

# Pressured Accounts: Career Mobility and Work Consequences for Indebted Auditors<sup>†</sup>

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**ABSTRACT:** Using a proprietary administrative dataset on auditors' personal indebtedness, we examine how auditors' debt positions affect their career mobility, workload decisions, and audit outcomes. We find that (i) auditors with higher debt levels are less likely to switch audit firms and are more inclined to stay in the profession; (ii) financially stressed auditors tend to take on heavier workloads; and (iii) higher debt levels are associated with lower audit quality, particularly for continuing (rather than new) clients – suggesting that the decline in quality is not driven by attempts to attract new business. These effects are less pronounced among auditors at higher unemployment risk and among those who are senior. Our findings underscore the role of financial pressure in influencing auditor transitions and audit quality, offering implications for the profession, audit firms, and regulators.

**Keywords:** Personal debt, career movement, auditor workload, audit quality

**JEL classification:** D31, D91, M40, M42

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## I. INTRODUCTION

This paper studies the career mobility outcomes of auditors' personal debt and its impact on auditor workload and audit quality. Financial stress has become an issue for many people (Athreya, Mustre-del Río, and Sánchez 2019), with concerns varying from managing one's current living expenses to saving for the future (PwC Report 2018). In a recent survey conducted by PwC on the financial wellness of the U.S. workforce, 57% of employees across various industries consider personal finances to be their primary cause of stress. Notably, even among those with high annual earnings of at least one hundred thousand dollars, nearly half face financial worries (PwC Survey 2023).<sup>1</sup> Anecdotal evidence indicates that such financial pressure may spill over into the workplace and influence employee performance. For instance, exhaustion from sleepless nights spent worrying about financial matters may reduce focus at work (PwC Report 2018). Since auditors are expected to preserve professional engagement and judgement when conducting audits (PCAOB 2024; FRC 2024), discussions about how auditors' personal debt positions affect the audit profession should be of interest to regulators and audit firms.

Auditors' financial stress is likely relevant to auditors' voluntary turnover and career mobility. Specifically, debt pressure may lead auditors to seek a higher-paying job, consider an employer who prioritizes their financial wellness more, or even switch to a different career field. Ultimately, audit firms may risk losing skilled auditors, and such loss is widely regarded as costly due to the high expenditures associated with recruitment, training, and replacement. Furthermore, "a comparatively high rate of turnover [...] may adversely affect audit quality (Section 8)", as stressed by the PCAOB (2015). Indeed, some audit firms have taken the initiative to support the financial

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<sup>1</sup> This may be because "financial comfort is more often determined by what an employee spends than what they earn", as stated in the PwC Financial Wellbeing Report 2018. The report also states that "significant levels of financial stress exist across the demographic, industry, regional and earnings spectrums."

well-being of their employees. For instance, PwC has been offering a *student loan paydown program* since 2016 (PwC Employee Benefits 2025; Hroncich 2019), which grants its employees 1,200 dollars each year – for up to six years – to help them repay their student loans, alleviating some of their debt burden. For the future, PwC envisions providing free financial coaching to its employees to better support them in their personal finance management (PwC Employee Benefits 2025).

Despite early recognition of the importance of auditor financial well-being, the broader influence of auditors' personal finances on their mobility and audit outcomes remains understudied.<sup>2</sup> In this paper, we exploit a proprietary administrative dataset to study the influence of auditors' personal financial constraints on their career transitions, workload decisions, and audit quality. Our dataset, provided by the Danish Taxation Authority, consists of 1,909 signing auditors in Denmark from 2016 to 2020. It offers detailed real values for various components of individual auditors' personal finances, including their total debt, house mortgages, non-housing bank loans, overdrafts, total assets, and financial assets, among others. We link these auditor-level data to client-level data from the Danish Business Register, which enables us to measure audit quality and obtain information on auditors' working hours and their portfolio clients. The signing auditors in our empirical analysis are defined as licensed CPAs who are authorized to sign audit opinions, and

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<sup>2</sup> Two recent studies provide inconclusive archival evidence regarding the impact of auditors' assets on audit quality. Jiang, He, and Wang (2024) find that partners' housing assets are positively associated with audit quality, while Dekeyser, Gaeremynck, Knechel, and Willekens (2021) find no association between partners' equity in their private companies and audit quality. Our study differs from Jiang et al. (2024), who use the total market value of U.S. audit partners' houses as a proxy for personal wealth. Unlike housing assets, which typically reflect long-term financial strength, personal debt can indicate heightened financial vulnerability or short-term fiscal pressure, potentially carrying distinct implications for auditors' judgment and professional skepticism. In contrast to Jiang et al. (2024)'s findings on the beneficial effects of personal assets, our study highlights the adverse impact of debt pressure on audit outcomes. More importantly, we study the labor market consequences of auditors' financial stress, extending our understanding from the impact of auditor personal finances on work performance to its effect on career transitions. Finally, our results remain unchanged after controlling for auditors' housing assets, which is the variable of interest in Jiang et al. (2024), suggesting that our study offers distinct inferences from theirs.

they typically hold senior-level positions within an audit firm, such as audit associate, audit senior, manager, or partner.

We measure auditors' debt levels using the auditors' debt-to-asset ratio (*DTA*) – a well-established metric in financial analysis for both individuals and companies (e.g., Hovakimian, Opler, and Titman 2001). Auditors' total debt is defined as the aggregate amount of liabilities owed to creditors, lenders, and financial institutions, which comprises both short-term and long-term debt – including mortgages, credit card debt, student loans, car loans, overdrafts, unpaid taxes, and other obligations.<sup>3</sup> Our measure of auditors' total assets consists of two categories. The first category is their non-financial assets such as residences, other real estate properties, cars, boats, and land, among others. The second category is their financial assets, which include bank deposits, investments in stocks, bonds and derivatives, after-tax pensions, and other financial holdings.<sup>4</sup> The debt-to-asset ratio reflects the extent to which an auditor relies on borrowed funds to finance their assets (Penman 2013). It also offers a standardized and comparable metric to assess individual financial positions. Thus, using the debt-to-asset ratio to measure auditors' debt positions is reasonably appropriate.

We first investigate how auditors' debt positions influence professional mobility, as reflected in their decisions to switch audit firms or leave the profession entirely. Debt pressure may increase auditors' preference for job stability, as maintaining a steady income becomes necessary for managing their financial obligations. The uncertainty associated with transitioning to a different employer or industry – such as establishing credibility with a new team, adapting to a new role, and adjusting to a new firm culture – can make auditors more risk-averse. Furthermore, many

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<sup>3</sup> Private borrowing between individuals is not included in our measure of auditor indebtedness.

<sup>4</sup> Our measure of auditors' assets excludes assets outside Denmark as well as investments or ownership in other companies (if any).

auditors possess a professional identity and commitment to their field, making them reluctant to disrupt an established career trajectory.<sup>5</sup>

Nonetheless, debt pressure may prompt some auditors to switch jobs. Lee, Mitchell, Holtom, McDaniel, and Hill (1999) develop a theoretical model of voluntary employee turnover, showing that employees' reconsideration of their careers often begins with a catalyst factor. We assume that personal debt stress may incentivize auditors to leave their current audit firm, or depart the profession, in search of higher-paying positions that offer relief from financial strain. Because career advancement within audit firms can be time-consuming, auditors may find it difficult to achieve immediate increases in remuneration. As a result, external job opportunities could appear more appealing. Moreover, financial stress may undermine job satisfaction or commitment, making auditors more receptive to external job offers.

We find that auditors with higher levels of debt are less likely to switch to a different audit firm and are more inclined to remain in the audit profession. This suggests that personal financial constraints heighten auditors' risk aversion to the uncertainties associated with job transitions and strengthen their preference for employment stability, thereby lowering their propensity to pursue such moves. These findings underscore the role of personal financial incentives in influencing auditors' career decisions, mobility, and voluntary turnover.

Next, we examine the impact of auditors' debt pressure on work-related outcomes. We begin by analyzing whether auditors' debt levels influence their workload decisions. An implicit premise is that, in general, auditors who take on a heavier workload (e.g., auditing more clients and/or working longer hours) receive substantially higher remuneration, as supported by anecdotal

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<sup>5</sup> Auditors often spend years in specialized training and certification, which reinforces their sense of professional identity.

evidence.<sup>6</sup> Moreover, it is equally important to note that signing auditors, especially audit seniors, have discretion in deciding their portfolios and workload assignments.<sup>7</sup> Thus, in the presence of considerable indebtedness, auditors might opt to increase their workload by serving more clients and extending their working hours in order to achieve higher compensation and relieve their financial pressure. Alternatively, it is plausible that auditors commit less time to work and reduce their client portfolios, as they are busy managing debt servicing matters, such as seeking credit counselling and negotiating with creditors (Kim, Sorhaindo, and Garman 2006; Aslan 2022). In addition, anxiety and cognitive fatigue stemming from debt pressure can leave auditors feeling overburdened (PwC Report 2018), and less able to effectively organize audit tasks. This can ultimately lead to a reduction in the number of clients they serve.

We next turn to the effects of auditors' debt positions on audit quality. The psychology literature (Sweet, Nandi, Adam, and McDade 2013; Hojman, Miranda, and Ruiz-Tagle 2016) documents that deterioration in personal finances can evoke negative emotions such as frustration and stress, which compromise individual work performance and efficiency (Bernstein, McQuade, and Townsend 2021). In addition, auditors' persistent concerns about debt may deplete their cognitive and emotional resources essential for professional skepticism (Hobfoll 1989), making it difficult for them to remain engaged and motivated during long audit processes (McInerney, Mellor, and Nicholas 2013). What is more, to the extent that auditors take on a heavier workload when facing great indebtedness, they might allocate less time and effort to each client due to scarce attention (Kahneman 1973; Simon 1978), which would adversely impact their audit outcomes.

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<sup>6</sup> For example, Knechel, Niemi, and Zerni (2013) show a positive association between auditors' compensation and the number of clients they audit. In addition, our interview with Big 4 practitioners suggests that auditors' remuneration tends to increase with the amount of hours they work.

<sup>7</sup> For example, Goodwin and Wu (2016) document that partners adjust their optimal level of busyness to maintain audit quality.

That said, debt pressure may also act as a positive driving force, motivating auditors to perform better. Given that remuneration is crucial for relieving their financial stress, auditors are likely to be more devoted and engaged at work to secure employment (Chen, Chen, Han, and Yuan 2022), which, in turn, is conducive to audit quality.

Our results show evidence that the debt positions of signing auditors can affect their workload decisions. Specifically, we find that auditors tend to serve more client firms and work longer hours when facing greater indebtedness. The treatment effects present economic significance: A one-standard deviation increase in auditors' debt-to-asset ratio raises the number of their portfolio clients by 2.59% and their working hours by 8.86%. This is consistent with indebted auditors choosing to increase their workload in order to earn higher compensation and manage their debts.

