

The Likelihood of Forced Financial Restatement: The Case of Malaysia

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ABSTRACT

Forced restatement is the corrections made to published financial statements as prompted by the auditors or regulators due to non-compliance with the Generally Accepted Accounting Practices (GAAP) (Palmrose and Scholz, 2004). Forced restatements that are due to aggressive financial irregularities, lead to the impairment of investors' confidence on the quality of financial reporting, increase investors' concerns on managerial opportunistic decision-making, and cause substantial losses to shareholders. Forced restatement creates great concern, not only in developed countries, but also in developing countries, thus threatening local and foreign investments in these markets. The effort to determine early warning signals of firms that warrant investigation, specifically in the emerging country of Malaysia remain significant. The review from this study would be beneficial to the auditors and regulators to intervene earlier in terms of formulating plans and strategies to minimize aggressive managerial behaviour, and investors, customers, and suppliers to identify and avoid firms at risk of requiring a forced restatement.

Keywords: Forced restatement, earnings management, corporate governance, Malaysia.