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Examination of Financial Reporting Quality and Informativeness from the Perspective of Accounting Restatement: Evidence of Mongolian Stock Exchange Listed Companies

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Abstract

The study revealed poor financial reporting quality among Mongolian Stock Exchange top 20 index listed firms as restating the previously published financial reports and providing poor disclosure about the restatement. The study used cumulative abnormal return to analyze the market response towards the restatements. And further we produced restatement disclosure index method to evaluate the informativeness of financial statements and to evaluate how supportive are the disclosures of financial statements in forming a decision by the financial statement users. It was not surprising that our results revealed that capital market does not react towards the restatement. The analysis was further supported by the finding that financial statements are not providing sufficient information through disclosures. The poor financial reporting practice was not varied by whether state ownership is participated or not. Also the frequency of restatements is not reducing over the analysis period. The result indicates low accounting credibility in Mongolia and those poor quality financial reports do not bear a cost.

Keywords: financial reporting quality, financial restatement and Mongolian stock market

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1. Introduction

To shape study in the field of accounting restatements, at first it is worthy to discuss what is about accounting restatement. As the paper's main focus is Mongolian Stock Exchange (MSE) listed companies, the accounting standards and regulatory requirements in Mongolia will be analyzed for discussion. After the Mongolian economic transmission, in 1993, International Financial Reporting Standard (IFRS) was initially required to be adopted according to the accounting law of Mongolia (Sainjargal *et al.*, 2017). And within the law, the IFRS is required to be adopted rather than adaptation and convergence (Budsuren, 2014). Therefore it is expected that MSE listed firms adhere IFRS requirements rather than take it as a guidance.

According to IFRS, International Accounting Standard (IAS) 8, retrospective re-statement is defined as "correcting the recognition, measurement and disclosure of amounts of the elements of financial statements as if a prior period error had never occurred". The definition appears like concentrating on accounting errors, however it further defined the prior period error as "Omissions from, and misstatements in, an entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that was available and could reasonably be expected to have been obtained and taken into account in preparing those statements. Such errors result from mathematical mistakes, mistakes in applying accounting policies, oversight or misinterpretations of facts and fraud" (IAS, 8.5). So through this extension, accounting restatement can be incurred not only because of errors, it can be caused from changes in accounting policy and estimates.

Why accounting restatement matter?

Accounting restatement is a clear indication and most identifiable evidence about improper accounting (Herath *et al.*, 2014). Accounting restatements caused from material errors reveal the companies' inefficient internal control over its financial affairs (E&Y, 2015). Further the occasion neglects the previously issued financial statements uses which depreciate the main objective of financial statement to being helpful for economic decision making as stated in IAS 1, provision no.9. In the developed capital markets, the accounting restatements are considered seriously as the share price of the company is affected by the occasion. For example Karloff *et al.* (2008)'s study showed restatement by companies in US issue profound loss of reputation and consequently lead to reduction in market value. And Chakravarthy *et al.* (2014)'s work revealed that in the US market that companies which seriously re-stated their reports put great effort to repair its reputation.

Also accounting restatement impacts to the company is studied from various aspects by different authors. Amel-Zadeh *et al.* (2015) identified that restating firms are out of the takeover targets in majority cases due to a risk of information and emphasized importance of financial statements role in the market for corporate control from the perspective of economic resources allocation. Albring *et al.* (2013) studied restatement impact on the firm growth and evidenced companies with severe restatement have difficulties with growing via external financing. Moreover restatement does not only adversely impact on individual firm as Gleason *et al.* (2008) found that there is contagion effect for the other firms' accounting quality as a result of lowered trust by investors on those using same external auditor. Wang *et al.* (2011) explained the low credibility of financial statements in Chinese listed firms in relation to its poor financial reporting quality which was attached with high number of accounting restatements.

This study's primary objective is to investigate the accounting quality by listed companies at MSE in conjunction to accounting restatements. One may argue that financial restatement cannot be a direct measurement of financial reporting quality as Beest *et al.* (2009) mentioned that it is not examining the entire accounting system and root causes of the failure. However, even the examination may not provide the root causes and oversight in the accounting system, the study attempts to reveal that error or failure attached statements can be the indication of poor quality with the assistance of studying the market response towards the financial statements.