We measure audit quality using client firms' unsigned and signed performance-adjusted discretionary accruals, and the likelihood of client firms to meet or beat the zero-earnings benchmark, as per prior literature (e.g., DeFond and Zhang 2014; López and Peters 2012). We find a negative association between auditors' personal indebtedness and audit quality, suggesting that auditors are less able or willing to identify their clients' earnings management when experiencing financial stress. The effects are economically meaningful. A one-standard deviation increase in auditors' debt-to-asset ratio raises the client firms' positive values of discretionary accruals by 2.83%, while the likelihood of meeting or beating the zero profit benchmark increases by 1.04%.

In our dynamic analysis spanning the five-year sample period, we investigate how our findings change over time. The results indicate that auditors' workload decisions are influenced by their personal indebtedness during the period spanning year  $t-2$  to  $t+2$ . In particular, prior to incurring debt, auditors focus primarily on extending their working hours, as this offers an

immediate and straightforward way to raise their workload. After incurring debt, however, their focus shifts to expanding their client portfolios, a strategy that is more time-consuming yet likely more sustainable. In terms of audit quality, we find that the adverse effects of auditor debt begin in year  $t$  and become more pronounced in the following year.

A potential concern for our findings is that the impairment of audit quality may result from indebted auditors exercising less scrutiny to retain newly acquired clients (e.g., DeAngelo 1981) during their portfolio expansion. To address this concern, we relate changes in audit quality to financially-stressed auditors auditing new clients. We find no significant association, suggesting that the audit quality impairment is driven by the auditing of existing old clients rather than newly acquired ones.

We conduct a battery of robustness tests to investigate the validity of our findings. Firstly, we exploit two likely exogenous events to auditor indebtedness: changes in regional housing prices and parental monetary transfer. When housing prices increase, auditors experience an unrealized gain in wealth that may help ease their debt stress. Likewise, direct monetary transfer from parents can provide auditors with the same relief. The two events are plausibly exogenous because they are independent of client company characteristics and auditor competence, making them an appealing identification strategy. Our main findings about the effects of debt positions on audit quality are robust to this approach, which alleviates concerns that our results may be driven by reverse causality or omitted variable bias. Secondly, we examine whether our results are driven by differences in audit firm characteristics. For example, a consensus in prior studies (e.g., Choi, Kim, Kim, and Zang 2010) is that larger audit firms typically possess greater resources to support their employees. Such resources may include professional counseling to help alleviate auditors' general pressure. To rule this out, we control for audit firm profitability along with audit firm size and find

that our results remain unaffected.

Our paper contributes to the auditing labor market literature, focusing on auditor mobility and career transitioning. Existing research in this area has largely focused on the consequences of such workforce flows. Menon and Williams (2008) show that firms are more likely to replace their CEO or CFO following an auditor resignation. Ma, Wan, Wang, and Zhao (2024) argue that a higher rate of auditor turnover at the office level compromises audit quality. We explore the underlying incentives for auditors' career choices and show that personal financial conditions can influence their professional mobility.

Second, our paper contributes to the growing body of research exploring the impact of individual financial status at workplace.<sup>8</sup> Pool, Stoffman, Yonker, and Zhang (2019) show that mutual fund managers who suffer a considerable decline in their house prices become less risk-taking in their subsequent portfolios. Li, Qian, Xiong, and Zou (2022) find that insurance sales agents who experience a substantial increase in their stock investment returns exhibit reduced work output. Our paper extends this literature by providing the first large-sample evidence that auditors' personal indebtedness can shape their workload decisions and contribute to a deterioration in audit quality. Our paper also responds to the call by DeFond and Zhang (2014) and Lennox and Wu (2018) for more research on the role of auditors' personal traits in shaping audit outcomes.

Dekeyser et al. (2021) conduct a closely related study in the Belgian audit setting, where audit partners are permitted to operate through privately owned firms. They proxy personal financial condition using the equity-to-asset ratios of these firms and find no significant association with audit quality. While their study offers valuable insights, our approach differs in several important ways. First, we directly observe auditors' debt-to-asset ratios at the individual level,

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<sup>8</sup> For example, see Becker (2006), Bernstein et al. (2021), and Aslan (2022).

allowing for a more precise and economically meaningful measure of personal financial condition. Second, our data pertain to licensed CPAs as opposed to solely audit partners, allowing us to analyze a broader and more representative sample. Third, we present novel evidence that higher aggregate debt levels among auditors are significantly associated with diminished audit quality. Finally, we extend the analysis to examine how auditors' financial stress affects outcomes in the labor market.

The paper proceeds as follows. We discuss the literature and hypotheses in Section II. We describe data processing in Section III. In Section IV, we present our empirical design. In Section V, we describe our results. We continue with additional tests in Section VI, and in Section VII, we conclude the paper.

## **II. BACKGROUND AND HYPOTHESIS DEVELOPMENT**

### **Audit Personnel Turnover**

The auditing profession is expertise-driven, making human capital one of the most valuable resources for delivering high-quality audits (Bol, Estep, Moers, and Peecher 2018). Yet, the turnover rate among auditors is persistently high, posing a long-term challenge for audit firms to retain skilled talent (PCAOB 2015). The traditional “up or out” promotion system of the profession fosters a competitive environment and inherently drives attrition among those who do not advance. Early studies (Bullen and Flamholtz 1985; Parker and Kohlmeyer 2005; Nouri and Parker 2020) apply various theoretical frameworks to understand the causes of auditor turnover, including job satisfaction, burnout, and organizational commitment, among others. Building upon this work, most research employs survey and interview approaches to explore auditors' turnover intentions. Having a mentor is shown to lower auditors' turnover intentions by providing career support (Scandura and Viator 1994). Perceptions of unfairness, such as inequitable workloads or biased

promotion practices, are associated with higher turnover intentions (Herda and Lavelle 2012). Gender discrimination is recognized as a key contributor to the attrition of female auditors (Dalton, Cohen, Harp, and McMillan 2014). Empirically, Knechel, Mao, and Zhuang (2021) use data from China and show that senior auditors, auditors who generate more revenue for their audit firms, and those who provide higher-quality audits are less likely to leave the profession. In a recent study, Ahn, Hoitash, Hoitash, and Krause (2025) use data on auditor employment and show a higher incidence of turnover among diverse auditors.

Yet, evidence on the consequences of auditor turnover remains scarce. The limited work suggests that higher auditor turnover is associated with a greater likelihood of client financial restatements (Ma et al. 2024) and higher audit fees (Khavis and Szerwo 2025).

In this paper, we examine how an auditor-level incentive – personal financial constraints – affects auditors’ career transitions. Theoretical models of employee turnover and retention, such as Lee et al. (1999), show that the consideration of a career change is often triggered by a “stimulus”, which can be positive (e.g., an external opportunity), neutral, or negative (e.g., an unsupportive work environment), and either expected or unexpected. Nevertheless, the opportunity costs of leaving, such as the disruption of professional networks, can discourage employees from quitting (Mitchell, Holtom, Lee, Sablinski, and Erez 2001). Employees are also more likely to stay when supported by resources from their employer (Cropanzano and Mitchell 2005), such as recognition and promotion opportunities. We posit that personal debt can impact auditors’ career movements by altering their risk tolerance. Financially constrained auditors may hesitate to leave secure employment due to the uncertainty associated with job changes, thereby exhibiting lower mobility.

### **Auditors’ Remuneration Elements and their Workload Incentives**

In this section, we discuss indebted auditors' incentives to increase their workload in pursuit of higher remuneration. Our interviews with Big 4 auditors in Denmark provided the following information. The remuneration of an auditor usually consists of two main components: basic compensation and bonus payments. The proportions of these two components differ between junior auditors and audit seniors. A predominant portion of junior auditors' remuneration comes from basic compensation, with only modest bonuses as an addition. In contrast, a substantial portion of audit seniors' remuneration arises from bonuses. It is not uncommon that the amount of audit seniors' bonuses is approximately the same as, or higher than, their basic compensation, as evidenced by the payroll records collected from the auditors we interviewed.<sup>9</sup> In this paper, we focus on signing auditors, who are typically non-junior auditors, as defined earlier.

The basic compensation of audit seniors is mainly based on their private negotiations with audit firms. Instead, the bonus component is related to the workload audit seniors undertake, such as the number of clients they serve, client sizes, and overtime work. Notably, middle-rank auditors and audit partners tend to have great discretion in deciding how many and which clients they audit.<sup>10</sup> This aligns with prior literature (e.g., Goodwin and Wu 2016; Heo, Kwon, and Tan 2021).

Altogether, since a substantial portion of audit seniors' remuneration comes from bonuses, and given that these bonuses are tied to their workload, indebted auditors are likely to have incentives to pursue higher remuneration by increasing their workload. Therefore, we conjecture that auditors' personal debt pressure has a workload-adjustment effect.

## **Personal Indebtedness and Audit Quality**

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<sup>9</sup> See Appendix A for the payroll records of the Big 4 senior auditors we interviewed.

<sup>10</sup> One exception mentioned by some auditors we interviewed is that the headquarters of audit firms may require their local branches in a given country to audit the subsidiaries of clients operating there.

A handful of papers have documented several pressure-related factors that impact audit outcomes. For instance, the pressure to retain clients or maintain positive relationships with long-standing clients can undermine auditors' independence and skepticism (Goldman and Barlev 1974; Hatfield, Agoglia, and Sanchez 2008), and reduce their willingness to correct financial misstatements (Messier and Schmidt 2018). Beyond external pressures, heavy workloads have also been flagged as a concern. Regulators such as PCAOB warn that excessive workloads – especially during busy audit seasons – may lead auditors to shortcut essential procedures and overlook critical issues (PCAOB 2019). Prolonged workload pressure can further cause cognitive fatigue, impairing auditors' professional judgment (Heo et al. 2021). Internal pressures within audit firms further compound these challenges, including performance evaluations, promotion expectations, and the need to uphold the firms' brand and reputation.

Expanding on this strand of research, we hypothesize that auditors' personal indebtedness – a prevalent pressure-related factor – influences audit quality. Studies in psychology (e.g., Sweet et al. 2013; Hojman et al. 2016) have shown that wealth deterioration can elevate anxiety and stress, which in turn impair work efficiency and performance (e.g., Bernstein et al. 2021). In the audit setting, financial stress may deplete auditors' cognitive resources (Hobfoll 1989), reducing the sustained attention required for effective audit execution. Furthermore, to the extent that auditors increase their workload when confronted by debt, they may face limited attention (Kahneman 1973; Simon 1978), a cognitive constraint that can ultimately compromise audit quality. That said, the effects of debt pressure may not be uniformly negative. Some auditors may respond by working harder to secure their jobs or advance their careers, particularly if remuneration helps reduce their financial stress. In such cases, indebtedness could motivate greater effort and potentially enhance audit quality.

