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FACTORS FOR FINANCIAL RESTATEMENTS: CASE OF PUBLIC LISTED COMPANIES IN MALAYSIA

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ABSTRACT

This study examines the factors that influence the occurrences of financial restatements among public listed companies (PLCs) in Malaysia. This study focuses on PLCs that were listed on the Main Board of Bursa Malaysia for the financial year of 2005 until 2014 as its sample. On average, restatement companies were found to have paid slightly lower client fees, lower non-audit services (NAS) provision, and have a smaller size of the audit committee compared to non-restatement companies. In addition, it was also found that non-restatement companies choose to hire the Big 4 audit firms. The logistic regression analysis however have revealed that client fees, NAS provision, and the size of audit committee will not influence occurrences of financial restatements. In contrast, the types of auditors have a significant association with incidences of financial restatement. This study reports a negative relationship between the types of auditors and the occurrences of financial restatements. The results of this study could act as a guidance and provide assistance to regulators and policymakers (Bursa Malaysia and Securities Commission) in an attempt at improving existing regulations and guidelines related to financial restatements.

1. INTRODUCTION

It cannot be denied that financial statements are important in assisting users to make economically wise decisions by providing them with useful information. From users' perspective, information is useful when it is reliable and relevant. According to Financial Accounting Standard Board (2010), information is considered reliable only if it is free from material error and bias. The information should also faithfully represents what it has avowed to represent. Therefore, it is common for users to refer to information obtained from audited financial statements, enabling them to make good decisions and evaluation. This was supported by Alkhatib and Marji (2012), where it was stated that in the case where the external users need reliable accounting information, they can refer to audited financial statements. However, as the number of public listed companies announcing restatement of their previous financial statement increases, the reliability of information contained in the financial statements are being questioned.

Over the last decade, an avalanche of corporate accounting scandals had indirectly brought forward the issue of financial restatements to the attention of academicians, regulators, and practitioners. According to the United States General Accountability Office

(GAO), "A financial statement restatement occurs when a company, either voluntarily or prompted by auditors or regulators, revises public financial information that was previously reported", (GAO, 2002, p. 2). Despite only a small percentage of financial restatement occurences in Malaysia, the trend of financial restatements is worrisome with the involvement of several major corporate accounting scandals such as Transmile Group Berhad, Megan Media Holdings Berhad, MEMS Technology Berhad and Fountain View Development Bhd, (Hasnan & Hussain, 2015). Between 2004-2006, securities market regulators, i.e., Securities Commission (SC) and Bursa Securities Malaysia Berhad (Bursa Securities) had investigated several companies which have been found to be involved in financial misreporting or misstatements. Since then, incidences of financial restatements have been receiving greater attention due to the possibilities of companies' earning restatements, fraudulent financial reporting, as well as false or misleading statements regarding a company's health.

This paper intends to contribute to the existing literature on the issue of financial restatements by extending previous researches on the factors that are associated with the likelihood of financial restatements. In this study, factors such as client fees, provision of non-audit services (NAS), size of audit committee, and types of auditors will be examined in order to confirm whether these factors affect incidences of financial restatements.

This paper has two main objectives: 1) to investigate whether there are any difference in terms of paid client and NAS provision, size of audit committee, as well as the types of auditors between restatement and non-restatement companies, and, 2) to test whether these factors are likely to influence incidences of financial restatements among public listed companies (PLCs) in Malaysia.

2. LITERATURE REVIEW

2.1 Financial restatements

Financial restatements happen when an entity whose financial statements do not comply with the generally accepted accounting principles (GAAP) make an explicit correction of its financial statements, (Efendi, Srivastava, & Swanson, 2007; Palmrose, Richardson, & Scholz, 2004; Palmrose & Scholz, 2000). Abdullah, Mohamad Yusof, and Mohamad Nor (2010) on the other hand, defined financial restatements as a process of revising and correcting errors in a financial statement to ensure compliance with GAAP. Furthermore, Scholz (2014) agrees that it is necessary for public companies under U.S. Securities and Exchange Commission (SEC) to restate financial statements containing material error or if it does not conform to GAAP.