Moreover, according to Myers *et al.* (2013) capital market's ability to properly react towards stock prices as a result of accounting corrections are affected by the restatement disclosure. Then the disclosure practice by MSE listed firms will be examined in relation to the IFRS requirements. Briefly, the paper starts with introduction and second part will describe the hypothesis and empirical models used. Third part will show the sample design and data description. Then the empirical results are discussed in fourth part and the paper ends with conclusion.

2. Hypotheses and empirical models

Based on the absence of prior analysis and work about accounting restatement in Mongolian market and as well as necessity to improve IFRS implementation in Mongolian entities which was revealed by the World Bank and Ministry of Finance Mongolia research (2017), the paper raises two hypotheses.

Hypothesis 1

H1: Poor quality financial reports followed by restatements are not penalized by Mongolian Stock Market.

To check the hypothesis, event study technique as market adjusted Cumulative Abnormal returns (CAR) will be calculated by using Schimmer *et al.* (2015) application. CAR will enable to see any abnormal returns after the accounting restatement publication. And the different windows are tested within the period before and after two weeks around the restatement news. The windows for the analysis are: (-3; +3), (-7; +7), (-14; +14). CAR is computed by summing up the individual abnormal returns for the given time frames, using the formula:

$$\mathrm{CAR}(t_1, t_2) = \sum_{t=t_1}^{t_2} AR_{i,t}$$

Abnormal returns are calculated on the basis of actual returns of a reference market (MSE top20 index) and the correlation of the firm's stock with the market index. ($R_{i,t}$) is the actual stock return; α and β parameters are the relationship between firm's stock and its market index; ($R_{m,t}$) is the actual index market return.

$$AR_{i,t} = R_{i,t} - (\alpha_i + \beta_i R_{m,t})$$

Then t-test for CAR will be calculated.

H_0: $CAR_i = 0$

$$t_{CAR} = \frac{CAR_i}{S_{CAR}}$$

Hypothesis 2

H2: The companies are not providing sufficient information to the public which could have helped to shape their decision to buy or sell the shares.

The hypothesis' first aim is to support the hypothesis 1 through the explanation of whether the financial disclosure is sufficient enough to assist the capital market to react against the restatement. According to Ashbaugh *et al.* (2006) when the accounting quality is good and informative enough, the capital market uses all the available information to form the stock return. Therefore, furthermore the hypothesis aims to evaluate Mongolian listed firms' financial information disclosure as per IFRS requirements in the field of financial statements' restatement. The financial reporting quality can be measured in relation to its abiding standard. Palea (2013) found supporting result that IFRS enhances the quality of financial reporting. Also there is significant evidence that disclosure quality was improved under the application of IFRS (Daske *et al.*, 2006). External auditors provide independent auditor's opinion on the basis International Standards on Audit and expresses whether the financial statements are complying with IFRS. Thus it is expected that financial statements are prepared in compliance with IFRS and any material restatements are disclosed under IFRS as it is mandated. We hope the evaluation will support hypothesis 1 as providing evidence on whether the disclosure is sufficient under IFRS which may explain the usefulness of the financial statements, as well as to examine whether the information on restatement is sufficient enough to form the decision by financial statement users.

For this purpose, disclosure index method was produced using the IAS 8 disclosure statements. In general, the standard has disclosure requirements on i) changes in accounting policies caused by new standard or interpretation (IAS 8.28), ii) voluntary changes in accounting policy (IAS 8.29), iii) changes in accounting estimates (IAS 8.39-40), iv) prior period errors (IAS 8.49).

To generate the analysis, depending on the change type, the requirements are grouped into two parts: a) Changes relating to accounting policy, and estimate which consist of voluntary accounting policy change and comprised; b) Changes relating to prior period error. For the 'part a' the duplicating requirements were combined and 8 different disclosures are expected to be done by companies when there is change in policy and estimates. For the 'part b' there are 5 disclosure requirements for the prior period errors. However for the study, the scores are given to non compliance. And those companies which did not disclose any information as per IAS 8 will receive 13 points in total.

It is conjectured that current disclosure practice does not fully comply with IFRS requirement.

3. Sample design and data description

The sample was based on intentionally selected all Mongolian stock exchange listed companies which were ranked in MSE top 20 Index since 2014. The index is announced twice a year and selects the companies on the basis of market capitalization and average transaction quantity per day. Since 2014, 33 companies in total have been included in the index, some companies have been in the index just once and few companies have kept its performance and included 7 times. Out of the 33, Ulaanbaatar Hotel JSC has delisted from the stock exchange and the study opted out the company from the analysis. Also 6 companies have state ownership with the shareholding percentage between 51 and 90.