### III. DATA SOURCES AND SAMPLE DESCRIPTION

#### Data and Sample Construction

We obtain our proprietary dataset from multiple sources. Firstly, data on individual auditors' personal financial status is from the Danish Wealth Register Database (denoted by its Danish acronym "*FORMGELD*") at Statistics Denmark, a governmental authority responsible for national administrative data collection. The *FORMGELD* dataset provides detailed information on auditors' total personal indebtedness, as well as a comprehensive breakdown of their debt and asset compositions. The debt composition includes items such as house mortgages, non-housing bank loans, and overdrafts, while the asset composition covers housing assets and a range of financial assets, among others. Secondly, we obtain data on auditors' demographics, employment, office locations, and annual compensation from the Labor Market Research Database (denoted by its Danish acronym "*IDAN*") at Statistics Denmark. Additionally, we retrieve data on individual auditors' hourly wages from their employee contracts within the same database.

The financial accounting data for auditor client firms is obtained from the Danish Business Registers (denoted by its Danish acronym "*FIRE* and *FIRM*") and the Danish Taxation Authority.<sup>11</sup> Lastly, to construct variables used in our cross-sectional analysis and robustness tests, we gather regional unemployment rate and regional housing price data from the Public Aggregate Registers at Statistics Denmark. We also obtain data on the personal monetary information of auditors' parents from the *FORMGELD* Database at Statistics Denmark.

Table 1 shows the sample construction for our main tests. We begin with all signing auditors

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<sup>11</sup> Under the Danish Financial Statements Act section 32, small private companies are not required to disclose their revenue to the Danish Business Registers. Therefore, for these companies, we obtain revenue information from the Danish Taxation Authority. During our sample period of 2016-2020, all Danish limited liability companies, except for very small companies, were required to be audited (Danish Financial Statement Act section 135). As a result, the client portfolio of each auditor includes both public and private companies.

in Denmark and their audited client companies, drawing on the auditor opinion files that pair companies to their auditors by fiscal year using unique company (*CVR* number) and auditor identifiers (*MNE* number). We then combine the sample with auditors' personal financial information (*FORMGELD* data) and their demographics and employment data (*IDAN* data), using unique auditor social security number (*CPR* number). Those auditors with missing social security numbers are excluded. Next, we match our dataset with client companies' financial reporting data. Prior to 2016, numerous *MNE* numbers in the auditor opinion files were missing from the Danish Business Authority. As such, our sample period starts in 2016 and it ends in 2020. We eliminate companies in the financial industry and the public utility industry because they are subject to different regulatory requirements.<sup>12</sup> Our industry classification is based on the first two digits of the industry code provided by Statistics Denmark, and we confirm that it closely aligns with the Standard Industrial Classification (SIC). We require that companies have the necessary financial information available to estimate their discretionary accruals, resulting in 0.2% of auditor-client-years being eliminated from the sample. We end up with a final panel of 120,309 auditor-client-year observations, corresponding to 1,909 auditors and 41,233 client firms.

## **Descriptive Evidence**

Figure 1 depicts the trend in median debt-to-asset ratios and the composition of debt for auditors aged 30 to 60. Auditors in their early 30s exhibit relatively high debt-to-asset ratios at around 0.5 to 0.7. The ratio then declines and stabilizes at around 0.4-0.6 for those in their mid-30s to mid-40s. It continues to decrease beyond ages 50-60, reaching approximately 0.3. In terms of debt components, most of auditors' debt comes from house mortgages, with non-housing bank

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<sup>12</sup> Firms in these industries were excluded during the data merge due to unmatched or missing identifiers.

loans making up the second largest portion and only a small fraction attributed to overdrafts. Notably, the proportion of house mortgages appears to decline slightly with age, likely reflecting auditors' effort to prioritize paying off those large and long-term obligations, in pursuit of financial security and stability.

Table 2 presents summary statistics for auditors and client companies in our sample over the period 2016-2020. Auditors in Denmark have a median total debt of approximately \$0.32 million and median total assets of about \$0.89 million, resulting in a median net debt of \$0.48 million. Their debt-to-asset ratio has a median of 0.39, with the interquartile range spanning from 0.19 to 0.63.

#### IV. EMPIRICAL DESIGN

We begin by investigating the effect of personal debt on auditors' career movements and transitions using the following specification:

$$Switch_{jt} (Exit_{jt}) = \partial_0 + \partial_1 DTA_{jt-1} + \gamma_1 X_{jt} + \gamma_2 Z_{it} + FES + \epsilon_{ijt} \quad (1)$$

where  $j$  indexes individual auditors,  $i$  indexes client companies, and  $t$  indexes fiscal years. Our variable of interest,  $DTA_{jt-1}$ , represents an individual auditor's debt position, calculated as an auditor's total personal debt divided by their total assets at the end of fiscal year  $t-1$ . We use one-year lagged debt positions because career changes are not instantaneous but require time and preparation. Auditors' ongoing financial constraints are therefore more likely to influence their later career choices.  $Switch_{jt}$  is an indicator variable equal to one if the auditor switches audit firm.  $Exit_{jt}$  is an indicator variable equal to one if the auditor leaves the audit profession. We consider an auditor to have exited the profession if they stop signing audit opinions and simultaneously change their office location.  $X_{jt}$  is a vector of auditor-level controls (tenure, expertise, Big 4 employment, audit lag, age, and first-time audit engagement), and  $Z_{it}$  is a vector of client firm

characteristics (company size, debt-to-asset ratio, loss, sales growth, firm age, bankruptcy risk, profitability, and total accruals). To control for potential unobserved heterogeneity, we include industry- and year fixed effects in model (1). We also cluster the standard errors at the client firm level to account for within-client correlation in the residuals.

Next, we examine whether auditors' debt positions affect their workload decisions as follows:

$$Workload_{jt} = \partial_0 + \partial_1 DTA_{jt} + \gamma_1 X_{jt} + \gamma_2 Z_{it} + FES + \epsilon_{ijt} \quad (2)$$

where  $Workload_{jt}$  denotes the amount of an auditor's workload during a fiscal year. We construct two proxies for  $Workload_{jt}$ . The first one is auditor busyness,  $lnBusyness_{jt}$ , which is equal to the natural logarithm of the number of client companies audited by an auditor in a fiscal year, as per prior literature (Goodwin and Wu 2016). The second proxy is auditors' working hours,  $Hours_{jt}$ , calculated as an auditor's total annual compensation divided by her/his hourly wage.<sup>13</sup> Our coefficient of interest is  $\partial_1$ , and a positive estimate for  $\partial_1$  indicates that higher levels of personal debt are associated with an increase in auditors' workload. To control for potential time-invariant biases, we include auditor- and industry fixed effects in model (2). We also control for year fixed effects to alleviate the bias driven by time-variant factors. We cluster standard errors at the client company level.

Finally, we investigate the association between auditors' personal debt level and audit quality using the following model:

$$|DACC_{it}| \text{ (or } DACC^+_{it}, DACC^-_{it}, SP_{it}) = \partial_0 + \partial_1 DTA_{jt} + \gamma_1 X_{jt} + \gamma_2 Z_{it} + FES + \epsilon_{ijt} \quad (3)$$

In model (3), we measure audit quality using the absolute, positive, and negative values of

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<sup>13</sup> The data on auditors' hourly wages, retrieved from their employment contracts, refers to their regular hourly pay, excluding overtime payment. Since their overtime hourly wages are likely higher than regular hourly wages, our estimate of auditors' working hours might be slightly overstated. However, we expect the bias to be negligible.

performance-adjusted discretionary accruals ( $|DACC_{it}|$ ,  $DACC_{+it}$ , and  $DACC_{-it}$ , respectively), and a small profit indicator ( $SP_{it}$ ).<sup>14</sup> Discretionary accruals capture accrual-based earnings management by client managers that auditors fail to constrain (DeFond and Zhang 2014). As a result, higher discretionary accruals indicate lower audit quality. We multiply  $DACC_{-it}$  by minus one to ease interpretation. A positive estimate for  $\partial_1$  indicates that auditors' indebtedness has an adverse effect on audit quality.

Following prior studies (e.g., Jones 1991), we employ the following cross-sectional modified Jones model to estimate discretionary accruals. The model is adjusted for financial performance by including return on assets ( $ROA$ ) as a control variable (Kothari, Leone, and Wasley 2005):

$$TACC_{it}/TA_{i,t-1} = \alpha_0 + \alpha_1 [1/TA_{i,t-1}] + \beta_1 [(\Delta Sales_{it} - \Delta Rec_{it}) / TA_{i,t-1}] + \beta_2 [PPE_{it}/TA_{i,t-1}] + \beta_3 ROA_{it} + v_{it} \quad (4)$$

where  $TACC_{it}$  represents the total accruals of the client company, and  $TA_{i,t-1}$  denotes the client company's total assets lagged by one year.  $\Delta Sales_{it}$  denotes changes in the client's total sales, while  $\Delta Rec_{it}$  represents changes in the client's accounts receivables.  $PPE_{it}$  refers to the client company's gross property, plant, and equipment, and  $ROA_{i,t}$  is calculated as the client's net income scaled by lagged total assets. To mitigate the impact of outliers, we require at least twenty firms for each industry-year (Dechow, Sloan, and Sweeney 1995). To further control for outliers, we winsorize  $|DACC_{it}|$ ,  $DACC_{+it}$ , and  $DACC_{-it}$  (multiplied by -1) at 0 and 0.9999 as in prior studies (Francis and Yu 2009; Lopez and Peters 2012). Finally, following Jones (1991) and Larson, Sloan, and Giedt (2018), we employ the balance sheet approach to calculate accruals, as small- and medium sized entities in Denmark are not required to prepare a statement of cash flow under the Danish Financial Statement Act section 78 and 102.

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<sup>14</sup> We are unable to use financial restatements or audit fees as proxies for audit quality due to data unavailability.

Our second proxy for audit quality is the small profit indicator variable  $SP_{it}$ , which equals one if a client reports a return on assets between 0 and 0.04, and zero otherwise, as per Francis and Yu (2009). This proxy captures the likelihood of management manipulating earnings upwards from negative to a zero/small profit to meet or beat the zero-earnings benchmark (Burgstahler and Dichev 1997; DeFond and Zhang 2014). Higher likelihood for client firms to report a small profit signals greater managerial discretion and, hence, is associated with lower audit quality (Knechel, Krishnan, Pevzner, Shefchik, and Velury 2013). For the small profit indicator model, a positive estimate for  $\partial_1$  indicates that audit quality diminishes as auditors' indebtedness increases. We include auditor-, industry-, and year fixed effects in model (3) and cluster standard errors by client firms.

