

Do financial restatements matter to investors? Evidence from South Africa

Journal of
Accounting in
Emerging
Economies

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Received 20 December 2024
Revised 27 December 2025
Accepted 4 June 2026

Abstract

Purpose – This study examines whether financial restatement announcements affect stock returns of South African firms and whether market reactions vary across the pre- and post-King IV periods, by the reason for the restatement and by whether firms have previously restated their financials.

Design/methodology/approach – We analyse financial restatements by South African firms between 2007 and 2023 using an event study. Cumulative abnormal returns (CARs) are calculated over 3-, 5- and 21-day event windows. Differences in CARs are examined across sub-groups defined by the pre- and post-King IV period, the reason for restatement (accounting error, irregularity or policy change) and whether firms have previously restated. Cross-sectional regressions further assess these effects while controlling for other factors.

Findings – CARs across all event windows are negligible, suggesting that markets show limited response to financial restatement announcements. Market reactions do not vary meaningfully across the pre- and post-King IV periods, across restatement types or between firms with and without prior restatements.

Research limitations/implications – Financial restatements are relatively rare in South Africa, resulting in a limited sample. Findings should therefore be interpreted as indicative of average market responses within this institutional setting and caution should be exercised in generalising these beyond the South African context.

Practical implications – The limited market reaction suggests that investors may view restatements as technical corrections rather than as signals of severe governance failure.

Originality/value – This study contributes evidence on market responses to financial restatements from a Majority World context, using a broader sample than prior South African studies, and evaluates whether changes in the governance regime and the reason for restatement influence the market response.

Keywords Financial restatements, King IV, JSE, Event study, Corporate governance

Paper type Research article

1. Introduction

Financial statements are a crucial source of information for investors as they provide insights into a firm's performance and prospects. The integrity of financial reporting is thus fundamental to the functioning of capital markets. International Accounting Standard 8 (IAS) requires listed firms to retrospectively correct *material* prior period inaccuracies in published financial statements in the first set of financial statements post-discovery (IAS 8.42). Information is considered material if omitting, misstating or obscuring it will likely impact the decisions of financial statement users. These inaccuracies may be due to accounting irregularities, changes in accounting policies or accounting errors (intentional or unintentional) (Presley and Abbott, 2013). Firms may voluntarily restate their financials or be prompted by auditors or regulators.

When firms restate their financials, it signals to the market that previous reports were inaccurate, indicating low financial reporting quality and potentially low audit quality (Sievers and Sofilkantsch, 2019). Regardless of the underlying cause, restatements can significantly harm firm value by lowering expectations of future cash flows. Additionally, they can damage a firm's reputation, raising concerns about the firm's corporate governance, internal controls and



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Journal of Accounting in Emerging
Economies
Emerald Publishing Limited
e-ISSN: 2042-1176
p-ISSN: 2042-1168
DOI 10.1108/JAEE-12-2024-0539

the reliability of its management and auditors (Palmrose *et al.*, 2004). This heightened perception of risk can lead investors to demand a higher return, increasing the firm's cost of capital and negatively affecting its overall valuation. Restatements may also attract regulatory scrutiny and legal challenges, further compounding the firm's difficulties. Given these consequences, understanding the market impact of financial restatements and the factors driving market responses is crucial, not only for investors but also for policymakers and corporate leaders seeking to improve the quality and reliability of financial reporting (Files *et al.*, 2009).

Prior studies on the stock market impact of financial restatement announcements predominantly focus on the United States due to the availability of comprehensive data, unlike other countries where data often require manual collection. Palmrose *et al.* (2004), Hribar and Jenkins (2004) and Files *et al.* (2009), among others, find a negative market response to financial restatements in the United States, driven by reduced cash flows and damage to a firm's reputation. Notably, restatements caused by fraud elicit a stronger negative reaction than those resulting from errors or policy changes. In contrast, evidence from other markets suggests more muted reactions. Hitz *et al.* (2012) and Wang and Wu (2011) find a relatively subdued response in Germany and China respectively, suggesting that firms are penalised less harshly for deficiencies in financial statement quality. In South Africa, Watson and Coetzee (2012) and Watson and Rossouw (2012) report a negative market reaction on the day of the announcement for firms forced to restate. However, it is not known whether this response pertains to broader restatements in South Africa.

