Department of Accounting
College of Commerce
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Ph.D. Qualifying Exam- Auditing
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PART 2

1.Suraj Srinivasan (2005 JAR 291-334) found that outside directors, particularly audit committee members experienced significant labor market penalties after their companies restated financial statements. You are required to discuss and criticize his paper constructively. Please organize your comments in the following format:

(1) Examine any underlying assumptions for their realism.**(3 points)**
(2) Identifying possible missing control variables which might alter the nature of the results.**(3 points)**
(3) Elaborate on results and parts of the research that are interesting or contributory to future studies.**(6 points)**

2.An early SEC Release (1979, 427) emphasized the importance of audit committee to enable board of directors to better fulfill their oversight responsibilities with respect to an issuer's accounting, financial reporting and control obligations. The Treadway Commission (NCFFR 1987, 12) recommended that audit committees should exercise vigilant and informed oversight of the financial reporting process, including the company's internal controls. OECD Principles of Corporate Governance (2004,p.62) mandated that the board of directors should fulfill certain key functions including the following:

Ensuring the integrity of the corporation's accounting and financial reporting systems, including the independent audit, and that appropriate systems of control are in place, in particular, systems for risk management, financial and operational control, and compliance with the law and relevant standards.

As a consequence, J. Krishnan (2005 TAR,649-675) examined the audit committee quality and the internal control problems reported by companies. He found that independent audit committees and audit committees with financial expertise are significantly less likely to be associated with the incidence of internal control problems. J. Doyle et al. (2007 JAE, 193-223) used the samples of accelerated filers to examine the determinants of internal control material weaknesses for firms with more serious entity-wide control problems and less severe account-specific problems. To alleviate errors due to inconsistencies of self-classifications, H. Ashbaugh-Skaife et al. (2007 JAE, 166-192) included all types of internal control deficiency (ICD) disclosures reported by a broad cross-section of publicly traded companies.

Required:

Based upon the above information and related papers discussed in the class, identify possible association between Board memberships and the reporting of ICD/material weaknesses using models similar to Srinivasan's Models (1) and (2). Develop your models (including the dependent variables, independent variables and control variables) and hypotheses for possible research questions that you propose. **(13 points)**