According to Palmrose and Scholz (2000), the issue of financial restatement has raised concerns about the quality of financial reporting. Anderson and Yohn (2002) explained that financial restatements bear serious consequences for businesses as investors are showing a lack of confidence in regards to the reliability and quality of a firm's financial restatements. Seetharaman, Sun, and Wang (2011) believe that when a company decides to restate its previous financial statement, it is presumed that the incidences of financial restatement are associated with low financial reporting quality. Therefore, Diehl (2012) suggests that if a company is able to reduce incidences of restatement, investors would be rest assured that the companies involved have high quality financial reporting. Thus, the results of this study are important towards the understanding of financial restatements as well as providing insight as to how the likelihood of financial restatement occurrences could be reduce to a minimum.

2.2 Client Fee

Ashbaugh, LaFond, and Mayhew (2003) mentioned that regulators, users, and researchers expressed concerns that a higher amount of total fees will drive the economic bond between auditors and their client firms, which will affect auditors' independence. In a situation when there is economic interdependencies, auditors tend to lose their independence, hence resulting in the decline of audit and financial reporting quality (Zeff, 2003a, 2003b). In contrast, Anderson and Yohn (2002) revealed that financial restatements are induced by financial information that is of poor quality and unreliable. Hence, this study examines whether the total amount of client fees, which represents the sum of audit and non-audit fees, are in any way associated with occurrences of financial restatement.

According to Bloomfield and Shackman (2008), there is a positive relationship between total fees and incidences of financial restatement. It was found that audit fees paid by restatement companies are significantly higher compared to non-restatement companies (Kinney, Palmrose, & Scholz, 2004; Li & Lin, 2007). Hoitash, Markelevich, and Barragato (2007) are of the opinion that auditors will be more flexible during an audit when they become fee-dependent on a particular client. Moreover, if economic dependence exists, auditors believe that ignoring a complaint made on a client's misconduct would be the best option to retain valuable clients (Markelevich & Rosner, 2013). In addition, DeAngelo (1981) mentioned that if auditors' independence is impaired, there is a tendency for auditors refusing to report any identified irregularities or misstatements thereby impairing audit quality. Therefore, this study suggests that client fees might positively influence the occurrences of financial restatement.

Ferguson, Lennox, and Taylor (2005) proposed that audit profession give opportunity to inspect the existence of correlation between price and quality differences. According to Jere R. Francis (2004), higher audit fees are fitting as this include additional audit effort as well as more experienced auditors. Furthermore, restatement companies would usually be obligated to pay higher amount of fees to their external auditors as greater audit effort would be needed to manage the misstatement risk wisely (Kinney et al., 2004). In addition, Blankley, Hurtt, and MacGregor (2013) believes that a lower amount of client fees paid to auditors will cause a reduction in the relative audit effort required to perform an audit thus increasing the risk of poor audit quality which would be severe enough to cause incidences of financial restatement. Therefore, clients are charged higher fees when auditors put more time and effort to ensure an audit that is of quality (Ghosh & Pawlewicz, 2009; Srinidhi & Gul, 2007). This study perceived this relationship as a factor that could help in reducing the likelihood of financial restatements. However, a prior research by Carcello and Nagy (2004) observed that higher fees will be charged to clients with high business risk since such circumstances may require auditors to perform extra audit works. This was also supported by a much more recent study by Kusharyanti (2013) who has explained that the amount of audit charges may depend on client size, audit complexity, and audit risk. Hence, there is also a possibility that client fees is negatively associated with financial restatements despite findings by Ashbaugh et al. (2003), where it was found that there is no association between auditors' charges and audit quality. Therefore, this study also predicts that there is no relation between client fees with occurrences of financial restatement.

H1: There is a significant relationship between client fees and incidences of financial restatement.

2.3 Provision of Non-Audit Services (NAS)

Based on previous studies, it has been found that when an audit firm provides certain NAS to their clients, such provision may affect the independence of an auditor as the auditor–client economic bonding exists (Ruddock, Sherwood, and Taylor, 2004; Choi, Kim, Kim, & Zang, 2010). According to Firth (1997), non-audit services provided by auditors usually include services such as tax consultancy, system consultancy, management advice, international business advice, human resource management, and financial and investment consultancies. Palmrose et al. (2004) investigated the existence of a relationship between provision of NAS and incidences of financial restatement.

Based on empirical evidence, it was found that there is without doubt, a positive correlation between NAS provision and financial restatements due to financial dependence on clients (Jere R. Francis & Ke, 2006; Kinney et al., 2004). As said by Raghunandan, Read, and Whisenant (2003), the SEC prohibited joint provision of NAS to audit client as one of the efforts to protect auditors' independence. This proves that legislators and the SEC believes that NAS provided by incumbent auditors will be influenced in their judgement and this will increase potentials of GAAP non-compliance which will result in financial restatements.