Jategaonkar *et al.* (2012) document that following the introduction of the Sarbanes–Oxley Act (SOX) in the United States, which strengthened corporate governance and financial reporting, financial restatement announcements were met with more negative market reactions, consistent with heightened enforcement and stronger penalties for reporting failures. However, governance reforms may also operate through a different channel by improving the credibility of financial reporting systems and strengthening investor confidence, thereby reducing the informational shock associated with restatements (Francis *et al.*, 2008; Velte, 2023).

South Africa provides an important context for examining market responses to financial restatements. The Johannesburg Stock Exchange (JSE) is one of the largest and most liquid equity markets in emerging economies and is regarded as institutionally advanced, with high disclosure standards (World Bank, 2022). The market consistently ranks highly in global assessments of market regulation and reporting quality, supported by a well-developed auditing profession and overseen by relatively robust enforcement mechanisms. At the same time, high-profile corporate failures, such as Steinhoff, EOH and Tongaat-Hullet, have intensified scrutiny of financial reporting, audit quality and corporate governance practices (Rossouw and Stylian, 2021). Against this backdrop, the King IV Report on Corporate Governance, introduced in 2016, represents a substantive shift in the South African governance landscape. Like SOX, King IV was designed to strengthen oversight, accountability and the quality of corporate reporting, but it adopts a principles-based “apply and explain” approach rather than a rules-based compliance framework (IoDSA, 2016). This provides a natural setting to revisit market reactions to financial restatements relative to earlier South African evidence under prior King Codes (Watson and Coetzee, 2012; Watson and Rossouw, 2012) and to assess whether this governance transition led to a similar shift in investor responses to restatements as that documented following SOX in the United States. The approach of King IV places greater accountability on boards for governance outcomes, increasing expectations regarding oversight, transparency and internal controls. This stronger governance framework may influence investor interpretation of financial restatements in two competing ways. On the one hand, restatements may be viewed as more serious failures of board oversight, amplifying their reputational significance and leading to a more negative market response. On the other hand, King IV's emphasis on transparency and stakeholder communication may lead investors to interpret restatements as evidence of improved reporting processes and governance rather than severe reporting failure, thereby muting the

informational shock associated with restatement announcements (Francis *et al.*, 2008; Velte, 2023).

Using an event study framework, we analyse the impact of financial restatements issued by JSE-listed firms between 2007 and 2023 on stock returns. We examine whether market reactions differ across the pre- and post-King IV periods, by the reason for the restatement (accounting irregularity, error or policy change) and by whether firms have previously restated their financials, using tests of equality of means. As a robustness check, we estimate a cross-sectional regression with these measures while controlling for other factors. We find that cumulative market reactions across event windows are negligible suggesting that markets show limited price response to restatements. Market reactions also do not vary meaningfully across the pre- and post-King IV periods, restatement types or between firms with and without prior restatements. However, further analysis suggests that smaller effects may remain undetected given the power of the tests.

This study makes several contributions to the literature on financial restatements. First, while prior research has largely focused on the United States, there is a growing call for evidence from Majority World settings, both across broader accounting research (Uddin, 2025) and within the restatements literature specifically (Fragoso *et al.*, 2020). We address this gap by examining financial restatements in South Africa, an emerging market characterised by relatively strong financial regulation and a well-developed corporate governance framework under the King Codes, contributing evidence grounded in Majority World context. Second, since the original work on restatement announcements in South Africa by Watson and Coetzee (2012) and Watson and Rossouw (2012), the country has faced a major development with the introduction of King IV in 2016. By extending the sample to 2023, we provide evidence on whether market responses to financial restatements have evolved in light of this change (Jategaonkar *et al.*, 2012). Unlike prior South African studies, which focus exclusively on forced restatements from GAAP Monitoring Panel investigations (Watson and Coetzee, 2012; Watson and Rossouw, 2012), this study examines a broader sample encompassing accounting irregularities, errors and policy changes, providing a more comprehensive characterisation of market responses to these disclosures. Third, to the best of our knowledge, this study is the first in the South African context to examine the determinants of abnormal returns associated with restatement announcements, including the reason for the restatement (irregularity, error or policy change). Fourth, we extend the international literature of Gondhalekar *et al.* (2012) and Mun (2022) by investigating whether firms that have previously restated their financials experience different market reactions compared to firms restating for the first-time.

The remainder of this study is structured as follows: Section 2 provides an overview of the relevant literature on market reactions to financial restatements. Section 3 discusses the dataset and outlines the method used while the results are discussed in Section 4. Finally, Section 5 contains the conclusions and implications of our findings.

