the larger drop in investor judgment. These findings marginally support hypothesis 2.

6.6.4 Individual change measures

The average change in investor judgments supports hypothesis 2. Individual changes are tabulated in Table 11 (change in audit quality judgment), Table 12 (change in auditor retention vote), Table 13 (change in investment willingness), and Table 14 (change in investment amount). Panels A, B, and C present the descriptive statistics, ANOVA results, and test of simple main effects.

The findings with respect to change in audit quality judgment and change in investment willingness show an interaction pattern in line with hypothesis 2. When there is an audit deficiency, audit quality judgment drops significantly more if a good auditing practice in a similar area was reported earlier, but only when there is no journey-orientation (GP vs No GP: -2.65 vs -1.12, $t_{50} = 3.543$, $p < 0.001$). When there is journey-orientation, this difference is attenuated (GP vs No GP: -1.83 vs -1.55, $t_{88} = 0.628$, $p = 0.532$), suggesting that journey-orientation attenuates the larger drop in audit quality judgment. These findings confirm hypothesis 2.

Similarly, when there is an audit deficiency, investor willingness to invest in companies audited by the audit firm drops more if a good practice in a similar area was reported earlier,

but only when there is no journey-orientation (GP vs No GP: -2.42 vs -1.42, t_{50} = 1.837, one-tailed p = 0.036). When there is journey-orientation, this difference is attenuated (GP vs No GP: -2.05 vs -2.06, t_{88} = 0.027, p = 0.979). These findings marginally confirm hypothesis 2.

Regarding change in auditor retention vote and change in investment amount, the findings show an interaction which is directionally similar but statistically not significant. Therefore, I do not make any conclusions.

6.6.5 Conclusion

Based on the findings for the average change in investor judgment (variants 1 and 2), change in audit quality judgment (independently) and change in investment willingness (independently), I infer marginal to strong support for hypothesis 2. Investor judgments following an audit deficiency are more negatively impacted when a good auditing practice in a similar area was reported earlier. However, a journey-oriented framing of audit quality can attenuate the stronger negative impact.

6.7 Additional Analyses: comparison with the "endeavor condition"

6.7.1 Overview

In experiment 2, participants were randomly assigned to one of three journey-orientation conditions – "No Journey", "Journey", and "Endeavor". The primary analyses regarding the moderating effect of journey-orientation involved the comparison of the "No Journey" and the "Journey" conditions. The following analyses involve a comparison with the "endeavor" condition. The endeavor condition is very similar to the journey condition but for the difference that the word "journey" in the manipulation is replaced with the word "endeavor". The findings from the following analyses help to understand whether the explicit metaphorical reference to the word "journey" makes a difference, and if so how.

6.7.2 Stage 1 Judgments

I conduct a 2X2 analysis with good practice reporting (No GP vs GP) and Framing (Journey vs Endeavor) as the independent variables and each Stage 1 judgment as the dependent measure. Findings regarding audit quality judgment, auditor retention vote, investment willingness, and investment amount are tabulated in Tables 15, 16, 17, and 18 respectively.

ANOVA results suggest a significant positive main effect of good practice reporting on all Stage 1 judgments as observed in the primary analyses. When the regulator reports a good auditing practice, investors judge audit quality significantly higher (GP: vs No GP: 7.49 vs 6.29, $F = 17.095$, $p < 0.001$), are significantly more likely to vote in favor of retaining the audit firm (GP vs No GP: 7.19, 5.74, $F = 14.906$, $p < 0.001$), and are also significantly more willing to invest in companies audited by the audit firm (GP vs No GP: 7.54 vs 6.21, $F = 14.774$, $p < 0.001$). The amount of their investment is also significantly more when a good practice is reported (GP vs No GP: 1996.37 vs 1585.66, $F = 4.951$, $p = 0.027$). This finding is in line with hypothesis 1.

ANOVA results also suggest that endeavor framing ("E") leads to more positive investor judgments at Stage 1 than journey framing ("J"). With endeavor framing, investors judge audit quality significantly higher (E vs J: 7.29 vs 6.39, $F = 8.281$, $p = 0.004$), are significantly more likely to vote in favor of retaining the audit firm (E vs J: 6.83 vs 5.97, $F = 5.179$, $p = 0.024$), and are also significantly more likely to invest in companies audited by the audit firm (E vs J: 7.25 vs 6.38. $F = 5.865$, $p = 0.016$). The amount of their investment is also higher when there is endeavor framing (E vs J: 1975.00 vs 1559.69, $F = 4.983$, $p = 0.027$). As a post-hoc explanation, this could be because the specific reference to the word "endeavor" signifies more efforts on the part of the audit firm, potentially increasing future expectations. On the other hand, "Journey" framing plausibly induces more balance in investor judgments.

6.7.3 Change in investor judgment

The main focus of this study is how investors respond to an undesirable volatility in reported good auditing performance. In this section, I analyse how the change in investor judgment from Stage 1 to Stage 2 differs when there is journey framing versus when there is endeavor framing. To analyse this difference, I examine the average change in investor judgment when there is an audit deficiency in an area similar to one where a good auditing practice was reported earlier.57

Results are tabulated in Table 19. Findings from planned contrast tests suggest that investor judgments drop when there is an audit deficiency in an area similar to one where a good practice was reported earlier. However, the drop in judgment is larger with endeavor framing than with journey framing (two-tailed $p = 0.053$, one-tailed $p = 0.027$). The negative impact of the undesirable volatility on investor judgments is stronger with endeavor framing than with journey framing. Given that the journey framing and endeavor framing differ only with respect to whether the word "journey" or the word "endeavor" is used, the findings underscore the efficacy of the journey metaphor. Specific metaphorical reference to the word "journey" has a stronger effect in attenuating the negative impact of the volatility, and is an integral constituent of the journey-oriented framing.

[57] Average change in investor judgment is calculated as the average of the standardized changes in audit quality judgment, in auditor retention vote, in investment willingness, and in investment amount. As mentioned earlier in section 6.6.3, these 4 measures load to one single factor with factor loadings > 0.8. The Cronbach's Alpha is 0.884.

Chapter 7: Conclusion

I conduct two experiments to examine how undesirable volatility of good performance reported by the regulator affects investors' judgments, and how this effect is moderated by a journey-framing of audit quality. I also study whether RCI awareness has any incremental effects. My findings in both experiments show an interaction between good practice reporting and journey-orientation. Undesirable volatility of good performance reported by the regulator has a negative impact on investor judgments, but this impact is attenuated by the regulator's journey-oriented framing about audit quality. RCI awareness for the reported good practice has an incremental (positive) effect on investor judgments only when journey-orientation is absent. Findings from experiment 1 suggest that the positive effect of journey-orientated framing is mediated by acceptance and forgiveness. Journey-orientation increases acceptability and forgiveness, which in turn attenuate the negative impact of the undesirable volatility. Findings from experiment 2 further show that investors who spend more effort to reflect on what an audit quality journey means tend to adopt a higher journey-orientation and are consequently more accepting and forgiving of volatility in auditing performance. Findings also underscore the importance of the specific metaphorical reference to the word "journey" in the regulator's framing.

My study offers practical findings for regulators and audit firms. I inform regulators about the carryover effects of balanced reporting, by showing how investors make harsher judgments under a balanced reporting regime if the good auditing performance reported is volatile. I also show how journey-oriented framing brings about a balance in judgments in these situations. These findings demonstrate the power of metaphorical framing of audit quality in terms of a journey and how regulators can promote metaphorical thinking among investors through their descriptive reporting styles. In summary, to truly promote balanced assessment, regulators may want to adopt both balanced reporting and journey-oriented framing. The former without

the latter may arguably be less effective. However, in adopting a journey-oriented framing, it is essential that regulators make a specific metaphorical reference using the word "journey".

My study informs audit firms about the potential negative consequences that they may face when good performance reported by the regulator is not kept up. This underscores the heightened responsibility that firms ought to assume in a balanced reporting regime. Although my findings regarding journey-oriented framing are in the context of the regulator adopting such framing, these findings are also informative to audit firms. Audit firms issue public responses to inspection reports and may adopt a journey-oriented writing to describe their audit quality pursuits (Refer Part 3 of Appendix B for examples). To the extent that the journey metaphor is effective in attenuating the negative impact of performance volatility, journey-oriented framing by the audit firm may also have similar effects on investor judgments. Finally, I also inform audit firms that sharing outcomes from their root-cause analysis may act as a protective shield, but may not offer an incremental advantage at all times.

My study has a few limitations, which pave way for future research. First, with respect to the study setting, I study performance volatility in a restricted setting. In my design, the good practice reported in 20X3 was regarding effective challenge of management estimates in the context of intangibles. In 20X4, the deficiency is regarding testing management estimates in the context of inventory. The domains of intangibles and inventory, and the activities of challenging and testing, are inherently different. However, the inherent element of subjective estimates in both contexts may arguably limit the generalizability of my findings to only settings where there is an element of commonality between the good performance and the subsequent deficiency. Future research can examine how an audit deficiency is judged if a totally unrelated good practice was reported previously. Further, I study performance volatility in a very direct manner – the regulatory outcomes for 20X3 reports good

performance and the outcomes for 20X4 reports reversal. Future research can examine whether my findings hold in settings where audit quality is not directly visible but only inferable (example: financial restatement by a client). With respect to journey-orientation, the relevant framing is embedded only in the excerpt pertaining to the first period/stage1 (20X3) and not in the excerpt pertaining to the second period/stage 2 (20X4). This design choice constitutes a deviation from practice, where readers may be exposed to journey-oriented framing in every period for which they read an inspection report. Future research can examine whether and how investor judgments change if they are exposed to journey-oriented framing in the second/subsequent stages too. Further, in Experiment 2, the No Journey condition could inherently induce some journey-orientation by describing the regulator's commitment to "continue" working with the audit firm. Hence, any comparison between the No Journey and Journey conditions in Experiment 2 could arguably be inferred as a comparison between "low"/ "weak" journey-orientation and "high"/ "strong" journey-orientation respectively. Future research can replicate the findings using a stricter control condition which does not induce any journey-orientation. Finally, with respect to root-cause identification, I do not study the effects of specific root-causes, but just the effect of reporting root-cause identification. Future research can study the effects of specific root-causes and the specifics of root-cause analysis on investor judgments.

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Table 1: Experiment 1 – Audit Quality Judgment at Stage 1

Panel A: Descriptive Statistics

	M (SD) [n]		
	Journey	No Journey	Overall
No Good Practice	1.25 (1.20) [51]	1.13(1.25) [55]	1.19 (1.22) [106]
Good Practice	1.14 (1.19) [29]	1.08(1.53) [24]	1.11 (1.34) [53]
Good Practice + RCI	1.52 (1.36) [25]	1.15 (1.38) [27]	1.33 (1.37) [52]
Overall	1.29 (1.23) [105]	1.12 (1.34) [106]	

Panel B: ANOVA Results

ANOVA					
Source	Sum of Squares	df	Mean Square	F	p-value
Good Practices	1.353	2	0.676	0.405	0.668
Journey	1.608	1	1.608	0.962	0.328
Good Practices X Journey	0.751	2	0.376	0.225	0.799

Panel C: Test of simple main effects

GIVEN	Comparison	t	df	p-value
Journey	No GP vs GP	0.421	78	0.675
Journey	No GP vs GP+RCI	0.868	74	0.388
Journey	GP vs GP+RCI	1.104	52	0.275
No Journey	No GP vs GP	0.134	78	0.894
No Journey	No GP vs GP+RCI	0.069	81	0.945
No Journey	GP vs GP+RCI	0.159	49	0.874

GIVEN	Comparison	t	df	p-value
No GP	Journey vs No Journey	0.536	105	0.593
GP	Journey vs No Journey	0.146	51	0.884
GP+RCI	Journey Vs No Journey	0.979	50	0.332

Note: Participants were asked to judge the quality of audits performed by XYZ LLP. Audit quality judgment is measured on a 7-point scale with endpoints -3 (“Very poor”) and +3 (“Excellent”).

Table 2: Experiment 1 – Investment Likelihood at Stage 1

Panel A: Descriptive Statistics

M (SD) (n) – Stage 1			
	Journey	No Journey	Overall
No Good Practice	1.06 (1.57) [51]	0.93 (1.45) [55]	0.99 (1.50) [106]
Good Practice	1.45 (1.21) [29]	1.08 (1.93) [24]	1.28 (1.57) [53]
Good Practice + RCI	1.16 (1.37) [25]	1.11 (1.37) [27]	1.13 (1.36) [52]
Overall	1.19 (1.43) [105]	1.01 (1.54) [106]	

Panel B: ANOVA Results

ANOVA					
Source	Sum of Squares	df	Mean Square	F	p-value
Good Practice	2.718	2	1.359	0.609	0.545
Journey	1.557	1	1.557	0.698	0.405
Good Practice X Journey	0.729	2	0.364	0.163	0.850

Panel C: Test of simple main effects

GIVEN	Comparison	t	df	p-value
Journey	No GP vs GP	1.155	78	0.252
Journey	No GP vs GP+RCI	0.275	74	0.784
Journey	GP vs GP+RCI	0.819	52	0.417
No Journey	No GP vs GP	0.396	78	0.693
No Journey	No GP vs GP+RCI	0.549	81	0.584
No Journey	GP vs GP+RCI	0.060	49	0.953

GIVEN	Comparison	t	df	p-value
No GP	Journey vs No Journey	0.449	105	0.655
GP	Journey vs No Journey	0.838	51	0.406
GP+RCI	Journey Vs No Journey	0.128	50	0.898

Note: Participants were asked to indicate their likelihood to invest in a company audited by XYZ LLP. Investment Likelihood was measured on a 7-point scale from -3 (“Very unlikely”) to +3 (“Very likely”)

Table 3: Experiment 1 – Change in investor judgment

Panel A: Descriptive Statistics

	M (SD) [n]		
	Journey	No Journey	Overall
No GP	-0.75 (0.84) [51]	-0.62 (1.08) [55]	-0.68 (0.97) [106]
GP	-0.48 (0.87) [29]	-1.12 (1.35) [24]	-0.77 (1.15) [53]
GP+RCI	-0.44 (0.81) [25]	-0.57 (1.17) [27]	-0.51 (1.00) [52]
Overall	-0.60 (0.85) [105]	-0.72 (1.18) [106]	

Panel B: ANOVA results

ANOVA					
Source	Sum of Squares	df	Mean Square	F	p-value
Good Practice	2.332	2	1.17	1.13	0.327
Journey	2.198	1	2.20	2.12	0.148
Good Practice X Journey	5.236	2	2.62	2.53	**0.041***

*One-tailed

Panel C: Test of simple main effects

GIVEN	Comparison	t	df	p-value
Journey	No GP vs GP	1.326	78	**0.189**
Journey	No GP vs GP+RCI	1.508	74	0.136
Journey	GP vs GP+RCI	0.186	52	0.853
No Journey	No GP vs GP	1.788	78	0.039*
No Journey	No GP vs GP+RCI	0.161	81	0.872
No Journey	GP vs GP+RCI	1.567	49	0.062*

*One-tailed

GIVEN	Comparison	t	df	p-value
No GP	Journey vs No Journey	0.684	105	0.495
GP	Journey vs No Journey	2.096	51	**0.021***
GP+RCI	Journey Vs No Journey	0.478	50	0.635

*One-tailed

Note: Change in investors' judgment is an average of the change in audit quality judgment and change in investment likelihood. Audit quality judgment and investment likelihood were both measured on 7-point scales with endpoints -3 (poor audit quality/least likelihood to invest) and +3 (excellent audit quality/highest likelihood to invest) in 2 stages. Audit quality judgment and investment likelihood have a high internal consistency (Cronbach's Alpha of 0.79 in Stage 1 and 0.84 in Stage 2). Change is calculated as Stage 2 value less stage 1 value. Negative values in the change variable indicate a drop in judgment while positive values indicate an increase in judgment.

