

Continuing Legal Education
Comprehension Quiz
For
“Corporate Governance”

Larry Cunningham - Auditing

1. In 2002, Congress passed what Act in response to the corporate governance issues spawned by the Enron scandal and other similar scandals in the business world?
 - A. Corporate Responsibility Act of 2002
 - B. Sarbanes Oxley Act
 - C. Neither of the above

2. What is the term that Cunningham uses to define the explicit compensation given to gatekeepers who deny access to capital markets?
 - A. Benefits
 - B. Perks
 - C. Carrots
 - D. None of the above

3. What is the difference between veto gates in U.S. political systems and veto gates in the business world?
 - A. There are many veto gates in the U.S. political system to hinder legislation.
 - B. There are few veto gates in the business world to hold up a deal.
 - C. Both A & B
 - D. None of the above

4. A negative side-effect of using liability incentives is that liability incentives encourage professionals to not engage in greater responsibility.
 - A. True
 - B. False

5. Which of the following are common causes of gatekeeper failure that Cunningham mentions?
 - A. Auditors have too much leverage over managers
 - B. Managers have too much leverage over auditors
 - C. Misaligned incentives
 - D. Both B & C

6. What are some possible revenue streams that Cunningham suggests?
 - A. audit committees have mandates under Sarbanes Oxley to demand whatever budget is necessary
 - B. funds existing in due diligence transactions
 - C. funds from regulatory system
 - D. All of the above

7. What does Cunningham suggest should be tied to bonus compensation systems in auditing firms?
 - A. Finding fraud within the firm
 - B. Added compensation benefits
 - C. Both A & B
 - D. None of the above

8. What is the problem in trying to get firm shareholders involved with instigating change?
 - A. Shareholders do not want to get involved
 - B. Shareholder do not have the time
 - C. Shareholders have diversified accounts
 - D. Both A & B

9. What did the Central Hudson case deal with in relation to the topic of discussion?
 - A. Aiding and abetting liability of gatekeepers
 - B. Gatekeeper responsibilities to the firm
 - C. Standard of care to be exercised by a gatekeeper
 - D. Both B & C

10. Why not have malpractice insurance for auditors?
 - A. There isn't a good market now for insurance for gatekeepers
 - B. Gatekeeper insurance models tend to run diversification
 - C. Both A & B
 - D. None of the above

11. The accounting profession blamed the scandals on the rule-based system, which is too broad and enables accountants to easily manipulate their books. What was the alternative system suggested by the profession to be followed instead?
 - A. Theory-based system
 - B. Net worth system
 - C. Principles-based system
 - D. None of the above

12. Which of the following are among Cunningham's hypothesis concerning a principle-based system?
- A. Regulatory
 - B. Ethical
 - C. Political
 - D. Both A & C
 - E. All of the above
13. A member of the audience commented that fraud must be defined before one can reward auditors for finding it. What are some of the examples of fraud that Cunningham gave in response to the comment to demonstrate the kind of fraud that auditors should be rewarded for finding?
- A. Insider loans
 - B. Bribes to foreign officials
 - C. Manufactured invoices
 - D. Premature revenue recognitions
 - E. Both A & D
 - F. A, B, & D
 - G. All of the above

UT CLE - "Corporate Governance"

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You have completed the exercise.

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