The financial statements were collected from the annual reports and financial statements on the basis of publicly available information published at MSE website and company website. There is no accounting restatement information published in the Mongolian market, therefore restatements information was processed by the author.

Also the stock prices for each selected firms were collected from MSE website, between years 2012 and 2017. And MSE 20 index prices are collected to support expected return on a stock.

The study analyzed the financial information between 2012 and 2016. And it was expected to study 152 financial statements in total, however due to the absence of publication by some companies for some years without explanation, 137 financial statements are studied.

4. Empirical results

4.1. General analysis

The listing age analysis of the selected listed firms at MSE ranges between 1 and 26 years. There was insignificant positive correlation (0.27) between the age of listing and restatement years. It indicates the experience in stock exchange operation does not favorably affect its accounting performance, and insignificant positive relationship can only be indication of increased risk of failure in accounting. Also out of the 152 mandatory financial statement publication years, 15 years financial statements were not published. It was interesting that some companies did not publish the financial statement which is restated in the following year and that formed 6 financial statement years out of 15 missing years.

The annual report is another source of information about financial affairs and external auditor. However, it is found that annual reports are started to be published since 2014. As annual reports published by companies in number were 6, 21, and 25 in years 2014, 2015, and 2016 respectively. That means there is no culture or sufficient legal requirement on information publication. In addition to the issue, the report information inclusion varied by companies and some of those published reports were even not providing any information about financial affairs.

From the 137 financial statements, 49 were restated. In average, it indicates in every 2.8 years, the listed top 20 companies are restating its financial statements. On the basis of restated financial statements, 39 financial statement or 80 percent did not provide sufficient information or disclosure about restatement. And out of the 49, only 18 are supported by annual report. However

Table 1. Source of restatement information and number of restatements incurred between 2012 and 2016

FY	No. of companies required to publish FSs	No. of companies published its FSs	No. of companies published Annual report	No. of companies Restated FSs
2012	29	21	-	2
2013	29	29	-	16
2014	30	26	6	4
2015	32	31	21	20
2016	32	30	25	7
Total	**152**	**137**	**52**	**49**

out of that 18, 14 reports or 74 percent did not provide information about accounting restatement.

4.2. Market response towards the restatement announcement

To test the market reaction for a short time period after the restatement, the cumulative abnormal returns (CAR) have been calculated with the different windows (-3; +3), (-7; +7) and (-14; +14).

(-3; +3) windows: Out of 49 events only 2 events have CAR values higher than “0.2” and 4 events’ CAR values were lower than “-0.2”. Even, CAR t-test for those 6 events were greater than the other events, t-test value was not significant (not less than -2 or more than 2).

(-7; +7) windows: Only one event showed increase in stock price after the news with the CAR value more than “0.2”. And eight events showed CAR values lower than “-0.2”, but out of which only 3 events’ t-test were significant.

(-14; +14) windows: 14 events have CAR values lower than “-0.2”, which could have small indication of price reduction trend after the restatement news. However still 5 events have CAR values higher than “0.2” which diffuses the potential trend. And still CAR t-test for those decreasing CAR values (lower than -0.2), only 3 events had significant t-test value.

It could have been observed the trend that market is reacting adversely after the restatement news as the time passes, as the number of events that stock price reduced after the news is increasing as the day windows increase. But as a result of insignificant t-test values and small representation observed, the above observation could not form the conclusion that market is adversely responding toward the restatement news.

Table 2 shows CAR values and CAR t-test for the restatement sample. There was no trend observed for the different window (day range) analysis.

4.2.1. CAR values for the year 2015

As part of the tax amnesty program, Mongolian Law on Economic Transparency was approved and became effective from 7th of August, 2015 (E&Y, TMZ LLC, 2015). According to the law, assets, income, and operations concealed before 1st of April 2015 are allowed to be revealed by 20th of February, 2016 and which will not be subject to sanction. Under the shield of the law, the companies are allowed to restate its prior period financial statements. And those restatements can be the clear sign of questionable prior period reporting including the deliberate concealments and significant errors in accounting. Therefore the market reactions after the financial statements issue for the year 2015 is analyzed to see whether there was any ad-hoc spot by market. The analysis covered 31 companies in the sample and remaining one company was excluded from the analysis due to absence of published financial statements for the year. In the year, 20 companies out of the 31 were restated its financial statements which are highlighted in bold as illustrated in Table 3. The CAR values and t-test results were insignificant for all 31 occasions. Also there was no difference between restated financial statements firms and un-restated firms in results for CAR and t-test.