Table 4: Experiment 1 – Auditor appointment vote

Panel A: Descriptive Statistics

	M (SD) (n)		
	Journey	No Journey	Overall
No Good Practice	0.23 (1.73) [51]	0.31 (1.65) [55]	0.27 (1.68) [106]
Good Practice	0.76 (1.31) [29]	-0.27 (1.96) [24]	0.29 (1.70) [53]
Good Practice + RCI	1.14 (1.47) [25]	0.31 (1.74) [27]	0.71 (1.66) [52]
Overall	0.59 (1.60) [105]	0.18 (1.75) [106]	

Panel B: ANOVA results

ANOVA					
Source	Sum of Squares	df	Mean Square	F	p-value
Good Practice	8.551	2	4.275	1.556	0.213
Journey	16.389	1	16.389	5.964	**0.016**
Good Practice X Journey	13.869	2	6.934	2.523	**0.042***

* One-tailed

Panel C: Test of simple main effects

GIVEN	Comparison	t	df	p-value
Journey	No GP vs GP	1.439	78	**0.154**
Journey	No GP vs GP+RCI	2.268	74	**0.026**
Journey	GP vs GP+RCI	1.010	52	0.317
No Journey	No GP vs GP	1.371	78	0.087*
No Journey	No GP vs GP+RCI	0.006	81	0.995
No Journey	GP vs GP+RCI	1.129	49	0.132*

* One-tailed

GIVEN	Comparison	t	df	p-value
No GP	Journey vs No Journey	0.266	105	0.790
GP	Journey vs No Journey	2.282	51	**0.013***
GP+RCI	Journey Vs No Journey	1.838	50	0.072

* One-tailed

Note: Auditor appointment vote is an average of investor vote to re-appoint XYZ LLP as an auditor of an existing client and investor vote to make a fresh appointment of XYZ LLP as an auditor of a company which is looking to replace its existing auditor. Re-appointment and fresh appointment votes were captured on a 7-point scale with -3 (least likelihood to vote in favor of re-appointing/making a fresh appointment) to +3 (highest likelihood to vote in favor of re-appointing/making a fresh appointment). Re-appointment and fresh appointment votes have a high level of internal consistency (Cronbach's Alpha = 0.89).

Table 5: Experiment 2 – Audit Quality Judgment at Stage 1

Panel A: Descriptive Statistics

	M (SD) [n]		
	Journey	No Journey	Overall
No GP	5.73 (2.379) [49]	5.96 (2.341) [26]	5.81 (2.352) [75]
GP	7.17 (1.672) [41]	7.04 (1.612) [26]	7.12 (1.638) [67]
Overall	6.39 (2.196) [90]	6.50 (2.063) [52]	

Panel B: ANOVA Results

ANOVA RESULTS					
Source	Sum of Squares	df	Mean Square	F	p-value
Good practice reporting (GPR)	51.881	1	51.881	12.233	**<0.001**
Journey-orientation (Journey)	0.073	1	0.073	0.017	0.895
GPR X Journey	1.059	1	1.059	0.250	0.618

Panel C: Test of simple main effects

GIVEN	Comparison	t	df	p-value
Journey	GP vs No GP	3.251	88	**0.002**
No Journey	GP vs No GP	1.932	50	**0.059**
No GP	Journey vs No Journey	0.395	73	0.694
GP	Journey vs No Journey	0.320	65	0.750

Note: Participants were asked to rate the quality of audits performed by Clearstone LLP. Audit quality judgment is measured on a 11-point scale with endpoints 1 ("poor") to 11 ("excellent").

Table 6: Experiment 2 – Auditor Retention Vote at Stage 1

Panel A: Descriptive Statistics

	M (SD) [n]		
	Journey	No Journey	Overall
No GP	5.41 (2.589) [49]	6.00 (2.466) [26]	5.61 (2.546) [75]
GP	6.63 (2.374) [41]	6.31 (2.150) [26]	6.51 (2.279) [67]
Overall	5.97 (2.555) [90]	6.15 (2.296) [52]	

Panel B: ANOVA Results

ANOVA					
Source	Sum of Squares	df	Mean Square	F	p-value
Good practice reporting (GPR)	19.324	1	19.324	3.273	**0.037***
Journey-orientation (Journey)	0.579	1	0.579	0.098	0.755
GPR X Journey	6.928	1	6.928	1.173	0.280

*One-tailed

Panel C: Test of simple main effects

GIVEN	Comparison	t	df	p-value
Journey	GP vs No GP	2.323	88	**0.023**
No Journey	GP vs No GP	0.480	50	**0.634**
No GP	Journey vs No Journey	0.957	73	0.342
GP	Journey vs No Journey	0.568	65	0.572

Note: Participants were asked to indicate their likelihood to vote in favor of retaining Clearstone LLP as the auditor for one of the companies in which the participants hold stocks. Auditor retention vote is measured on a 11-point scale with endpoints 1 (least likely) and 11 (most likely).

Table 7: Experiment 2 – Investment Willingness at Stage 1

Panel A: Descriptive Statistics

	M (SD) [n]		
	Journey	No Journey	Overall
No GP	5.78 (2.763) [49]	6.15 (2.361) [26]	5.91 (2.621) [75]
GP	7.10 (1.921) [41]	6.46 (2.140) [26]	6.85 (2.017) [67]
Overall	6.38 (2.493) [90]	6.31 (2.236) [52]	

Panel B: ANOVA Results

ANOVA					
Source	Sum of Squares	df	Mean Square	F	p-value
Good practice reporting (GPR)	21.821	1	21.821	3.921	**0.050**
Journey-orientation (Journey)	0.546	1	0.546	0.098	0.755
GPR X Journey	8.453	1	8.453	1.519	0.220

Panel C: Test of simple main effects

GIVEN	Comparison	t	df	p-value
Journey	GP vs No GP	2.584	88	**0.011**
No Journey	GP vs No GP	0.492	50	**0.625**
No GP	Journey vs No Journey	0.592	73	0.555
GP	Journey vs No Journey	1.263	65	0.211

Note: Participants were asked to indicate their willingness to invest in companies audited by Clearstone LLP. Investment willingness is measured on a 11-point scale with endpoints 1 (least likely) and 11 (most likely).

Table 8: Experiment 2 – Investment Amount at Stage 1

Panel A: Descriptive Statistics

	M (SD) [n]		
	Journey	No Journey	Overall
No GP	1365.22 (1298.338) [49]	1640.69 (1448.166) [26]	1460.72 (1348.830) [75]
GP	1792.10 (1199.635) [41]	1541.58 (1209.972) [26]	1694.88 (1200.785) [67]
Overall	1559.69 (1265.556) [90]	1591.13 (1322.195) [52]	

Panel B: ANOVA Results

ANOVA RESULTS					
Source	Sum of Squares	df	Mean Square	F	p-value
Good practice reporting (GPR)	882548.401	1	882548.401	0.535	0.466
Journey-orientation (Journey)	5112.999	1	5112.999	0.003	0.956
GPR X Journey	2272925.422	1	2272925.422	1.379	0.242

Panel C: Test of simple main effects

GIVEN	Comparison	t	df	p-value
Journey	GP vs No GP	1.608	88	**0.111**
No Journey	GP vs No GP	0.268	50	**0.790**
No GP	Journey vs No Journey	0.840	73	0.404
GP	Journey vs No Journey	0.830	65	0.409

Note: Participants were asked to indicate how much they are willing to invest in a company audited by Clearstone LLP, if they are given $5,000. Investment amount is measured on a slider from $0 to $5000.

Table 9: Experiment 2 – Average change in investor judgment (Variant 1)

(Variant 1 – average of changes in audit quality judgment, auditor retention vote, and investment willingness)

Panel A: Descriptive Statistics

	M (SD) [n]		
	Journey	No Journey	Overall
No GP	-1.82 (1.77) [49]	-1.45 (1.59) [26]	-1.69 (1.71) [75]
GP	-1.94 (2.24) [41]	-2.54 (1.56) [26]	-2.17 (2.01) [67]
Overall	-1.88 (1.99) [90]	-1.99 (1.65) [52]	

Panel B: ANOVA Results

ANOVA					
Source	Sum of Squares	df	Mean Square	F	p-value
Good practice reporting (GPR)	12.022	1	12.022	3.492	**0.064**
Journey-orientation (Journey)	0.401	1	0.401	0.117	0.733
GPR X Journey	7.726	1	7.726	2.244	**0.068***

*One-tailed

Panel C: Test of simple main effects

GIVEN	Comparison	t	df	p-value
Journey	GP vs No GP	0.284	88	**0.777**
No Journey	GP vs No GP	2.495	50	**0.008***
No GP	Journey vs No Journey	0.903	73	0.369
GP	Journey vs No Journey	1.183	65	0.121*

*One-tailed

Note: Average change in investor judgment is the average of change in audit quality judgment, change in auditor retention vote, and change in investment willingness. The Cronbach's Alpha for these 3 change measures is 0.874, suggesting a very high level of internal consistency. Further, results of a factor analysis suggest that these 3 change measures load on to one single factor (eigen value > 1), which explains 79.916% of the variance. The factor loadings of these change measures are 0.870 (change in audit quality judgment), 0.908 (change in auditor retention vote), and 0.903 (change in investment willingness). Audit quality judgment, auditor retention vote, and investment willingness was measured at two stages (after 20X3 outcomes and after 20X4 outcomes) on a 11-point scale, where 1 and 11 are the endpoints, and higher values indicate more positive judgments. Change is calculated as the difference between Stage 2 value and Stage 1 value. Therefore, negative values indicate a drop in judgment and positive values indicate an increase in judgment.

Table 10: Experiment 2 – Average change in investor judgment (Variant 2)

(Variant 2 = average of standardized changes in audit quality judgment, auditor retention vote, investment willingness, and investment amount)

Panel A: Descriptive Statistics

	M (SD) [n]		
	Journey	No Journey	Overall
No GP	0.05 (0.85) [49]	0.17 (0.81) [26]	0.09 (0.83) [75]
GP	0.01 (0.99) [41]	-0.27 (0.72) [26]	-0.10 (0.90) [67]
Overall	0.03 (0.91) [90]	-0.05 (0.79) [52]	

Panel B: ANOVA Results

ANOVA					
Source	Sum of Squares	df	Mean Square	F	p-value
Good practice reporting (GPR)	1.894	1	1.894	2.537	**0.057***
Journey-orientation (Journey)	0.178	1	0.178	0.117	0.626
GPR X Journey	1.307	1	1.307	2.244	**0.094***

*One-tailed

Panel C: Test of simple main effects

GIVEN	Comparison	t	df	p-value
Journey	GP vs No GP	0.210	88	**0.834**
No Journey	GP vs No GP	2.067	50	**0.022***
No GP	Journey vs No Journey	0.620	73	0.537
GP	Journey vs No Journey	1.218	65	0.114*

*One-tailed

Note: Average change in investor judgment is the average of the standardized change in audit quality judgment, standardized change in auditor retention vote, standardized change in investment willingness, and standardized change in investment amount. The Cronbach's Alpha for these 4 standardized change measures is 0.889, suggesting a very high level of internal consistency. Further, results of a factor analysis suggest that these 4 change measures load on to one single factor (eigen value > 1), which explains 75.084% of the variance. The factor loadings of these change measures are 0.834 (change in audit quality judgment), 0.901 (change in auditor retention vote), and 0.893 (change in investment willingness), and 0.835 (change in investment amount). Audit quality judgment, auditor retention vote, and investment willingness were measured at two stages (after 20X3 outcomes and after 20X4 outcomes) on a 11-point scale, where 1 and 11 are the endpoints, and higher values indicate more positive judgments. Investment amount was measured at 2 stages, on a slider from $0 to $5000.Change is calculated as the difference between Stage 2 value and Stage 1 value. Therefore, negative values indicate a drop in judgment and positive values indicate an increase in judgment.

Table 11: Experiment 2 – Change in Audit Quality Judgment

Panel A: Descriptive Statistics

	M (SD) [n]		
	Journey	No Journey	Overall
Stage 1:			
No GP	5.73 (2.379) [49]	5.96 (2.341) [26]	5.81 (2.352) [75]
GP	7.17 (1.672) [41]	7.04 (1.612) [26]	7.12 (1.638) [67]
Overall	6.39 (2.196) [90]	6.50 (2.063) [52]	
Stage 2:			
No GP	4.18 (2.261) [49]	4.85 (2.541) [26]	4.41 (2.366) [75]
GP	5.34 (2.341) [41]	4.38 (1.499) [26]	4.97 (2.096) [67]
Overall	4.71 (2.357) [90]	4.62 (2.078) [52]	
Change			
No GP	-1.55 (1.709) [49]	-1.12 (1.451) [26]	-1.40 (1.627) [75]
GP	-1.83 (2.479) [41]	-2.65 (1.672) [26]	-2.15 (2.224) [67]
Overall	-1.68 (2.087) [90]	-1.88 (1.734) [52]	

Panel B: ANOVA Results – Change in audit quality judgment

ANOVA					
Source	Sum of Squares	df	Mean Square	F	p-value
Good practice reporting (GPR)	27.115	1	27.115	7.359	0.008
Journey-orientation (Journey)	1.243	1	1.243	0.337	0.562
GPR X Journey	13.047	1	13.047	3.541	**0.062**

Panel C: Test of simple main effects – Change in audit quality judgment

GIVEN	Comparison	t	df	p-value
Journey	GP vs No GP	0.628	88	**0.532**
No Journey	GP vs No GP	3.543	50	**<0.001***
No GP	Journey vs No Journey	1.105	73	0.273
GP	Journey vs No Journey	1.492	65	**0.070***

*One-tailed

Note: Audit quality judgment was measured at 2 stages (after 20X3 outcomes and after 20X4 outcomes) on a 11-point scale, where 1 and 11 are the endpoints, and higher values indicate more positive judgment. Change is calculated as the difference between Stage 2 value and Stage 1 value. Therefore, negative values indicate a drop in judgment and positive values indicate an increase in judgment.

