Jurnal Pengurusan 44 (2015) 20 pages, Galley Proof
ISSN 0127-2713 Scopus, Cabell and MyCite Indexes

Factors Associated with Financial Restatements: Evidence from Malaysia

(Faktor-Faktor Penyataan Semula Penyata Kewangan: Bukti dari Malaysia)

Suhaily Hasnan
Alfiatul Rohmah Hussain
(Faculty of Accountancy, Universiti Teknologi MARA)

ABSTRACT

This study examines seven factors associated with financial restatements in Malaysian publicly listed companies (PLCs). We hypothesize that two factors proxy for management rationalization, two for management motives and three for the opportunity to predict financial restatements. Our sample consists of 85 restatement firms and 85 no-restatement firms, listed on the Bursa Malaysia and have a complete set of data from 2005-2011. The objective of this study is to examine how rationalization, motive and weak governance lead to financial restatements in emerging economies, like Malaysia. With regard to rationalization, we find that founders are negatively and significantly associated with financial restatements while related party transactions (RPTs) are positively and significantly associated. Additionally, we find evidence that opportunity for restatement proxied by audit quality is negatively and significantly associated with financial restatements.

Keywords: Financial restatement; fraudulent financial reporting; earnings management; corporate governance

ABSTRAK

Kajian ini mengkaji tujuh faktor yang dikaitkan dengan penyataan semula penyata kewangan bagi syarikat-syarikat awam yang disenaraikan di Bursa Malaysia. Kajian ini membuat hipotesis bahawa terdapat dua faktor proksi untuk rasionalisasi pengurusan, dua faktor proksi untuk motif pengurusan, dan tiga faktor proksi untuk peluang bagi meramalkan insiden penyataan semula penyata kewangan. Sampel kajian ini terdiri daripada 85 firma yang mempunyai rekod insiden penyataan semula penyata kewangan dan 85 firma yang tidak mempunyai rekod penyataan semula penyata kewangan. Kesemua sampel kajian adalah firma yang disenaraikan di Bursa Malaysia dan mempunyai satu set lengkap data yang diperlukan kajian daripada julat tempoh tahun 2005 sehingga tahun 2011. Objektif kajian ini adalah untuk mengkaji bagaimana faktor persekitaran di dalam sesuatu organisasi seperti faktor rasionalisasi, motif dan tadbir urus yang lemah (peluang) dapat membawa kepada insiden penyataan semula penyata kewangan terutamanya di dalam ekonomi negara-negara membangun seperti Malaysia. Berhubung dengan faktor rasionalisasi, kajian mendapati bahawa faktor kewujudan pengasas di dalam organisasi adalah negatif dan signifikan dengan insiden penyataan semula penyata kewangan manakala faktor urus niaga pihak berkaitan adalah positif dan signifikan dengan insiden penyataan semula penyata kewangan. Selain itu, kajian juga mendapati bahawa proksi untuk faktor peluang iaitu kualiti audit bagi sesuatu organisasi adalah negatif dan signifikan dengan insiden penyataan semula penyata kewangan.

Jurnal Pengurusan 44 (2015) 20 pages, Galley Proof
ISSN 0127-2713 Scopus, Cabell and MyCite Indexes

Kata kunci: Penyataan semula penyata kewangan; penipuan dalam penyataan kewangan; pengurusan pendapatan; tadbir urus korporat

INTRODUCTION

Financial restatement is defined as the process of revising and correcting a previously issued financial statement to correct errors and non-compliance with generally accepted accounting principles [GAAP] (Abdullah, Yusof & Nor 2010). According to the United States (U.S.) General Accountability Office (GAO), "*A financial restatement occurs when a company, either voluntarily or prompted by auditors or regulators, revises public financial information that was previously reported.*" (GAO 2002). Financial restatement has been discussed since the early 1980s; however, studies on this topic have become more aggressive since the global scandal in accounting and auditing and high profile fraud cases, such as Enron and WorldCom in the United States. Financial restatements increased from 919 cases reported between January 1997 and June 2002 to 1,390 restatements between July 2002 and September 2005, and another 396 restatements between October 2005 and June 2006 (GAO 2002; GAO 2006). In the U.S., the most common type of financial restatement is the overstatement of revenue (Dechow, Ge, Larson & Sloan 2011).

In Malaysia, although the scale is relatively small, the corporate landscape is scattered with several bad accounting scandals (e.g., Transmile Group Berhad, Megan Media Holdings Berhad, MEMS Technology Bhd. and Fountain View Development Bhd.). Weak enforcement by the relevant authorities may be the leading reason. For example, in Transmile Group Berhad, two former independent directors who authorized the furnishing of misleading statements involving RM622 million for the financial years ended 2004 to 2006 were only sentenced to one year imprisonment and fined RM300,000 each (Securities Commission Malaysia 2011). Moreover, lack of penalties induces more cases whereby firms just have to restate their financial statements (particularly when the regulators fail to prove that the misstatements involved fraud). Financial statements, especially when it involves income-decreasing restatements, may negatively affect a firm's stock market valuation upon announcement (Dechow et al. 2011; Rotenstein 2011; Baber, Liang & Zhu 2012; Files, Sharp & Thompson 2014); however, it does not affect the firm's operations and listing ability. There is no proper enforcement to deter wrongful behavior. Although corporate regulations in Malaysia seem to be sufficient and in compliance with international standards, the enforcement aspect concerning the violation of such a regulation is still fragile. The penalties imposed are sometimes too lenient compared to what they should have received, and are insufficient to deter future wrongdoing (Verschoor 2014). Thus, firms take the issue of restatements lightly. Unless strict penalties are imposed, firms will continue to misstate financial statements.

According to the restatement category description of GAO, there are nine categories of financial restatement: (1) acquisitions and mergers; (2) cost or expense; (3) in-process research and development; (4) others; (5) reclassification; (6) RPTs; (7) restructuring assets/inventory; (8) revenue recognition; and (9) securities related. Abdullah et al. (2010) found 44 restatements between 2002 and 2005 based on the GAO restatement categories. It was found that most of the financial restatements were due to the cost and expense category. Dechow et al. (2011) and Abdullah et al. (2010) suggest that the common reasons for financial restatements may differ between countries. Using a sample of Malaysian PLCs between 2005 and 2011, this study attempts to identify the factors that can detect financial restatements to reduce the occurrence of

misstatements or fraud in the future: motive (i.e., economic factor, ownership factor); rationalization (i.e., RPTs, founders on board); and weak governance mechanisms. We are not aware of any emerging market studies that have examined these interrelated issues systematically previously. Most studies have been based in the West and only a few in Asia (Abdullah et al. 2010; Wahab, Gist & Majid 2014). Abdullah et al. (2010) examined the effects of the Malaysian Code on Corporate Governance (MCCG) on the nature of financial restatements in Malaysia and provide evidence on the role of corporate governance, especially the independence of the nomination committee and extent of ownership by outside blockholders. Wahab et al. (2014) studied the effect of non-audit services (NAS) and their recurring nature on the likelihood of financial statement restatements in Malaysia during 2007–2009; they found a negative relationship between non-audit fees and financial restatements, showing that both types of NAS and their recurrence provide knowledge spillover, which enhances audit and financial reporting quality.

