

National Chengchi University
Department of Accounting
Ph.D. Qualifying Examination – Auditing
October 12, 2009

PART I

NOTE: As has been required in this May, you should use only one language in answering this exam. 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) On September 4, 2009, the AICPA's Professional Ethics Executive Committee issued an Exposure Draft (ED) entitled *Proposed Revision to Ethics Ruling No. 2 Regarding Distribution of Client Information*. This revised ED re-defines **confidential client information** to be "any client information that is not known to be in the public domain or available to the public." Information in the public domain or available to the public includes, but is not limited to
- ① information in a book, periodical, newspaper, or similar publication;
 - ② information obtained from commercially available databases;
 - ③ information in a client document that has been released by the client to the public or that has otherwise become a matter of public knowledge;
 - ④ information on client Websites that is available to persons accessing that Web site without restrictions imposed by the client concerning use or access;
 - ⑤ information maintained by or filed with regulatory or governmental bodies that is available to the public without restriction; or
 - ⑥ information maintained by or filed with regulatory or governmental bodies that is made available through freedom of information or similar requests filed with and approved by such bodies in accordance with their rules or regulations

Required:

- (A) What are the major differences between this new definition and the old one that has been used for many decades? (2 points) Will this new definition severely limit the availability of data for auditing research by independent scholars? Why or why not? (10 points) Cite prior auditing literature to justify your answers.
- (B) What auditing issues are better suitable for using private CPA firm-specific data? (4 points) Cite prior auditing studies to justify your answers.
- (C) What are the comparative advantages of using publicly available data vs. private CPA firm-specific data in addressing auditing issues? (4 points)

(D) In its response (dated September 28, 2009) to the AICPA's ED, the AAA emphasizes that it is important to differentiate four types of information before this ED becomes final ethical rule: **auditor information**, **client information**, **confidential client information**, and **client information derivatives**.

- (a) According to your knowledge of basic auditing concepts, what are the possible definitions of these four types of information? (4 points)
- (b) Why is it important to differentiate these four types of information in governing auditors' professional conducts involving clients' confidential information? (4 points)
- (c) What auditing issues have been examined using these four types of information? What are their main conclusions? Please organize your answers in good format (12 points).

(2) An interesting finding from the cross-country audit environment research is that both strong and weak legal protection of shareholders motivates companies to employ a brand name auditor. The perceived audit quality of Big 4 in the U.S. context is attributed to excessive litigation and liability exposures. Because non-US countries are characterized by mild or no litigation threats to auditors, it is interesting to know what drives the Big 4 audit quality outside the U.S.

Required:

What are the major auditing issues that have been examined in these cross-country studies? What are their main conclusions? (10 points)

(3) For almost 30 years, accounting researchers have examined whether auditors' providing non-audit services (NAS) impairs auditor independence *in fact* or *in appearance*. The provision of NAS by auditors is potentially beneficial. For example, some contend that NAS enhances auditors' knowledge of the clients, leading to more efficient and effective audits. Importantly, restricting NAS can inhibit the auditor's acquisition of task-specific knowledge capital, thereby reducing auditor competence and lowering audit quality. On the other hand, however, some argue that the value of NAS depends on the cost-benefit tradeoff, with compromises in auditor independence as one of the most critical potential costs. For example, NAS creates an economic bond between the auditor and client, causing the auditor to lose objectivity. This concern magnified in recent years as NAS fees increase substantially.

Required:

- (A) What are the three major groups of stakeholders involved in this line of research? (3 points)
What are the primary auditing issues for each of these three groups? (3 points)
- (B) What are the major findings documented in prior studies regarding the issues you identify in (A) above? Please organize your answers in good format (6 points).

- (4) During the past two decades, discretionary accruals (DAs) have been extensively used in capital market research as a proxy for managers' earnings management behavior. Recently, auditing research also adopts DAs as the measure of audit quality. Conceptually speaking, since earnings management reflects *managers'* opportunistic behavior whereas audit quality reflects *auditors'* capability of detecting material misstatements and propensity to report such misstatements, DAs should not be a proxy for both players' behavior *simultaneously*.

Required:

- (A) What is the fundamental logic reasoning underlying these two lines of research? (2 points)
- (B) Do you agree that DAs can capture both earnings management and audit quality at the same time? Is the literature wrong? Why or why not? (3 points)
- (C) What are the major differences between DAs and the so-called "real earnings management" measures? (3 points) What are the implications of these differences to the auditing profession and academics? (5 points)

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Part II (25%)

- 1) 自 2003 年 3 月起,美國 SEC 即規定公開發行公司應於年報中揭露審計與非審計公費等資訊,造成美國後續有關公費研究的蓬勃發展.我國金管會於 2002 年修正並發布“證券發行人財務報告編製準則”第 22 條,開始對會計師公費之揭露作相關規定.之後,於 2006 年並修訂“公開發行公司年報應行記載事項準則”第十條,其相關內容大致如下:

公司有下列情事之一者,應揭露會計師公費:

- (一) 給付簽證會計師、簽證會計師所屬事務所及其關係企業之非審計公費佔審計公費之比例達四分之一以上或非審計公費達新台幣五十萬元以上者,應揭露審計與非審計公費金額及非審計服務內容.
- (二) 更換會計師事務所且更換年度所支付之審計公費較更換前一年度之審計公費減少者,應揭露審計公費減少金額、比例及原因.
- (三) 審計公費較前一年度減少達百分之十五以上者,應揭露審計公費減少金額、比例及原因.

根據資料顯示,2002 年到 2005 年台灣揭露會計師公費資訊的公司約 200 家,2006 年約 500 家,2007 年到 2008 年揭露家數亦持續穩定成長,其中不乏自願揭露相關審計公費之公司.

試參考 Reynolds and Frances (2001)、Larcker and Richardson (2004) 或 Gaver and Paterson (2007)等學者的研究,設計規劃一個台灣客戶議價能力與審計公費的研究計劃,並以具有公費揭露相關的政策意涵為佳.你的答案應包括(但不限於)以下各項:

- (甲) 研究目的與問題
- (乙) 主要參考文獻與研究假說
- (丙) 研究模式與變數
- (丁) 樣本設計與分析方法