Table 12: Experiment 2 – Change in Auditor Retention Vote

Panel A: Descriptive Statistics

	M (SD) [n]		
	Journey	No Journey	Overall
Stage 1:			
No GP	5.41 (2.589) [49]	6.00 (2.466) [26]	5.61 (2.546) [75]
GP	6.63 (2.374) [41]	6.31 (2.150) [26]	6.51 (2.279) [67]
Overall	5.97 (2.555) [90]	6.15 (2.296) [52]	
Stage 2:			
No GP	3.55 (2.416) [49]	4.19 (2.546) [26]	3.77 (2.464) [75]
GP	4.68 (2.602) [41]	3.77 (1.796) [26]	4.33 (2.351) [67]
Overall	4.07 (2.552) [90]	3.98 (2.192) [52]	
Change:			
No GP	-1.86 (2.111) [49]	-1.81 (2.117) [26]	-1.84 (2.099) [75]
GP	-1.95 (2.459) [41]	-2.54 (1.881) [26]	-2.18 (2.256) [67]
Overall	-1.90 (2.264) [90]	-2.17 (2.017) [52]	

Panel B: ANOVA Results – Change in auditor retention vote

ANOVA					
Source	Sum of Squares	df	Mean Square	F	p-value
Good practice reporting (GPR)	5.590	1	5.590	1.175	0.280
Journey-orientation (Journey)	2.376	1	2.376	0.500	0.481
GPR X Journey	3.330	1	3.330	0.700	0.404

Panel C: Test of simple main effects – Change in auditor retention vote

GIVEN	Comparison	t	df	p-value
Journey	GP vs No GP	0.195	88	**0.846**
No Journey	GP vs No GP	1.316	50	**0.097***
No GP	Journey vs No Journey	0.096	73	0.923
GP	Journey vs No Journey	1.103	65	0.137*

*One-tailed

Note: Auditor retention vote was measured at 2 stages (after 20X3 outcomes and after 20X4 outcomes) on a 11-point scale, where 1 and 11 are the endpoints, and higher values indicate a higher likelihood to vote in favor. Change is calculated as the difference between Stage 2 value and Stage 1 value. Therefore, negative values indicate a drop in likelihood to vote in favor and positive values indicate an increase in likelihood to vote in favor.

Table 13: Experiment 2 – Change in Investment Willingness

Panel A: Descriptive Statistics

	M (SD) [n]		
	Journey	No Journey	Overall
Stage 1:			
No GP	5.78 (2.763) [49]	6.15 (2.361) [26]	5.91 (2.621) [75]
GP	7.10 (1.921) [41]	6.46 (2.140) [26]	6.85 (2.017) [67]
Overall	6.38 (2.493) [90]	6.31 (2.236) [52]	
Stage 2:			
No GP	3.71 (2.179) [49]	4.73 (2.706) [26]	4.07 (2.407) [75]
GP	5.05 (2.636) [41]	4.04 (2.144) [26]	4.66 (2.490) [67]
Overall	4.32 (2.476) [90]	4.38 (2.443) [52]	
Change:			
No GP	-2.06 (2.174) [49]	-1.42 (2.101) [26]	-1.84 (2.156) [75]
GP	-2.05 (2.258) [41]	-2.42 (1.815) [26]	-2.19 (2.091) [67]
Overall	-2.06 (2.200) [90]	-1.92 (2.008) [52]	

Panel B: ANOVA Results – Change in investment willingness

ANOVA					
Source	Sum of Squares	df	Mean Square	F	p-value
Good practice reporting (GPR)	8.012	1	8.012	1.774	**0.093***
Journey-orientation (Journey)	0.572	1	0.572	0.127	0.723
GPR X Journey	8.421	1	8.421	1.864	**0.087***

*One-tailed p

Panel C: Test of simple main effects – Change in investment willingness

GIVEN	Comparison	t	df	p-value
Journey	GP vs No GP	0.027	88	**0.979**
No Journey	GP vs No GP	1.837	50	**0.036***
No GP	Journey vs No Journey	1.224	73	0.225
GP	Journey vs No Journey	0.711	65	0.240*

*One-tailed

Note: Investment willingness was measured at 2 stages (after 20X3 outcomes and after 20X4 outcomes) on a 11-point scale, where 1 and 11 are the endpoints, and higher values indicate a higher willingness to invest. Change is calculated as the difference between Stage 2 value and Stage 1 value. Therefore, negative values indicate a drop in willingness to invest and positive values indicate an increase in willingness to invest.

Table 14: Experiment 2 – Change in Investment Amount

Panel A: Descriptive Statistics

	M (SD) [n]		
	Journey	No Journey	Overall
Stage 1:			
No GP	1365.22 (1298.338) [49]	1640.69 (1448.166) [26]	1460.72 (1348.830) [75]
GP	1792.10 (1199.635) [41]	1541.58 (1209.972) [26]	1694.88 (1200.785) [67]
Overall	1559.69 (1265.556) [90]	1591.13 (1322.195) [52]	
Stage 2:			
No GP	740.18 (943.040) [49]	977.92 (1258.003) [26]	822.60 (1060.418) [75]
GP	1182.05 (1248.770) [41]	729.12 (1050.250) [26]	1006.28 (1188.434) [67]
Overall	941.48 (1108.815) [90]	853.52 (1154.231) [52]	
Change:			
No GP	-625.04 (945.253) [49]	-662.77 (1115.387) [26]	-638.12 (1000.098) [75]
GP	-610.05 (781.452) [41]	-812.46 (761.934) [26]	-688.60 (774.520) [67]
Overall	-618.21 (869.714) [90]	-737.62 (948.757) [52]	

Panel B: ANOVA Results – Change in investment amount

ANOVA					
Source	Sum of Squares	df	Mean Square	F	p-value
Good practice reporting (GPR)	149062.948	1	149062.948	0.182	0.670
Journey-orientation (Journey)	473768.317	1	473768.317	0.579	0.448
GPR X Journey	222811.390	1	222811.390	0.272	0.603

Panel C: Test of simple main effects – Change in investment amount

GIVEN	**Comparison**	**t**	**df**	**p-value**
Journey	GP vs No GP	0.081	88	0.936
No Journey	GP vs No GP	0.565	50	0.575
No GP	Journey vs No Journey	0.154	73	0.878
GP	Journey vs No Journey	1.043	65	0.150*

*One-tailed

Note: Investment amount was measured on a slider from $0 to $5000, at 2 stages – after 20X3 outcomes and after 20X4 outcomes. Change is calculated as the difference between Stage 2 value and Stage 1 value. Therefore, negative values indicate a drop in investment amount and positive values indicate an increase in investment amount.

Table 15: Experiment 2 – Audit Quality Judgment at Stage 1 *(Additional analyses: Journey condition vs Endeavor condition)*

Panel A: Descriptive Statistics

	M (SD) [n]		
	Journey	Endeavor	Overall
No GP	5.73 (2.379) [49]	6.81 (1.858) [52]	6.29 (2.183) [101]
GP	7.17 (1.672) [41]	7.76 (1.954) [50]	7.49 (1.846) [91]
Overall	6.39 (2.196) [90]	7.27 (1.956) [102]	

Panel B: ANOVA Results

ANOVA					
Source	Sum of Squares	df	Mean Square	F	p-value
Good practice reporting (GPR)	67.883	1	67.883	17.095	**<0.001**
Journey/Endeavor (Framing)	32.883	1	32.883	8.281	**0.004**
GPR X Framing	2.785	1	2.785	0.701	0.403

Note: Participants were asked to rate the quality of audits performed by Clearstone LLP. Audit quality judgment is measured on a 11-point scale with endpoints 1 ("poor") to 11 ("excellent").

Table 16: Experiment 2 – Auditor Retention Vote at Stage 1 *(Additional analyses: Journey condition vs Endeavor condition)*

Panel A: Descriptive Statistics

	M (SD) [n]		
	Journey	Endeavor	Overall
No GP	5.41 (2.589) [49]	6.06 (2.516) [52]	5.74 (2.560) [101]
GP	6.63 (2.374) [41]	7.64 (2.529) [50]	7.19 (2.498) [91]
Overall	5.97 (2.555) [90]	6.83 (2.633) [102]	

Panel B: ANOVA Results

ANOVA					
Source	Sum of Squares	df	Mean Square	F	p-value
Good practice reporting (GPR)	93.854	1	93.854	14.906	**<0.001**
Journey/Endeavor (Framing)	32.611	1	32.611	5.179	**0.024**
GPR X Framing	1.511	1	1.511	0.240	0.625

Note: Participants were asked to indicate their likelihood to vote in favor of retaining Clearstone LLP as the auditor for one of the companies in which the participants hold stocks. Auditor retention vote is measured on a 11-point scale with endpoints 1 (least likely) and 11 (most likely).

Table 17: Experiment 2 – Investment Willingness at Stage 1 *(Additional analyses: Journey condition vs Endeavor condition)*

Panel A: Descriptive Statistics

	M (SD) [n]		
	Journey	Endeavor	Overall
No GP	5.78 (2.763) [49]	6.62 (2.344) [52]	6.21 (2.578) [101]
GP	7.10 (1.921) [41]	7.90 (2.188) [50]	7.54 (2.099) [91]
Overall	6.38 (2.493) [90]	7.25 (2.348) [102]	

Panel B: ANOVA Results

ANOVA					
Source	Sum of Squares	df	Mean Square	F	p-value
Good practice reporting (GPR)	80.861	1	80.861	14.774	**<0.001**
Journey/Endeavor (Framing)	32.098	1	32.098	5.865	**0.016**
GPR X Framing	0.017	1	0.017	0.003	0.956

Note: Participants were asked to indicate their willingness to invest in companies audited by Clearstone LLP. Investment willingness is measured on a 11-point scale with endpoints 1 (least likely) and 11 (most likely).

Table 18: Experiment 2 – Investment Amount at Stage 1 *(Additional analyses: Journey condition vs Endeavor condition)*

Panel A: Descriptive Statistics

	M (SD) [n]		
	Journey	Endeavor	Overall
No GP	1365.22 (1298.338) [49]	1793.38 (1338.393) [52]	1585.66 (1330.013) [101]
GP	1792.10 (1199.635) [41]	2163.88 (1083.144) [50]	1996.37 (1145.841) [91]
Overall	1559.69 (1265.556) [90]	1975.00 (1228.143) [102]	

Panel B: ANOVA Results

ANOVA RESULTS					
Source	Sum of Squares	df	Mean Square	F	p-value
Good practice reporting (GPR)	7566377.317	1	7566377.317	4.951	**0.027**
Journey/Endeavor (Framing)	7615308.564	1	7615308.564	4.983	**0.027**
GPR X Framing	37825.475	1	37825.475	0.025	0.875

Note: Participants were asked to indicate how much they are willing to invest in a company audited by Clearstone LLP, if they are given $5,000. Investment amount is measured on a slider from $0 to $5000.

Table 19: Experiment 2 – Average change in investor judgment, given GP *(Additional analyses: Journey condition vs Endeavor condition)*

Panel A: Descriptive statistics

	M (SD) [n]	
	Endeavor	Journey
Average change	-0.25 (0.98) [50]	0.13 (0.95) [41]

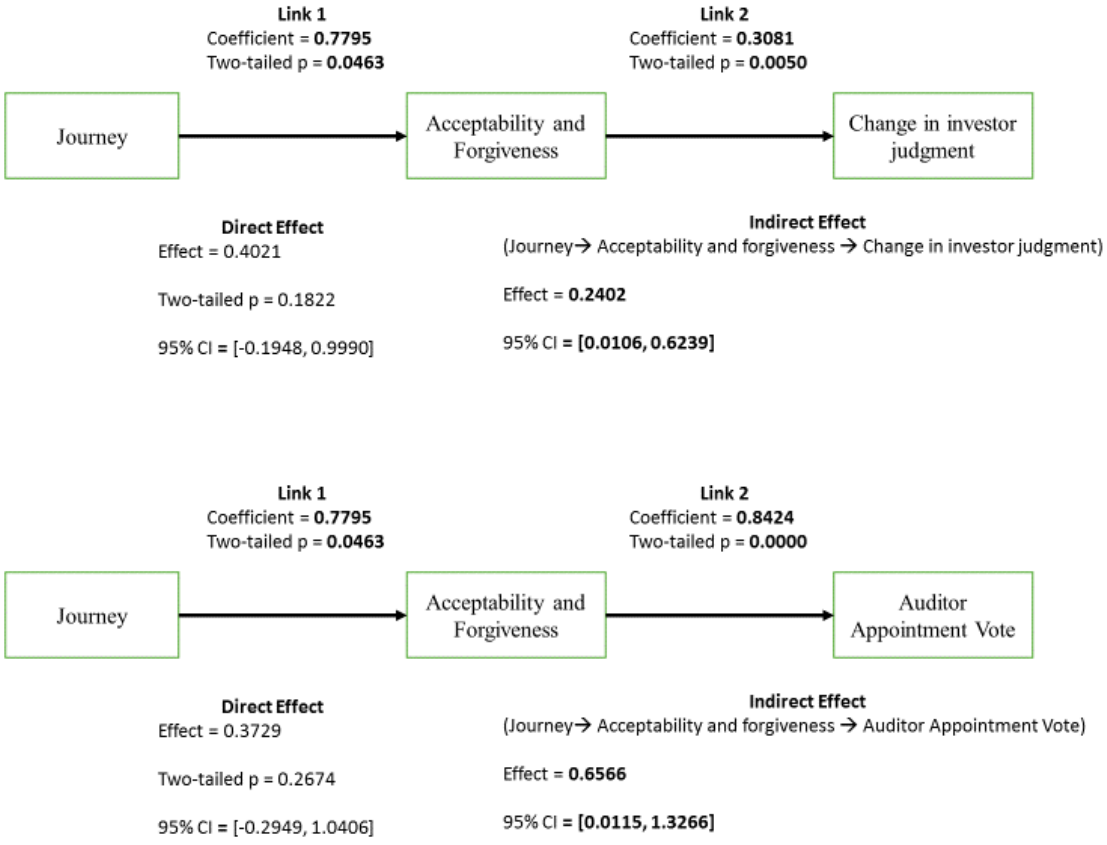
Panel B: Contrast test for average change in investor judgment

Journey = J, Endeavor = E

Order	**Weights**	**Value of contrast**	t_{114}	**p** (two-tailed)	**p** (one-tailed)
J, E	+1, -1	0.38	1.310	**0.053**	**0.027**

Note: Average change in investor judgment is the average of the standardized change in audit quality judgment, standardized change in auditor retention vote, standardized change in investment willingness, and standardized change in investment amount. The Cronbach's Alpha for these 4 standardized change measures is 0.884, suggesting a very high level of internal consistency. Further, results of a factor analysis suggest that these 4 change measures load on to one single factor (eigen value > 1), which explains 74.355% of the variance. The factor loadings of these change measures are 0.840 (change in audit quality judgment), 0.903 (change in auditor retention vote), and 0.892 (change in investment willingness), and 0.811 (change in investment amount). Audit quality judgment, auditor retention vote, and investment willingness were measured at two stages (after 20X3 outcomes and after 20X4 outcomes) on a 11-point scale, where 1 and 11 are the endpoints, and higher values indicate more positive judgments. Investment amount was measured at 2 stages, on a slider from $0 to $5000.Change is calculated as the difference between Stage 2 value and Stage 1 value. Therefore, negative values indicate a drop in judgment and positive values indicate an increase in judgment.