The financial reporting quality in Malaysia may differ from other developed countries. Hence, this study adds to and complements the research in developing countries. The variables chosen are particularly significant to the Malaysian market and will fill the gap raised by Dechow et al. (2011) that concerns corporate governance mechanisms as a tool to mitigate accounting scandals. The findings are expected to highlight the loopholes and hopefully, help the regulatory bodies to formulate new requirements, policies, procedures and guidelines, to help deter financial restatements.

HYPOTHESES DEVELOPMENT

The agency theory explains how best to organize the relationship between two parties in which one party (principal) determines the work of the other party (agent). Agency problems arise when shareholders (principals) hire managers (agents) to make decisions that are in their best interests (Eisenhardt 1989). As both parties are exposed to losses due to conflict of interests, there is strong motivation to minimize agency costs. Incentives and monitoring mechanisms are proposed as safeguards against opportunism in the principal-agent relationship (Jensen & Meckling 1976), as an absence will lead to scandals. In this study, management motives and poor corporate governance mechanisms are used as indicators of accounting misstatements. We argue that the decision to engage in accounting misstatements requires the firm to first rationalize its actions to commit accounting misstatements as acceptable management behavior.

MOTIVES FOR FINANCIAL RESTATEMENT

This study argues that the willingness of management to allow the manipulation of disclosed information influences the likelihood of accounting misstatements. Managers' tolerance of misstatements increases the level of irregularity and bias in the financial statements (Norman, Rose & Suh 2011). Rosner (2003) provides evidence that firms engage in accounting misstatements when they need to report results more favorably than it would if it followed GAAP, and when ownership arrangement encourages a short-term orientation of financial reporting.

POOR FINANCIAL PERFORMANCE

Poor financial conditions (Bell, Szykowny & Willingham 1991) may motivate unethical insiders

to improve the appearance of the company's financial position; perhaps to reduce the threat of loss of employment or to acquire as many resources as possible before termination. Hasnan, Rahman and Mahenthiran (2013) found that poor financial performance is the main cause for corporate offences; approximately 95% of fraud involved either financial or vice-related pressure. Desai, Hogan and Wilkins (2006) investigated the reputational penalties to managers of firms announcing earnings restatements in the U.S. market, and showed that restatement companies reported at 3.2% for the median ROA compared to 12.1% for non-restatement companies during the restatement year. The researchers also found that the performance of restatement companies dropped significantly after the announcement of the financial restatement.

Poor financial performance may be a motivation for earnings manipulation, which may lead to financial restatement. When the firm is doing poorly, there is a greater motivation to engage in earnings manipulation. It is well documented in the earlier literature that poor financial performance provides a strong incentive for managers to manipulate the reported earnings for different reasons, such as avoiding debt covenant violations, or a loss or drop in earnings. Loebbecke, Eining and Willingham (1989) found that 19% of the fraud companies in their sample were experiencing solvency problems. Under severe performance, a firm might fraudulently report more favorable results than would be the case if it adhered to GAAP requirements, which may result in the firm needing to restate earnings.

H_1 There is a significantly positive relationship between poor financial performance and the occurrence of financial restatement.

OWNERSHIP FACTORS

It is hypothesized that ownership can also motivate firms to engage in accounting misstatements. A firm has stronger motivation to commit accounting misstatements when it is non-family-managed (Shleifer & Vishny 1997) and has lower foreign ownership interest (Khanna & Palepu 2000).

FAMILY OWNERSHIP

Corporate ownership in East Asian countries is concentrated in large controlling shareholders, specifically, the family and the individual (Ishak & Napier 2006). Based on prior argument, family ownership may have a positive or negative effect on the company (Choi, Park & Yoo 2007). The controlling owner of the company may have a right to grant incentives that affect decision-making (Ghabdian, Attaran & Froutan 2012). Furthermore, the lack of monitoring from outside shareholders may lead to inconsistent action taken by the family owners. Liu, Lin and Cheng (2011) found that a family-owned/controlled company with a lack of bank monitoring leads to family dominance. In Choi et al. (2007), the researcher found that family ownership obstructs firm performance. Family managers face a high level of pressure, which influence them to reduce their risk and enhance their rewards, leading to earnings manipulation, and subsequently, to misstatements and restatements. It is therefore hypothesized that:

H_2 There is a significant positive relationship between family ownership and the occurrence of financial restatement.

FOREIGN OWNERSHIP

Foreign shareholders represent a minority stake in Malaysian PLCs. Scholars have posited that foreign-investors are likely to insist on higher standards of governance and the protection of minority rights to improve the quality of reporting. We believe that to induce foreign direct investments, a company may incline to providing higher quality financial statements. Hence, we expect that the likelihood of financial restatement is low with the presence of foreign investors.

H_3 There is a significantly negative relationship between foreign ownership and the occurrence of financial restatement.

OPPORTUNITY FOR FINANCIAL RESTATEMENT

Empirical evidence suggests that the opportunity to commit accounting misstatement increases when the firm does not have strong corporate governance mechanisms.The increase in financial restatements has raised concern about the adequacy of the corporate governance practices and financial disclosure oversight (Beasley, Carcello & Hermanson 1999; GAO 2002; Efendi, Srivastava & Swanson 2007; Abdullah et al. 2010). The agency theory views that managers do not always act in the best interests of the shareholders, and that managers have motives to expropriate the shareholders' wealth. Thus, corporate governance is seen as one of the mechanisms that could effectively safeguard the interests of the shareholders. Empirical evidence suggests that financial restatements could be prevented by having a board with a higher percentage of outside directors, directors that have multiple directorships, effective audit committee and independent auditors from Big4 accounting firms (Beasley et al. 1999; Zhizhong, Juan, Yanzhi & Wenli 2011; Wahab et al. 2014).

BOARD INDEPENDENCE

One of the factors that causes poor corporate governance is the lack of independent directors on the board (Hasnan et al. 2013). To ensure independency, effectiveness and objectivity, one of the initiatives taken by the SC is MCCG Principle 3, Recommendation 3.2, which mandates that independent directors should not hold the position for a cumulative period exceeding nine years. In addition, the board should also establish a formal and transparent relationship with the company's internal and external auditors to monitor the risks faced by the company in relation to financial reporting. According to the agency theory, a firm dominated by insiders may be prone to engage in activities that enhance the position of management at the expense of shareholders. Uzun, Szewczyk and Varma (2004) argued that the higher the number of outside directors, the more likely they are to reduce the fraudulent behavior of the executive directors. In addition, they found that firms with a high percentage of outside directors have less financial restatement.