2. Literature review

The stock valuation hypothesis posits that stock prices are determined by discounted expected cash flows. Financial statements represent a key source of fundamental information about a company. According to the efficient market hypothesis (EMH), when financial statements are released, stock prices should respond fully and immediately to reflect the relevant information that these accounting statements contain (Fama, 1970). The subsequent restating of a firm's financials, when announced, can impact market prices for several reasons. First, if the restatement alters future cash flow projections, this will lead to a change in the stock price. As such, although the restatement relates to historical data, it may have implications for the current valuation of the firm. In line with the EMH, this should lead to an immediate positive or negative reaction depending on whether the restatement leads to an increase or decrease in the firm's future cash flows. Second, restatements can harm the firm's reputation (Fragoso *et al.*, 2020), raising concerns about a firm's corporate governance including managerial oversight,

internal controls and auditor reliability. This contributes to a perception of an increase in a firm's risk (Hribar and Jenkins, 2004). As such, investors may demand a higher discount rate to compensate for the greater risk, negatively affecting a firm's valuation.

Evidence from the United States predominantly demonstrates a negative market reaction to the announcement of a restatement attributable to lower future cash flows and/or an increase in risk due to the reputational damage. Dechow *et al.* (1996), using a sample of firms forced by the Securities and Exchange Commission (SEC) to restate their financials, observe a -6% market effect upon announcement of the restatement. The findings of Wu (2002) confirm that the market responds negatively to the announcement of a financial restatement during a 3-day event window (t_{-1}, t_{+1}). Wu (2002) also documents a downward pattern starting approximately 6 months preceding the restatement announcement and a persistent negative post-announcement drift for up to 4 months thereafter. For a sample of 403 restatements over the period 1995 to 1999, Palmrose *et al.* (2004) report a -9% abnormal return over a 2-day window (t_0, t_{+1}), with no abnormal returns identified on the day prior to the announcement. Results also show that 29% of all firm abnormal returns are non-negative which is primarily due to concurrent earnings announcements subsuming the effects of the restatement. Palmrose *et al.* (2004) also find that restatements involving fraud result in more negative returns than non-fraud related restatements while restatements initiated by management or auditors, surprisingly, yield a larger negative market response than those initiated by the SEC. Restatements that result in lower reported income are also associated with more negative returns although restatements that result in higher income still yield a negative market reaction suggesting that the reputational damage dominates the cash flow effect. Akhigbe *et al.* (2005) confirm that financial restatements elicit a negative market reaction. They further find that returns are more negative when the restatement is associated with a revision in revenue compared to costs and, in contrast to Palmrose *et al.* (2004), forced by the auditor or the SEC. Li *et al.* (2018) document that restatements by United States firms due to internal control weaknesses result in significant negative returns in a 3-day event window around the announcement.

Hribar and Jenkins (2004), in their sample of 292 restatements, show that the decline in stock value commences 25 days prior to the announcement, attributable to information leakage concerning the impending restatement. Firms experience a decline in their stock price of approximately 3% from t_{-20} to t_{-3} and a further 9% in the 5-day event window (t_{-2}, t_{+2}). Thus, despite the information leakage, most of the price decline still occurs in the days surrounding the announcement. They further observe that both auditor and company-initiated restatements result in a more damaging impact on stock prices than those initiated by the SEC, similarly to Palmrose *et al.* (2004). Files *et al.* (2009) also report abnormal negative returns of 5.5% over a 3-day event window (t_{-1}, t_{+1}) and 6.7% over a longer 22-day window (t_{-1}, t_{+20}). The more negative return over the longer period reflects the continued downward movement in the stock price as investors slowly absorb the meaning of the restatement. Accordingly, the market response is not immediate as posited by the EMH. Notably, Files *et al.* (2009) document greater negative market reactions to restatements that are more prominent (where the restatement is in the heading of the announcement) as opposed to those where the restatement is part of an update with a headline on a different subject (e.g. an earnings update). Files *et al.* (2009) also observe that accounting irregularities result in a larger deleterious impact on stock prices than accounting errors while changes in accounting policy have the least negative effect.