Kinney et al. (2004) however, contended the former view and are advocating for negative relationship between NAS and future financial restatements. According to Kinnet et al. (2004), audit effectiveness could be achieved when the same auditor that provides NAS is commissioned for the audit. This will result in high quality financial reporting as there is a lower risk at material misstatement and its ramification. Dopuch, King, and Schwartz (2003) explained that this will result in better quality due diligence and independence in audit reporting decisions. Furthermore, clients receiving high quality financial reporting would be inclined to seek more complex advises on computer systems, taxes, internal audit, and other audit-related services based on previous track record or cost incurred. Thus, this suggests a negative relationship between NAS provision with the prospects of financial restatement.

However, based on a recent study by Tepalagul and Lin (2015), it has been found that there is no relationship between NAS and audit quality as there is not any evidence that can prove NAS provision can adversely affect auditor independence (Ashbaugh et al., 2003; Reynolds, Deis, & Francis, 2004) hence, this study expects the lack of correlation between provision of NAS and incidences of financial restatement.

H2: There is a significant relationship between provision of NAS and incidences of financial restatements.

2.4 Audit Committee Size

Prior studies provided varied evidence with regards to the influence of audit committee size on financial reporting quality, which could be related to future restatements. Lin, Li, and Yang (2006) revealed that the size of an audit committee indicates available resources. This also indicates the ability of large-sized audit committees to monitor the preparation of financial reports more efficiently. Apart from that, the size of an audit committee postively influences the quality of financial reports (Felo, Krishnamurthy, & Solieri, 2003; Hamdan, Mushtaha, & Al-Sartawi, 2013). Therefore, a large-sized audit committee might help improve the quality of financial reports, hence lessening incidences of financial restatement.

However, some scholars have found that the size of an audit committee is negatively associated with quality of financial statements (De Vlaminck & Sarens, 2015; Sun, Liu, & Lan, 2011; Xie, Davidson, & DaDalt, 2003). Jensen (1993) mentioned how a large audit committee size might lead to poor communication and slower decision-making (Goodstein, Gautam, & Boeker, 1994). In addition, a larger audit committee tend to lose concentration and are usually less involved compared to a smaller one. In contrast with the two views, Abbott, Parker, and Peters (2004) found no influence between the size of an audit committee and the occurrences of financial restatement.

H3: There is a significant relationship between the size of an audit committee and incidences of financial restatement.

2.5 Types of Auditors

Many empirical studies have investigated the correlation between the size of an audit firm and level of audit quality. DeAngelo (1981) was the pioneer in providing evidence that the size of an audit firm influences the quality of audit services as it was found that large audit firms will issue reliable audit reports compared to smaller firms and this was done to avoid huge loss in case of an audit failure. Datar, Feltham, and Hughes (1991) observed that clients who hire the Big 4 firms such as Deloitte, PWC, Ernst & Young, and KPMG usually have high quality financial reports. Moreover, Teoh and Wong (1993) have stated that investors regard auditors from the Big 4 as those with high quality audit services.

In addition, Muhamad Sori, Mohamad, and Karbhari (2006) also argued that the size of audit firms is associated with audit quality as large audit firms will safeguard their independence to avoid reputational risk. Simunic and Stein (1987) and Jere R. Francis and Wilson (1988) for example, have found large international audit firms making an attempt at retaining their well-known brand name reputation by providing clients with high quality audit services. Larger audit firms would also provide a high quality audit to maintain their big clients (Lys & Watts, 1994). Therefore, this study believes that the size of audit firms may affect the quality of financial reports that could lead to incidences of financial restatement.

However, DeFond and Jiambalvo (1991) are of a different opinion. They believe that large audit firms will execute the audit works at their very best so that the financial statement is free from material errors. Palmrose, Richardson et al. (2004) explained that low quality audit work will lead to poor quality financial reporting which would consequently increase the probability of financial restatements. This does not mean the Big 4 auditors have avoided financial restatements although this rarely happens as the Big 4 auditors have sufficient expertise and greater objectivity that ensures the financial statements were prepared in accordance to GAAP (Choi et al., 2010; Jere R. Francis & Yu, 2009; Hamdan et al., 2013). Accordingly, this suggests that there is a negative relationship between the Big 4 and the possibility of financial restatements.

In spite of that, Agrawal and Chadha (2005) reported no significant relationship between the types of auditors and financial restatements.

H4: There is a significant relationship between the types of auditors and incidences of financial restatement.