The MCCG recommends that listed firms must have a balanced board of at least one-third non-executive directors (NEDs) to monitor management (MCCG 2000). Abdul Rahman and Mohamed Ali (2006) found that when NEDs dominate a firm's board, it does not have higher performance; and concluded that a board dominated by NEDs who lack real independence and awareness of their responsibilities, and who do not have the appropriate qualifications and experience would be ineffective monitors. Hashim and Susela (2006) provide evidence of a significantly positive relationship between board independence and earnings management, raising the issue of whether the boards of Malaysian companies are truly effective.

H_4 There is a significantly negative relationship between board independence and the occurrence of financial restatement.

MULTIPLE DIRECTORSHIPS

Multiple directorships refer to the situation where directors sit on the board of more than one firm. According to Beasley (1996), multiple directorships expose directors to economic trends and aspects of different businesses, provide directors the opportunity to compare management policies and practices, provide insights into how other companies pursue new approaches to business, expose directors to different management styles and monitoring behavior and allow directors to seek advice from others. However, holding too many outside board seats may make directors too busy to monitor management (Morck, Shleifer & Vishny 1988). Evidence is available that multiple directors tend to engage in activities that enhance their own private benefits, promote empire building amongst the firms they serve and become distracted. These may lead to the likelihood of misstatements.

H_5 There is a significantly positive relationship between multiple directorships among board members and the occurrence of financial restatement.

AUDIT COMMITTEE INDEPENDENCE

MCCG 2007 (Part 2: Best Practice in Corporate Governance), requires all listed companies to maintain an audit committee comprising at least three members, with the majority of them being independent and NEDs (SC 2007). In additon, they should be financially literate and at least one should be a member of an accounting body (SC 2012).

Abbott, Parker and Peters (2004) found that there is a negative relationship between the independence and the activity level of the audit committee and the occurrence of financial restatement. However, in the Malaysian situation, none of the researchers has found a relationship between audit committee independence and the occurrence of financial restatements. Abdullah et al. (2010) posit that the primary reason for the insignificant findings in Malaysian studies is that the audit committees in Malaysia are very much influenced by management.

H_6 There is an association between audit committee independence and the occurrence of financial restatement.

AUDIT QUALITY

Researchers have employed various proxies for audit quality, including auditor size and audit fees. We believe that restatement firms should have higher audit fees than non-restatement firms because firstly, since restatement firms present a greater audit risk, auditors are likely to extend the scope and rigor of their audits, thus involving higher audit fees. Second, from a risk-based perspective, auditors are likely to perceive the absence of appropriate controls and oversight in the financial reporting process of restatement firms, and are likely to enhance the audit and pass the associated costs to their clients. High audit effort can discover a breach in a client's accounting system and enable the auditor to report it; therefore, we predict a positive association between audit fees and the incidence of financial restatements.

H_7 There is a significantly positive relationship between audit quality and the occurrence of financial restatement.

RATIONALIZATION FOR FINANCIAL RESTATEMENT

Rationalization is "a post-behavioral process through which a problematic behavior becomes less problematic for the person who has displayed it" (Fointiat 1998: 471). Prior studies provide evidence that two characteristics of companies that suggest that executives are behaving illegally are: the company engaging in an unusually high number of RPTs and the influence of founders on the firm's board (Dunn 1999; Agrawal & Chadha 2005; Fich & Shivdasani 2007).

RELATED PARTY TRANSACTIONS

RPTs refer to the transactions between the reporting entity and their related parties, also known as arm's length transactions, based on two alternative views: that RPTs are not injurious to shareholders and represent efficient transactions that rationally fulfill the economic demand that bonds the party to the firm (Gordon et al. 2004); and that RPTs are agency conflicts between management (agent) and shareholders (principal) as managers have greater incentive to expropriate the firm's resources for their personal benefit. The Council of the Malaysian Institute of Accountants (MIA) in ISA 550 states that the related parties and RPTs may *"give rise to higher risks of material misstatements of the financial statements"* (MIA 2008: 4). Hence, this indicates that RPTs may lead to the higher occurrence of financial restatements due to the existence of material misstatements, as demonstrated by the high profile accounting scandals of Enron, Adelphia, Tyco, Refco, Hollinger and Rite Aid, which involved RPTs (Henry, Gordon, Reed & Louwers 2012). However, whether RPTs create or destroy value in the Malaysian market is an open empirical question. Despite the conflicting arguments, it is hypothesized that:

H_8 There is a significant relationship between the existence of related party transactions and the occurrence of financial restatement.

FOUNDERS ON BOARD

The corporate goal adopted by the CEO establishes the philosophy of the firm (Selznick 1997). Previous evidence suggests that the continuing presence of the founders may make the organizational culture more homogeneous (Davidson, Worrell & Lee 1994). However, according to Dunn (1999), the presence of founders on the board may also inhibit the firm from developing broader social norms. Furthermore, the founders may have a stronger emotional commitment to the firm than anyone else regardless of their ownership interest. It is natural for founders to have a strong sense of belonging or control over an organization, protect the organization and avoid any possibility of a publicly announced failure. Hence, fraudulent financial reporting can be seen as an attempt by a founder to avoid humiliation and prevent damage to self-esteem.

A classic example is the case of Garth Drabinsky in Linvent Inc., a well-known Broadway producer. The financial failure of the play, 'Sunset Boulevard' allegedly made him create an elaborate financial reporting fraud, resulting in an embezzlement scheme that enriched him and left the shareholders and creditors holding an almost empty bag. This inherent conflict of interests is often referred to as the agency problem.

In another related study, Dechow, Ge, Larson and Sweeney (1996) argued that if the CEO is

the founder of the firm, such individuals are more likely to have a strong influence over board decisions and operations, and be less accountable to the board. Consistent with this view, they find that GAAP violators tend to have a CEO who is also a founder. Similarly, Gereish (2003) also provides evidence that their influence is even more pronounced when founders constitute a large percentage of the board. Hence, the above discussion provides a basis to support the arguments that there is a positive relationship between the existence of founders on the board and the occurrence of fraudulent financial reporting. Therefore, it is hypothesized that:

H_9 There is a significantly positive relationship between founders on the board and the occurrence of financial restatement.