Gondhalekar *et al.* (2012) and Mun (2022) examine whether there is a difference in market impact for one-time vs firms restating multiple times, with both studies confirming a differing response between the two groups. Mun (2022) demonstrates that the initial negative response to restatement announcements diminishes as additional restatements are announced. The study also highlights differing investor responses to subsequent market reactions; optimistic investors becoming increasingly sceptical with further restatements while pessimistic investors exhibit a less severe negative reaction. Mun (2022) attributes the former to the time required for restating firms' remedial actions to restore investor trust, and the latter to

investors interpreting frequent restatements as signals of both errors and potential improved governance. [Jategaonkar et al. \(2012\)](#) show that announcements of restatements are viewed more negatively after the introduction of SOX, particularly those attributable to accounting errors and restatements of core earnings. [Gordon et al. \(2013\)](#) find that a greater amount of disclosure prior to a restatement is associated with a less severe market reaction to the restatement although a more optimistic tone in pre-restatement discretionary disclosures exacerbates the negative market reaction. Recent studies further show that non-financial disclosures matter for how markets interpret restatements. For example, [Zhang et al. \(2021\)](#) report that corporate social responsibility (CSR) disclosures by restating firms help mitigate the reputational damage on firm value caused by restatements. Similarly, [Dong and Wang \(2023\)](#) find that disclosing positive CSR activities is perceived by United States investors as an effective strategy to restore management's reputation and boost investor interest in the firm.

Considerably less attention has been given to the market impact of financial restatements beyond the United States. [Robbani and Bhuyan \(2010\)](#) observe a negative market response to financial restatements in Canada. However, they note that the initial price reaction is quite muted, but the long-term reaction is much larger, which includes both the period prior to the announcement (information leakage) and after the announcement (a delayed market response). [Hitz et al. \(2012\)](#) find negative abnormal returns for short-event windows around the announcement of a restatement by German firms but these are substantially smaller in magnitude than observed in United States studies. They also document a continued downward trend in the stock price after the announcement suggesting that the restatement does reflect a critical news event that the market slowly incorporates into the stock price.

With regards to emerging market evidence, [Wang and Wu \(2011\)](#) examine the Chinese market from 1999 to 2005 and report a muted stock market reaction to financial restatements. While the 3-day (t_{-1}, t_{+1}) abnormal return is negative but insignificant, the market reacts more negatively in the week leading up to the announcement. They conclude that the Chinese market is less punitive towards poor-quality financial reporting compared to the United States. However, [Ma et al. \(2016\)](#) document significant negative market reactions to accounting restatements among Chinese firms over the period 2004 to 2010. Family-controlled firms experience significantly more negative CARs, attributable to the difficulty in separating ownership from management failure in family firms, which intensifies both reputational damage and investor scepticism about the integrity of corporate insiders. [Watson and Coetzee \(2012\)](#) and [Watson and Rossouw \(2012\)](#) investigate the stock market reaction to the announcement of forced financial restatements (following a GAAP Monitoring Panel review) of South African firms from 2002 to 2010. They confirm negative abnormal market reactions across event windows, with some evidence of market participants anticipating the announcement approximately 10 days prior to the formal announcement. Their results also show evidence of a sustained negative response up to 20 days after the announcement. However, they confirm that overall the market response is more muted than witnessed in the United States.

Beyond the limited evidence on market reactions in emerging markets, the broader literature on accounting restatements in these markets is also sparse, although with some insight on the determinants thereof. [Hasnan et al. \(2021\)](#) find that in Malaysia executive compensation and firm performance reduce the likelihood of restatements while leverage increases it. [Al Salti et al. \(2026\)](#) observe that more mature firms are less likely to issue financial restatements in Gulf Co-operation Council countries.

Several key findings emerge from this literature. Markets generally react negatively to financial restatement announcements, though some of this response occurs before the formal announcement, suggesting information leakage, or after, reflecting a delayed market reaction. The magnitude of the response varies based on factors such as the cause and value of the restatement, as well as the firm's recent performance. Furthermore, changes in corporate governance legislation, such as SOX, affect the market reaction to restatement announcements. However, research on market reactions outside the United States remains

limited, especially in emerging markets, and, where studies exist, the response appears more subdued. The existing South African evidence is further limited to forced restatements, leaving open the question of how markets respond to a broader sample encompassing accounting irregularities, errors and policy changes, and whether the introduction of King IV or a history of prior restatements influences these responses. This study addresses these gaps.