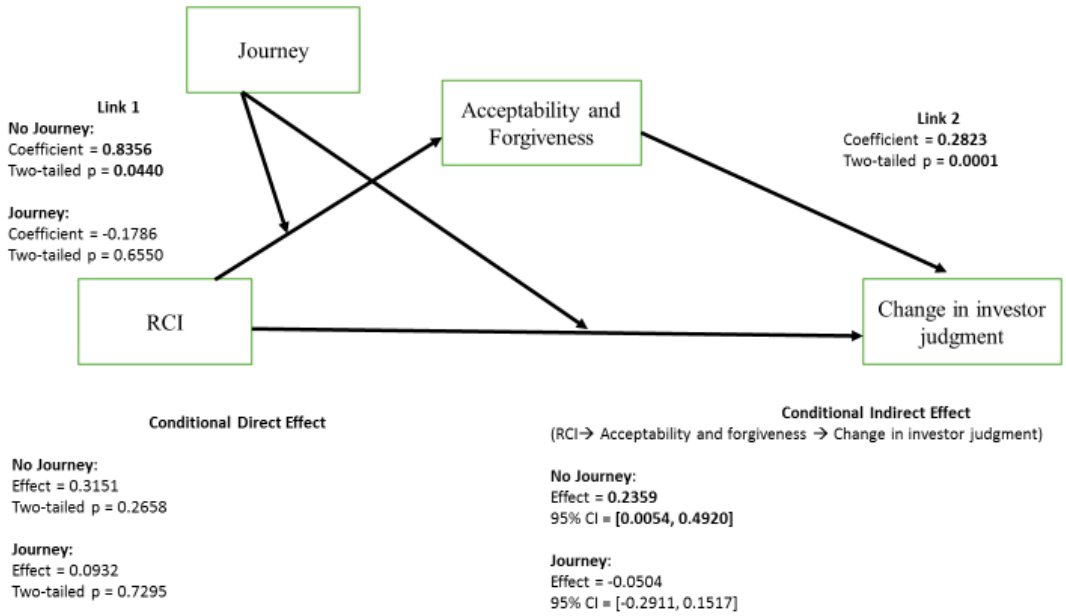
Figure 1: Experiment 1 - Effect of Journey *(given GP)* through acceptability and forgiveness



Notes:

- Model 4 of Andrew Hayes's PROCESS Macros (Version 5) in used with 5000 boot-strap samples.
- Journey is coded as 0 and 1 for No Journey and Journey respectively.
- Acceptability and Forgiveness were each measured on 7-point scales with endpoints 1 (least acceptability/forgiveness) to 7 (highest acceptability/forgiveness). The Cronbach's Alpha is 0.798, indicating a high level of internal consistency. Further, both load on one single factor (eigen value > 1), which explains 83.228% of the variance. The factor loadings are 0.912 each for acceptability and forgiveness. Hence, the two measures were averaged to form a single combined measure labelled *"Acceptability and forgiveness"*.
- Change in judgment is the average of a change in investors' audit quality judgment and change in investment likelihood. Change is calculated as the difference between Stage 2 value and Stage 1 value. Therefore, negative values indicate a drop in judgment while positive values indicate an increase in judgment. Audit quality judgment and investment likelihood were each measured at 2 stages, on 7-point scales from -3 (least) to +3 (highest). Audit quality judgment and investment likelihood have a high level of internal consistency (Cronbach's Alpha of 0.79 in Stage 1 and 0.84 in Stage 2).
- Auditor appointment vote is an average of investor vote to re-appoint XYZ LLP as an auditor of an existing client and investor vote to make a fresh appointment of XYZ LLP as an auditor of a company which is looking to replace its existing auditor. Re-appointment and fresh appointment votes were captured on a 7-point scale with -3 (least likelihood to vote in favor of re-appointing/making a fresh appointment) to +3 (highest likelihood to vote in favor of re-appointing/making a fresh appointment). Re-appointment and fresh appointment votes have a high level of internal consistency (Cronbach's Alpha = 0.89).

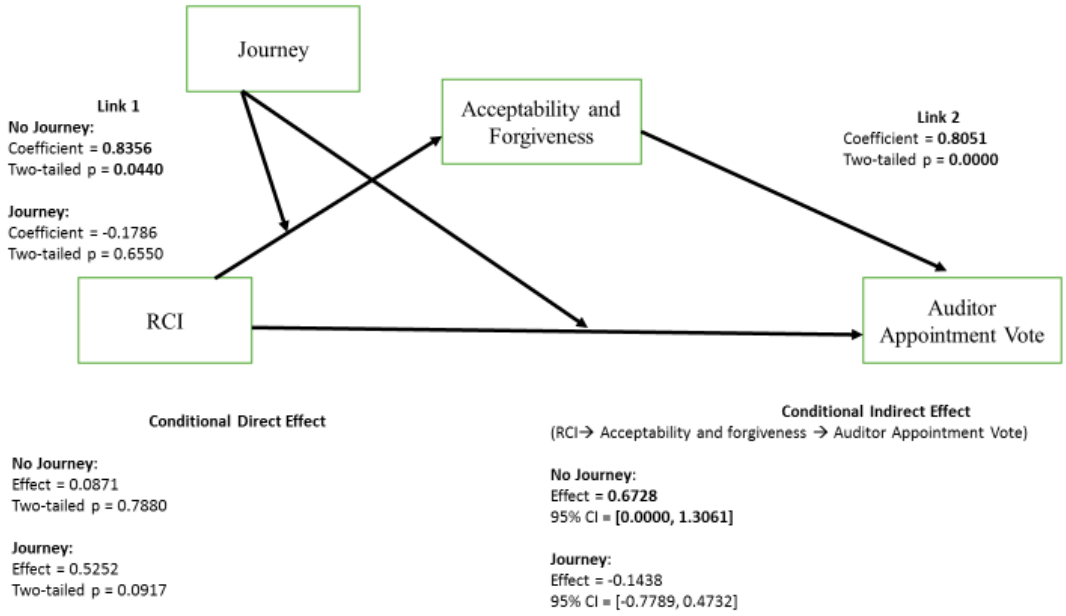
Figure 2A: Experiment 1 – Effect of RCI *(conditional on No Journey)* on change in investor judgment *through* acceptability and forgiveness



Notes:

- Model 8 of Andrew Hayes's PROCESS Macros (Version 5) in used with 5000 boot-strap samples.
- RCI is coded as 0 (No RCI) and 1 (RCI)
- Journey is coded as 0 (No Journey) and 1 (Journey)
- Acceptability and Forgiveness were each measured on 7-point scales with endpoints 1 (least acceptability/forgiveness) to 7 (highest acceptability/forgiveness). The Cronbach's Alpha is 0.820, indicating a high level of internal consistency. Further, both load to one single factor (eigen value > 1), which explains 84.753% of the variance. The factor loadings are 0.921 each for acceptability and forgiveness. Hence, the two measures were averaged to form a single combined measure labelled *"Acceptability and forgiveness"*.
- Change in investors' judgment is an average of the change in audit quality judgment and change in investment likelihood. Audit quality judgment and investment likelihood were both measured on 7-point scales with endpoints -3 (poor audit quality/least likelihood to invest) and +3 (excellent audit quality/highest likelihood to invest) in 2 stages. Change is calculated as the difference between Stage 2 value and Stage 1 value. Therefore, negative values indicate a drop in judgment while positive values indicate an increase in judgment. Audit quality judgment and investment likelihood have a high level of internal consistency (Cronbach's Alpha of 0.79 in Stage 1 and 0.84 in Stage 2).

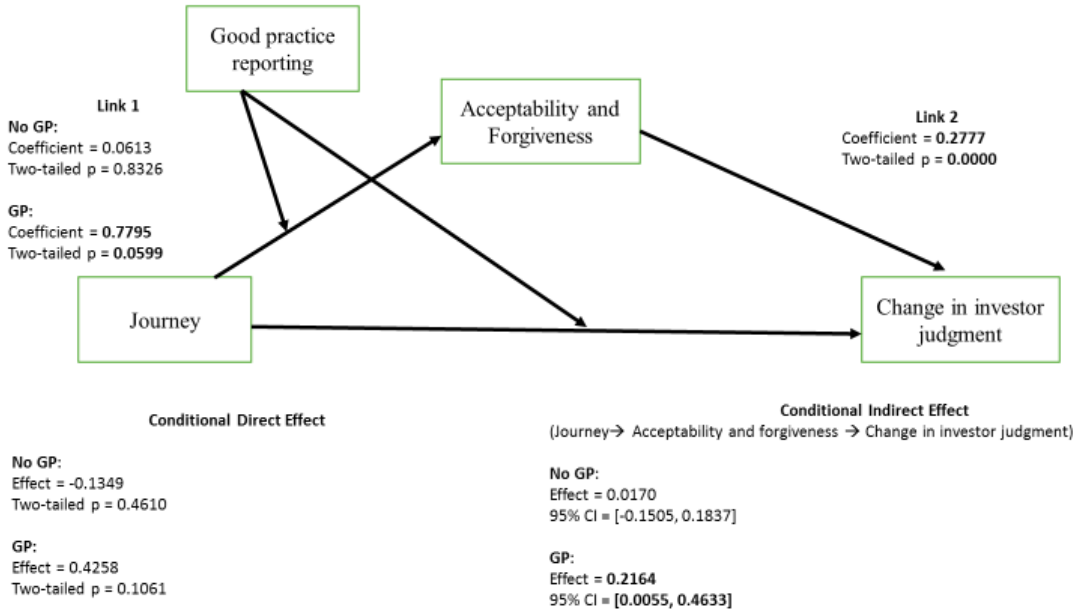
Figure 2B: Experiment 1 – Effect of RCI *(conditional on No Journey)* on auditor appointment vote *through* acceptability and forgiveness



Notes:

- Model 8 of Andrew Hayes's PROCESS Macros (Version 5) in used with 5000 boot-strap samples.
- RCI is coded as 0 (No RCI) and 1 (RCI)
- Journey is coded as 0 (No Journey) and 1 (Journey)
- Acceptability and Forgiveness were each measured on 7-point scales with endpoints 1 (least acceptability/forgiveness) to 7 (highest acceptability/forgiveness). The Cronbach's Alpha is 0.820, indicating a high level of internal consistency. Further, both load to one single factor (eigen value > 1), which explains 84.753% of the variance. The factor loadings are 0.921 each for acceptability and forgiveness. Hence, the two measures were averaged to form a single combined measure labelled *"Acceptability and forgiveness"*.
- Auditor appointment vote is an average of investor vote to re-appoint XYZ LLP as an auditor of an existing client and investor vote to make a fresh appointment of XYZ LLP as an auditor of a company which is looking to replace its existing auditor. Re-appointment and fresh appointment votes were captured on a 7-point scale with -3 (least likelihood to vote in favor of re-appointing/making a fresh appointment) to +3 (highest likelihood to vote in favor of re-appointing/making a fresh appointment). Re-appointment and fresh appointment votes have a high level of internal consistency (Cronbach's Alpha = 0.89).

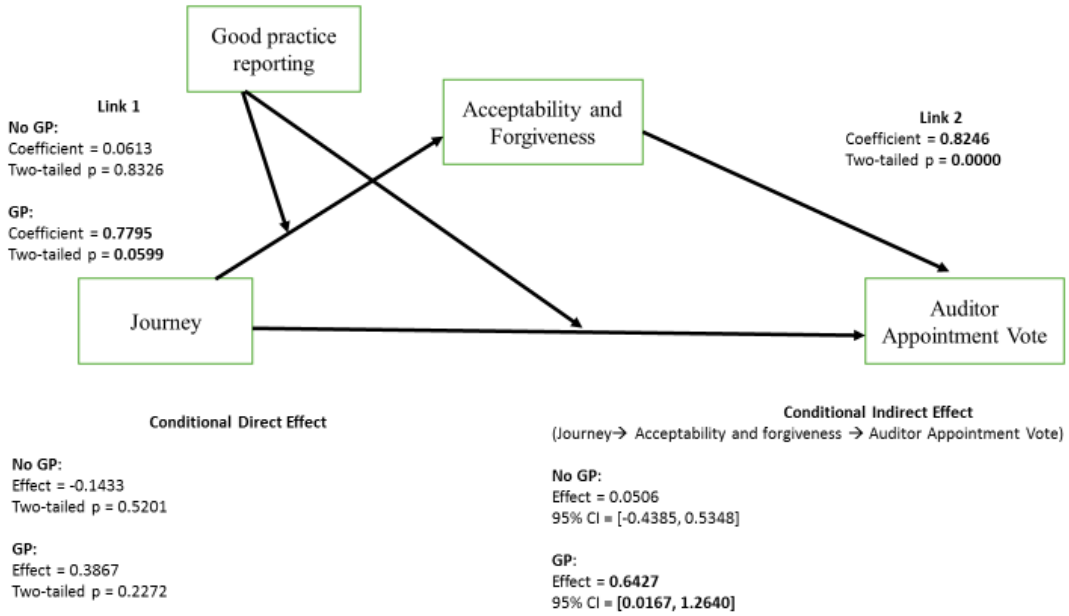
Figure 3A: Experiment 1 – Effect of journey *(conditional on GP)* on change in investor judgment *through* acceptability and forgiveness



Notes:

- Model 8 of Andrew Hayes's PROCESS Macros (Version 5) in used with 5000 boot-strap samples.
- Journey is coded as 0 (No Journey) and 1 (Journey)
- Good practice reporting is coded as 0 (No GP) and 1 (GP)
- Acceptability and Forgiveness were each measured on 7-point scales with endpoints 1 (least acceptability/forgiveness) to 7 (highest acceptability/forgiveness). The Cronbach's Alpha is 0.820, indicating a high level of internal consistency. Further, both load to one single factor (eigen value > 1), which explains 84.753% of the variance. The factor loadings are 0.921 each for acceptability and forgiveness. Hence, the two measures were averaged to form a single combined measure labelled *"Acceptability and forgiveness"*.
- Change in investors' judgment is an average of the change in audit quality judgment and change in investment likelihood. Audit quality judgment and investment likelihood were both measured on 7-point scales with endpoints -3 (poor audit quality/least likelihood to invest) and +3 (excellent audit quality/highest likelihood to invest) in 2 stages. Change is calculated as the difference between Stage 2 value and Stage 1 value. Therefore, negative values indicate a drop in judgment while positive values indicate an increase in judgment. Audit quality judgment and investment likelihood have a high level of internal consistency (Cronbach's Alpha of 0.79 in Stage 1 and 0.84 in Stage 2).