RESEARCH DESIGN

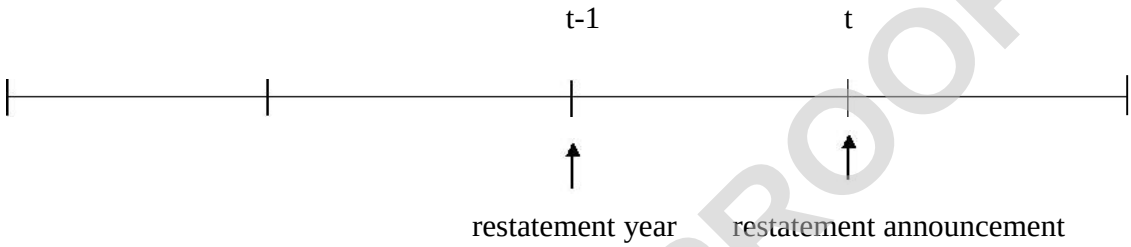

DIAGRAM 1. Chronology of events for a typical firm subjected to restatement by Bursa Malaysia

SAMPLE

The sample for this study consists of PLCs listed on the Main Board of Bursa Malaysia over a period of seven years, from 2005 until 2011. The year 2006 was a challenging period for the SC of Malaysia, as it initiated criminal prosecutions against a number of Malaysian PLCs – Transmile, Megan Media, Nasioncom, Welli Multi, MEMs Technology, and Satang. Thus, the period of seven years includes the year 2005, which is the year before the criminal prosecutions were revealed. This is because the year "t" (the timeline is presented in Diagram 1) is designated as the restatement year and the data collected for determinants of financial restatements were selected from the period of "t-1" (Ettredge, Scholz, Smith & Sun 2010; Hasnan et al. 2013). This study purposely includes the year 2005 in order to review the restatement issues in the Malaysian situation a year before the corporate scandals were revealed. The period was extended up to the latest annual report available for the majority of the companies. Since there is no list of restatement companies available from Bursa Malaysia, the list of PLCs was obtained from the Bursa Malaysia website http://www.bursamalaysia.com/market/listed-companies/list-ofcompanies/main- market/), with the total of 823 companies as of January 2013. Based on the list, companies involved in finance and related financial institutions, such as banks, trusts, closed-end funds, real estate investment trusts, exchange traded funds and insurance companies were excluded as they are subjected to specific rules and regulations pertaining to the finance industry (Abdullah et al. 2010; Dechow et al. 2011). The selected PLCs consisted of companies from seven sectors: property, construction, trading and service, consumer products, hotels, plantation and industrial products. The annual reports of these companies were downloaded from 2005 until 2011, and a total of 85 companies were identified as restatement by using the keywords of "restate", "restatement", "adjustment" and "comparative". The 85 companies were

classified into nine categories in accordance with the GAO restatement category description (Abdullah et al. 2010). In addition, as an alternative, for comparability of the findings, 85 control companies were selected from the same industry as the samples or treatment companies based on the size of the companies, which were measured by using the total assets in a similar financial year end. This yielded a total of 170 companies.

MEASUREMENT OF VARIABLES

The data for each variable were manually collected from the corporate annual reports of restatement and non-restatement firms. There are two variables in this study – dependent and independent.

DEPENDENT VARIABLE

The dependent variable is the financial restatement of PLCs, measured using a dummy variable, with a value of 1 for restatement companies and 0 for non restatement (Chen, Cheng & Lo 2009). The dependent variable is subjected to the control characteristics, which include firm size and firm industry. The total assets of the company are used as a proxy for firm size to match the treatment companies and the control companies. Firm industry is used as the control characteristic in order to exclude the finance industry.

INDEPENDENT VARIABLES

The independent variables are the three elements of the fraud triangle – pressure, opportunity and rationalization. The Altman's Z-Score is used to measure the company's financial position, as companies that have a lower Z-Score indicate a higher likelihood of default (Chen et al. 2009); thus it is used for identifying the financial position or the economic condition of the restatement companies at the time they were involved in misstatement. The ownership factors are categorized into two: family and foreign ownership by using the ratio scale of percentage of family and foreign ownership from the top 10 ordinary shareholders of the company. The second element, opportunity, is measured by BOD independence, multiple directorships, audit committee independence and audit quality that use the proxies of audit fees over total assets and the existence of Big 4 auditor. The number of RPTs and its value and also the number of founders on the board are used as proxies for rationalization.

MODEL

A logistic regression model was used to analyze the relationship between the various determinants of financial restatements and the occurrence of financial statement restatement. The following logistic regression model was also utilized to determine the extent of the influence of each of the variables on the incidence of financial restatements. To test the hypotheses, the logistic regression was conducted in the year immediately preceding the restatement years:

$$FR = b_0 + b_1DISTRESS_{i(t-1)} + b_2FAMOWN_{i(t-1)} + b_3FOROWN_{i(t-1)} + b_4BODIND_{i(t-1)} + b_5CROSSDIRi\ (t-1) + b_6AUDIND\ i(t-1) + b_7AUDQi(t-1) + b_8BIG4i(t-1) + b_9RPTsi(t-1) + b_{10}RPTsRMi(t-1) + b_{11}FOUNDi(t-1) + ei(t-1)$$

Where:

FR	=	the incidence of financial restatements
DISTRESS	=	the level of financial distress
FAMOWN	=	percentage of family ownership
FOROWN	=	percentage of foreign ownership
BODIND	=	percentage of board independence
CROSSDIR	=	percentage of directors having cross-directorship
AUDIND	=	percentage of audit committee independence
AUDQ	=	audit quality (audit fees)
RPTs	=	number of related party transactions
FOUND	=	percentage of founders on firm's board

RESULT

TABLE 1. Pearson correlation matrix of independent variables

	BODIND	RPTs	CROSSDIR	ACIND	AUDQ	FOROWN	FAMOWN	FOUND	BIG4	DISTRESS
BODIND	1									
RPTs	.015	1								
CROSSDIR	.178*	.047	1							
ACIND	.415**	.118	.062	1						
AUDQ	.007	-.068	-.019	-.007	1					
FOROWN	.104	-.029	.051	.081	-.147	1				
FAMOWN	-.133	.059	-.197	.059	.005	-.115	1			
	-.111	.077	-.017	-.005		-.134	.270**	1		
FOUND					.130					
BIG4	-.094	.104	.147	.000	-.124	.163*	-.127	-.059	1	
DISTRESS	.220**	.032	-.044	.196*	.049	.033	-.097	-.054	-.069	1

Notes: All p-values are 2-tailed. * Correlation is significant at the 0.05 level; and ** Correlation is significant at the 0.01 level.

The statistical results above show the correlation among all the independent variables. Table 1 shows that there are seven positive significant correlations, of which four are at the 1% level, three are at the 5% level and there is only one significant negative correlation at the 5% level. Cohen (1988) in Pallant (2007) suggests that a correlation that is higher than 0.5 is considered as having a large correlation. However, the correlation is less than 0.8, which is the threshold for the presence of severe collinearity (Cooper & Schindler 1998). Thus, none of the variables is excluded from the analysis. The results above show that there is a relatively high (above 0.5) significant positive association (0.649) between the amount of RPTs (RPTsRM) and the number of RPTs at the 1% level. As the amount RPTs is represented in RM and the number of RPTs is the frequency of such items appearing in the financial statements, there is a high association between these items. An increase in the number of RPTs will result in an increase in the amount of RPTs. There is also a positive significant relationship (0.415) between board independence (BODIND) and audit committee independence (ACIND) at the 1% level. This result is consistent with Abdullah et al. (2010); this result is not unexpected as a strong positive correlation was also

reported in Klein (2002).