## V. RESULTS

### Career Mobility

Table 3 presents evidence on how auditors' personal indebtedness affects their career mobility. Specifically, Panel A reports the association between personal debt and the likelihood of auditors switching audit firms. The coefficient estimate on  $DTA_{t-1}$  is -0.116 and statistically significant at the 1% level, indicating that auditors with higher levels of debt are less likely to change audit firms. Panel B examines auditors' decisions to remain in or leave the profession entirely. We find a negative and statistically significant coefficient on  $DTA_{t-1}$ , suggesting that auditors facing greater debt pressure tend to remain within the audit profession. Our results indicate that personal financial constraints are associated with reduced labor mobility, both across audit firms and out of the profession, underscoring the role of economic incentives in shaping auditors' career decisions and professional trajectories.

## Work Consequences

Table 4 reports regression results on the relationship between auditors' debt and workload. Column (1) through column (3) pertain to the *lnBusyness* model, while column (4) through column (6) apply to the *Hours* model. We begin with specifications without controls (columns (1) and (4)), add auditor-level controls in columns (2) and (5), and include both auditor- and firm-level controls in columns (3) and (6). Under the *lnBusyness* model in column (3), the coefficient on *DTA* is 0.077 and statistically significant at the 1% level. This suggests that auditors facing greater debt pressure are more likely to take on additional clients. Under the *Hours* model in column (6), the coefficient on *DTA* is 0.263 and highly significant. This suggests that auditors with a higher level of personal debt are inclined to work extended hours. Taken together, our results reveal a workload-adjustment effect of auditors' personal debt. Specifically, in the presence of indebtedness, auditors tend to raise their workload, likely in pursuit of higher compensations to fulfill their debt obligations.

In Table 5, we examine the impact of auditors' debt levels on audit quality. Columns (1), (3) and (7) show that the coefficient estimate on *DTA* is significantly positive when the dependent variable is defined as (i) the absolute value of discretionary accruals ( $|DACC|$ ), (ii) positive discretionary accruals (*DACC+*) or (iii) a dummy variable capturing incidents where client companies meet or beat the zero-earnings benchmark (*SP*). When including year fixed effects, the coefficient on *DTA* turns insignificant when the dependent variable is  $|DACC|$  or *SP*, but remains significant (at the 10% level) when the dependent variable is *DACC+*, as reported in column (4). This finding aligns with prior literature documenting that companies are more likely to manipulate their earnings via *income increasing* accruals (Dichev, Graham, Harvey, and Rajgopal 2013). It suggests that auditors with higher personal debt may be less effective at constraining their clients' income-increasing manipulation tactics, possibly due to financial pressures affecting their

oversight.

For the remaining of our tests, we will be focusing on one single proxy for audit quality in order to ease readability and clarity. We adopt the positive value of discretionary accruals  $DACC+$  as our to-go proxy for two reasons. First, prior evidence shows that managerial incentives to overstate performance are usually stronger than to understate it, resulting in approximately 60% of earnings management behavior being income-increasing (Dichev et al. 2013). Second, inflated earnings are particularly worrisome to regulators, investors, and creditors, because upward manipulation undermines the credibility of financial reporting (Francis and Krishnan 2010).

### **Dynamic Analysis**

The effect of auditors' personal debt on their workload decisions and audit quality may vary over time. We investigate this by including one- and two-year lagged and lead  $DTA$  as independent variables to reexamine our main tests. Table 6 reports the results. Panel A presents evidence on auditor workload decisions. Columns (1) to (5) show results when the dependent variable is  $lnBusyness$ . In columns (1) and (2), we find no significant association between  $lnBusyness$  and lagged (one- or two-year)  $DTA$ , suggesting that auditors do not expand their portfolio of clients before incurring debt. However, in columns (4) and (5), the coefficient estimates on  $DTA_{t+1}$  and  $DTA_{t+2}$  turn strongly significant and are 0.039 and 0.095, respectively. These results indicate that auditors' personal debt increases the number of clients they serve not only in the year the debt is incurred, but also in the subsequent two years (at least). We now turn our attention to the model where the dependent variable is  $Hours$  (columns (6) to (10)). Columns (6) and (7) show that the coefficients on  $DTA_{t-2}$  and  $DTA_{t-1}$  are both 0.143 and statistically significant at the 5% level. In column (9), the association between  $DTA_{t+1}$  and  $Hours$  is significantly negative, and in column (10), we find no association between  $DTA_{t+2}$  and  $Hours$ . These findings suggest that auditors tend

to increase their working hours approximately two years before incurring debt – likely to prepare for the financial burden – but cease doing so afterwards.

Collectively, our evidence indicates that auditors' workload decisions are affected by their personal debt levels, both before and after the incurrence of debt. It is worth noting that auditors adopt different approaches at each stage. Specifically, before incurring debt, they focus primarily on increasing their working hours, as this provides an immediate and straightforward way to raise their workload. After incurring debt, however, they shift their focus to expanding their client portfolios, which is usually a more time-consuming and complex approach.<sup>15</sup> This aligns with the intuition that auditors begin with a relatively simple approach to increase their workload and then shift focus to a more sustainable and long-term solution.

Panel B presents the results of the dynamic analysis on audit quality. At this stage, we focus solely on our preferred proxy for audit quality,  $DACC+$ . Looking at column (4), we observe positive and significant coefficient estimate on  $DTA_{t+1}$ . In column (1), the association between  $DTA_{t-2}$  and  $DACC+$  is significantly negative, and in columns (2) and (5), we find no significant impact. The results show that the adverse effect of auditors' personal indebtedness on audit quality is contemporaneous with the debt event and persists in the following year.

### **Heterogeneity: Auditor Retirement and Unemployment Rate**

We conduct a series of cross-sectional tests to examine heterogeneity in the effects of auditors' personal debt on audit quality. First, we hypothesize that the negative impact of debt on audit quality is more pronounced for auditors nearing retirement. Since auditors typically stop receiving

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<sup>15</sup> The expansion of client portfolios often depends on external factors such as fiscal year cycles, the availability of potential clients, and market competition, all of which can make this process slower and more complicated compared to extending working hours.

regular remunerations after retirement, and given that compensation plays a crucial role in mitigating financial stress, the loss of a steady income at that phase may heighten auditors' financial anxiety, impairing audit performance. We construct *Retirement* – an indicator variable set to one if the signing auditor is over the age of 50 – to capture auditors' proximity to retirement.<sup>16</sup>

Second, we consider the role of job security. Indebted auditors are vulnerable to the possibility of job loss, as they rely on their employment and remuneration to pay off their debts. Anxiety about potential unemployment adds to the auditors' stress levels, which may, in turn, negatively impact their work performance.<sup>17</sup> Alternatively, auditors concerned about job loss may respond by exerting greater effort, which would, instead, result in greater audit quality. To capture regional market conditions, we construct the variable *Unemp*, defined as the average unemployment rate in the region where the auditor's office is located.

We report our results in Table 7. In column (1), we find no significant association between  $DTA \times Retirement$  and  $DACC+$ , possibly because auditors approaching retirement possess greater experience and seniority, which may offset the financial anxiety stemming from retirement. In column (2), the coefficient on  $DTA \times Unemp$  is -0.047 and marginally significant at the 10% level, suggesting that indebted auditors become more motivated to deliver high-quality audits as regional unemployment rises.

## VI. ADDITIONAL TESTS

### **Alternative Explanation: Old Existing Clients vs. New Clients**

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<sup>16</sup> Our results remain unchanged when applying alternative age thresholds, such as 55 or 60.

<sup>17</sup> In Denmark, the unemployment rate for auditors is typically low. However, auditors may still be concerned about high regional unemployment rates, which can signal regional economic downturns and potentially lead to reduced demand for auditing services and increased job insecurity.

An alternative explanation for our main findings is that the decline in audit quality stems from indebted auditors applying less scrutiny to retain new clients (e.g., DeAngelo 1981) during their portfolio expansion. To rule this out, we analyze the association between changes in audit quality and indebted auditors auditing on new clients. We employ the following regression model:

$$\Delta|DACC_{it}| = \beta_0 + \beta_1(DTA_{jt} \times First_{ijt}) + \beta_2DTA_{jt} + \beta_3First_{ijt} + \gamma_1X_{jt} + \gamma_2Z_{it} + FES + \varepsilon_{ijt} \quad (5)$$

$\Delta|DACC_{it}|$  represents changes in audit quality  $|DACC|$  for the client firm  $i$ , calculated as  $|DACC|$  for the current fiscal year minus  $|DACC|$  for the previous fiscal year.  $First_{ijt}$  is an indicator variable set to one if the client  $i$  is audited by a different auditor  $j$  in year  $t$  compared to the previous fiscal year. Our results are presented in Table 8. We find no significant association between  $\Delta|DACC|$  and  $DTA \times First$ , suggesting that the observed decline in audit quality is driven by indebted auditors' existing clients rather than newly acquired ones.

### **Auditor Seniority**

Signing auditors at different ranks may behave differently when encountering personal indebtedness. To explore this, we use the number of years since auditors obtained their CPA as a proxy for auditor seniority. We report our results in Table 9.  $CPA\_top10$  and  $CPA\_bottom10$  are indicators set to one if the number of years since an auditor obtained their CPA ranks in the top 10% and bottom 10% in our sample, respectively. Under the *lnBusyness* model in Panel A, the coefficient on  $DTA \times CPA\_top10$  is 0.098 and highly significant (column (1)), whereas the coefficient on  $DTA \times CPA\_bottom10$  is insignificant (column (2)). The *Hours* model yields similar results: the coefficient on  $DTA \times CPA\_top10$  is 0.284 and significant at the 5% level (column (3)), while we find no significant association between  $DTA \times CPA\_bottom10$  and *Hours* (column (4)).

These results suggest that senior auditors are more inclined to increase their workload when confronting debt relative to their junior counterparts. Insights from Big 4 practitioners in our interviews shed light on this. Specifically, they state that a substantial portion of audit seniors' remuneration comes from bonuses tied to their workload, whereas the remuneration of junior auditors primarily consists of fixed salaries with modest bonuses. As such, senior auditors might be more incentivized to take on additional workload, as it elevates their earnings more than it does for junior auditors.

Under the *DACC+* model in Panel B, the coefficients on *DTA*×*CPA\_top10* and *DTA*×*CPA\_bottom10* are -0.049 and 0.037, respectively, and both are significant at the 10% level. This result indicates that audit seniors experience less impairment of audit quality compared to their junior counterparts, which can be attributed to their accumulated expertise, rich professional experience, and longer tenure with clients. Such competence may mitigate the negative impact of auditors' financial anxiety on their work performance.