3. Data and methodology

3.1 Data

Under IAS 8.42, firms must correct *material* prior period errors in the first set of financial statements after discovery of the error. IAS 8.49 further requires disclosure of the nature of the error, together with the corrected amounts for each affected financial statement line item and, where applicable, earnings per share figures. In terms of the JSE Listings Requirements, issuers are generally required to notify the JSE of material restatements where they affect earnings per share (EPS), headline EPS or key financial statement line items, although adjustments arising only from the retrospective application of new or amended IFRS standards are excluded from this requirement. Where such restatements constitute price-sensitive information, they must be communicated to the market through the Stock Exchange News Service (SENS). We manually obtain SENS announcements from Bloomberg and validate these against announcements from IRESS for the period 2007 to 2023. The year 2007 is chosen as the starting point due to the increased frequency of financial restatements among JSE-listed firms from this period onward. Daily stock price and other firm-level accounting data are collected for the restating firms from Bloomberg. Daily returns for each firm are calculated as the change in the natural logarithm of the prices. Four firms did not have sufficient price data to compute returns for the estimation window and are excluded, resulting in a final sample of 38 restatements. Figure 1 demonstrates the distribution of the restatements over the sample period.

3.2 Methodology

We evaluate the impact of financial restatements on stock returns using an event study (see for example Palmrose *et al.*, 2004; Akhigbe *et al.*, 2005). The event day is the announcement of the restatement of the firm’s financials on SENS, denoted t_0 . We use the market model as it provides the most reliable results for event study analysis due to the fact that it accounts for market-wide movements compared to the constant mean return model (Yousaf *et al.*, 2022).

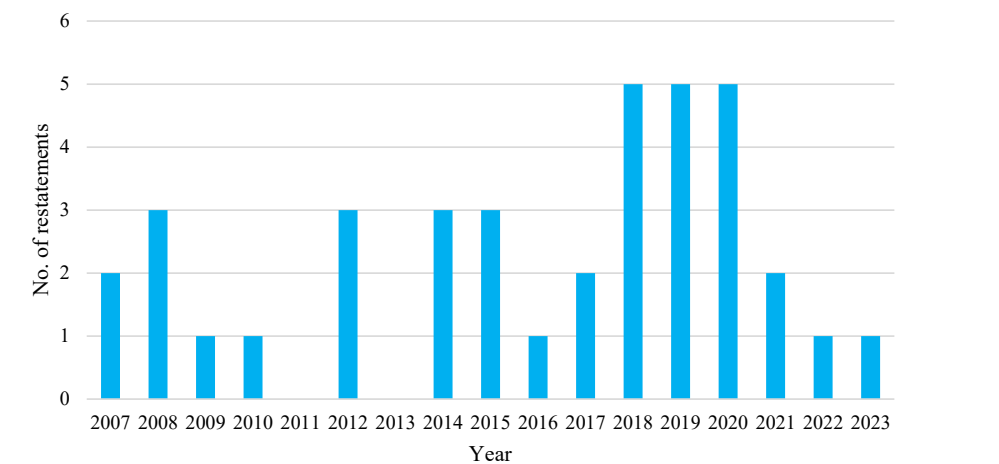


Figure 1. Distribution of financial restatements over the sample period 2007-2023. Figure 1 presents the total number of financial restatements in each year, with 38 in total. Source: Authors’ own work

The event window is 21 days from t_{-10} to t_{+10} . We also assess the robustness of our results using two shorter event windows of 5 and 3 days (t_{-2} to t_{+2} and t_{-1} to t_{+1} , respectively). The short windows are used to capture the immediate market response while limiting contamination from unrelated firm-specific or market-wide news. The longer 21-day window allows for the possibility of gradual information diffusion. The estimation window is 200 days from t_{-221} to t_{-21} . Although MacKinlay (1997) recommends a 120-day estimation window using daily data, we follow Park (2004) by selecting a longer window to mitigate the influence of unusual market movements which improves estimation precision. The estimation window falls prior to the event window to avoid contamination. The equation estimated is given as:

$$R_{it} = \alpha_i + \beta_i R_{mt} + e_t \quad (1)$$

where R_{it} and R_{mt} are the daily returns on firm i and the FTSE/JSE All Share index, respectively. The parameters α_i and β_i from Eq. (1) are used to calculate the abnormal return, AR_{it} , for firm i on day t as follows (Park, 2004):

$$AR_{it} = R_{it} - (\alpha_i + \beta_i R_{mt}) \quad (2)$$

The response of each firm's stock price to the restatement is measured by aggregating the abnormal returns on each day of the event window:

$$AAR_t = \frac{1}{N} \sum_{i=1}^N AR_{it} \quad (3)$$

where AAR_t is the average abnormal return on day t and N is the number of firm restatements. We also compute the cumulative abnormal return for each firm (CAR_i) by summing the abnormal returns across the event window as follows:

$$CAR_i = \sum_{t=-10}^{t_{+10}} AR_{it}. \quad (4)$$

Finally, we use the AAR_t to obtain the cumulative average abnormal return for each day in the event window, $CAAR_t$:

$$CAAR_t = \sum_{t=-10}^T AAR_t \quad (5)$$

To determine the significance of the AAR_t and $CAAR_t$ values, we utilise the cross-sectional t -tests as shown in Eqs. (6.1) and (6.2) respectively [1].