The other significant positive correlation (0.270) is between family ownership (FAMOWN) and founders on board (FOUND) at the 1% level, consistent with Hasnan et al. (2013), who focused on fraud and non-fraud companies. The ownership structure of listed companies in Malaysia is unique as the Listing Requirements of Bursa Malaysia requires that at least 25% of the shares be held by the public, creating ways for related parties and family founders to control the decision-making process (Abdullah et al. 2010). In Hasnan et al. (2013), family owned companies are controlled by their founders. There is also a significant positive correlation (0.220) between board independence (BODIND) and financially distressed companies (DISTRESS) at the 1% level, consistent with Hasnan et al. (2013) (0.283), suggesting that companies with more independent board members have slightly more financial difficulties. As Malaysian companies are closely held and the majority is family-owned businesses, the rules for having at least one-third of non-executive independent directors on the board are worthless, because such a composition is not based on their capabilities and competencies but rather on their familiarity and networking contacts (Hasnan et al. 2013). Prior empirical results report that there is a positive relationship between ownership concentration and the probability of default (Alkhawaldeh 2012), leading to board mismanagement, especially when the company is facing financial difficulty. This is also the reason for the positive correlation between audit committee independence (ACIND) and financially distressed companies (DISTRESS) of 0.196 at the 5% level. The negatively significant correlation between family ownership (FAMOWN) and multiple directorships (CROSSDIR) reveals that family owned company directors are less likely to have directorships in other companies. The correlation between the foreign ownership (FOROWN) and Big 4 auditors (BIG4) is significant and positive (0.163). Although the audit fees of the Big4 are much higher than other firms, firms are willing to pay for high quality to ensure the wellbeing and reputation of the firm. Foreign investors are likely to insist on higher standards of governance and protection of minority rights, which suggests that foreign investors are more likely than domestic investors to demand a high quality of audit (Khanna & Palepu 2000). Francis and Yu (2009) state that Big 4 audit firms tend to provide higher audit quality due to their in-house experience and qualifications. Prior research has found that the company's reputation is positively associated with audit fees (Cao, Myers & Omer 2012); and the demand for audit increases as the company grows bigger, which gives a positive relationship between firm size and audit fees (Choi, Kim & Zang 2010). In this study, H_1 until H_9 predict a significant relationship between pressure, opportunity and rationalization with the occurrence of financial restatement. The results of the logistic regression model are in Table 2. The model has an R square value of .138, which means that 13.8% of the variation in the incidence of financial restatements is explained by the variation in the independent variables.[1] The model also correctly predicts 62.2% of the companies as no-restatement companies (62.5%) and restatement companies (61.8%).

TABLE 2. Logistic regression analysis results

							95% C.I. for EXP (B)	
	B	S.E.	Wald	df	sig	Exp (B)	Lower	Upper
LOGBODIND	.496	.690	.517	1	.472	1.642	.425	6.345
LOGRPTs	.449	.230	3.791	1	.050	1.562	.997	2.448
LOGCROSSDIC	.251	.370	.460	1	.498	1.285	.623	2.651

LOGACIND	.195	1.157	.028	1	.866	1.215	.126	11.726
LOGAUDQ	-1.548	.547	5.128	1	.024	.953	.588	1.546
LOGFOROWN	-.094	.137	.475	1	.491	.910	.696	1.190
LOGFAMOWN	.101	.113	.801	1	.371	1.107	.886	1.381
FOUND(1)	-1.141	.551	5.071	1	.021	.322	.120	.864
DISTRESS(1)	.183	.328	.312	1	.576	1.105	.549	2.225
Constant	-.414	1.048	.048	1	.693	.661		
R Square	.128							
N	164							

Concerning financial distress (DISTRESS) and ownership (FAMOWN and FOROWN) which are proxies for pressure, none of the variables shows a significant association with the incidence of financial restatement. DISTRESS is not associated with the occurrence of financial restatement and FAMOWN and FOROWN are found to be significant with the occurrence of financial restatements, therefore, not supporting H_1, H_2 and H_3.

This study found that audit quality, as measured by audit fees, which proxies for opportunity, has a significant negative relationship with the incidence of financial restatement. The negative effect between audit fees and the incidence of financial restatement signifies less audit effort, consistent with Hasnan et al. (2013), who posit that only high audit quality through high audit effort can enable auditors to report any breach. It is also consistent with Chen, Chen, Lobo and Wang (2011) who found a significant negative relationship between audit quality and the incidence of financial restatement in China. No significant association was found between the other proxies for opportunity (board independence, multiple directorships and audit committee independence), and the incidence of financial restatements, thus not supporting H_4, H_5 and H_6.

Prior research on the Malaysian market also reported similar results, i.e., board and audit committee independence are not statistically significant with financial restatement (Abdullah et al. 2010). They claimed that board and audit committee independence are not associated with their effectiveness, indicating that members' independence does not mean they are experts and strict in monitoring the management. Abdullah et al. (2010) argued that the strict requirements for the composition of the members in MCCG, as well as the roles and responsibility of the BOD and audit committee members, are only being fulfilled for the purpose of compliance and is not an attempt to ensure effectiveness and efficiency. Further, multiple directorships do not show any association with the occurrence of financial restatement. Although the direction of the association is as predicted, no statistical significant relationship is found, indicating that busy directors do not influence financial reporting quality nor give rise to financial restatement.

The results also show that the proxies for rationalization are significantly associated with the occurrence of financial restatement. Table 2 above shows a significant relationship between the number of RPTs and the existence of FOUND, and the incidence of financial restatement. The significant positive relationship between RPTs and financial restatements indicates that restatement companies are involved in more RPTs compared to non-restatement companies, consistent with Herrmann, Inoue and Thomas (2003) who examined Japanese firms' earnings management behavior. Their involvement resulted in these firms issuing a restatement of their financial statements, providing additional support for H8, which predicts a significant positive relationship between the existence of RPTs and the incidence of financial restatements. The significant negative relationship between FOUND and the likelihood of financial restatement indicates that the existence of founders on the board contributes to the reduction of the

occurrence of financial restatement. Prior research claims that the existence of founders on the board is positively associated with the occurrence of fraudulent financial reporting; the agency theory implies that founder-managed companies should reduce the distance between ownership and control in order to eliminate or at least minimize agency costs and maximize governance efficiency (Donoher 2009). However, the result from this study shows that the existence of founders contributes positively to financial reporting quality and promotes the association between ownership and control, resulting in improvements for the company. Davis, Schoorman and Donaldson (1997) explained this using the stewardship theory, i.e., the existence of founders leads to better financial reporting quality.

