

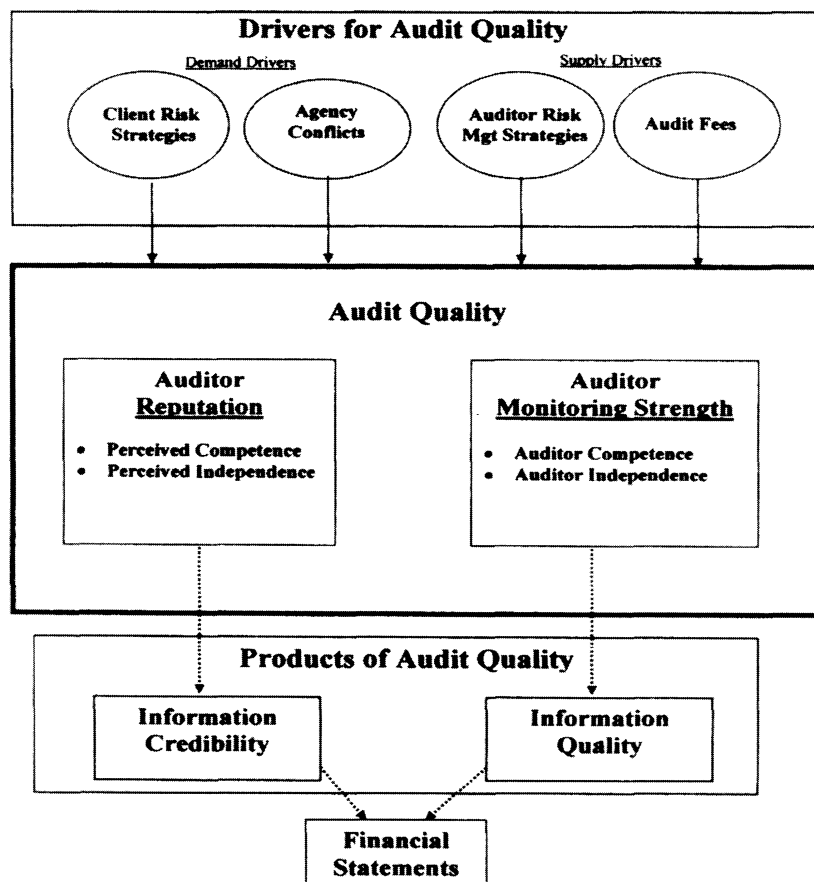
Department of Accounting
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Ph.D. Qualifying Exam- Auditing
May 12, 2006

PART 1

(1) Recent corporate scandals such as Enron and WorldCom have focused the world's attention on whether CPA firms are providing audits with sufficiently high quality. In the auditing literature, audit quality has been defined and measured in many ways. These definitions embrace, to different extents, the dimensions of competence and independence in actuality as well as how they are perceived by the capital market participants.

The figure presented below is an audit quality research taxonomy and framework proposed by Watkins et al. (2004, *JAL*):



Please cite as many auditing papers that we have discussed in this semester as possible to each of the above components of audit quality. **(30 points)**

(2) The *Private Securities Litigation Reform Act of 1995* (hereafter called the 1995 Reform Act) and the *Sarbanes-Oxley Act of 2002* (hereafter called the SOX) are two of the most important regulations to the auditing profession that has far-reaching impacts.

- (a) As we have discussed in class, these two Acts were originated and proposed for different reasons and backgrounds. Explain and compare these reasons or backgrounds. **(4 points)**
- (b) Did the auditors' legal liabilities change from the 1995 Reform Act to the SOX? What are the major changes? **(4 points)**
- (c) What auditing studies have been "stimulated" by these two Acts? Itemize your answers by citing papers that explicitly investigate the effectiveness and efficacy of the key provisions (or rules) stipulated in these two Acts. **(12 points)**