Table 2. Results on CAR and CAR t-test

No.	Event ID	Window (-3;+3)		Window (-7;+7)		Window (-14;+14)	
		CAR Value	CAR t-test	CAR Value	CAR t-test	CAR Value	CAR t-test
1	1001	0.0149	0.2308	0.0082	0.0868	-0.0411	-0.3128
2	1002	0.0037	0.0510	-0.0251	-0.2365	0.0307	0.2081
3	1003	-0.0482	-0.6348	-0.1246	-1.1210	-0.1290	-0.8347
4	2001	-0.2589	-2.4162	-0.1439	-0.9174	-0.2434	-1.1160
5	2011	-0.1465	-1.6003	-0.0724	-0.5403	0.0389	0.2088
6	2012	-0.0948	-0.9606	-0.2513	-1.7396	-0.3042	-1.5144
7	2021	0.1460	0.7570	-0.1689	-0.5982	-0.1178	-0.3001
8	2022	-0.0793	-0.4117	-0.2209	-0.7835	-0.4593	-1.1716
9	2023	-0.2953	-1.5165	-0.1385	-0.4859	-0.3536	-0.8921
10	2031	0.0194	0.1560	0.1568	0.8614	-0.2088	-0.8250
11	2032	-0.0042	-0.0325	0.0293	0.1550	0.0391	0.1488
12	2041	-0.1440	-0.6898	0.0064	0.0209	-0.1842	-0.4335
13	2042	-0.1545	-0.7392	0.1614	0.5275	0.6311	1.4834
14	2043	-0.0777	-0.3722	-0.0579	-0.1895	0.2512	0.5912
15	5001	0.0210	0.1521	-0.0159	-0.0786	-0.0513	-0.1825
16	5002	0.0639	0.6084	0.0447	0.2907	0.0458	0.2142
17	5011	-0.0300	-0.2779	-0.0770	-0.4873	0.0259	0.1179
18	5012	-0.1330	-0.9686	-0.3388	-1.6855	-0.2941	-1.0523
19	7001	0.0099	0.1521	-0.0040	-0.0420	-0.0413	-0.3118
20	8001	-0.0203	-0.2161	-0.0439	-0.3193	-0.0837	-0.4378
21	8002	-0.1313	-1.1053	-0.1299	-0.7470	-0.2079	-0.8598
22	8011	0.0045	0.0408	0.0747	0.4625	0.1923	0.8563
23	8012	-0.0872	-0.7212	-0.3010	-1.7006	-0.5861	-2.3815
24	10001	0.0036	0.0553	0.0095	0.0997	0.0410	0.3095
25	10002	0.0325	0.4993	0.0309	0.3243	0.0278	0.2099
26	13001	0.2845	1.9445	0.0541	0.2526	-0.1371	-0.4604
27	13011	0.0593	0.5440	0.0313	0.1962	0.1109	0.4998
28	13012	-0.0295	-0.3132	0.0744	0.5396	0.1794	0.9358
29	13021	-0.0776	-0.6123	0.0346	0.1865	-0.0426	-0.1651
30	13022	-0.1314	-0.9096	-0.1228	-0.5807	-0.2849	-0.9689
31	13031	0.0213	0.8945	0.0415	1.1906	0.1617	3.3954
32	13041	0.1263	0.5316	0.1300	0.3738	0.4667	0.9822
33	13051	-0.3292	-2.1829	-0.6154	-2.7876	-0.8327	-2.7128
34	13061	-0.0498	-0.3592	0.1901	0.9367	0.0144	0.0510
35	13062	-0.0272	-0.1876	-0.1001	-0.4716	-0.2980	-1.0098
36	14001	0.0508	0.5304	0.1109	0.7910	0.0899	0.4612
37	14002	0.0194	0.2060	0.0210	0.1523	0.0476	0.2483
38	19001	0.0576	0.6202	0.1711	1.2586	0.0632	0.3344
39	19002	0.0113	0.1081	-0.0543	-0.3549	0.0630	0.2962
40	19011	-0.0602	-0.3718	-0.2849	-1.2020	-0.4351	-1.3202
41	19021	0.0016	0.0107	-0.4935	-2.2633	-0.5568	-1.8365
42	19031	0.0250	0.1580	0.1291	0.5574	0.4099	1.2729
43	19032	0.0094	0.0603	0.1395	0.6115	0.1109	0.3496
44	19033	-0.2158	-1.3991	-0.0744	-0.3295	0.1884	0.6001
45	19034	-0.0461	-0.3009	0.0743	0.3313	0.2575	0.8258
46	20001	0.0490	0.5292	0.0854	0.6300	0.1909	1.0128
47	20002	0.0150	0.1611	0.0494	0.3624	0.0158	0.0834
48	20011	-0.1180	-1.2355	-0.3089	-2.2094	-0.8699	-4.4747
49	20012	0.3395	2.9431	0.2555	1.5131	0.1480	0.6303