3. METHODOLOGY

3.1. Sample Selection

This sample consists of public listed companies (PLCs) listed on the Main Board of Bursa Malaysia from 2005 until 2014. Similar to prior studies, this study have also excluded corporations involved in finance and related financial institutions from the sample as they are subjected to specific rules and regulations pertaining to the finance industry (Abdullah, Mohamad Yusof et al. 2010, Dechow, Ge et al. 2011). The selected PLCs consisted of companies from seven sectors listed on Bursa Malaysia which include property, construction, trading and service, consumer products, hotel, plantation and industrial products. In addition, another 112 companies was selected as control sample of companies from the same industry for the purpose of comparability based on the size of the companies, which was measured by using the amount of total assets in a similar financial year-end and is listed on the same Bursa Malaysia board. Therefore, the final sample of this study comprised of 224 companies.

3.2 Research Model

The following logistic regression model was used in determining the extent of the effect of each of the variables in the study on the occurrences of financial restatement. So as to test the hypotheses, the logistic regression model for this study is as follows:

$$RSTMT = \beta_0 + \beta_1 CLIENTFEE + \beta_2 NONAUDFEE + \beta_3 AUDTYPE + \beta_4 ACSIZED + \varepsilon$$

Where:

RSTMT = equal to "1" if the firm is a restatement company and a value of "0" for a non-restatement company

CLIENTFEE = total fees paid to the firm's auditor

NONAUDFEE = ratio of non-audit fees to the total fees paid to the auditor

AUDTYPE = equal to "1" if the auditor is Big 4, and "0" otherwise

ACSIZED = equal to "1" if the audit committee consisted of at least four members, and "0" otherwise

3.3 Measurement of variables

3.3.1 Measurement of dependent variable. Financial Restatement: this study used the value of 1 for restatement companies and 0 for non-restatement companies.

3.3.2 Measurement of independent variable. In this study, to examine the hypotheses, client fees, provision of NAS, audit committee size, and types of auditors are considered as independent variables:

i. Client fees (CLIENTFEE): This study used total fees paid to the firm's auditor which were obtained from the companies' annual reports (Bloomfield & Shackman, 2008; Stanley & DeZoort, 2007).

ii. Provision of NAS (NONAUDFEE): This study calculated the ratio of NAS provision to the total provision paid to auditors, this is supported by Ashbaugh et al. (2003), and Bloomfield and Shackman's (2008) studies.
iii. Audit Committee size (ACSIZED): Based on Lin et al. (2006) and Carcello, Neal, Palmrose, and Scholz (2011), for the size of audit committee, this study used a dummy variable, equaled to "1" if the audit committee consisted of at least four members, and "0" if otherwise.
iv. Types of auditors (AUDTYPE): Also used the dummy variable, which was equal to "1" if the auditor was one of the Big 4 firms, and 0 if otherwise, (Bloomfield & Shackman, 2008; Choi et al., 2010).

4. RESULTS AND DISCUSSION

4.1 Descriptive statistics

According to DeAngelo (1981), economic theory has indicated that an economic bond on the auditors are created when auditors receive a high level of revenue from specific clients. Therefore, auditors will lose their objectivity as a result of being financially reliant on the client. Furthermore, Ashbaugh et al. (2003) found that the auditors' independence could be impaired by the existence of the economic bond between the auditors and their clients. It is expected that the economic bond between audit firms and their clients would influence auditor independence, therefore, the auditors will become more flexible in handling the financial reports in which could result in an increase of the likelihood of financial restatements. Following this, Chung and Kallapur (2003) suggest that financial dependency on any client can be measured by using fee composition. Based on the results in Table 1, restatement companies usually paid an average client fees amounting to RM204,967 with a standard deviation of RM172,659, which suggested that on average, external auditors hired by restatement companies received the total fees of audit and NAS of approximately RM 200,000 from their clients. On the other hand, the average client fees for non-restatement companies were RM 206,884, thus proving that external auditors for restatement companies on average, received slightly lower total fees of audit and NAS.