$$t = \sqrt{N} \frac{AAR_t}{S_{AAR_t}} \text{ where } S_{AAR_t}^2 = \frac{1}{N-1} \sum_{i=1}^N (AR_{it} - AAR_t)^2 \quad (6.1)$$

$$t = \sqrt{N} \frac{CAAR}{S_{CAAR}} \text{ where } S_{CAAR}^2 = \frac{1}{N-1} \sum_{i=1}^N (CAR_i - CAAR)^2 \quad (6.2)$$

Drawing from the literature, our hypothesis is that the market responds negatively to firms which restate their financials due to the harmful effect on the firm's reputation and/or the detrimental implications for the firm's future cash flows (Fragoso et al., 2020). Therefore, this suggests that financial restatements contain important information for market participants. If investors react immediately to new information, then the market response to the

announcement should be swift. The possibility also exists that those privy to the financial restatement may trade on this information prior to the announcement. This will result in an impact on the stock price prior to the official announcement.

We then examine several factors that may influence the magnitude of the CAR, beginning with the role of King IV. Announcements are classified as occurring in the post-King IV period if they occur after 1 April 2017 (the effective implementation date), and as pre-King IV before this date. We advance two competing hypotheses regarding the impact of King IV on market reactions to financial restatements. King IV was designed to strengthen oversight, accountability and the quality of corporate reporting through a principles-based “apply and explain” approach rather than a rules-based compliance framework (IoDSA, 2016; Clamp, 2017). This approach places greater accountability on boards for governance outcomes. Investors may therefore interpret restatements in the post-King IV period as more serious failures of board oversight, amplifying their reputational signal and producing more negative market reactions. In contrast, King IV’s principles-based emphasis on transparency and stakeholder communication may lead investors to interpret restatements as evidence of improved reporting processes rather than severe reporting failure, reducing the informational shock associated with restatement announcements and producing more muted reactions (Francis *et al.*, 2008; Velte, 2023).

Restatements occur for several reasons, some of which may result in a greater impact on the firm’s future cash flows or cause more harm to the firm’s reputation (Akhigbe *et al.*, 2005; Gondhalekar *et al.*, 2012). We thus examine the effect of the cause of the restatement on the CAR by categorising announcements due to accounting errors, irregularities and policy changes. We expect restatements due to accounting irregularities to elicit a larger negative market response due to the fall in the firm’s credibility and deleterious impact on future cash flows. Accounting errors may have a material effect on the firm’s future cash flows but will also likely harm the reputation of the company (Palmrose *et al.*, 2004). Restatements due to accounting standard changes are likely to have a negligible impact on a firm’s reputation but may still impact prices if the change affects expected cash flows (Akhigbe *et al.*, 2005).

Finally, we assess the impact of multiple restatements. If a firm restates more than once within a fairly short horizon, this could arguably have a greater influence on the firm’s reputation than a firm that restates its financial statements for the first time (Gondhalekar *et al.*, 2012; Mun, 2022) [2].

Given the small sample size, we undertake a comparison of means across groups. While tests of equality of means do not adjust for confounding variables, they rely on fewer distributional assumptions than regression-based approaches and can therefore be preferable when working with small samples and uneven sub-sample sizes. We employ both the parametric Welch two-sample *t*-test and the non-parametric Wilcoxon rank-sum test to account for potential differences in variance and distributional shape. For each comparison, the mean difference is computed as the average CAR for observations classified as belonging to that group minus the average CAR for the remaining observations.

To ensure the robustness of conclusions drawn from the comparison of means, we also estimate a cross-sectional regression including dummy variables for each category defined above and several control variables as follows:

$$CAR_i = \beta_1 KingIV_i + \beta_2 Error_i + \beta_3 Ireg_i + \beta_4 Policy_i + \beta_5 Repeat_i + \beta_i z_i + e_i \quad (7)$$

where *KingIV_i* takes on a value of 1 if the announcement occurs post 1 April 2017 and 0 otherwise; *Error_i* is equal to 1 if the restatement is due to an accounting error; *Ireg_i* is equal to 1 if the restatement is due to an accounting irregularity and 0 otherwise; *Policy_i* is equal to 1 if the restatement is due to a change in accounting policy; *Repeat_i* takes on a value of 1 if the firm has previously restated its financials and *z_i* refers to the vector of control variables. Newey–West heteroscedasticity and autocorrelation standard errors are used, where appropriate, to ensure robust results.