## **Robustness Tests**

### *Exogenous Changes in Indebtedness: House Price and Parental Monetary Transfer*

To alleviate potential endogeneity concerns in our tests of audit quality, we employ two identification strategies. First, we exploit exogenous variations in auditors' personal debt pressure arising from changes in regional house prices. An increase in housing prices adds to auditors' personal wealth, potentially alleviating their debt pressure, and vice versa. Given that house price changes are independent of auditor characteristics and client firm behaviors, they are plausibly exogenous. To proxy for house price changes,  $\% \Delta \text{Houseprice}$ , we use the percentage change in

regional house prices at the location of the auditor's office at fiscal year-end.<sup>18</sup>

Our second identification strategy involves parental monetary transfer. An increase in auditors' deposits resulting from their parents' direct monetary transfers can ease their debt stress, which in turn may reduce the impairment of audit quality. We construct *Trans* as a proxy for parental monetary transfer, which is an indicator variable set to one if: (1) the total deposits of the auditor's parents decrease by at least 1,340 US dollars (10,000 Danish kroner), (2) the auditor's deposits increase by the same amount or more, and (3) the parents' debt-to-asset ratio increases. The reduction in the deposits of the auditor's parents might result from them using the funds to repay their own debt instead of transferring it to the auditor. By including (3) as a condition, we eliminate the concerns about incorrectly classifying monetary transfers that do not constitute the financial support from auditors' parents.

Our results are shown in Table 10. Our proxy for audit quality is *DACC+*. Column (1) shows that the coefficient estimate on  $DTA \times \% \Delta Houseprice$  is -0.299 and statistically significant at the 5% level. In column (2), the coefficient estimate on  $DTA \times Trans$  is -0.113 and highly significant. That is, the impairment of audit quality due to debt stress diminishes when auditors experience increases in house prices and when auditors receive monetary transfers from their parents. Thus, our results are robust to both of our identification strategies.

#### *Additional Controls for Audit Firm Characteristics*

We further test the robustness of our main results by including additional audit firm characteristics as controls. Differences in the size and resources of audit firms may account for

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<sup>18</sup> We use the location of auditors' offices instead of their home addresses due to data availability. Since the regional classification in our data is quite broad and generally encompasses auditors' home addresses, the potential bias is limited.

part of our findings. For instance, smaller audit firms often have fewer resources available to support their auditors, such as professional counseling, and this can exacerbate the impairment of audit quality. To alleviate this concern, we include two additional controls in models (1) and (2) to capture audit firm size. One is audit firms' return on assets, *ROA\_auditfirm*, calculated as the audit firm's earnings after tax divided by its total assets at fiscal year-end. The other is audit firms' market share, *MarketShare*, measured as the proportion of clients audited by the audit firm relative to the total number of clients in a fiscal year. Table 11 shows that our results remain unaffected and are robust to controlling for additional audit firm characteristics.

## VII. CONCLUSION

In this paper, we investigate whether auditors' personal debt influences their career mobility, workload decisions and audit outcomes. Using a rich administrative dataset of auditors' personal finances from Denmark, we provide individual auditor-level evidence on the labor market and work consequences of debt stress.

First, we show that auditors with higher personal debt levels are more likely to remain with the same audit firm, likely reflecting their greater risk aversion with regard to career transitions. We also show auditors' propensity to exit the audit profession decreases as their debt levels rise. Together, these findings highlight that personal financial pressure constrains auditors' career mobility, both across audit firms and out of the profession. Second, we show that indebted auditors take on heavier workloads—serving more clients and working longer hours—presumably to increase earnings and manage their debt. Lastly, higher debt levels are linked to declines in audit quality, especially for continuing clients, suggesting these impairments are not driven by efforts to win new business. Our findings hold across multiple robustness tests, including analyses of two exogenous events and additional controls for audit firm characteristics, underscoring their

reliability.

Our study extends the auditing labor market literature on auditor mobility and turnover by showing that personal debt acts as an economic incentive influencing auditors' transitions. We contribute to the auditing literature by showing that auditors' debt positions, as an individual auditor attribute, can lead to a deterioration in audit quality. It also responds to recent calls in the literature (e.g. Jiang et al. (2024) and Dekeyser et al. (2021)) for more research on auditor wealth measurement and its associations with audit quality. Additionally, we add to the growing literature on how personal financial status impacts the work performance of economic agents. Our study offers insights into the critical role of financial well-being in shaping auditors' professional judgment and decision-making.

Our study should be of interest to practitioners, regulators, and audit firms. The impairment of audit quality resulting from personal debt stress highlights the importance of individual auditors proactively managing their finances to uphold high professional standards. It also underscores the need for audit firms to implement support systems, such as financial well-being programs and counseling, to help employees manage personal indebtedness effectively. In addition, the findings point to the potential value of regulatory policies that track and assess auditors' private financial circumstances.

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## Appendix A. Payroll Records

Appendix A. displays the sample of payroll records provided by our interviewee auditors.

PRICEWATERHOUSECOOPERS P/S  
[REDACTED]

[REDACTED]

[REDACTED] [REDACTED] [REDACTED]

[REDACTED] [REDACTED]

[REDACTED]

SALARY NUMBER. . . . . : [REDACTED]  
 SOCIAL SECURITY NUMBER : [REDACTED]  
 DATE OF EMPLOYMENT. . . : [REDACTED]  
 DATE OF RESIGNMENT . . . : [REDACTED]  
 DEPARTMENT . . . . . : [REDACTED]  
 PLACE OF PAYMENT . . . . : [REDACTED]  
 STANDARD TIME . . . . . : [REDACTED]  
 OF-CODE . . . . . : [REDACTED]

SALARY SPECIFICATION FOR THE PERIOD <span style="background-color: black; color: black;">[REDACTED]</span>				
LART SPECIFICATION	BALANCE	HOURS	RATE	AMOUNT
2100 BASELINE SALARY				26,386.36
4100 OVERTIME STANDARD HOURLY RATE		210.05	143.74	30,192.59
4100 OVERTIME STANDARD HOURLY RATE		96.32	162.73	15,674.15

PRICEWATERHOUSECOOPERS P/S  
[REDACTED]

[REDACTED]

[REDACTED] [REDACTED] [REDACTED]

[REDACTED] [REDACTED]

[REDACTED]

SALARY NUMBER. . . . . : [REDACTED]  
 SOCIAL SECURITY NUMBER : [REDACTED]  
 DATE OF EMPLOYMENT. . . : [REDACTED]  
 DATE OF RESIGNMENT . . . : [REDACTED]  
 DEPARTMENT . . . . . : [REDACTED]  
 PLACE OF PAYMENT . . . . : [REDACTED]  
 STANDARD TIME . . . . . : [REDACTED]  
 OF-CODE . . . . . : [REDACTED]

SALARY SPECIFICATION FOR THE PERIOD <span style="background-color: black; color: black;">[REDACTED]</span>				
LART SPECIFICATION	BALANCE	HOURS	RATE	AMOUNT
2100 BASELINE SALARY				28,545.45
4100 OVERTIME STANDARD HOURLY RATE		47.00	162.73	7,648.31
4100 OVERTIME STANDARD HOURLY RATE		310.15	164.58	51,044.49

## Appendix B. Variable Definitions

Variable	Definition
<b>Key Variables:</b>	
<i>DTA</i>	The auditor's total personal debt divided by total assets at fiscal year-end.
<i>High</i>	An indicator that equals 1 if the auditor's <i>DTA</i> is in the top 25th percentile, and 0 otherwise.
<i>Switch</i>	An indicator that equals 1 if the auditor switches audit firms, and 0 otherwise.
<i>Exit</i>	An indicator that equals 1 if the auditor leaves the audit profession, and 0 otherwise. Auditors are considered to have exited if they cease signing audit opinions and simultaneously experience a change in their office location.
<i>lnBusyness</i>	The natural logarithm of the number of client firms audited by the auditor in a fiscal year.
<i>Hours</i>	The auditor's annual compensation, divided by their hourly wage and then by 100. Observations with fewer than 150 working hours per year are excluded to control for outliers.
$ DACC $	The absolute value of performance-adjusted discretionary accruals of the client firm at fiscal year-end, winsorized at 0 and 0.9999. The discretionary accruals are calculated using the cross-sectional modified Jones model with a correction for financial performance as per Jones (1991) and Kothari et al. (2005).
<i>DACC+</i>	The positive values of performance-adjusted discretionary accruals at fiscal year-end, winsorized at 0 and 0.9999.
<i>DACC-</i>	The negative values of performance-adjusted discretionary accruals at fiscal year-end, multiplied by (-1) for easier interpretation, and winsorized at 0 and 0.9999.
<i>SP</i>	A small profit indicator, returning 1 if the client firm reports a ROA between 0 and 0.04 at fiscal year-end, and 0 otherwise.
<b>Auditor Characteristics:</b>	
<i>Debt</i>	The auditor's total personal debt at fiscal year-end in US dollars.
<i>Asset</i>	The auditor's total personal assets at fiscal year-end in US dollars.
<i>Ndebt</i>	The auditor's total personal debt minus total personal assets at fiscal year-end in US dollars.
<i>Tenure</i>	An indicator that equals 1 if the auditor client relationship is at least 5 years, and 0 otherwise.
<i>Expert</i>	An indicator that equals 1 if the auditor is an industry expert following the market share approach by Audoussert-Coulier, Jeny, and Jiang (2016), and 0 otherwise.
<i>Big4</i>	An indicator that equals 1 if the auditor is employed at a Big 4 audit firm, and 0 otherwise.
<i>Auditlag</i>	The natural logarithm of the number of days between the fiscal year-end and the date at which the auditor signs the audit opinion. We cap the number of days at 1 and 365 days to control for outliers.
<i>lnAuditorAge</i>	The natural logarithm of the age of the signing auditor when signing the audit opinion.
$DTA_{t-1}$	The auditor's total personal debt divided by total assets at fiscal year $t - 1$ .
$DTA_{t-2}$	The auditor's total personal debt divided by total assets at fiscal year $t - 2$ .
$DTA_{t+1}$	The auditor's total personal debt divided by total assets at fiscal year $t + 1$ .
$DTA_{t+2}$	The auditor's total personal debt divided by total assets at fiscal year $t + 2$ .
<i>Retirement</i>	An indicator that equals 1 if the signing auditor is over the age of 50, and 0 otherwise.
<i>Unemp</i>	The average unemployment rate in the region where the auditor's office is located at fiscal year-end.
<i>CPA_top10</i>	An indicator that equals 1 if the number of years since the auditor obtained their CPA ranks in the top 10% of our sample, and 0 otherwise.