In terms of provision of NAS, there are different opinions and arguments regarding the impact of NAS provision towards the auditors' independence (Beattie and Fearnley, 2002, Francis 2006, Schneider, Church, and Ely, 2006). According to Ahmad, Shafie, and Yusof (2006), the Malaysian Institute of Accountants's (MIA) rules does not highlight this and suggest that the provision of NAS could be considered as one of the factors that will impair auditors' independence. Correspondingly, the rule related to NAS fees in the MIA By-Laws is not comparable to the Sarbanes-Oxley Act of 2002 (SOX 2002) because it is very broad and is not client specific. SOX 2002 stated that NAS provided to a client should not be more than the threshold on NAS fees percentage and prohibits incumbent auditors from providing certain types of NAS to their clients. From Table 1, the mean of non-audit fees to the total service fees is almost the same for both groups; 13.76% for the restatement companies and 14.39% for the non-restatement companies. This shows that there is only a slight difference between the provision of NAS paid to external auditors for both restatement companies and non-restatement companies.

TABLE 1: RESULTS OF DESCRIPTIVE STATISTICS FOR SCALE VARIABLES

Variables	***Mean***	***Standard Deviation***	***Minimum***	***Maximum***
Restatement companies:				
Client Fees	*204967*	*172659*	*14000*	*815000*
Provision of NAS	*0.1376*	*0.17006*	*0*	*0.76*
Non-restatement companies:				
Client Fees	*206884*	*164722*	*30000*	*853000*
Provision of NAS	*0.1439*	*0.16448*	*0*	*0.68*

Elijah and Ayemere (2015) mentioned that the size of an audit committee is referred to as the number of directors appointed to be members in the audit committee which could be small, medium, and large. Klein (2002) have suggested that some of the characteristics of audit committee are necessary to effectively achieve its objectives. The important characteristics are the independence and expertise of the audit committee, the level of its activity and size, amongst others. This means that there is a possibility for large-sized audit committee to contribute to the improvement of financial reporting quality, hence helping to minimise the occurrences of financial restatement. However, based on Table 2, it has been found that 77.5% of the restatement companies have equal or less than 3 members of audit committee whereas the numbers are at 75.7% for the non-restatement companies. Apart from that, about 22.5% of the restatement companies selected have equal to or more than 4 members of audit committee versus 24.3% for the non-restatement companies. Accordingly, this has shown that there are slightly more restatement companies with small-sized audit committees compared to non-restatement companies.

Francis and Yu (2009) and Choi et al. (2010) claimed that smaller offices are more likely to conduct low-quality audits and they are more likely to be exposed to litigation and reputation risk. In contrast, Abdullah et al. (2010) have stated that usually, an auditor from the Big 4 would have better performance in comparison to one from the non-Big 4 firms. This is the case as the Big 4 have an effective plan for an audit which will enable them to discover misreports. Based on empirical evidence, the types of auditors and the quality of audits tend to be associated with future restatements. This study has discovered that 43.2% of the restatement companies choose the Big 4 audit firms as opposed to 60.7% for the non-restatement companies for types of auditors as presented in Table 2. Furthermore, about 56.8% of the restatement companies selected non-Big 4 firms as opposed to 39.3% for the non-restatement companies. This exposes the fact that many of the non-restatement companies hired the Big 4 audit firms compared to restatement companies.

TABLE 2: RESULTS OF DESCRIPTIVE STATISTICS FOR BINARY VARIABLES

Variables	Frequency	Percent
Restatement Companies:		
Size of AC		
Equal or less than 3 members	86	77.5
Equal or more than 4 members	25	22.5
Types of Auditors		
Non Big 4	63	56.8
Big 4	48	43.2
Non-restatement Companies:		
Size of AC		
Equal or less than 3 members	81	75.7
Equal or more than 4 members	26	24.3
Types of Auditors		
Non Big 4	42	39.3
Big 4	65	60.7

Table 3 shows the correlation between all of the independent variables. Based on the results, client fees (CLIENTFEE) and provision of NAS (NONAUDFEE) were significant, positive and moderately mutual in relationship with each other. The results showed that client fees (CLIENTFEE) were significant and positive but had weak relationship with the AC (ACSIZED) and types of auditors (AUDTYPE). However, according to Spearman correlation, the size of AC is significant and positive but had a very weak correlation with types of auditors. The results also indicated that the provision of NAS (NONAUDFEE) had an insignificant, positive and very weak relationship with the size of AC (ACSIZED) and types of auditors (AUDTYPE).