Six control variables are included. A larger restated profit value is expected to trigger a stronger market response, as this requires a greater revision to expected cash flows (Akhigbe *et al.*, 2005). Therefore, we include the magnitude of the restated profit, quantified as the percentage change in basic EPS between the restated and original financials for both the prior period and the immediately preceding period as control variables. In cases where firms disclose only the revised EPS, the original figure is sourced from the firm's financial statements. In cases where restatement warnings provide no quantification, EPS changes are denoted as "not applicable".

Earnings announcements often accompany restatements and the direction of the earnings news may influence market reactions (Akhigbe *et al.*, 2005). Accordingly, we include dummy variables for positive news ($EarnPos_i$ is 1 if current earnings exceeds the prior period) and negative news ($EarnNeg_i$ is 1 if current earnings are lower). Lastly, we control for firm size, measured as the natural log of the firm's market capitalisation at the time of the restatement, and prior period performance, proxied by the cumulative return in the year before the restatement. Smaller firms and those with strong prior returns may experience more pronounced market reactions if investors are more surprised by the announcement (Akhigbe *et al.*, 2005; Frago *et al.*, 2020).

4. Results

4.1 Descriptive statistics

The descriptive statistics for the CARs and sub-groups are presented in Table 1. The minimum, maximum and standard deviations for the CAR series over the three event windows confirm the wide dispersion in abnormal returns across restatement announcements, including some large positive returns. 55.26% of the announcements during the sample period occurred in the post-King IV period. The sample is dominated by financial restatements due to accounting errors (78.95%), followed by policy changes (13.16%) and irregularities (7.89%). Only a small proportion of the firms have previously restated their financials (10.53%). The descriptive statistics also show that financial restatement announcements occur concurrently with an earnings announcement approximately 48.48% of the time (24.24% with negative updates and 24.24% with positive updates). The average change in basic EPS due to the restatement in the most recent period is small but positive (0.07%). However, the average

Table 1. Descriptive statistics for CARs, dummy variables and regression control variables

	Mean	Max	Min	Std. dev.	Skewness	Kurtosis	Jarque-Bera
21-day CAR	-5.2361	87.1096	-237.3045	46.1653	-3.1753	18.4089	439.7905***
5-day CAR	-2.0272	41.5836	-26.1345	12.5521	0.8460	5.7748	16.7238***
3-day CAR	-2.9345	35.8251	-37.3810	11.9066	-0.3649	6.8392	24.1803***
King IV	0.5526	1	0	0.5039	-0.2119	0.8749	7.4347**
Error	0.7895	1	0	0.4132	-1.4201	3.0167	12.7727***
Irregularity	0.0789	1	0	0.2733	3.1229	10.7524	156.9225***
Policy	0.1316	1	0	0.3426	2.1798	5.7515	42.0801***
Repeat	0.1053	1	0	0.3110	2.5725	7.6176	75.6727***
Δ EPS	0.0737	214.2800	-123.1900	56.6020	1.1140	8.2141	46.8868***
Prior Δ EPS	-23.7824	58.4900	-664.4400	121.7055	-4.5990	23.8194	755.4884***
EarnPos	0.2424	1	0	0.4352	1.2021	2.4450	8.3710***
EarnNeg	0.2424	1	0	0.4352	1.2021	2.4450	8.3710***
Size	20.7466	26.7428	16.3061	2.6878	0.5586	2.6972	2.1210***
Return	-23.5347	330.9749	-112.5247	75.7609	2.7331	13.6492	226.8688***

Note(s): Table 1 reports the descriptive statistics for the model variables. *, ** and *** indicate significance at the 10%, 5% and 1% levels respectively

Source(s): Authors' own work

change in EPS in the preceding period was substantial and negative (−23.78%). The average cumulative return in the year prior to the announcement of the restatement is negative, suggesting that investors viewed the performance of these firms unfavourably prior to the firms restating their financials. The market capitalisations of the firms vary markedly with several very small and large firms.

