

**Department of Accounting**  
**College of Commerce**  
**National Chengchi University**  
**Ph.D. Qualifying Exam- Auditing**  
**May 8, 2007**

**PART 2**

(1) 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)

(2) Independence requires the auditor to act with integrity and objectivity both in mental attitude and in appearance. The Public Oversight Board's *Panel on Audit Effectiveness* emphasizes that independence is "fundamental to the reliability of auditor's reports." Because auditor independence not only increases the likelihood that firms' financial statements are in conformity with the generally accepted accounting principles (GAAP), but also encourage investors to rely more on the financial statements, auditor independence has long been regarded as a cornerstone to the public accounting 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. In response to this demand for auditor independence, the SEC approved the PCAOB's proposed *Ethics and Independence Rules Concerning Independence, Tax Services and Contingent Fees* on April 19, 2007. This new rule includes general requirements with respect to ethics and independence, restrict certain types of tax services a registered public accounting firm may provide to its audit clients, and prohibit contingent fee arrangements for any services a registered public accounting firm provides to its audit

clients, in order to maintain its independence.

(A) How do auditing researchers measure auditor independence empirically? (3 points)  
What are the potential problems associated with these measurements? (3 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? What are the potential research design problems in these studies? Please organize your answers using your own categorization scheme. A simple duplicate of the lecture notes is not acceptable! (10 points)

(3) Please answer the following three questions related to the empirical methodology adopted by the auditing academics:

(A) Empirical studies usually generate mixed (or inconsistent) results toward a specific auditing issue. Provide and discuss two such cases and explain why these inconsistencies exist. In light of these inconsistencies, what do we really learn from these studies? Please cite prior studies to justify your answers. (4 points)

(B) What is the “self-selection bias”? What kind of auditing issues are mostly subject to this bias? How do auditing researchers handle this bias? Why? Please cite prior studies to justify your answers. (4 points)

(C) What kind of auditing issues are mostly suitable for using a “matched-sample” design? What are the advantages and disadvantages of using such a design? Please cite prior studies to justify your answers. (6 points)