

Department of Accounting
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Ph.D. Qualifying Exam- Auditing
October 13, 2005

PART 1

- (1) Audit quality is an important element to the success and public trust of the auditing profession.
- (a) Differentiate between “actual” audit quality and “perceived” audit quality (**2 points**).
 - (b) How do auditing researchers measure “actual” audit quality and “perceived” audit quality? Please cite prior studies (empirical, analytical, and experimental) to justify your answers (**8 points**).
 - (c) What mechanism(s) can be used to improve audit quality? Justify your answers using prior studies (empirical, analytical, and experimental) (**3 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) Do the auditors’ legal liabilities change from the 1995 Reform Act to the SOX? (**4 points**)
 - (b) What auditing studies have been “stimulated” by these two Acts? Please cite prior studies (empirical, analytical, and experimental) to justify your answers (**8 points**)
 - (c) What are the key differences between fraudulent financial reporting and restatements? Please cite prior studies (empirical, analytical, and experimental) to justify your answers (**3 points**)

(3) Auditor independence has long been regarded as a cornerstone to the auditing profession. However, since many recent audit failures have been attributed to a lack of independence (e.g., Arthur Andersen vs. Enron), a call to restore public trust through improving auditors' independence has been emphasized by regulators, practitioners, and auditing academic.

(a) How do auditing researchers measure auditor independence empirically? (**2 points**) What are the potential problems associated with these measurements? (**2 points**) Please cite prior studies to justify your answers.

(b) What are the possible mechanisms that may be used to enhance auditor independence? Please discuss prior studies that have examined these mechanisms. What are their key conclusions? (**6 points**)

(4) Please briefly answer the following questions:

(a) What is the extant literature that examines issues related to audit committees? Please cite prior studies using the empirical, analytical, and experimental methodologies to justify your answers (one study for each methodology). (**3 points**)

(b) What are the possible roles that auditors may play in the capital market? Please cite prior studies to justify your answers (**6 points**).

(c) What are the key differences between dismissal and resignation? Please cite prior studies to justify your answers (**3 points**).