ADDITIONAL ANALYSES

To ascertain the credibility of the initial analysis, two additional tests were carried out to determine the sensitivity of the results and to determine the robustness of the findings reported in Table 2. The first test repeated the regression model allowing for a different proxy to measure audit quality; and the second regression model was further re-examined using a different proxy to measure RPTs.

Alternative Measurement for Audit Quality Hypothesis 7 states that effective external auditing can have a profound effect on financial restatement by deterring it (i.e., reporting the restatement) and by correcting it (i.e., by forcing revisions to the financial statements). In the earlier model, audit quality is treated as a continuous variable since it is measured by the ratio of audit fees to total assets. In order to test the robustness of the regression analysis earlier, this study wanted to see the results of audit quality if the variable is treated as a dichotomous variable. Hence, this study also investigated the effect of audit quality using auditor size. Francis and Yu (2009) posit that Big 4 auditor is used as a measurement of audit quality because it is predicted to have a higher quality of audit.

The multivariate analysis (Table 3) shows a significant association between this variable and the incidence of financial restatement. The direction of coefficient and the level of significance is almost identical with earlier findings. The study found a significant negative relation between auditor size and incidence of financial restatement, showing that similar to findings from the previous regression analysis, low audit quality is associated with the incidence of financial restatement. In the previous regression model, low audit quality, as proxied by low audit fees, seems to influence the incidence of financial restatement, whereas the result in Table 3 indicates that low audit quality, as proxied by auditor size, contributes to the incidence of financial restatement. Hence, it can be concluded that the incidence of financial restatement implies that the audits performed were of low quality. This study is consistent with Chen, Chen, Lobo and Wang (2011) who examined Chinese companies and found a significant negative association between audit quality, as proxied by auditor size and earnings management.

TABLE 3. Logistic regression analysis results

							95% C.I. for EXP (B)	
	B	S.E.	Wald	df	sig	Exp (B)	Lower	Upper
LOGBODIND	1.008	1.535	.431	1	.511	1.642	.425	6.345
LOGRPTs	.536	.251	3.871	1	.047	1.562	.997	2.448
LOGCROSSDIC	.278	.401	.509	1	.438	1.285	.623	2.651

LOGACIND	.211	1.291	.039	1	.891	1.215	.126	11.726
LOGAUDSIZE	-1.696	.628	5.179	1	.019	.953	.588	1.546
LOGFOROWN	.414	.760	.297	1	.586	.910	.696	1.190
LOGFAMOWN	.101	.113	.801	1	.371	1.107	.886	1.381
FOUND(1)	-2.150	1.583	3.210	1	.079	.322	.120	.864
DISTRESS(1)	.183	.329	.353	1	.553	1.105	.549	2.225
Constant	-.101	1.072	.009	1	.925	.661		
R Square	.135							
N	164							

Alternative Measurement for Related Party Transactions In the earlier analysis, the RPTNO variable has a positive relationship with the occurrences of financial restatement. The sensitivity of this assumption was tested by using the value of RPTAMT that indicates a deviant organizational culture. The results are presented in Table 4, where the overall results with variable RPTAMT do not change significantly from the basic model, suggesting consistent results concerning the direction of the RPTAMT variable. However, it can be seen that the level of significance for RPTAMT experiences a modest decrease compared to the one in the earlier model since it is now statistically significant at 10% level compared to the 5% level previously. Nevertheless, both the number and dollar amount of RPTs show positive and significant results with the incidence of financial restatement.

TABLE 4. Logistic regression analysis results

							95% C.I. for EXP (B)	
	B	S.E.	Wald	df	sig	Exp (B)	Lower	Upper
LOGBODIND	1.469	1.534	.917	1	.338	1.642	.425	6.345
LOGRPTs	.449	.230	3.791	1	.061	1.562	.997	2.448
LOGCROSSDIC	.010	.627	.060	1	.987	1.285	.623	2.651
LOGACIND	.255	1.446	.031	1	.860	1.215	.126	11.726
LOGAUDQ	1.697	1.631	1.012	1	.042	.953	.588	1.546
LOGFOROWN	.244	1.495	.027	1	.870	.910	.696	1.190
LOGFAMOWN	.664	.743	.798	1	.372	.910	.886	1.381
FOUND(1)	-2.544	1.725	2. 175	1	.014	.322	.120	.864
DISTRESS(1)	.159	.327	.238	1	.626	1.105	.549	2.225
Constant	-.550	1.042	.279	1	.597	.577		
R Square	.148							
N	164							

CONCLUSION

The results of the test show three significant relationships that influence the occurrence of financial restatement of PLCs. Audit quality (proxy for opportunity) and founders on board (proxy for rationalization) report a significant negative relationship while RPTs (proxy for rationalization) report a significant positive relationship. The results were generated after taking into account specific factors of the companies, like size and industry. The significantly negative

relationship between audit quality and the occurrence of financial restatement indicates that a higher quality of audit will result in a reduction of the occurrence of financial restatement. This result is consistent with H_7 that predicts a significantly negative relationship between variables. Big 4 auditor is predicted to have a higher quality of audit due to greater in-house experience and more collective experience in detecting material misstatement and in auditing PLCs (Francis & Yu 2009). Thus, with an adequate number of employees and appropriate level of qualification, the Big 4 audit firms can provide better audit quality services.

The significant negative relationship between the existence of founders on a company's board and the chance of the occurrence of financial restatement indicates that founders on a board reduce the likelihood of financial restatement. This contradicts H_9 that predicts a significant positive relationship between those variables due to the pressure of business success, as claimed by Ranft and O'Neill (2001). The result also contradicts the agency paradigm, as explained by the agency theory. However, as discussed in Donoher (2009), the result is in line with the stewardship theory, which supports that founders may have a special interest in protecting and nurturing the companies as they are the ones who initiated the establishment of the company. According to Davis et al. (1997), the stewardship theory defines the *'situations in which managers are not motivated by individual goals, but rather are stewards whose motives are aligned with the objectives of their principals'*. Hence, founders may fulfil the role of steward-managers whose behavior is rather pro-organizational, collectivistic and of higher utility than the individualistic and self-serving behavior ascribed in the agency theory (Davis et al. 1997).

The significantly positive relationship between RPTs and the occurrence of financial restatement indicates that the more often RPTs are carried out by companies, the higher the probability of the occurrence of financial restatement, consistent with H_8 that predicts a significant positive relationship between the number of RPTs and the occurrence of financial restatement. It is also consistent with prior literature that has examined earnings management through affiliated transactions employing a sample from Japanese firms; the study reported that parent firms use RPTs with their affiliates to manage earnings (Herrmann et al. 2003), which subsequently results in financial restatement. Hasnan et al. (2013) found a negative relationship between RPTs and the occurrence of fraud in Malaysia. Hence, based on this study's results, which are based on a wider sample than fraud companies, and a comparison with the results from Hasnan et al. (2013) in Malaysia, RPTs more often result in financial restatement due to aggressive accounting, which falls under the categorization of earnings management rather than fraudulent accounting. The other variables in this study were not found to affect the occurrence of financial restatement. In summary, this study suggests that financial restatement can be reduced to an acceptable low level if the company strengthens its internal and monitoring control mechanism. The recommendations suggested by the MCCG should be reinforced to ensure the effectiveness of the board, especially in monitoring activities.