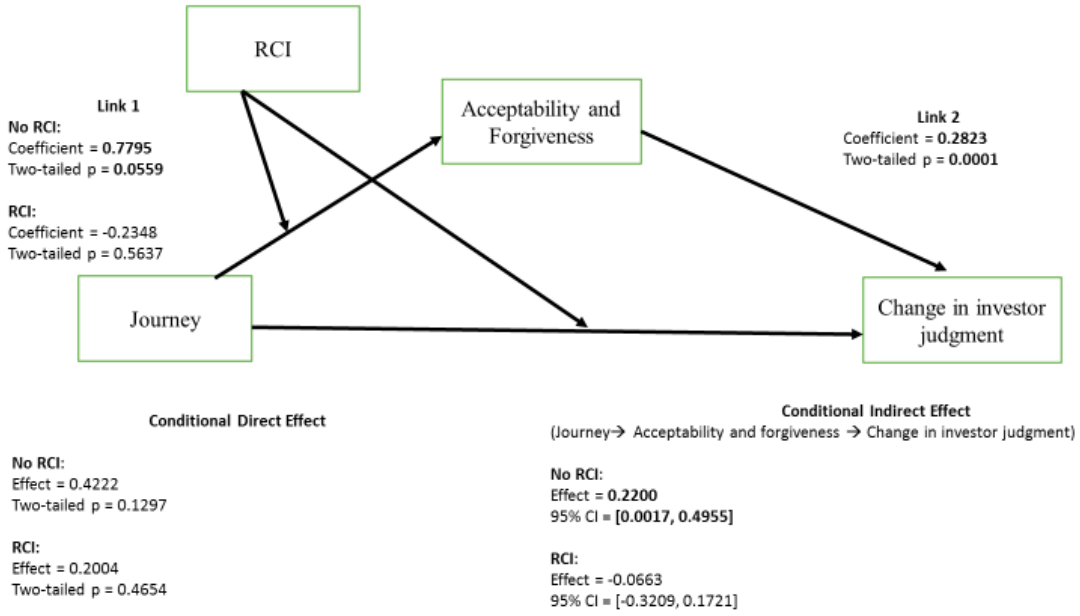
Figure 3B: Experiment 1 – Effect of journey *(conditional on GP)* on auditor appointment vote *through* acceptability and forgiveness



Notes:

- Model 8 of Andrew Hayes's PROCESS Macros (Version 5) in used with 5000 boot-strap samples.
- Journey is coded as 0 (No Journey) and 1 (Journey)
- Good practice reporting is coded as 0 (No GP) and 1 (GP)
- Acceptability and Forgiveness were each measured on 7-point scales with endpoints 1 (least acceptability/forgiveness) to 7 (highest acceptability/forgiveness). The Cronbach's Alpha is 0.820, indicating a high level of internal consistency. Further, both load to one single factor (eigen value > 1), which explains 84.753% of the variance. The factor loadings are 0.921 each for acceptability and forgiveness. Hence, the two measures were averaged to form a single combined measure labelled *"Acceptability and forgiveness"*.
- Auditor appointment vote is an average of investor vote to re-appoint XYZ LLP as an auditor of an existing client and investor vote to make a fresh appointment of XYZ LLP as an auditor of a company which is looking to replace its existing auditor. Re-appointment and fresh appointment votes were captured on a 7-point scale with -3 (least likelihood to vote in favor of re-appointing/making a fresh appointment) to +3 (highest likelihood to vote in favor of re-appointing/making a fresh appointment). Re-appointment and fresh appointment votes have a high level of internal consistency (Cronbach's Alpha = 0.89).

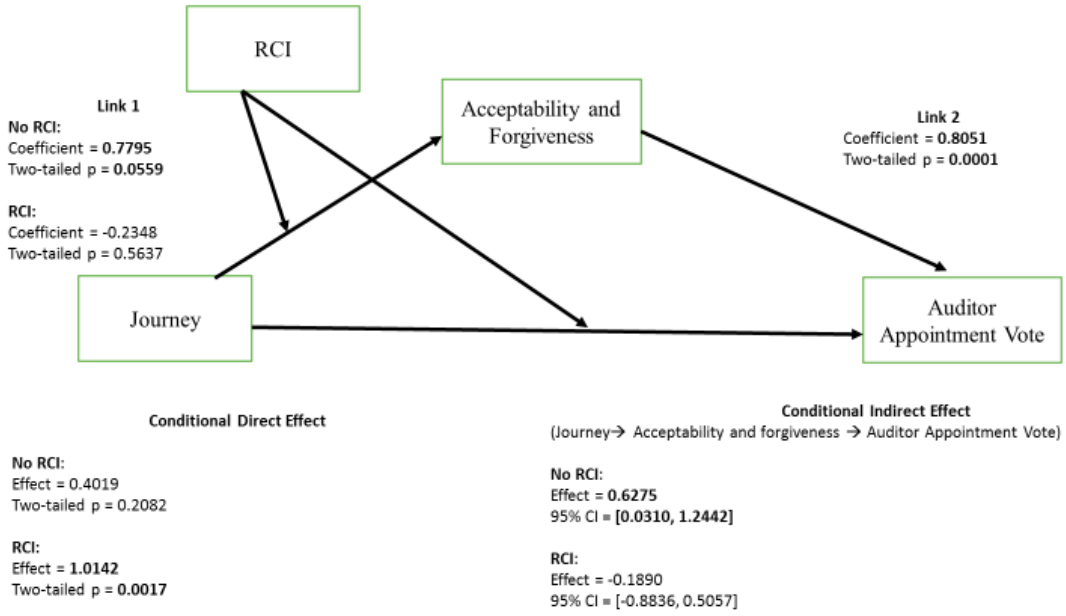
Figure 4A: Experiment 1 – Effect of journey *(conditional on No RCI)* on change in investor judgment *through* acceptability and forgiveness



Notes:

- Model 8 of Andrew Hayes's PROCESS Macros (Version 5) in used with 5000 boot-strap samples.
- RCI is coded as 0 (No RCI) and 1 (RCI)
- Journey is coded as 0 (No Journey) and 1 (Journey)
- Acceptability and Forgiveness were each measured on 7-point scales with endpoints 1 (least acceptability/forgiveness) to 7 (highest acceptability/forgiveness). The Cronbach's Alpha is 0.820, indicating a high level of internal consistency. Further, both load to one single factor (eigen value > 1), which explains 84.753% of the variance. The factor loadings are 0.921 each for acceptability and forgiveness. Hence, the two measures were averaged to form a single combined measure labelled *"Acceptability and forgiveness"*.
- Change in investors' judgment is an average of the change in audit quality judgment and change in investment likelihood. Audit quality judgment and investment likelihood were both measured on 7-point scales with endpoints -3 (poor audit quality/least likelihood to invest) and +3 (excellent audit quality/highest likelihood to invest) in 2 stages. Change is calculated as the difference between Stage 2 value and Stage 1 value. Therefore, negative values indicate a drop in judgment while positive values indicate an increase in judgment. Audit quality judgment and investment likelihood have a high level of internal consistency (Cronbach's Alpha of 0.79 in Stage 1 and 0.84 in Stage 2).

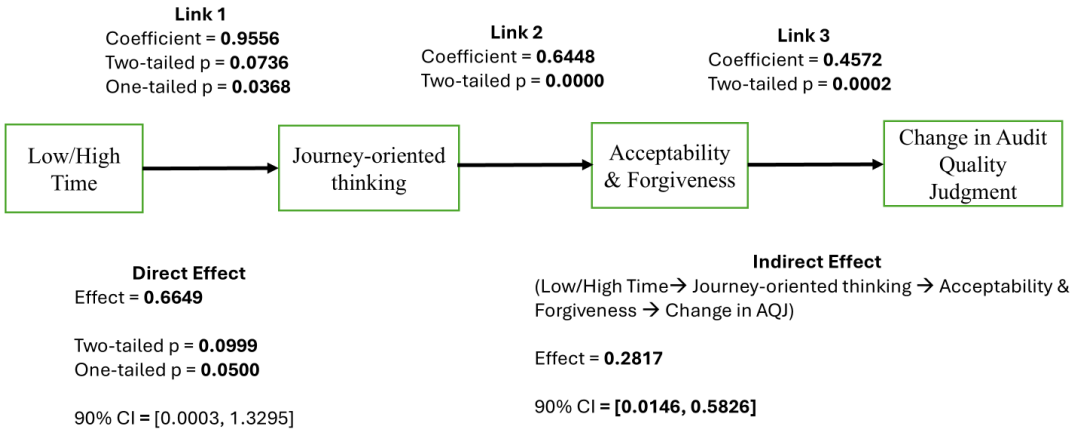
Figure 4B: Experiment 1 – Effect of journey *(conditional on No RCI)* on Auditor Appointment Vote *through* acceptability and forgiveness



Notes:

- Model 8 of Andrew Hayes's PROCESS Macros (Version 5) in used with 5000 boot-strap samples.
- RCI is coded as 0 (No RCI) and 1 (RCI)
- Journey is coded as 0 (No Journey) and 1 (Journey)
- Acceptability and Forgiveness were each measured on 7-point scales with endpoints 1 (least acceptability/forgiveness) to 7 (highest acceptability/forgiveness). The Cronbach's Alpha is 0.820, indicating a high level of internal consistency. Further, both load to one single factor (eigen value > 1), which explains 84.753% of the variance. The factor loadings are 0.921 each for acceptability and forgiveness. Hence, the two measures were averaged to form a single combined measure labelled *"Acceptability and forgiveness"*.
- Auditor appointment vote is an average of investor vote to re-appoint XYZ LLP as an auditor of an existing client and investor vote to make a fresh appointment of XYZ LLP as an auditor of a company which is looking to replace its existing auditor. Re-appointment and fresh appointment votes were captured on a 7-point scale with -3 (least likelihood to vote in favor of re-appointing/making a fresh appointment) to +3 (highest likelihood to vote in favor of re-appointing/making a fresh appointment).

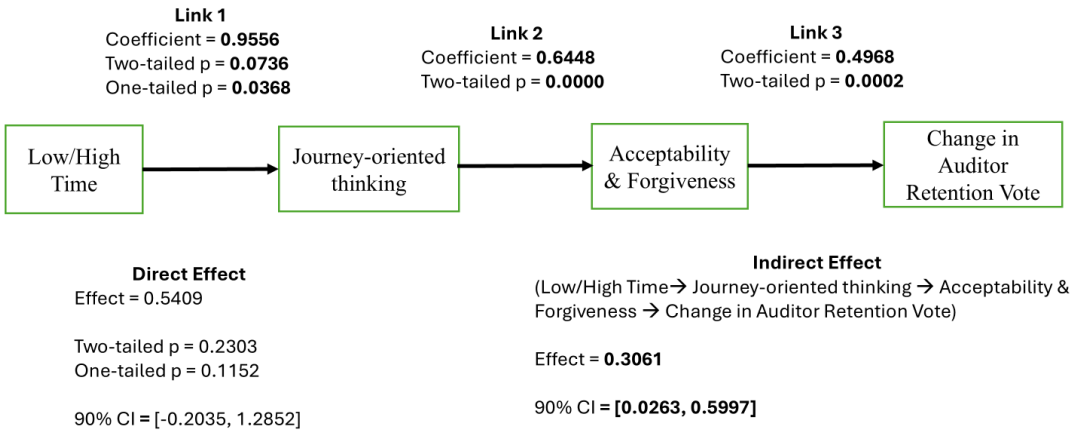
Figure 5A: Experiment 2 – The indirect effect of high versus low time spent on thinking about audit quality journey on *change in audit quality judgment*



Notes:

- Model 6 of Andrew Hayes's PROCESS Macros (Version 5) in used with 5000 boot-strap samples.
- Low-Time is coded as 0 and High-Time is coded as 1.
- Low-time refers to the group of participants which spent lesser than the median time thinking about audit quality journey and high-time refers to the group of participants which spent higher than the median time thinking about audit quality journey.
- Journey-oriented thinking captures participants' belief regarding the audit firm pursuing an ongoing audit quality journey. It was measured on a 11-point scale, where 1 and 11 are the endpoints, and higher values indicate higher journey-orientation.
- Acceptability and Forgiveness were each measured on 11-point scales, where 1 and 11 are the endpoints, and higher values indicate higher acceptability/forgiveness. The Cronbach's Alpha is 0.836, indicating a high level of internal consistency. Further, both load to one single factor (eigen value > 1), which explains 86.057% of the variance. The factor loadings are 0.928 each for acceptability and forgiveness. Hence, the two measures were averaged to form a single combined measure labelled *"Acceptability and forgiveness"*.
- Change in audit quality judgment is calculated as the difference between audit quality judgment at Stage 2 and audit quality judgment at Stage 1. Negative values indicate a drop in judgment and positive values indicate an increase in judgment. A drop in judgment signifies a negative impact on investor judgments while an increase in judgment signifies a positive impact on investor judgments. At each stage, audit quality judgment was measured on a 11-point scale, where 1 and 11 are the endpoints and higher values indicate more positive judgment.

