ABSTRACT

With the issuance of Corporate Governance Code in 2000 in Malaysia, it is expected that corporate governance has played an important role ensuring the reliability of financial statements. This study seeks to examine the nature financial restatements in Malaysia. It also seeks to investigate whether the corporate governance characteristics are associated with financial restatement.

Using the restated financial statements during the period of 2002 to 2005 matched with a control group of non-restating firms, the results show that the primary reason for misstating the accounts is to inflate earnings. The nomination committee of the firms that restated is less independent and managerial ownership and the logistic regression analysis indicates that the extent of ownership by outside blockholders is able to constrain managers from misstating accounts. The results also show that firms with high level of debts (an indicator of the presence of debt covenants) are more likely to commit in financial misstatement.

The research is significant as it provides evidence on the role of corporate governance, especially the ownership by outside blockholders in Malaysia. This shows that outside blockholders is effective in disciplining managers so that the accounts so prepared are not misleading.

This study does not support the move by Malaysian Government to require companies audit committee to be wholly independent. It is suggested that the more important thing is to have audit committee members who understand accounting and the related standards.

Keywords: Financial restatement, nomination committee, ownership, audit committee.