## Appendix B. (Continued)

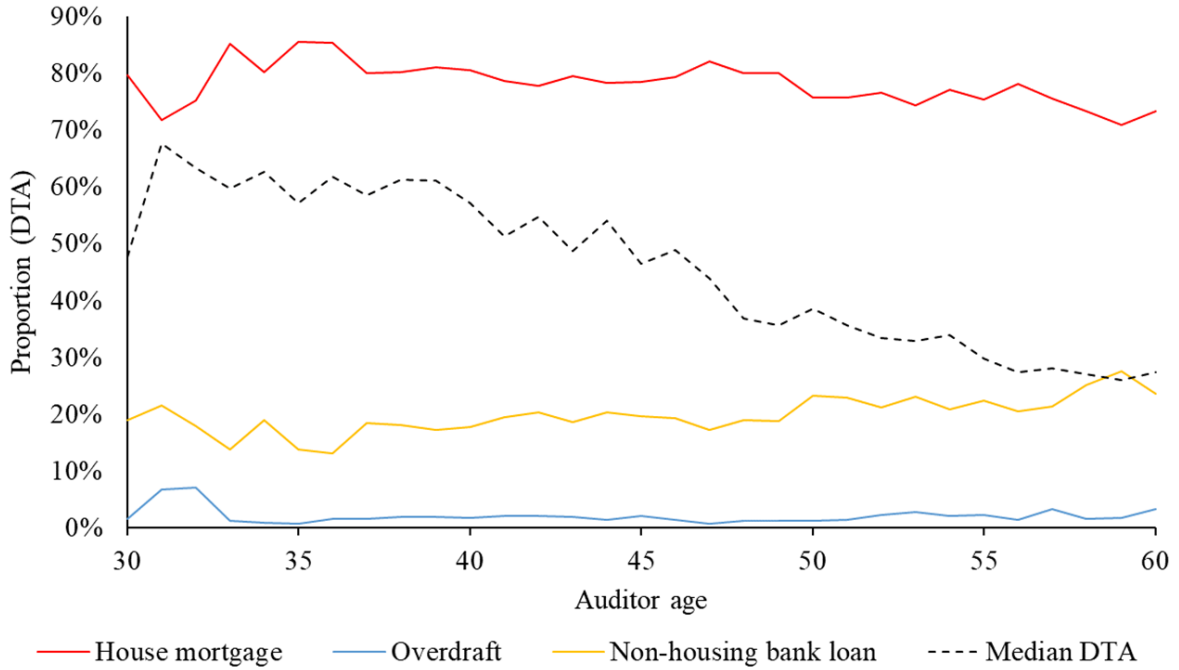
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<i>CPA_bottom10</i>	An indicator that equals 1 if the number of years since the auditor obtained their CPA ranks in the bottom 10% of our sample, and 0 otherwise.
<i>%ΔHouseprice</i>	The percentage change in regional house prices at the location of the auditor's office at fiscal year-end.
<i>Trans</i>	An indicator that equals 1 if: (1) the total deposits of the auditor's parents decrease by at least 1,340 US dollars (10,000 Danish kroner), (2) the auditor's deposits increase by the same amount or more, and (3) the parents' debt-to-asset ratio increases, and 0 otherwise.
<b>Client Firm Characteristics:</b>	
<i>First</i>	An indicator that equals 1 if the client is audited by a different auditor from the previous fiscal year.
<i>Size</i>	The natural logarithm of the client firm's total assets at fiscal year-end.
<i>ClientDebt</i>	Total liabilities of the client firm scaled by its total assets at fiscal year-end.
<i>Loss</i>	An indicator that equals 1 if the client firm reports negative net income at fiscal year-end, and 0 otherwise.
<i>Salegrowth</i>	The change in the client firm's sales divided by its previous fiscal year sales. If the client is exempt from disclosing revenue under the Danish Financial Statement Act section 29, we use the classified revenue filings submitted to the Danish Taxation Authority.
<i>lnClientAge</i>	The natural logarithm of the number of years the client firm has been filing financial statements.
<i>Bankruptcy</i>	The bankruptcy risk of the client firm in a fiscal year divided by 10,000 as per Altman (2000).
<i>ROA</i>	Net income after tax divided by total assets of the client firm at fiscal year-end.
<i>TACC</i>	Total accruals of the client firm at fiscal year-end divided by lagged total assets, calculated using the balance sheet approach following Jones (1991) and reported in million US dollars. $TACC_t = [\Delta\text{Current Assets}_t - \Delta\text{Cash}_t] - [\Delta\text{Current Liabilities}_t - \Delta\text{Current Maturities of Long-Term Debt}_t - \Delta\text{Income Taxes Payable}_t] - \text{Depreciation and Amortization Expense}_t$ .
<b>Audit Firm Characteristics:</b>	
<i>ROA_auditfirm</i>	The audit firm's earnings after tax divided by its total assets at fiscal year-end.
<i>MarketShare</i>	The proportion of clients audited by the audit firm relative to the total number of clients in a fiscal year.

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### FIGURE 1. Signing Auditors' Debt Positions Across Ages

This figure plots the debt compositions and debt-to-asset ratios of auditors across ages. The sample covers the period 2016 to 2020.



**TABLE 1. Sample Construction**

	Number of observations
Total number of audited financial statements	541,207
<i>Less:</i> Observations unable to be merged with the FORMGELD database	(180)
<i>Less:</i> Observations unable to be merged with the IDAN register database	(41,026)
<i>Less:</i> Observations without auditors' social security number	(3,248)
<i>Less:</i> Observations unable to be merged with the FIRE register database	(335,389)
<i>Less:</i> Observations with missing financial data to estimate discretionary accruals	(1,138)
<i>Less:</i> Observations from industry years with fewer than twenty companies	(38,280)
<i>Less:</i> Auditors with debt-to-asset ratios greater than two or who work fewer than 150 hours per year	(1,637)
Total number of final sample observations	120,309

**TABLE 2. Summary Statistics**

This table reports summary statistics of the main variables used in our analysis. The sample period ranges from 2016 to 2020. *Debt*, *Asset*, and *Ndebt* are reported in US dollars, while *TACC* is reported in million US dollars. Percentiles are calculated as the average of the five closest observations to the true percentile for the sake of anonymity, as required by Statistics Denmark. The definitions of variables are provided in Appendix B.

Variables	N	SD	25th	Median	75th
<i>DTA</i>	118,986	0.337	0.191	0.386	0.633
<i> DACC </i>	118,986	0.348	0.08	0.219	0.571
<i>DACC+</i>	61,884	0.362	0.078	0.221	0.634
<i>DACC-</i>	57,102	0.333	0.082	0.218	0.521
<i>SP</i>	118,986	0.455	0	0	1
<i>lnBusyness</i>	118,986	0.875	2.89	3.497	3.951
<i>Hours</i>	88,019	2.781	19.240	19.241	19.242
<i>Debt</i>	118,986	457,861	163,204	324,868	615,486
<i>Asset</i>	118,986	1,133,501	537,864	887,919	1,541,472
<i>Ndebt</i>	118,986	951,630	-1,031,299	-479,685	-211,480
<i>Tenure</i>	118,986	0.205	0	0	0
<i>Expert</i>	118,986	0.172	0	0	0
<i>Big4</i>	118,986	0.483	0	0	1
<i>Auditlag</i>	118,986	0.490	4.369	4.804	5.011
<i>lnAuditorAge</i>	118,986	0.158	3.807	3.951	4.043
<i>First</i>	118,986	0.495	0	0	1
<i>Size</i>	118,986	1.732	8.101	9.153	10.313
<i>ClientDebt</i>	118,986	0.463	0.450	0.627	0.787
<i>Loss</i>	118,986	0.403	0	0	0
<i>Salegrowth</i>	118,986	0.563	-0.030	0	0.061
<i>lnClientAge</i>	118,986	0.69	1.946	2.565	2.944
<i>Bankruptcy</i>	118,961	3.428	-2.317	-1.129	0.034
<i>ROA</i>	118,986	0.240	0.008	0.050	0.127
<i>Unemp</i>	118,986	0.408	4.96	5.36	5.94
<i>%ΔHouseprice</i>	118,986	0.030	0.028	0.040	0.061
<i>TACC</i>	118,986	0.494	-0.141	-0.004	0.111

**TABLE 3. Debt Levels and Career Mobility**

This table reports the results on the association between auditors' debt levels and their career transitions.  $DTA_{t-1}$  represents the auditor's debt-to-asset ratio at the end of fiscal year t-1. Panel A reports the results for  $Switch_t$ , an indicator variable set to one if the auditor switches audit firm in year t, and Panel B shows the results for  $Exit_t$ , an indicator variable set to one if the auditor leaves the audit profession in year t. Variable definitions are shown in Appendix B. *t*-statistics in parentheses are based on clustered standard errors at the client firm level. \*\*\*, \*\*, \* denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Panel A: Auditors' Propensity to Switch Audit Firm

	<i>Switch<sub>t</sub></i> (1)
<i>DTA<sub>t-1</sub></i>	<b>-0.116***</b> <b>(-5.023)</b>
<i>Female</i>	-0.156*** (-5.011)
<i>Tenure</i>	-0.011 (-0.242)
<i>Expert</i>	-0.266*** (-5.926)
<i>Big4</i>	-0.225*** (-14.036)
<i>Auditlag</i>	0.017 (1.088)
<i>AuditorAge</i>	-0.509*** (-9.907)
<i>First</i>	0.292*** (19.658)
<i>Size</i>	-0.003 (-0.660)
<i>ClientDebt</i>	0.021 (1.188)
<i>Loss</i>	-0.009 (-0.422)
<i>Salegrowth</i>	-0.011 (-0.883)
<i>lnClientAge</i>	0.035*** (3.040)
<i>Bankruptcy</i>	-0.123 (-0.531)
<i>ROA</i>	0.047 (1.177)
<i>TACC</i>	-0.020 (-1.519)
Constant	0.605** (2.468)
N	86,261
Auditor FE	NO
Industry FE	YES
Year FE	YES
Pseudo $R^2$	0.065

TABLE 3. (Continued)  
 Panel B: Auditors' Propensity to Exit the Audit Profession

	<i>Exit<sub>t</sub></i> (1)
<i>DTA<sub>t-1</sub></i>	<b>-0.167***</b> <b>(-3.694)</b>
<i>Female</i>	0.391*** (7.221)
<i>Expert</i>	-0.541*** (-3.691)
<i>Big4</i>	-0.049 (-1.462)
<i>Auditlag</i>	-0.137*** (-4.333)
<i>AuditorAge</i>	1.095*** (7.116)
<i>First</i>	0.220*** (6.269)
<i>Size</i>	0.044*** (4.145)
<i>ClientDebt</i>	0.006 (0.136)
<i>Loss</i>	0.026 (0.517)
<i>Salegrowth</i>	-0.002 (-0.069)
<i>lnClientAge</i>	-0.009 (-0.336)
<i>Bankruptcy</i>	-1.725 (-1.605)
<i>ROA</i>	0.012 (0.121)
<i>TACC</i>	0.025 (0.891)
Constant	-6.539*** (-9.628)
N	63,437
Auditor FE	NO
Industry FE	YES
Year FE	YES
Pseudo <i>R</i> <sup>2</sup>	0.059

**TABLE 4. Debt Levels and Auditor Workload**

This table presents results testing the association between auditors' indebtedness and their workload. The independent variable is *DTA*, calculated as an auditor's total personal debt divided by total assets at fiscal year-end. The dependent variables are *lnBusyness* and *Hours*. *lnBusyness* is measured as the natural logarithm of the number of client companies audited by an auditor in a fiscal year. *Hours* is measured as an auditor's annual compensation divided by their hourly wage. The definitions of all variables are provided in Appendix B. *t*-statistics in parentheses are based on clustered standard errors at the client firm level. \*\*\*, \*\*, \* denote statistical significance at the 1%, 5%, and 10% levels, respectively.