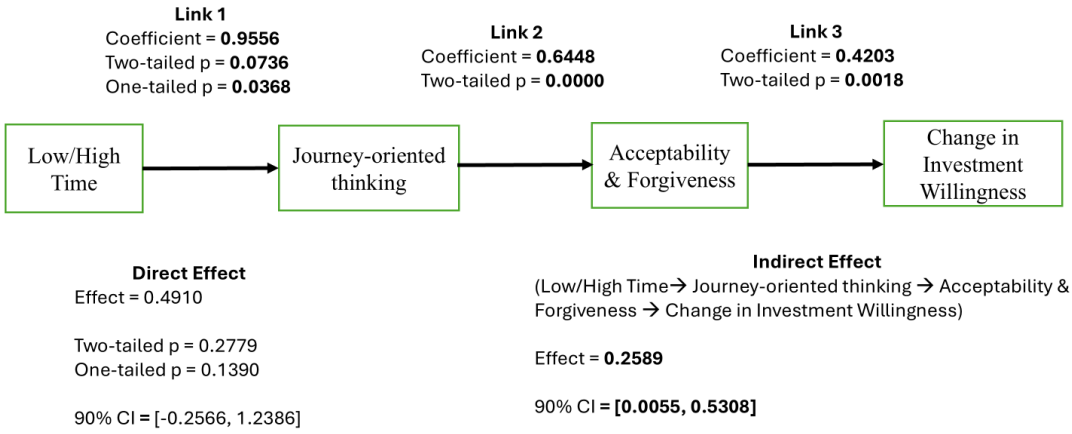
Figure 5B: Experiment 2 – The indirect effect of high versus low time spent on thinking about audit quality journey on *change in auditor retention vote*



Notes:

- Model 6 of Andrew Hayes's PROCESS Macros (Version 5) in used with 5000 boot-strap samples.
- Low-Time is coded as 0 and High-Time is coded as 1.
- Low-time refers to the group of participants which spent lesser than the median time thinking about audit quality journey and high-time refers to the group of participants which spent higher than the median time thinking about audit quality journey.
- Journey-oriented thinking captures participants' belief regarding the audit firm pursuing an ongoing audit quality journey. It was measured on a 11-point scale, where 1 and 11 are the endpoints, and higher values indicate higher journey-orientation.
- Acceptability and Forgiveness were each measured on 11-point scales, where 1 and 11 are the endpoints, and higher values indicate higher acceptability/forgiveness. The Cronbach's Alpha is 0.836, indicating a high level of internal consistency. Further, both load to one single factor (eigen value > 1), which explains 86.057% of the variance. The factor loadings are 0.928 each for acceptability and forgiveness. Hence, the two measures were averaged to form a single combined measure labelled *"Acceptability and forgiveness"*.
- Change in auditor retention vote is calculated as the difference between auditor retention vote at Stage 2 and auditor retention vote at Stage 1. Negative values indicate a drop in likelihood to vote in favor and positive values indicate an increase in likelihood to vote in favor. A drop in likelihood to vote in favor signifies a negative impact on investor judgment while an increase in likelihood to vote in favor signifies a positive impact on investor judgment. At each stage, auditor retention vote was measured on a 11-point scale, where 1 and 11 are the endpoints and higher values indicate a higher likelihood to vote in favor.

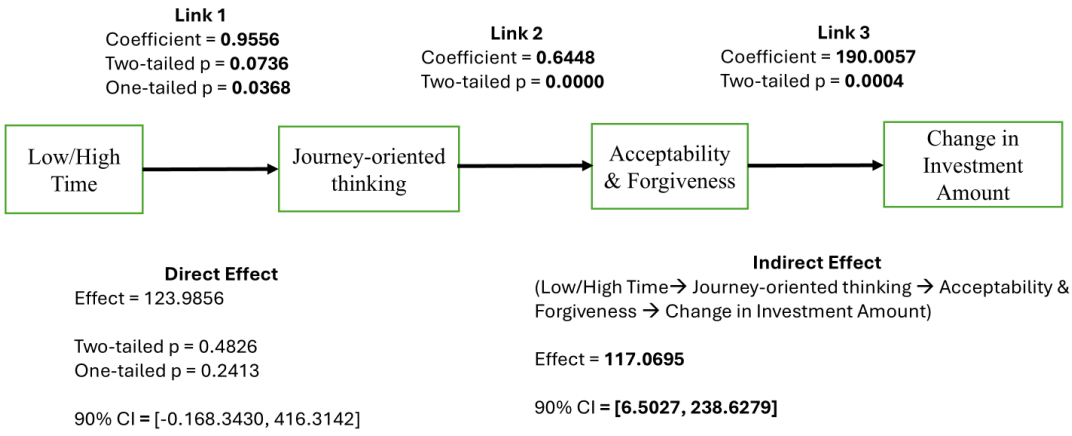
Figure 5C: Experiment 2 – The indirect effect of high versus low time spent on thinking about audit quality journey on *change in investment willingness*



Notes:

- Model 6 of Andrew Hayes's PROCESS Macros (Version 5) in used with 5000 boot-strap samples.
- Low-Time is coded as 0 and High-Time is coded as 1.
- Low-time refers to the group of participants which spent lesser than the median time thinking about audit quality journey and high-time refers to the group of participants which spent higher than the median time thinking about audit quality journey.
- Journey-oriented thinking captures participants' belief regarding the audit firm pursuing an ongoing audit quality journey. It was measured on a 11-point scale, where 1 and 11 are the endpoints, and higher values indicate higher journey-orientation.
- Acceptability and Forgiveness were each measured on 11-point scales, where 1 and 11 are the endpoints, and higher values indicate higher acceptability/forgiveness. The Cronbach's Alpha is 0.836, indicating a high level of internal consistency. Further, both load to one single factor (eigen value > 1), which explains 86.057% of the variance. The factor loadings are 0.928 each for acceptability and forgiveness. Hence, the two measures were averaged to form a single combined measure labelled *"Acceptability and forgiveness"*.
- Change in investment willingness is calculated as the difference between investment willingness at Stage 2 and investment willingness at Stage 1. Negative values indicate a drop in willingness to invest and positive values indicate an increase in willingness to invest. A drop in willingness to invest signifies a negative impact on investor judgment while an increase in willingness to invest signifies a positive impact on investor judgment. At each stage, investment willingness was measured on a 11-point scale, where 1 and 11 are the endpoints and higher values indicate a higher willingness to invest.

Figure 5D: Experiment 2 – The indirect effect of high versus low time spent on thinking about audit quality journey on *change in investment amount*

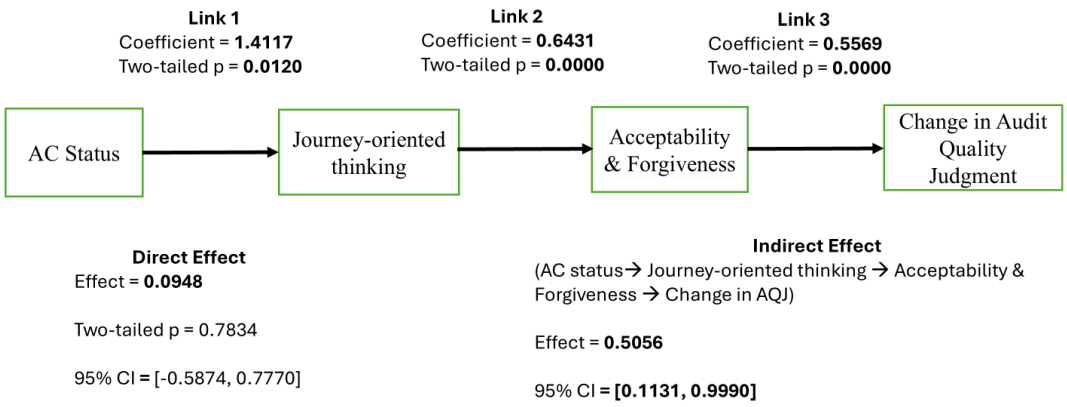


Notes:

- Model 6 of Andrew Hayes's PROCESS Macros (Version 5) in used with 5000 boot-strap samples.
- Low-Time is coded as 0 and High-Time is coded as 1.
- Low-time refers to the group of participants which spent lesser than the median time thinking about audit quality journey and high-time refers to the group of participants which spent higher than the median time thinking about audit quality journey.
- Journey-oriented thinking captures participants' belief regarding the audit firm pursuing an ongoing audit quality journey. It was measured on a 11-point scale, where 1 and 11 are the endpoints, and higher values indicate higher journey-orientation.
- Acceptability and Forgiveness were each measured on 11-point scales, where 1 and 11 are the endpoints, and higher values indicate higher acceptability/forgiveness. The Cronbach's Alpha is 0.836, indicating a high level of internal consistency. Further, both load to one single factor (eigen value > 1), which explains 86.057% of the variance. The factor loadings are 0.928 each for acceptability and forgiveness. Hence, the two measures were averaged to form a single combined measure labelled *"Acceptability and forgiveness"*.
- Change in investment amount is calculated as the difference between investment amount at Stage 2 and investment amount at Stage 1. Therefore, negative values indicate a drop in investment amount while positive values indicate an increase in investment amount. At each stage, investment amount was measured on a slider from $0 to $5000.

Figure 6A: Experiment 2 – Comparison of attention check failures versus success
(Indirect effect on change in audit quality judgment)

This analysis is only within the "No Journey" condition (n = 101 participants). 52 participants passed the attention check and 49 participants failed the attention check question. This analysis is collapsed across GP conditions.

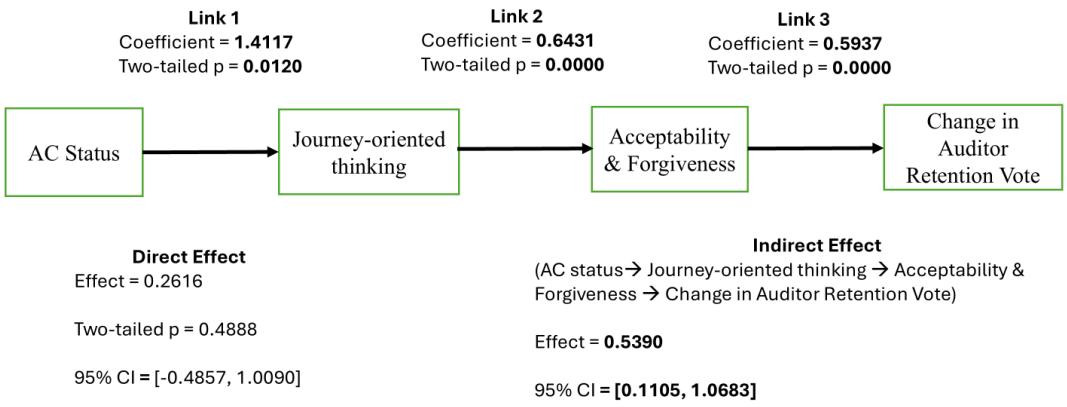


Notes:

- Model 6 of Andrew Hayes's PROCESS Macros (Version 5) in used with 5000 boot-strap samples.
- AC status is coded as "0" for those who passed the attention check question and "1" for those who failed it.
- Journey-oriented thinking captures participants' belief regarding the audit firm pursuing an ongoing audit quality journey. It was measured on a 11-point scale, where 1 and 11 are the endpoints, and higher values indicate higher journey-orientation.
- Acceptability and Forgiveness were each measured on 11-point scales, where 1 and 11 are the endpoints, and higher values indicate higher acceptability/forgiveness. The Cronbach's Alpha is 0.836, indicating a high level of internal consistency. Further, both load to one single factor (eigen value > 1), which explains 86.057% of the variance. The factor loadings are 0.928 each for acceptability and forgiveness. Hence, the two measures were averaged to form a single combined measure labelled *"Acceptability and forgiveness"*.
- Change in audit quality judgment is calculated as the difference between audit quality judgment at Stage 2 and audit quality judgment at Stage 1. Negative values indicate a drop in judgment and positive values indicate an increase in judgment. A drop in judgment signifies a negative impact on investor judgments while an increase in judgment signifies a positive impact on investor judgments. At each stage, audit quality judgment was measured on a 11-point scale, where 1 and 11 are the endpoints and higher values indicate more positive judgment.

Figure 6B: Experiment 2 – Comparison of attention check failures versus success
(Indirect effect on change in auditor retention vote)

This analysis is only within the "No Journey" condition (n = 101 participants). 52 participants passed the attention check and 49 participants failed the attention check question. This analysis is collapsed across GP conditions.

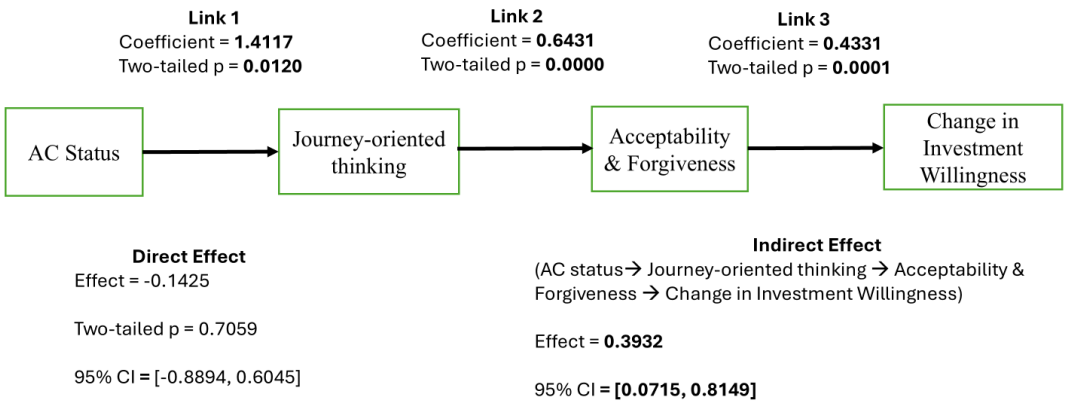


Notes:

- Model 6 of Andrew Hayes's PROCESS Macros (Version 5) in used with 5000 boot-strap samples.
- AC status is coded as "0" for those who passed the attention check question and "1" for those who failed it.
- Journey-oriented thinking captures participants' belief regarding the audit firm pursuing an ongoing audit quality journey. It was measured on a 11-point scale, where 1 and 11 are the endpoints, and higher values indicate higher journey-orientation.
- Acceptability and Forgiveness were each measured on 11-point scales, where 1 and 11 are the endpoints, and higher values indicate higher acceptability/forgiveness. The Cronbach's Alpha is 0.836, indicating a high level of internal consistency. Further, both load to one single factor (eigen value > 1), which explains 86.057% of the variance. The factor loadings are 0.928 each for acceptability and forgiveness. Hence, the two measures were averaged to form a single combined measure labelled *"Acceptability and forgiveness"*.
- Change in auditor retention vote is calculated as the difference between auditor retention vote at Stage 2 and auditor retention vote at Stage 1. Negative values indicate a drop in likelihood to vote in favor and positive values indicate an increase in likelihood to vote in favor. A drop in likelihood to vote in favor signifies a negative impact on investor judgment while an increase in likelihood to vote in favor signifies a positive impact on investor judgment. At each stage, auditor retention vote was measured on a 11-point scale, where 1 and 11 are the endpoints and higher values indicate a higher likelihood to vote in favor.

Figure 6C: Experiment 2 – Comparison of attention check failures versus success
(Indirect effect on change in investment willingness)

This analysis is only within the "No Journey" condition (n = 101 participants). 52 participants passed the attention check and 49 participants failed the attention check question. This analysis is collapsed across GP conditions.