This study has several limitations, and the results are not intended to provide a complete explanation of the factors that cause financial restatement but rather to provide information about the role of specified factors. First, financial restatement can be influenced by other factors that are not controlled in this study. The classification of financial restatement primarily depends on the GAO restatement category description; despite all reasonable efforts having been taken in the identification of restatement companies, it is possible that other factors or elements that cause the occurrence of financial restatement have not been captured. Second, the matching process that was based on the total assets of the non-restatement companies, and the control characteristics

that depend on the firm size and firm industry, which was used to control the basic factors in this study, may not capture any other important factors. Third, the total population in this study only depends on the PLCs on Bursa Malaysia's website up to January 2013. Bursa Malaysia only provides the list of companies listed on the board at present (January: 823, February: 822, March: 822, April: 821). It is possible that companies that restated their financial statements have been delisted from Bursa Malaysia, and, hence not selected in the sample. Lastly, it is possible that companies that have been involved in undetected accounting manipulation may have unknowingly been included in the control group of non-restatement companies, creating bias in the sample and in subsequent findings and results.

This study has important implications for public policy makers in respect of their future efforts to prevent and reduce the occurrences of financial restatement. The results could be useful for management and shareholders who are concerned with enhancing the credibility and quality of financial reporting and corporate governance practices. Besides focusing on the role of corporate governance, this study provides evidence that other factors, such as RPTs and founders on board also influence the occurrence of financial restatement. The results are also useful for academic researchers to examine the issue of financial restatement worldwide. Notwithstanding the limitations noted, the result will not be affected since a thorough search using several databases and keywords was carried out to minimize potential difficulties.

ENDNOTE

[1] Adjusted R2 is at .116.

ACKNOWLEDGEMENTS

The authors would like to thank the Ministry of Higher Education, Research Management Institute (RMI) and Faculty of Accountancy, Universiti Teknologi MARA for awarding the Research Acculturation Grant Scheme (RAGS) that provided the financial support for the conduct of this paper.

REFERENCES

Abbott, L.J., Parker, S. & Peters, G. 2004. Audit committee characteristics and restatements. *Auditing: A Journal of Practice & Theory* 23(1): 69-87.

Abdullah, S.N., Yusof, N.Z.M. & Nor, M.N.M. 2010. Financial restatements and corporate governance among Malaysian listed companies. *Managerial Auditing Journal* 25(6): 526-552.

Abdul Rahman, R. & Mohamed Ali, F.H. 2006. Board, audit committee, culture and earnings management: Malaysian evidence. *Managerial Auditing Journal* 21(7): 783-803.

Agrawal, A. & Chadha, S. 2005. Corporate governance and accounting scandals. *Journal of Law and Economics* 48: 371–406.

Alkhawaldeh, A.A. 2012. Effects of family and foreign ownership structure on Jordanian credit risk assessments. *International Research Journal of Finance and Economics* 90: 92-113.

Baber, W.R., Liang L. & Zhu, Z. 2012. Associations between internal and external corporate governance characteristics: Implications for investigating financial accounting restatements. *Accounting Horizons* 26(2): 219-237.

Beasley, M.S. 1996. An empirical analysis of the relation between the board of director composition and financial statement fraud. *The Accounting Review* 71(4): 443-465.

Beasley, M.S., Carcello, J.V. & Hermanson, D.R. 1999. Fraudulent financial reporting: An analysis of U.S. public companies – Fraudulent financial reporting 1987-1997. *Research Report, COSO* 25(5): 14,15 & 18.

Bell, T.B., Szykowny, S. & Willingham, J.J. 1991. Assessing the likelihood of fraudulent financial reporting: A cascaded logit approach. Working paper, KPMG, Peat Marwick, Montvale, NJ.

Cao, Y., Myers, L.A. & Omer, T.C. 2012. Does company reputation matter for financial reporting quality? Evidence from restatements. *Contemporary Accounting Research,* 29(3): 956–990.

Chen, H., Chen, J.Z., Lobo, G.J. & Wang, Y. 2011. Effects of audit quality on earnings management and cost of equity capital: Evidence from China. *Contemporary Accounting Research* 28(3): 892–925.

Chen, X., Cheng, Q. & Lo, A. 2009. The consequences of aggressive financial reporting: The case of external financing. AAA 2010 Financial Accounting and Reporting Section (FARS) Paper. Available at http://ssrn.com/abstract=1447505

Choi, J.H., Kim, J.B. & Zang, Y. 2010. Do abnormally high audit fees impair audit quality? *Auditing: A Journal of Practice &Theory* 29(2): 115-140.

Choi, J.J., Park, S.W. & Yoo, S.S. 2007. The value of outside directors: Evidence from corporate governance reform in Korea. *Journal of Financial and Quantitative Analysis* 42(4): 941-962.

Cohen, J. 1988. *Statistical Power Analysis for the Behavioral Science*. 2nd edition. Hillsdale, NJ: Erlbaum.

Cooper, D.R. & Schindler P.S. 1998. *Business Research Methods: Statistics and Probability*. Singapore: McGraw-Hill International Edition.

Davidson, W., Worrell, D. & Lee, C. 1994. Stock market reactions to announced corporate illegalities. *Journal of Business Ethics* 13: 583-613.

Davis, J.H., Schoorman, F.D. & Donaldson, L. 1997. Toward a Stewardship Theory of Management. *Academy of Management Review* 22(1): 20-47.

Dechow, P.M., Sloan, R.G. & Sweeney, A.P. 1996. Causes and consequences of earnings manipulations: An analysis of firms subject to enforcement actions by the SEC. *Contemporary Accounting Research* 13(1): 1-36.

Dechow, P.M., Ge, W., Larson, C.R. & Sloan, R.G. 2011. Predicting material accounting misstatements. *Contemporary Accounting Research* 28(1): 17-82.

Desai, H., Hogan, C.E. & Wilkins, MS. 2006. The reputational penalty for aggressive accounting: Earnings restatements and management turnover. *The Accounting Review* 81(1): 83-112.

Donoher, W.J. 2009. Firm founders, boards, and misleading disclosures: An examination of relative power and control. *Journal of Managerial Issues* 21(3): 309-326.

Dunn, P. 1999. Fraudulent financial reporting: Perception based on predisposition, motives and opportunity. *Managerial Auditing Journal* 16(1): 93-120.

Efendi, J., Srivastava, A. & Swanson, E.P. 2007. Why do corporate managers misstate financial statements? The role of option compensation and other factors. *Journal of Financial Economics* 85: 667-708.

Eisenhardt, K.M. 1989. Building Theories from case study research. *Academy of Management Review* 14(4): 532-550.