TABLE 3: RESULTS OF PEARSON CORRELATION BETWEEN INDEPENDENT VARIABLES

		Client Fees	Provision of NAS	Size of AC	Types of Auditors
Client Fees	Correlation Coefficient	**1**			
Provision of NAS	Correlation Coefficient	.430***	**1**		
	Sig. (2-tailed)	.000			
	Correlation Strength	Moderate			
Size of AC	Correlation Coefficient	.220**	.114	**1**	
	Sig. (2-tailed)	.001	.094		
	Correlation Strength	Weak	Very Weak		
Types of Auditors	Correlation Coefficient	.314***	.112	.142*	**1**
	Sig. (2-tailed)	.000	.100	.036	
	Correlation Strength	Weak	Very Weak	Very Weak	

*p<0.05, **p<0.01, ***p<0.001

4.2 Logistic Regression Regression Analysis

RESULTS FROM THE LOGISTIC REGRESSION ANALYSIS ARE PRESENTED IN TABLE 4. THE RESULTS SHOWED THAT THE WALD AND -2LOGLIKELIHOOD P-VALUES FOR CLIENT FEES (CLIENTFEE) WERE 0.542 AND 0.540 WHICH IS ABOVE THE STANDARDISED SIGNIFICANCE LEVEL OF 0.05. Thus, this study has failed to prove any association between client fees with incidences of financial restatement. This aligns with Raghunandan et al. (2003) where the total amount of fees paid to external auditors will not influence future restatements. Therefore, hypothesis H1 is rejected.

As for provision of NAS (NONAUDFEE), results have revealed that the Wald and -2LogLikelihood p-values were 0.805 and 0.805 which is also above the standardised significance level of 0.05. Therefore, this also proves that the provision of NAS is not related with incidences of financial restatement in Malaysia. The result Frankel, Johnson, and Nelson (2002) obtained, supports the lack of relation between NAS provision and auditors' independence. This is also consistent with Agrawal and Chadha (2005) which has examined U.S. public companies and Agrawal and Chadha too, did not find any association between NAS provision and financial restatements. Hence, hypothesis H2 could not be supported.

Table 4: Logistic Regression Analysis Results

Predictor	Wald Statistic		-2LogLikelihood		B	S.E.	Exp(B)
	Wald	**P-**	**-2LL**	**P-**			
Client Fees	.373	.542	.375	.540	.000	.000	1.000
Provision of NAS	.061	.805	.061	.805	-.226	.917	.798
Size of AC	.001	.971	.001	.971	-.012	.333	.988
Types of Auditors	6.795	.009	6.931	.008	-.747**	.286	.474

*p<0.05, **p<0.01, ***p<0.001

Next, for the size of audit committee (ACSIZED), results obtained have shown that the Wald and -2LogLikelihood p-values were 0.971 and 0.971. Thus, this study concludes that the size of audit committee are not associated with incidences of financial restatement. This is also supported by Abbott et al. (2004) and Carcello et al. (2011) where it has been found that there is no relationship between the size of an audit committee and incidences of financial restatement. So, hypothesis H3 is also rejected.

Finally, based on Table 4, the results have indicated a significant relationship between the types of auditors (AUDTYPE) and incidences of financial restatement since the p-value of Wald and -2LogLikelihood for types of auditors were 0.009 and 0.008 respectively. In addition, the value of unstandardised regression coefficient (B) for types of auditors was -0.747 which has proven that there is a significant negative relationship between the types of auditors with financial restatements. Furthermore, the value of Exp(B) for the types of auditors was 0.474, which indicates that the chances for future restatement companies hiring one of the Big 4 audit firms were (1 – 0.474)*100 = 52.6% which is lower than those with non Big 4 audit firms. This study suggests that because the Big 4 audit firms have more in-house expertise and are more likely to ensure their clients comply with the accounting standards and thus avoiding future restatements. The results were consistent with that of J. R. Francis, Michas, and Yu (2013), where it was found that the Big 4 audit firms were negatively associated with the likelihood of client restatements since larger audit firms will provide higher quality audits by ensuring compliance of financial statements to GAAP. This practice results in a lower possibility of financial restatements hence supporting hypothesis H4.

5. CONCLUSION

This study has found that of the four variables, only the types of auditors are clearly associated with financial restatements among public listed companies in Malaysia. There is a negative relationship between the types of auditors and occurrences of financial restatement. It has also been found that public listed companies in Malaysia that had hired the Big 4 audit firms managed to lessen incidences of financial restatement. The results from this study is hoped to help to reduce incidences of financial restatement in the future as the results have also indicated that the financial statements of Malaysian public listed companies are reliable and are of high quality. Regrettably, there are other limitations and factors that may affect the likelihood of financial restatements and these were not taken into consideration in this study. Variables such as CEO turnover, auditor firm tenure, auditor litigation and others may be explored in future studies.

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