Table 3. CAR values and CAR t-test for the sample of firms

No.	Event ID	Window (-3;+3)		Window (-7;+7)		Window (-14;+14)	
		CAR Value	CAR t-test	CAR Value	CAR t-test	CAR Value	CAR t-test
1	3501	-0.0575	-0.4939	0.0244	0.1432	0.1710	0.7217
2	**3502**	**0.0037**	**0.0510**	**-0.0251**	**-0.2365**	**0.0307**	**0.2081**
3	**3503**	**-0.2589**	**-2.4162**	**-0.1439**	**-0.9174**	**-0.2434**	**-1.1160**
4	**3504**	**0.0286**	**0.1481**	**-0.0211**	**-0.0746**	**0.1466**	**0.3729**
5	**3505**	**-0.1102**	**-0.8677**	**0.0647**	**0.3480**	**0.1810**	**0.7002**
6	**3506**	**-0.0948**	**-0.9606**	**-0.2513**	**-1.7396**	**-0.3042**	**-1.5144**
7	**3507**	**0.2109**	**1.0154**	**0.0215**	**0.0707**	**0.1393**	**0.3295**
8	**3509**	**-0.0273**	**-0.2027**	**-0.0237**	**-0.1202**	**-0.1844**	**-0.6727**
9	3510	0.0199	0.3070	0.0243	0.2561	-0.0995	-0.7542
10	3511	0.2012	1.1037	0.1051	0.3939	-0.0135	-0.0364
11	**3512**	**0.0811**	**0.6707**	**-0.0290**	**-0.1638**	**-0.2094**	**-0.8509**
12	**3513**	**-0.1334**	**-1.1155**	**-0.0884**	**-0.5050**	**-0.2117**	**-0.8697**
13	3514	0.0811	0.6635	0.1068	0.5969	0.1558	0.6262
14	3515	0.0659	0.9225	0.2020	1.9317	0.1728	1.1885
15	3516	-0.0050	-0.0336	-0.1966	-0.9016	-0.1729	-0.5703
16	3517	0.2395	1.8664	0.1227	0.6532	-0.0237	-0.0907
17	**3518**	**-0.1981**	**-1.4127**	**-0.0380**	**-0.1851**	**0.2441**	**0.8552**
18	3519	-0.1573	-1.9179	-0.1960	-1.6325	-0.1412	-0.8458
19	**3520**	**-0.0323**	**-0.3900**	**-0.0038**	**-0.0313**	**0.0890**	**0.5280**
20	3521	-0.0243	-0.2010	-0.1309	-0.7396	-0.0774	-0.3145
21	3522	-0.2090	-2.5565	-0.0907	-0.7579	-0.1334	-0.8017
22	3523	-0.0110	-0.0717	-0.1006	-0.4478	-0.2366	-0.7575
23	**3524**	**0.0093**	**0.0923**	**-0.0462**	**-0.3131**	**-0.1231**	**-0.6000**
24	3525	0.0272	0.2142	-0.1107	-0.5955	-0.1821	-0.7045
25	**3526**	**-0.3063**	**-2.2306**	**-0.2467**	**-1.2273**	**-0.5471**	**-1.9575**
26	**3527**	**0.1232**	**0.7523**	**0.1811**	**0.7554**	**-0.0527**	**-0.1581**
27	**3528**	**0.1710**	**1.2149**	**0.1672**	**0.8115**	**0.2405**	**0.8395**
28	**3529**	**-0.2081**	**-1.3538**	**-0.1097**	**-0.4875**	**0.1270**	**0.4059**
29	**3530**	**0.0272**	**0.3725**	**-0.0140**	**-0.1310**	**-0.0969**	**-0.6520**
30	**3531**	**-0.1713**	**-1.7935**	**-0.3894**	**-2.7851**	**-0.0594**	**-0.3055**
31	3532	0.0757	0.6206	0.1120	0.6273	0.1526	0.6147

The result further revealed that financial statements' restatement news is not taken account by the market, even the restatement was followed by potentially significant sign of prior period deliberate concealment or errors in assets, liabilities and income.