Ettredge, M., Scholz, S., Smith, K.R. & Sun, L. 2010. How do restatements begin? Evidence of earnings management preceding restated financial reports. *Journal of Business Finance & Accounting* 37(3-4): 332–355.

Fich, E.M. & Shivdasani, A. 2007. Financial fraud, director reputation, and shareholder wealth. *Journal of Financial Economics* 86: 306–336.

Files, R., Sharp, N.Y. & Thompson, A. 2014. Empirical evidence on repeat restatements. Available at SSRN: http://ssrn.com/abstract=1748822

Fointiat, V. 1998. Rationalization in act and problematic behavior justification. *European Journal of Social Psychology* 28: 471–474.

Francis, J.R. & Yu, M.D. 2009. Big 4 office size and audit quality. *The Accounting Review* 84(5): 1521-1552.

GAO. 2002. *Financial Statement Restatements Trends, Market Impacts, Regulatory Responses, and Remaining Challenges*. United States: General Accounting Office.

GAO. 2006. *Financial Restatements: Update of Public Company Trends, Market Impacts, and Regulatory. Report to the Ranking Minority Member, Committee on Banking, Housing, and Urban Affairs*, U.S. Senate, July.

Gereish, L.H. 2003. Organizational culture and fraudulent financial reporting. *The CPA Journal* 73(3): 28-32.

Ghabdian, B., Attaran, N. & Froutan, O. 2012. Ownership structure and earnings management: Evidence from Iran. *International Journal of Business and Management* 7(15): 88-97.

Gordon, E.A., Henry, E. & Palia, D. 2004. Related party transactions: Associations with corporate governance and firm value. *European Finance Association Annual Conference*, 1-59.

Hashim, H.A. & Susela, D. 2006. *The impact of board characteristics on earnings quality: Evidence from Malaysian listed companies*. Paper presented at Eighteenth Asian-Pacific Conference on International Accounting Issues, Maui, Hawaii.

Hasnan, S., Rahman, R.A. & Mahenthiran, S. 2013. Management motive, weak governance, earnings management, and fraudulent financial reporting: Malaysian evidence. *Journal of International Accounting Research* 12(1): 1-27.

Henry, E., Gordon, E.A., Reed, B. & Louwers, T. 2012. The role of related party transactions in fraudulent financial reporting. *Journal of Forensic & Investigative Accounting* 4(1): 186-213.

Herrmann, D., Inoue, T. & Thomas, W. 2003. The sale of assets to manage earnings in Japan. *Journal of Accounting Research* 41(1): 89-108.

Ishak, Z. & Napier C. 2006. Exploration of minority interest and corporate diversification in Malaysia. *Asian Academy of Management Journal of Accounting and Finance* 2: 85-113.

Jensen, M.C. & Meckling, W. H. 1976. Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics* 3(40): 305-360.

Khanna, T. & Palepu, K. 2000. Is group affiliation profitable in emerging markets? An analysis of diversified Indian business groups. *The Journal of Finance* 55(2): 867-891.

Klein, A. 2002. Audit committee, board of director characteristics and earnings management. *Journal of Accounting and Economics* 33(3): 375-400.

Liu, Y., Lin, W.T. & Cheng, K.Y. 2011. Family ownership and the international involvement of Taiwan's High Technology Firms: The moderating effect of high discretion organizational slack. *Management and Organization Review* 7(2): 201-222.

Loebbecke, J, Eining, M. & Willingham, J. 1989. Auditors' experience with material irregularities: Frequency, nature and delectability. *Auditing: A Journal of Practice & Theory* 9(1): 1-28.

MIA. 2008. International Standard on Auditing 550. Nature of Related Party Relationships and Transactions. Malaysia, IFAC: 0-24.

Morck, R., Shleifer, A. & Vishny, R.W. 1988. Management ownership and market valuation: An empirical analysis. *Journal of Financial Economics* 20: 293-315.

Norman, C.S., Rose, J.M. & Suh, I.S. 2011. The effects of disclosure type and audit committee expertise on chief audit executives' tolerance for financial misstatements. *Accounting Organizations and Society* 36(2): 102-108.

Pallant, J. 2007. *SPSS Survival Manual: A Step by Step Guide to Data Analysis Using SPSS for Windows (Version 15)*. 3rd edition. Maidenhead: Open University Press.

Ranft, A.L. & O'Neill, H. M. 2001. Board composition and high-flying founders: Hints of trouble to come? *Academy of Management Executive* 15(1): 126-138.

Rosner, R.L. 2003. Earnings manipulation in failing firms. *Contemporary Accounting Research* 20(2): 361–408.

Rotenstein, A. 2011. Corporate governance changes following earnings restatements: A research tool. *The Journal of Applied Business Research* 27(1): 123-140.

Securities Commission (SC). 2011. Criminal prosecution. Available at http://www.sc.com.my/ enforcement/actions/ criminal-prosecution/

Securities Commission (SC). 2000. *Malaysian Code on Corporate Governance*. Malaysia: Securities Commission.

Securities Commission (SC). 2007. *Malaysian Code on Corporate Governance Revised 2007. Accountability and Audit*. Malaysia: Securities Commission.

Securities Commission (SC). 2012. *Malaysian Code on Corporate Governance 2012. Principle 5 – Uphold Integrity in Financial Reporting*. Malaysia: Securities Commission of Malaysia.

Selznick, P. 1997. *Leadership in Administration: A Sociological Interpretation*. Berkeley: University of California Press.

Shleifer, A. & Vishny, R.W. 1997. A Survey of Corporate Governance. *Journal of Finance* 52: 737–783.

Uzun, H., Szewczyk, S.H. & Varma, R. 2004. Board composition and corporate fraud. *Financial Analysts Journal* 60(3): 33-43.

Verschoor, C.C. 2014. Penalties for fraud are insufficient to deter wrongdoing. *Strategic Finance* 96(3): 15-61.

Wahab, A.E.A., Gist, W.E. & Majid, Z.W.N.A. 2014. Characteristics of Non-Audit Services and financial restatements in Malaysia. *Journal of Contemporary Accounting & Economics* 10(3): 225-247.

Zhizhong, H., Juan, Z., Yanzhi, S. & Wenli, X. 2011. Does corporate governance affect restatement of financial reporting? Evidence from China. *Nankai Business Review International* 2(3): 289-302.

Suhaily Hasnan (corresponding author)
Faculty of Accountancy
Universiti Teknologi MARA
UiTM Kampus Puncak Alam
42300 Bandar Puncak Alam, Selangor, MALAYSIA
E-Mail: suhailyhasnan@salam.uitm.edu.my

Alfiatul Rohmah Hussain
Faculty of Accountancy
Universiti Teknologi MARA
UiTM Kampus Puncak Alam
42300 Bandar Puncak Alam, Selangor, MALAYSIA
E-Mail: alfia.hussain@gmail.com