	<i>lnBusyness</i>			<i>Hours</i>		
	(1)	(2)	(3)	(4)	(5)	(6)
<b><i>DTA</i></b>	<b>0.067***</b> <b>(6.532)</b>	<b>0.077***</b> <b>(7.750)</b>	<b>0.077***</b> <b>(7.741)</b>	<b>0.274***</b> <b>(4.263)</b>	<b>0.262***</b> <b>(4.078)</b>	<b>0.263***</b> <b>(4.087)</b>
<i>Tenure</i>		-0.142*** (-30.361)	-0.143*** (-30.345)		0.096*** (2.775)	0.096*** (2.767)
<i>Expert</i>		0.153*** (31.833)	0.153*** (31.881)		-0.051** (-2.115)	-0.051** (-2.103)
<i>Big4</i>		0.230*** (11.122)	0.230*** (11.121)		-0.223 (-1.457)	-0.225 (-1.465)
<i>Auditlag</i>		-0.019*** (-9.802)	-0.019*** (-9.882)		-0.044*** (-3.961)	-0.045*** (-4.032)
<i>AuditorAge</i>		4.134*** (28.861)	4.147*** (28.799)		5.993*** (7.208)	5.977*** (7.142)
<i>First</i>		0.027*** (12.190)	0.028*** (11.924)		-0.023 (-1.426)	-0.021 (-1.293)
<i>Size</i>			-0.003*** (-4.023)			0.004 (1.243)
<i>ClientDebt</i>			0.003 (1.234)			0.026** (2.285)
<i>Loss</i>			0.002 (0.634)			0.027 (1.576)
<i>Salegrowth</i>			-0.002 (-1.193)			0.013 (1.331)
<i>lnClientAge</i>			0.003** (2.076)			0.004 (0.524)
<i>Bankruptcy</i>			0.019 (1.391)			-0.022 (-0.695)
<i>ROA</i>			0.003 (0.573)			0.057** (1.999)
<i>TACC</i>			0.003* (1.776)			-0.006 (-0.484)
Constant	3.344*** (724.142)	-12.898*** (-23.046)	-12.931*** (-22.969)	18.410*** (643.304)	-4.821 (-1.487)	-4.822 (-1.477)
N	119,261	119,261	119,261	88,198	88,198	88,198
Auditor FE	YES	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES
Adj. <i>R</i> <sup>2</sup>	0.889	0.893	0.893	0.624	0.625	0.625

**TABLE 5. Debt Levels and Audit Quality**

This table presents results on the association between audit quality and auditors' debt levels. The independent variable is *DTA*, calculated as an auditor's total personal debt scaled by total assets at fiscal year-end. The dependent variables  $|DACC|$ , *DACC+*, and *DACC-* represent the absolute, positive, and negative values of performance-adjusted discretionary accruals of a client firm at fiscal year-end, respectively. *SP* is a small profit indicator, returning one if a client firm reports a ROA between 0 and 0.04 at fiscal year-end. Variables are defined in Appendix B. *t*-statistics in parentheses are based on clustered standard errors at the client firm level. \*\*\*, \*\*, \* denote statistical significance at the 1%, 5%, and 10% levels, respectively.

	$ DACC $		<i>DACC+</i>		<i>DACC-</i>		<i>SP</i>	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
<i>DTA</i>	<b>0.034***</b> (4.220)	<b>0.005</b> (0.660)	<b>0.084***</b> (7.229)	<b>0.018*</b> (1.837)	<b>-0.014</b> (-1.390)	<b>-0.007</b> (-0.688)	<b>0.031***</b> (3.148)	<b>0.008</b> (0.829)
<i>Tenure</i>	-0.064*** (-17.001)	0.006 (1.513)	-0.094*** (-18.234)	0.007 (1.267)	-0.028*** (-5.209)	0.006 (1.039)	-0.036*** (-5.903)	-0.009 (-1.234)
<i>Expert</i>	-0.003 (-0.481)	-0.002 (-0.401)	-0.002 (-0.258)	-0.003 (-0.449)	-0.001 (-0.093)	0.002 (0.230)	-0.000 (-0.046)	-0.000 (-0.014)
<i>Big4</i>	0.006 (0.687)	-0.004 (-0.447)	0.013 (0.956)	0.003 (0.240)	0.002 (0.194)	-0.007 (-0.705)	-0.003 (-0.248)	-0.002 (-0.163)
<i>Auditlag</i>	-0.003 (-1.355)	0.007*** (3.800)	-0.007** (-2.566)	0.008*** (3.211)	0.001 (0.416)	0.004 (1.559)	0.011*** (3.592)	0.013*** (4.103)
<i>First</i>	0.016*** (7.151)	0.024*** (9.834)	0.045*** (14.216)	0.019*** (6.097)	-0.018*** (-6.384)	0.018*** (5.391)	0.001 (0.421)	-0.013*** (-4.034)
<i>Size</i>	-0.019*** (-28.010)	-0.017*** (-25.648)	-0.009*** (-9.281)	-0.007*** (-8.360)	-0.034*** (-34.739)	-0.031*** (-32.824)	0.044*** (38.662)	0.044*** (39.166)
<i>ClientDebt</i>	0.067*** (24.795)	0.064*** (24.117)	0.042*** (11.502)	0.036*** (10.184)	0.055*** (15.061)	0.056*** (15.622)	-0.009*** (-2.740)	-0.008*** (-2.605)
<i>Loss</i>	0.044*** (14.551)	0.042*** (14.994)	0.032*** (7.801)	0.034*** (9.033)	0.051*** (12.670)	0.044*** (11.494)		
<i>Salegrowth</i>	0.051*** (26.009)	0.043*** (24.256)	0.049*** (19.387)	0.042*** (18.504)	0.028*** (9.305)	0.022*** (7.935)	-0.009*** (-4.253)	-0.010*** (-4.408)
<i>lnClientAge</i>	-0.038*** (-24.717)	-0.039*** (-26.024)	-0.024*** (-11.625)	-0.028*** (-14.589)	-0.037*** (-16.976)	-0.035*** (-16.857)	0.012*** (4.790)	0.011*** (4.333)
<i>Bankruptcy</i>	-0.015 (-0.476)	-0.039 (-1.556)	-0.042 (-1.008)	-0.113*** (-5.366)	-0.124*** (-3.744)	-0.114*** (-3.752)	-0.152*** (-4.877)	-0.156*** (-4.941)
<i>ROA</i>	0.025*** (3.946)	0.029*** (4.597)	-0.131*** (-16.019)	-0.136*** (-16.705)	0.174*** (19.528)	0.180*** (20.596)	-0.121*** (-23.160)	-0.122*** (-23.304)
<i>TACC</i>	0.005 (1.573)	0.015*** (5.320)	0.155*** (43.223)	0.187*** (53.896)	-0.200*** (-37.573)	-0.195*** (-39.130)	-0.011*** (-4.430)	-0.011*** (-4.445)
Constant	0.562*** (43.198)	0.509*** (41.257)	0.435*** (24.028)	0.401*** (24.676)	0.661*** (37.128)	0.597*** (35.214)	-0.191*** (-9.636)	-0.188*** (-9.485)
N	118,986	118,986	61,795	61,795	57,014	57,014	119,261	119,261
Auditor FE	YES	YES	YES	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	NO	YES	NO	YES	NO	YES	NO	YES
Adj. $R^2$	0.129	0.280	0.191	0.396	0.245	0.323	0.152	0.152

**TABLE 6. Dynamic Analysis**

This table reports the results from our dynamic analysis. Panel A shows estimation results on auditors' workload decisions. The independent variables  $DTA_{t-2}$  and  $DTA_{t-1}$  measure auditors' two- and one-year lagged debt-to-asset ratio, respectively.  $DTA_t$  represents auditors' current year debt-to-asset ratio, and  $DTA_{t+1}$  and  $DTA_{t+2}$  measure auditors' one- and two-year lead debt-to-asset ratio, respectively. Panel A reports estimation results on auditor workload.  $\ln Busyness$  is calculated as the natural logarithm of the number of client companies audited by an auditor in a fiscal year, and  $Hours$  is calculated as an auditor's annual compensation divided by their hourly wage. Panel B reports estimation results on audit quality.  $DACC^+$  equals the positive value of performance-adjusted discretionary accruals of a client company at fiscal year-end. Our sample period is from 2016 to 2020. Variables are defined in Appendix B.  $t$ -statistics in parentheses are based on clustered standard errors at the client firm level. \*\*\*, \*\*, \* denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Panel A: Auditors' Workload

	<i>lnBusyness</i>					<i>Hours</i>				
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
<i>DTA</i> <sub><i>t-2</i></sub>	<b>0.010</b> (1.049)					<b>0.143**</b> (2.360)				
<i>DTA</i> <sub><i>t-1</i></sub>		<b>-0.002</b> (-0.173)					<b>0.143**</b> (2.189)			
<i>DTA</i> <sub><i>t</i></sub>			<b>0.077***</b> (7.741)					<b>0.263***</b> (4.087)		
<i>DTA</i> <sub><i>t+1</i></sub>				<b>0.039***</b> (3.103)					<b>-0.449***</b> (-5.274)	
<i>DTA</i> <sub><i>t+2</i></sub>					<b>0.095***</b> (4.164)					<b>0.019</b> (0.255)
Constant	-4.641*** (-11.770)	-9.261*** (-22.085)	-12.931*** (-22.969)	-6.475*** (-11.807)	-3.251*** (-5.108)	28.689*** (8.565)	12.584*** (4.185)	-4.822 (-1.477)	-6.584* (-1.778)	-1.780 (-0.506)
N	68,398	96,621	119,261	91,283	62,237	50,290	71,621	88,198	68,180	46,850
Controls	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Industry	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
FE										
Auditor FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Adj. $R^2$	0.952	0.932	0.893	0.912	0.925	0.740	0.679	0.625	0.673	0.751

TABLE 6. (Continued)  
 Panel B: Audit Quality

	(1)	(2)	<i>DACC+</i> (3)	(4)	(5)
<i>DTA</i> <sub><i>t-2</i></sub>	<b>-0.035**</b> (-2.551)				
<i>DTA</i> <sub><i>t-1</i></sub>		<b>-0.017</b> (-1.408)			
<i>DTA</i> <sub><i>t</i></sub>			<b>0.018*</b> (1.837)		
<i>DTA</i> <sub><i>t+1</i></sub>				<b>0.023*</b> (1.665)	
<i>DTA</i> <sub><i>t+2</i></sub>					<b>-0.009</b> (-0.421)
Constant	0.449*** (21.586)	0.453*** (24.374)	0.401*** (24.676)	0.423*** (22.377)	0.463*** (18.682)
N	35,377	51,379	61,795	46,927	30,810
Controls	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES
Auditor FE	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES
Adj. <i>R</i> <sup>2</sup>	0.373	0.413	0.396	0.401	0.442

**TABLE 7. Heterogeneity: Retirement and Unemployment Rate**

This table reports the results from the cross-sectional analyses. *Retirement* is an indicator variable equal to one if the signing auditor is older than 50 years old, and *Unemp* is the average unemployment rate in the region where the auditor is employed at fiscal year-end. The dependent variable *DACC+* equals the positive value of performance adjusted discretionary accruals of a firm at fiscal year-end. Variables are defined in Appendix B. *t*-statistics in parentheses are based on clustered standard errors at the client firm level. \*\*\*, \*\*, \* denote statistical significance at the 1%, 5%, and 10% levels, respectively.