4.3. Restatement disclosure scores

There were 49 restatements found out of the 137 financial statements. The further analysis was made on the basis of those 49 restatements' disclosure according to IAS 8 disclosure requirements. On the basis of IAS, the requirements were grouped and adjusted into 13 requirements and each requirement provided by 1 score for non-compliance and altogether total score for individual events on non-compliance is 13 points. That means if all the restatement events did not disclose anything, totally the non-compliance will score 637 points. But from the analysis, 49 restatements' disclosure was evaluated and scored 486 points which is 76.3 percents for non-compliance. In other words, the restatements' disclosure according to IAS by the selected firms are only 23.7 percents.

The score summary is shown in Table 4.

Table 4. Disclosure non-compliance score summary

	No. of re-statements	Restatement non-compliance scores	Highest possible scores for non compliance	Non-disclosure %*	IAS 8 disclosure compliance %
Restated FSs	49	486	637	76.30	23.70
Risk reconciled restated FSs**	64	687	832	82.57	17.43

* *Non-compliance % - greater the non-compliance percentage, lower the compliance with IFRS, IAS 8 disclosure requirement*

** *Risk reconciled restated FSs - It assumes those 15 unpublished financial statements have risk for hiding the restatements and considered those financial statements as restated.*

4.3.1. Analysis by each requirement

The detailed disclosure scores illustrated the companies are poor at providing extra explanations about the restatement through disclosure attached to its financial statements. The financial statement users' information tends to be limited by simply stated numbers in the financial statements. For the deep analysis and financial statement users' understanding, the prerequisite requirements are crucial. However only better provided information about restatement was the financial statement line item (see Table 5 - ED.2 and AP&ED.5) affected. And those other requirement scores were identical to

Table 5. Disclosure score summary by each requirements

Abbr.*	IFRS requirements on retrospective restatement	Score summary
ED	**Disclosure requirements relating to prior period errors**	
ED.1	The nature of the prior period error;	46
	For each prior period presented, to the extent practicable, the amount of the correction:	
ED.2	(i) for each financial statement line item affected; and	4
ED.3	(ii) if IAS 33 applies to the entity, for basic and diluted earnings per share;	41
ED.4	The amount of the correction at the beginning of the earliest prior period presented; and	37
ED.5	If retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.	46
	Sub total	**174**
AP&ED	**Disclosure requirements relating to changes in accounting policy and estimates**	
AP&ED.1	The title of the standard or interpretation causing the change 5	43
AP&ED.2	The nature of the change in accounting policy;	42
AP&ED.3	A description of the transitional provisions, including those that might have an effect on future periods8	43
AP&ED.4	The reasons why applying the new accounting policy provides reliable and more relevant information;	42
	For the current period and each prior period presented, to the extent practicable, the amount of the adjustment:	
AP&ED.5	(i) for each financial statement line item affected; and	20
AP&ED.6	(ii) if IAS 33 applies to the entity, for basic and diluted earnings per share;	39
AP&ED.7	The amount of the adjustment relating to periods before those presented, to the extent practicable; and	41
AP&ED.8	If retrospective application is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.	42
	Sub total	**312**
	Total score for the non compliance	**486**

* *Abbreviation: ED – Error disclosure; AP&ED – Changes in accounting policy and estimate disclosure*

each other, only varied few scores depending on the type of change.

4.3.2. Materiality of the restatements

Due to insufficient disclosure practice about the restatement, only quantitative materiality was able to be analyzed rather than its nature.

The quantitative materiality was calculated based on the total change in total asset by individual companies. Out of the 49 restatements 26 of them were material or the change was greater than 1 percent of its total assets (TA). Out of which 14 of them were significantly material change which was greater than 5 percent of its TAs. And the rest, 23 of the restatements were immaterial which is lower than 1 percent change.