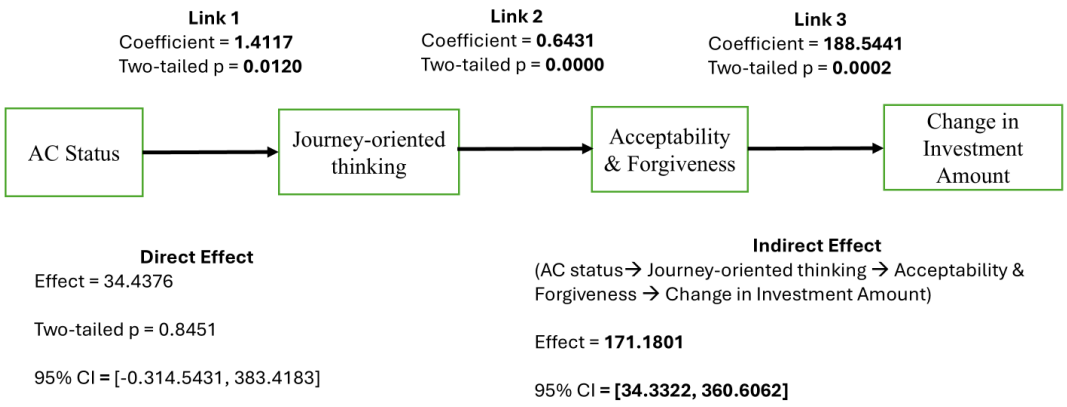


Notes:

- Model 6 of Andrew Hayes's PROCESS Macros (Version 5) in used with 5000 boot-strap samples.
- AC status is coded as "0" for those who passed the attention check question and "1" for those who failed it.
- Journey-oriented thinking captures participants' belief regarding the audit firm pursuing an ongoing audit quality journey. It was measured on a 11-point scale, where 1 and 11 are the endpoints, and higher values indicate higher journey-orientation.
- Acceptability and Forgiveness were each measured on 11-point scales, where 1 and 11 are the endpoints, and higher values indicate higher acceptability/forgiveness. The Cronbach's Alpha is 0.836, indicating a high level of internal consistency. Further, both load to one single factor (eigen value > 1), which explains 86.057% of the variance. The factor loadings are 0.928 each for acceptability and forgiveness. Hence, the two measures were averaged to form a single combined measure labelled *"Acceptability and forgiveness"*.
- Change in investment willingness is calculated as the difference between investment willingness at Stage 2 and investment willingness at Stage 1. Negative values indicate a drop in willingness to invest and positive values indicate an increase in willingness to invest. A drop in willingness to invest signifies a negative impact on investor judgment while an increase in willingness to invest signifies a positive impact on investor judgment. At each stage, investment willingness was measured on a 11-point scale, where 1 and 11 are the endpoints and higher values indicate a higher willingness to invest.

Figure 6D: Experiment 2 – Comparison of attention check failures versus success
(Indirect effect on change in investment amount)

This analysis is only within the "No Journey" condition (n = 101 participants). 52 participants passed the attention check and 49 participants failed the attention check question. This analysis is collapsed across GP conditions.



Notes:

- Model 6 of Andrew Hayes's PROCESS Macros (Version 5) in used with 5000 boot-strap samples.
- AC status is coded as "0" for those who passed the attention check question and "1" for those who failed it.
- Journey-oriented thinking captures participants' belief regarding the audit firm pursuing an ongoing audit quality journey. It was measured on a 11-point scale, where 1 and 11 are the endpoints, and higher values indicate higher journey-orientation.
- Acceptability and Forgiveness were each measured on 11-point scales, where 1 and 11 are the endpoints, and higher values indicate higher acceptability/forgiveness. The Cronbach's Alpha is 0.836, indicating a high level of internal consistency. Further, both load to one single factor (eigen value > 1), which explains 86.057% of the variance. The factor loadings are 0.928 each for acceptability and forgiveness. Hence, the two measures were averaged to form a single combined measure labelled *"Acceptability and forgiveness"*.
- Change in investment amount is calculated as the difference between investment amount at Stage 2 and investment amount at Stage 1. Therefore, negative values indicate a drop in investment amount while positive values indicate an increase in investment amount. At each stage, investment amount was measured on a slider from $0 to $5000.

APPENDIX A: Real-life examples of performance reversal in Big-4 audit firms

Sno.	**AUDIT FIRM**	**Time – t** (Good practice)	**Time – t+1** (Reversal of good performance)
1	EY	In 2023, the FRC reported a good practice regarding sensitivity analysis with respect to goodwill impairment	In 2024, however, the FRC reported a deficiency in evaluation and challenge of inputs that went into impairment assessment.
2	EY	In 2023, the FRC reported a good practice regarding revenue data analytics by labelling it as a comprehensive testing.	In 2024, however, the FRC reported deficiency in revenue data analytics.
3	EY	In 2023, the FRC reported a good practice regarding challenging the management in the audit of goods in transit.	In 2024, however, the FRC reported a deficiency in challenging the management's cashflow forecasts in impairment assessment.
4	KPMG	In 2023, the FRC reported a good practice regarding the robust challenge of management in the areas of impairment, other fair value measures, and insurance provisioning.	In 2024, however, the FRC reported a deficiency in challenging the management's forecast and assumptions in the domains of impairment and cost of sales.
5	PwC	In 2022, the FRC reported a good practice regarding challenging the management on intangibles impairment.	In 2023, however, the FRC reported a deficiency in challenging management's revenue forecast.

Note: FRC inspection reports can be accessed at https://www.frc.org.uk/library/supervision/audit-firm-specific-reports/tier-1-audit-firms/

APPENDIX B (Part 1): Example of journey-oriented writing in the FRC inspection report

The following excerpt is from the 2023 inspection report of BDO.

1. Overview

Overall assessment

In the 2021/22 public report, we concluded that the number of audits requiring significant improvements or improvements was unacceptable and set out how the firm and the FRC would respond. We assessed that the firm had not responded quickly enough to strengthen its audit quality infrastructure to support its previous growth and its strategic ambitions. While doing so, we noted that there had been a step-change in the firm's investment in resources and other audit quality initiatives. During the last period, the firm's commitment to strengthening its audit quality infrastructure intensified. However, that commitment and the associated investment and enhancements have not yet had the opportunity to fully embed and impact inspection results.

The regulator highlights an ongoing journey by linking the past, present, and possible future.

This year, the proportion of audits assessed as requiring no more than limited improvements from our audit inspections was 69%, which was an improvement from the prior year. However, we still assessed two of the audits we reviewed as requiring significant improvements. The areas which contributed most to the audits that needed improvements or significant improvements were the audit of revenue, audit of financial services entities, scepticism and challenge in key areas of judgement, journal testing, and quality control and review, all recurring findings from the prior year. We also noted two thematic issues which the firm needs to take action on.

The regulator mentions the current performance rate and connects it with the past (improvement from prior year) and future (scope for further improvement going forward).

This suggests that the pursuit of audit quality is a journey

We have, in the previous three years, given strong messages to the firm around the priority actions in its quality improvement plan and increased the depth of our supervision. This year, the actions the firm has undertaken or has in progress, have had some impact on the audits we have reviewed, however there is a persisting trend of recurrent themes. Given the timing delays embedded in our review cycle, it is not yet possible to assess if the firm's quality related actions have been sufficient to address the weaknesses in audit quality over the recurring themes.

Here again, the regulator weaves the past (strong messages), the present (current actions and progress), and the future (need to beat persistent themes).

This suggests that the pursuit of audit quality is a journey

The firm has continued to invest in resources and other audit quality initiatives and is actively managing the growth, complexity, and sector emphasis in its audit portfolio. The firm must continue its audit quality transformation journey ensuring that its resources and initiatives are embedded, effective and that its culture incentivises audit quality. The key priority is for the firm to ensure its quality transformation plan is delivered over a short time-frame in order to move its audit quality to a good standing.

The regulator explicitly mentions the word "journey".

APPENDIX B (Part 2): Additional examples of journey-oriented writing in the FRC inspection reports

In the 5 examples presented below, the sentences in quotes are those of the regulator. In general, these sentences suggest that the firm is pursuing an audit quality journey that is ongoing in nature, that the journey has to be continued, and that changes/investments made during the course of this journey can take time to fructify.

Example 1: **2025 – BDO**

"…We recognize that removing barriers to change *can take time*…."

"…While the firm *continues to work* on improving its quality, we will work with it to perform additional activities…"

Example 2: **2025 – Mazars**

"…It is *too soon* to identify this improvement as a trend; however, it is an encouraging indication…."

"…*Continued effort* is needed to ensure lasting improvement… "

"…The firm must also *continue to invest*…"

Example 3: **2025 – Deloitte**

"…The firm *remains focused* on maintaining these levels…*Going forward*, investment should focus on…"

Example 4: **2024 – Mazars**

"…Improving audit quality *takes time*…"

"…We will *continue to work* with Forvis Mazars…"

Example 5: **2023 – Grant Thorton**

"It is important that the firm *maintains* a strong focus on quality matters and, given such positive inspection results, guards against the risk of complacency…"

"There is also a need for the firm to make achieving high quality easier for its auditors and this will require *ongoing* strategic focus…"

APPENDIX B (Part 3): Examples of journey-oriented writing in the public responses of audit firms

(These examples are taken from audit firm responses to FRC inspection reports)

Example 1: **2023 – Deloitte**

"This reflects the ***ongoing investment we continue to make*** in audit quality, with a relentless focus on continuous improvement…"

"We highlighted last year our ***culture journey***…"

"As we strive to embed our audit and assurance behaviours into everything that we do, including our learning and development and reward and recognition structures, ***understanding where we are on our journey***…."

Observation: In this example, the firm highlights that audit quality initiatives/investments are ongoing in nature and that the firm is pursuing an ongoing journey.

Example 2: **2023 – Grant Thornton**

"We take both the AQR and QAD review processes seriously and find the learnings extremely helpful in our ***continuous improvement journey***…"

"***We will continue to be committed to and invest in high quality audits***…"

Observation: In this example, the firm highlights that improving audit quality is a part of an ongoing continuous journey.

Example 3: **2024 – KPMG**

"Looking ahead, while our strong AQR results demonstrate the progress we've made through our commitment to delivering sustainable audit quality, ***we know it is a journey of continuous investment, learning and improvement***…"

Observation: In this example, the firm explicitly highlights that their audit quality progress is a part of an continuous/ongoing journey.

Example 4: 2024 – EY

"We are committed to the ***ongoing journey*** of delivering consistent, high audit quality…"

Observation: In this example, the firm explicitly mentions that their audit quality delivering is a part of their ongoing audit quality journey.

Example 5: 2025 – KPMG

"Our approach and attitude to continuous improvement, and our results of both internal and external inspections, demonstrate we have robust processes in place to support ***on this journey***"

Observation: In this example, the firm mentions that they are pursuing an ongoing journey in improving audit quality

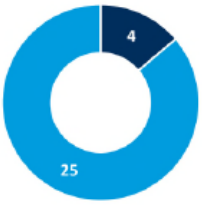
APPENDIX C: Example of NO journey-oriented writing in the PCAOB inspection report

The following excerpt is from the 2023 inspection report of BDO.

Overview of the 2023 Deficiencies Included in Part I

Twenty-five of the 29 audits we reviewed in 2023 are included in Part I.A of this report due to the significance of the deficiencies identified. The identified deficiencies primarily related to the firm's testing of controls over and/or substantive testing of revenue and related accounts, inventory, and business combinations.

2023



86% Part I.A deficiency rate

- Audits without Part I.A deficiencies
- Audits with Part I.A deficiencies

2023

- Deficiencies in both financial statement and ICFR audits
- Deficiencies in the financial statement audit only
- Deficiencies in the ICFR audit only

In connection with our 2023 inspection procedures for one audit, the issuer restated its financial statements to correct misstatements, and the firm revised and reissued its report on the financial statements. In addition, in connection with our 2023 inspection procedures for another audit, the issuer revised its report on ICFR, and the firm revised its opinion on the effectiveness of the issuer's ICFR to express an adverse opinion and reissued its report.

The most common Part I.A deficiencies in 2023 related to identifying controls related to a significant account or relevant assertion, performing substantive testing to address a risk of material misstatement, and testing the design or operating effectiveness of controls selected for testing.

The Part I.B deficiencies in 2023 related to consideration of fraud, retention of audit documentation, audit committee communications, risk assessment, the firm's audit report, management communications, critical audit matters, and Form AP.

The Part I.C deficiencies in 2023 related to audit committee pre-approval and an indemnification clause.

APPENDIX D: Instrument – Experiment 1

Screen 1: **Background information about XYZ LLP**

XYZ LLP is an audit firm which audits many public and private companies. XYZ has been a player in the auditing industry for several decades. XYZ's clientele includes companies from automobile manufacturing, banking, consumer electronics, financial services, software, transportation, and various other industries. At the firm-level, there are audit quality initiatives.

You hold stocks in a few companies audited by XYZ LLP.

Screen 2: **Background information about audit regulation**

The national audit regulator of a country is tasked with the responsibility to oversee the practice of the auditing profession. Regulators periodically inspect the audits conducted by auditing firms, typically those firms that audit publicly listed companies. The aim of the regulatory inspection process is to foster audit quality. Through regulatory inspections, regulators aim to increase the quality of the audits performed by auditing firms and the assurance provided. The outcomes of the inspection process are generally shared in an inspection report which is posted for public viewing.

As a part of the periodical inspection regime, *some audits conducted by XYZ LLP for the just ended financial period - 20X3 have been inspected and the regulator has issued an inspection report*.

You will now read some excerpts from the regulatory inspection reports for the 20X3 period.

Screen 3: Excerpts from the regulatory inspection report for 20X3

Journey condition

Brief overall assessment: We inspected 10 audits conducted by XYZ LLP for the financial year ended 31st December 20X3. We found deficiencies in 2 audits, which is a 20% deficiency rate. In our previous inspection, we inspected just about the same number of audits and the rate of deficiency was 30%. Our inspection suggests an improvement in the quality of the audits performed by XYZ.

About three years ago, in 20X1, XYZ undertook some audit culture initiatives to promote psychological safety in engagement teams. In 20X2, there were some investments to foster healthy and timely communication among engagement team members. Some firm-level initiatives to enhance staff training and coaching are underway. Going forward, XYZ plans to increase its investment in data analytics and other AI tools. ***(Note: In the journey-absent condition, these audit quality initiatives are mentioned but not time-stamped)***

We observe XYZ's audit quality journey. We strongly encourage XYZ to continue its audit quality journey. ***(Note: These two sentences are not present in the journey-absent condition)***

We have a few specific observations about audits done.

No Journey condition

Brief overall assessment: We inspected 10 audits conducted by XYZ LLP for the financial year ended 31st December 20X3. We found deficiencies in 2 audits, which is a 20% deficiency rate. In our previous inspection, we inspected just about the same number of audits and the rate of deficiency was 30%. Our inspection suggests an improvement in the quality of the audits performed by XYZ.

