

National Chengchi University
Department of Accounting
Ph.D. Qualifying Examination – Auditing
March 25, 2009

PART I

NOTE: In answering this exam, you should use only one language. That is, if you choose Chinese (or English), all your answers should be in Chinese (or English), except for citing prior studies. This requirement stems from my past observation that, due to the open-book system, many of the doctoral students answered the qualifying exams by simply copying and pasting paragraphs from various sources (in Chinese or English) to the answer sheets without knowing what those paragraphs really mean. Being a potential Ph.D. candidate, it is your responsibility to demonstrate your ability of integrating different information, forming your own thinking, and expressing your opinion in an academic way. I strongly believe that, if you really understand a paper, you should be able to discuss it using your own words. This is a fundamental training in the Ph.D. program and I expect that all of you have already had this skill.

(1) The world is experiencing great economic instability and governments of major countries are taking unprecedented actions in efforts to curtail the economic crisis. The economic crisis undoubtedly is affecting both financial statement preparers and the auditors engaged to audit their financial statements. For example, the U.S. has taken actions to prevent worsening economic conditions, including facilitating sales of ailing financial institutions, passing the Emergency Economic Stabilization Act of 2008, rescuing the U.S. automakers, and dramatically increasing the monetary programs available from the Federal Reserve. These tough economic times have made accounting for transactions and auditing entities more challenging than ever. Few, if any, industries are immune to the affects of the crisis so it is more critical than ever for auditors to understand the rapidly changing business, economic, and regulatory environments in which audit clients operate.

Required: Under the global economic crisis,

- ① Identify critical audit risks facing the auditing profession (5 points).
- ② What are the auditors' legal liabilities to the shareholders and the regulators? (5 points)

Justify your answers by either citing prior studies or referring to the most recent standards / articles. Please do not copy anything from the auditing textbook, or you will get zero score on this problem.

(2) In recent years, prominent accounting scholars speaking at the AAA Annual Meetings have bemoaned the state of accounting inquiry. The main thrust of the criticisms is that accounting researchers increasingly pursue very small and narrow questions that do not advance professional knowledge. At the 2006 AAA Annual Meeting, for example, Demski (2007) and Fellingham (2007) even questioned whether accounting was an academic discipline. In addition, Hopewood (2007) argued that accounting researchers were shrinking their research boundaries and that the "top three" U.S. accounting journals are increasingly unlikely to publish truly innovative research. These commentators thus agreed that "innovation is close to nonexistent" and that "our research is largely derivative, bifurcated, and far from foundational" (Demski 2007). In light of this, Fellingham (2007) poses the challenge, "What big intellectual ideas have accounting researchers contributed to the university?"

One major reason, as pointed out by Basu (2008), that senior researchers might feel that the accounting academics is making little progress is that accounting researchers do not share a common research goal. If we are to make big intellectual contributions to the academy, it would probably help to identify the big unanswered questions that we could collectively attack, and then work on finding the tools to answer these questions rather than choosing only the questions that our current research methods can address. This is consistent with an "Imagined World of Accounting," the major theme of the 2007 AAA Annual Meeting.

Required: From an auditing's perspective,

- ① Do you agree with Demski (2007), Fellingham (2007), and Hopewood (2007) that current auditing studies do not contribute to the advance of our understanding of auditing practice and theory? Why or why not? (4 points)
- ② What are the major constituents of an "innovative" auditing study? Why? (3 points)
- ③ In your opinion, what is the most innovative auditing study you have ever seen? Why? (Note: You do not have to restrict your answers to those you have seen in class.) (3 points)
- ④ In your opinion, what are the biggest unanswered questions in modern auditing research? Why do these questions remain unanswered? (10 points)