	<i>DACC+</i>	
	(1)	(2)
<b><i>DTA</i> × <i>Retirement</i></b>	<b>-0.013</b>	
	<b>(-0.821)</b>	
<b><i>DTA</i> × <i>Unemp</i></b>		<b>-0.047*</b>
		<b>(-1.926)</b>
<i>DTA</i>	0.023**	0.272**
	(2.004)	(2.052)
<i>Retirement</i>	-0.000	
	(-0.041)	
<i>Unemp</i>		0.008
		(0.161)
Constant	0.401***	0.358
	(23.503)	(1.345)
N	61,795	61,795
Controls	YES	YES
Auditor FE	YES	YES
Industry FE	YES	YES
Year FE	YES	YES
Adj. <i>R</i> <sup>2</sup>	0.396	0.396

**TABLE 8. Alternative Explanation: Old Existing Clients vs. New Clients**

This table presents evidence of whether the decline in audit quality is driven by indebted auditors applying less scrutiny to new clients. *First* is an indicator variable set to one if the client is audited by a different auditor from the previous fiscal year, and *DTA* represents auditors' debt-to-asset ratio at fiscal year-end. The dependent variable  $\Delta|DACC|$  is calculated as  $|DACC|$  for the current fiscal year minus  $|DACC|$  for the previous fiscal year. Variables are defined in Appendix B. *t*-statistics in parentheses are based on clustered standard errors at the client firm level. \*\*\*, \*\*, \* denote statistical significance at the 1%, 5%, and 10% levels, respectively.

		$\Delta DACC $	
	(1)	(2)	(3)
<b><i>DTA</i> × <i>First</i></b>	<b>0.018</b>	<b>0.019</b>	<b>0.022</b>
	<b>(1.098)</b>	<b>(1.131)</b>	<b>(1.311)</b>
<i>DTA</i>	0.004	0.003	0.003
	(0.242)	(0.212)	(0.171)
<i>First</i>	0.001	0.000	-0.002
	(0.116)	(0.031)	(-0.206)
<i>Tenure</i>		-0.002	-0.003
		(-0.371)	(-0.527)
<i>Expert</i>		-0.010	-0.008
		(-1.139)	(-0.836)
<i>Big4</i>		0.007	0.006
		(0.375)	(0.310)
<i>Auditlag</i>		0.011***	0.006**
		(4.150)	(2.339)
<i>Size</i>			-0.007***
			(-8.332)
<i>ClientDebt</i>			0.011***
			(3.185)
<i>Loss</i>			0.015***
			(3.228)
<i>Salegrowth</i>			0.028***
			(10.654)
<i>lnClientAge</i>			0.019***
			(8.906)
<i>Bankruptcy</i>			-0.002
			(-0.065)
<i>ROA</i>			-0.023**
			(-2.535)
<i>TACC</i>			0.002
			(0.431)
Constant	-0.027***	-0.081***	-0.053***
	(-4.050)	(-5.054)	(-2.897)
N	76,709	76,709	76,709
Auditor FE	YES	YES	YES
Industry FE	YES	YES	YES
Year FE	YES	YES	YES
Adj. $R^2$	0.236	0.236	0.239

**TABLE 9. Auditor Seniority**

This table reports results from our additional tests in terms of auditor seniority. Panel A presents results on auditors' workload, while Panel B presents results on audit quality. We use the number of years since auditors obtained their CPA as a proxy for auditor seniority. *CPA\_top10* is an indicator variable set to one if the number of years since an auditor obtained their CPA is among the top 10% of our sample, while *CPA\_bottom10* is an indicator variable set to one if the number of years since an auditor obtained their CPA is among the bottom 10%. *DTA* represents auditors' debt-to-asset ratio at fiscal year-end. The definitions of variables are provided in Appendix B. *t*-statistics in parentheses are based on clustered standard errors at the client firm level. \*\*\*, \*\*, \* denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Panel A: Auditors' Workload

	<i>lnBusyness</i>		<i>Hours</i>	
	(1)	(2)	(3)	(4)
<b><i>DTA</i> × <i>CPA_top10</i></b>	<b>0.098***</b> (4.023)		<b>0.284**</b> (2.121)	
<b><i>DTA</i> × <i>CPA_bottom10</i></b>		<b>0.041</b> (1.599)		<b>-0.203</b> (-1.116)
<i>DTA</i>	0.076*** (7.350)	0.069*** (7.038)	0.264*** (3.962)	0.296*** (4.414)
<i>CPA_top10</i>	-0.151*** (-13.389)		-0.474*** (-7.200)	
<i>CPA_bottom10</i>		-0.171*** (-8.958)		0.310* (1.772)
Constant	-12.259*** (-21.769)	-10.906*** (-19.312)	-2.814 (-0.862)	-6.692** (-2.073)
N	119,261	119,261	88,198	88,198
Controls	YES	YES	YES	YES
Auditor FE	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES
Adj. <i>R</i> <sup>2</sup>	0.893	0.893	0.625	0.625

Panel B: Auditor Quality

	<i>DACC+</i>	
	(1)	(2)
<b><i>DTA</i> × <i>CPA_top10</i></b>	<b>-0.049*</b> (-1.713)	
<b><i>DTA</i> × <i>CPA_bottom10</i></b>		<b>0.037*</b> (1.773)
<i>DTA</i>	0.021* (1.938)	0.011 (1.064)
<i>CPA_top10</i>	0.022 (1.567)	
<i>CPA_bottom10</i>		-0.029* (-1.795)
Constant	0.420*** (24.493)	0.404*** (24.759)
N	61,795	61,795
Controls	YES	YES
Auditor FE	YES	YES
Industry FE	YES	YES
Year FE	YES	YES
Adj. <i>R</i> <sup>2</sup>	0.338	0.396

**TABLE 10. Exogenous Changes in Debt Levels: House Price and Parental Monetary Transfer**

This table presents the results for our endogeneity tests using two plausibly exogenous changes in auditors' indebtedness.  $\% \Delta \text{Houseprice}$  represents the percentage change in regional house prices at the location of the auditor's office at fiscal year-end. *Trans* is an indicator variable set to one if: (1) the total deposits of the auditor's parents decrease by at least 1,340 US dollars (10,000 Danish kroner), (2) the auditor's deposits increase by the same amount or more, and (3) the parents' debt-to-asset ratio increases. *DACC+* represents the positive value of performance-adjusted discretionary accruals of a client firm at fiscal year-end. Variables are defined in Appendix B. *t*-statistics in parentheses are based on clustered standard errors at the client firm level. \*\*\*, \*\*, \* denote statistical significance at the 1%, 5%, and 10% levels, respectively.

	<i>DACC+</i>	
	(1)	(2)
<b><i>DTA</i> × <math>\% \Delta \text{Houseprice}</math></b>	<b>-0.299**</b>	
	<b>(-2.514)</b>	
<b><i>DTA</i> × <i>Trans</i></b>		<b>-0.113***</b>
		<b>(-2.920)</b>
<i>DTA</i>	0.032***	0.021**
	(2.798)	(2.094)
$\% \Delta \text{Houseprice}$	-0.134	
	(-1.582)	
<i>Trans</i>		0.062***
		(2.723)
Constant	0.408***	0.399***
	(24.393)	(24.583)
N	61,795	61,795
Controls	YES	YES
Auditor FE	YES	YES
Industry FE	YES	YES
Year FE	YES	YES
Adj. $R^2$	0.397	0.397

**TABLE 11. Additional Controls**

This table displays the results of robustness tests that include additional audit firm controls. *DTA* is calculated as an auditor's total personal debt divided by total assets at fiscal year-end. *lnBusyness* is measured as the natural logarithm of the number of client companies audited by an auditor in a fiscal year, and *Hours* is measured as an auditor's annual compensation divided by their hourly wage. *DACC+* represents the positive value of performance adjusted discretionary accruals of a firm at fiscal year-end. *ROA\_auditfirm* is calculated as the audit firm's earnings after tax divided by its total assets at fiscal year-end. *MarketShare* is measured as the proportion of clients audited by the audit firm relative to the total number of clients in a fiscal year. Variables are defined in Appendix B. *t*-statistics in parentheses are based on clustered standard errors at the client firm level. \*\*\*, \*\*, \* denote statistical significance at the 1%, 5%, and 10% levels, respectively.

	<i>lnBusyness</i>	<i>Hours</i>	<i>DACC+</i>
	(1)	(2)	(3)
<i>DTA</i>	0.076*** (7.700)	0.271*** (4.213)	0.019* (1.894)
<b><i>ROA_auditfirm</i></b>	<b>-1.569</b> <b>(-0.208)</b>	<b>-62.494</b> <b>(-1.364)</b>	<b>-160.777***</b> <b>(-11.168)</b>
<b><i>MarketShare</i></b>	<b>2.620***</b> <b>(6.929)</b>	<b>10.164***</b> <b>(6.543)</b>	<b>-0.199</b> <b>(-0.943)</b>
Constant	-13.068*** (-23.171)	-5.596* (-1.722)	-0.447 (-0.828)
N	119,261	88,198	61,795
Controls	YES	YES	YES
Auditor FE	YES	YES	YES
Industry FE	YES	YES	YES
Year FE	YES	YES	YES
Adj. <i>R</i> <sup>2</sup>	0.893	0.625	0.398