We observe XYZ's initiatives to promote psychological safety in engagement teams, foster healthy and timely communication among engagement team members, to deliver staff training and coaching, and increase technology investments.

We have a few specific observations about audits done

Screen 4: Excerpts from the inspection report of 20X3

Audit deficiencies:

1. Not obtaining external confirmations: In 1 engagement, the team did not obtain a third-party confirmation from a few trade-debtors, as a part of the trade-receivables audit.

2. Insufficient documentation: In 1 engagement, the team did not document how it followed up with the client regarding the observed control lapses, as a part of the revenue audit.

***Good auditing practices**: (Note: This is not present in the No GP condition. It is present only in the GP and the GP+RCI conditions)*

1. *Satisfactory challenge of management's estimates and assumptions: In a couple of engagements, the team asked very appropriate questions to challenge the management's assumptions regarding the cashflow growth rate, as a part of the intangibles audit.*

Screen 5: **Excerpts from the inspection report of 20X3**

No GP condition

XYZ's response: XYZ recognizes the regulator's goal to uphold the highest standards of audit quality. The firm supports the regulator in the process of inspection and is happy to understand the regulatory observations and improve the quality of audits performed and assurance provided.

We note the audit deficiencies highlighted by the regulator regarding seeking external confirmations in the audit of trade receivables. We performed a root-cause analysis and have identified key factors that led to the deficiency in our procedures.

GP condition:

XYZ's response: XYZ recognizes the regulator's goal to uphold the highest standards of audit quality. The firm supports the regulator in the process of inspection and is happy to

understand the regulatory observations and improve the quality of audits performed and assurance provided.

We note the audit deficiencies highlighted by the regulator regarding seeking external confirmations in the audit of trade receivables. We performed a root-cause analysis and have identified key factors that led to the deficiency in our procedures.

We are also glad to note that the regulator has appreciated how we challenged the management estimates/assumptions.

GP+RCI Condition:

XYZ's response: XYZ recognizes the regulator's goal to uphold the highest standards of audit quality. The firm supports the regulator in the process of inspection and is happy to understand the regulatory observations and improve the quality of audits performed and assurance provided.

We note the audit deficiencies highlighted by the regulator regarding seeking external confirmations in the audit of trade receivables. We performed a root-cause analysis and have identified key factors that led to the deficiency in our procedures.

We are also glad to note that the regulator has appreciated how we challenged the management estimates/assumptions.

We extended our root-cause analysis to this area where we have performed well and identified a couple of key factors that led to the good performance.

Screen 6

Based on the regulatory observations for 20X3, please answer the following couple of questions

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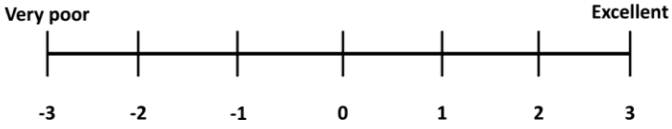
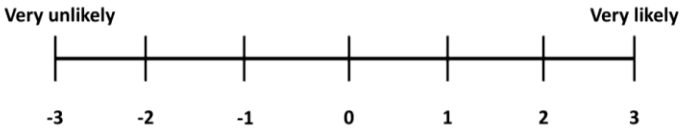
Screen 7

What is your judgment of the quality of audit done by XYZ?



Screen 8

How likely are you to invest in a company audited by XYZ?



Screen 9

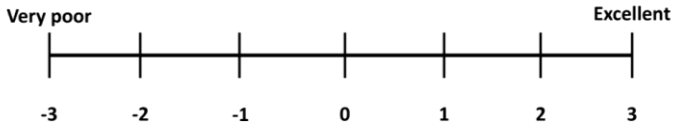
Thanks a lot for your responses! You will now read some information about the subsequent period – 20X4.

Screen 10: Subsequent period (20X4)

The regulator is wrapping up the inspection of XYZ's audits for 20X4. At this outset, the following audit deficiency has been identified - *in a couple of audits, the engagement team did not seem to sufficiently test management's estimates of inventory value and obsolescence.*

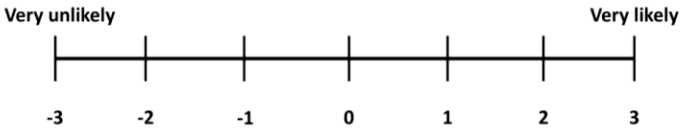
Screen 11

What is your judgment of the quality of audit work done by XYZ?



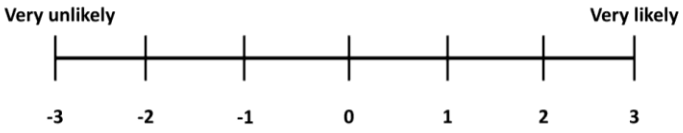
Screen 12

If you are asked to vote in favour of re-appointing XYZ as Company A' auditor for the next period, how likely are you to vote in favour?



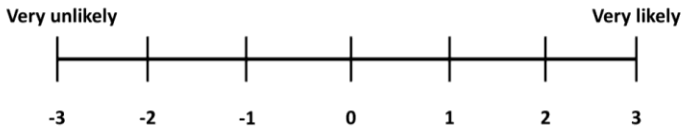
Screen 13

Imagine company B is looking out to replace its existing audit firm. How likely would you vote in favour of XYZ?



Screen 14

How likely are you to invest in a company that is audited by XYZ?

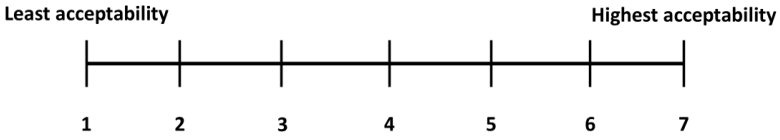


Screen 15

If you are given $10,000 to top up your investment in one of the companies you are already invested in, what proportion will you use to top up, if the company is audited by XYZ?

Screen 16

How acceptable to you is it if XYZ's audit performance fluctuates across time periods?



Screen 17

After reading the regulatory observations for the first period (20X3), how much did you expect XYZ to do a good job in challenging the management?

Screen 18

What is your level of belief that XYZ's audit performance would be consistent across time periods?

Screen 19

In 20X4, the regulator observed that XYZ's audit of management's inventory estimates were inadequate. What is your level of belief that this inadequacy could have been avoided by XYZ?

Screen 20

How forgiving can you be about XYZ's deficiency regarding auditing inventory estimates of the management?

Screen 21

As per the excerpts that you read for the first period (20X3), did the regulator report a good auditing practice? (Yes/No)

Screen 22

XYZ LLP performed a root-cause analysis to identify key factors that contributed to the audit deficiencies reported by the regulator. Did it extend the root cause analysis for the reported good practice? (Yes/No)

Screen 23

As per the excerpts that you read for the first period (20X3), did the regulator talk about the audit firm's audit quality initiatives?

Screen 24

In the excerpts from the regulatory inspection report, did the regulator mention XYZ's audit quality journey?

Screen 25

Thanks once again for your responses! You are almost at the end of this survey. Please answer the following demographic questions

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Screen 26

1. What is your age? (Years)
2. What is your nationality?
3. What is your gender?
    a. Male
    b. Female
    c. Others
    d. Prefer not to say
4. What is your highest academic qualification?
    a. Bachelors
    b. Masters
    c. Doctorate
    d. Others
5. Do you have any professional qualification in the domain of accounting/finance? (Example: CA, CPA, CFA, FRM)
6. How many accounting courses have you taken as a part of your academic and professional qualifications?
7. How many finance and investment courses have you taken as a part of your academic and professional
8. How many years of investment experience do you have?
9. How many years of full-time work experience do you have?

Do you have any work experience in the fields of accounting and finance? (Yes/No)

APPENDIX E: Instrument – Experiment 2

Screen 1: **Background information about Clearstone LLP**

Clearstone LLP is an audit firm which audits both private and public companies. Its clientele includes companies from different industries – automobile, banking and finance, consumer electronics, pharmaceuticals, software, digital technologies, transportation, etc.

You hold stocks in a few companies audited by Clearstone LLP.

Screen 2: **Background information about public regulation**

The *Public Council for Audit Regulation (PCAR)* independently oversees the practice of the auditing profession. The *PCAR* periodically inspects audit firms with an aim to foster audit quality. The outcomes of regulatory inspection are generally shared via inspection reports posted for public viewing.

Screen 3: Leading participants to view the first excerpt from the inspection report of 20X3 (first period)

Clearstone LLP was inspected by the PCAR and an inspection report has been posted for public viewing. *The inspection report mainly consists of the regulator's observations regarding audit deficiencies/good auditing practices.*

You will now read an excerpt from PCAR's inspection report of Clearstone LLP for 20X3

Screen 4: Excerpts from regulatory inspection report - (Part 1)

Condition 1: Journey

"For the financial period – 20X3, the Council inspected 10 audits.

We observe Clearstone's audit quality initiatives.

The audit quality initiatives form part of Clearstone's ***ongoing audit quality journey****. We encourage Clearstone to* ***continue doing this,*** and we *will continue to work with the firm in its* ***audit quality journey.****"*

Condition 2: Endeavor

"For the financial period – 20X3, the Council inspected 10 audits.

We observe Clearstone's audit quality initiatives.

The audit quality initiatives form part of Clearstone's ***ongoing audit quality endeavors****. We encourage Clearstone to* ***continue doing this,*** *and we will continue to work with the firm in its endeavors****.****"*

Condition 3: No Journey (control)

"For the financial period – 20X3, the Council inspected 10 audits. We observe Clearstone's audit quality initiatives and will continue to work with the firm."

Screen 5: Participants to engage in a quick reflection

Condition 1: Journey

Kindly think about what an ***audit quality journey*** means and what this ***journey*** would entail.

Condition 2: Endeavor

Kindly think about what audit quality endeavors mean.

Condition 3: No Journey (control)

Kindly think about what audit quality refers to.

Screen 6: Leading participants to view the second excerpt from the inspection report for 20X3 (first period)

You will now read another excerpt from PCAR's inspection report where the regulator makes some specific observations for the period 20X3.

Screen 7: Excerpts from regulatory inspection report – (Part 2)

You will now read another excerpt from PCAR's inspection report where the regulator makes some specific observations for the period 20X3.

"Our observations from inspecting Clearstone LLP for the period 20X3 are as follows:

Audit Deficiencies (across No GP and GP conditions)**:**

Not obtaining external confirmation: In a couple of engagements, the audit team did not obtain a third-party confirmation from a few trade-debtors, as a part of the trade receivables audit.

Good auditing practices (only in the GP conditions)**:**

Effective challenge of management's estimates and assumptions: In a few engagements, the audit team asked appropriate questions and effectively challenged the client management's assumptions regarding the cashflow growth rate, as a part of the intangibles audit."

Screens 8, 9, 10, 11 – Stage 1 measures

1. Based on the information you have read, please rate the quality of audits performed by Clearstone LLP? ***(Audit quality judgment)***
   Measured on a 11-point scale from 1 (Poor) to 11 (Excellent)

2. You hold stocks in Optivia Technology Solutions. This company is audited by Clearstone LLP. How likely are you to vote in favor of retaining Clearstone as the auditor for the next financial period? ***(Auditor Retention Vote)***
   Measured on a 11-point scale from 1 (Least likely) to 11 (Most likely)

3. Indicate your willingness to invest in companies audited by Clearstone LLP ***(Investment willingness)***
   Measured on a 11-point scale from 1 (Least likely) to 11 (Most likely)

4. If you were given $5,000 to invest, how much will you invest in companies audited by Clearstone LLP ***(Investment amount)***

Measured on a slider from $0 to $5,000

Screen 12: Subsequent period – 20X4

No GP condition:

The regulatory inspection of 20X4, the subsequent period, suggests that there were *deficiencies in Clearstone LLP's inventory audit*. The following is from the 20X4 inspection report:

"….. *there were inadequacies in the inventory audit.*

There was a deficiency on the part of Clearstone in testing the assumptions made by the client in the context of inventory valuation."

GP condition:

The regulatory inspection of 20X4, the subsequent period, suggests that there were *deficiencies in Clearstone LLP's inventory audit*. The following is from the 20X4 inspection report:

"….. ***there were inadequacies in the inventory audit.***

In the previous year, Clearstone had performed well in challenging subjective estimates in the intangible asset context. This year, there was a deficiency on the part of Clearstone in testing the assumptions made by the client in the context of inventory valuation."

Screens 13, 14, 15, 16 – Stage 2 measures

Repeat Stage 1 measures again – *audit quality judgment, auditor retention vote, investment willingness, and investment amount*

Measured on a 11-point scale from 1 to 11

Screen 17: Acceptability (process measure)

How acceptable is it if Clearstone LLP's audit performance fluctuates between two time periods?

Measured on a 11-point scale from 1 (Least acceptable) to 11 (Most acceptable)

Screen 18: Forgiveness (process measure)

Recall that in the latest period (20X4), Clearstone LLP had deficiencies in testing client estimates regarding inventory value. *How much can you forgive Clearstone LLP for these deficiencies?*

Measured on a 11-point scale from 1 (Least forgiving) to 11 (Most forgiving)

Screen 19: Two additional questions

1. How supportive is the PCAR to audit firms for improving audit quality?

   Measured on a 11-point scale from 1 (Least supportive) to 11 (Most supportive)

2. Overall, how rigorous do you think the PCAR's oversight is? [11-point scale from 1(least) to 11(highest)]

   Measured on a 11-point scale from 1 (Least rigorous) to 11 (Most rigorous)

Screen 20: Checks

1. How much do you agree with the following statement – *"Clearstone LLP is pursuing an ongoing journey towards better audit quality?"*

Measured on a 11-point scale from 1 (Complete disagreement) to 11 (Complete agreement)

2. "*The audit quality initiatives form part of Clearstone's* ***ongoing audit quality journey****. We encourage Clearstone to* ***continue its journey.*** *We will continue to work with the firm in its* ***audit quality journey" –*** *In the textual information that you read as a part of this study, do you remember reading these sentences?* (Yes/No)

3. For the first period (20X3), did the regulator report a specific good auditing practice regarding effective challenge of management assumptions? (Yes/No)

Screen 21: Demographics (maintaining anonymity)

10. What is your age?
11. What is your nationality?
12. What is your gender?
    a. Male
    b. Female
    c. Others
    d. Prefer not to say
13. What is your highest academic qualification?
    a. Bachelors
    b. Masters

c. Doctorate
d. Others

14. Do you have any professional qualification in the domain of accounting/finance? (Example: CA, CPA, ACCA, CFA, FRM)
15. How many accounting courses have you taken as a part of your academic and professional qualifications?
16. How many finance and investment courses have you taken as a part of your academic and professional qualifications?
17. How many years of personal investment experience do you have?
18. How many years of full-time work experience do you have?
19. Do you have any work experience in the fields of accounting/finance