Table 6. Restatement quantitative materiality and descriptive statistics

	All restatements	Immaterial <0.01	Material 0.01<0.05	Significantly material >=0.05
No.of restatements	49	23	12	14
Min	2	2	2	2
Max	13	13	13	13
Mean	9.92	10.18	9.96	10.00
SD	3.03	3.52	3.76	3.05

From the above table, the minimum and maximum scores for various materiality levels were not differing at all indicated the companies are not putting attention its accounts restatements disclosure. And even those significantly material restatements are remained unsatisfactory disclosure.

In addition to the materiality, the restatements were analyzed from its change type on the basis of its effect to financial position. The change types are categorized into 9 elements relevant to Assets, Liabilities and Equities and those increase, decrease and movements which are shown in below table.

Table 7. Restatement types

	Assets	Liabilities	Equities
Increase	10	12	14
Decrease	13	11	23
Movement	7	1	3

The change affected to decrease in equities were dominating and the restatements caused to increase or decrease in assets and liabilities were high as well. Therefore, further analysis should be done in the future about the rationale behind the restatement, incentives to restate the financial statements.

5. Conclusion

The paper examined financial information of top listed companies at MSE from the perspective of accounting restatement to examine the financial reporting quality of the firms. For this purpose the financial statements and annual reports published at MSE website and individual firm websites were reviewed. However, it was found the financial statements publication culture is not satisfactory as 1/10th of the financial statements were not published in any of the sources. Also annual reports started to be published since 2014, but still it is not consistently published by the top firms. The annual reports are vital source of additional information for financial statement users as the information which is not included in the financial statements can be included within the annual report. For instance, in this type of analysis and for further investigation, detailed information about restatement which is not only limited by the IFRS disclosure requirements, the external auditor information, auditor's opinion on prior financial statements is crucial. The IFRS requirements can be seen as minimal expected practice from the companies and as Mongolia requires the adherence of IFRS, this became the mandated obligation by the companies. In addition to IFRS requirements, the companies can enrich its disclosure and information dissemination as it sees the additional information is helpful for users' decision making. However, from the study, it is found that top listed companies are even not reaching the minimum level of expected practice and breaching the obligation in disclosure. And they are way back from the international practice.

As part of this study, it is revealed that the market does not consider accounting restatements. It indicates financial statement credibility is low, which can be related to the frequent restatements. As if previously issued information is corrected after some period of time it is difficult for the financial statement users to form the decision based on the questionable information. In the last 5 years, the highest number of restatements incurred in 2015. The timing was overlapped with the event that approval of Mongolian Law on Economic Transparency in 2015. Within the scope of the law, as it has provided confidentiality about these restatements, it is unable to judge whether the management of the companies did something wrong. However, from the analysis, those material restatements after the law approval showed significant financial reporting quality problem on the prior period reports as well as the quality of external auditors are questionable.

To further study the reason for lack of punishment by the market, the study continued by examining whether the restatement information published to the market was sufficient or not. If the information was sufficient enough, the ignorance of restatement could have told another story. But if the information was insufficient, obviously market will not base the decision on vague and non trustworthy statements. With this mindset, the second hypothesis formed and the result was matched with our hypothesis, that top20 index companies at MSE have very poor disclosure according to IFRS requirements. In other words, the financial statements are not very informative as they only stated some numbers as part of statements which is difficult to be understood even by the professional financial statements users', in the field of restatements. And with this poor financial information, the market does not take account the restatements' news.

Additionally, there was no difference in the disclosure practice depending on quantitative materiality of restatements. And the reason, nature of change, effect of restatements did not disclosed at all which does not allow the financial statement users to the see impact on their investment or interest in the firm. From the detailed analysis of change types the restatements for decreasing the previous equities e.g. retained earnings was dominant.

The causes or factors affecting poor quality financial reporting needs to be further researched. According to the previous literature, Mongolian financial statement preparers' competence on IFRS is not sufficient and the training is crucially needed (Budsuren, 2014; Demberel and Sandag, 2016; The World Bank and Ministry of Finance Mongolia, 2017).

Lack of information, lack of transparency, poor quality financial statements in the public companies may promote insider dealing in the capital market as a result of potential information asymmetry; investments will be escaped; and capital market development can be slackened. However further investigations need to be performed in the field of moral hazard; proprietary costs attached with disclosure; financial reporting related internal control efficiency of the firms.

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