The correlation heatmap in Figure 2 shows, as expected, strong positive correlation (dark pink) among the three CAR measures. King IV exhibits minimal correlation with any CAR measure (almost white), suggesting limited market response to restatements after the introduction of King IV. Restatements due to policy changes also show little association with CARs (almost white), while restatements due to errors and irregularities display opposite properties, with irregularities strongly negatively correlated with CARs (blue), consistent with expectations, whereas restatements due to accounting errors show a mild positive correlation (light pink). Correlations are generally low among the other variables, with the only notable case being between the indicator variables error and irregularity (dark blue), attributable to their near mutual exclusivity.

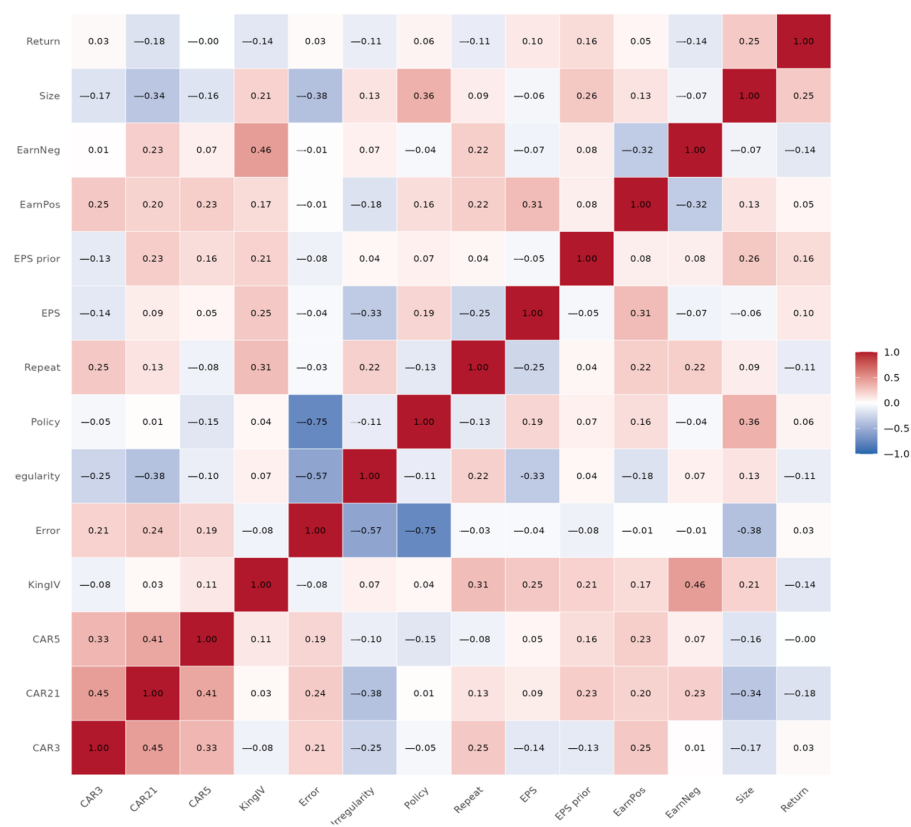


Figure 2. Correlation heatmap. Figure 2 presents the correlation matrix, with colour intensity reflecting the strength and direction of the relationships. Dark blue denotes strong negative correlation while dark pink represents strong positive correlation, with lighter colours reflecting weaker associations. Source: Authors’ own work

4.2 Market reaction

The AAR and CAAR results from the event study are reported in [Tables 2 and 3](#). Isolated significant negative abnormal returns are observed 9 days (-1.45%) and 1 day (-1.85%) prior to the event. This is consistent with a majority of firms (66% and 61%, respectively) experiencing negative abnormal returns on these pre-event days. The abnormal return on the announcement day (t_0) is negative but statistically insignificant and none of the post-announcement day abnormal returns are significant. This aligns with less than half the sample exhibiting negative abnormal returns on the announcement day or thereafter (except for t_{+1} and t_{+9}). This pattern indicates substantial heterogeneity in firm responses and suggests that positive and negative reactions largely offset each other in the aggregate. [Figure 3](#) confirms that the CAAR declines prior to the announcement, before stabilising around the announcement date and persisting thereafter. Importantly, however, the CAARs over the 21-day, 5-day and 3-day event windows ([Table 3](#)) are statistically insignificant. Accordingly, the results point to the absence of a systematic market reaction to financial restatement announcements in South Africa.

While the negative abnormal returns observed prior to the announcement may reflect market anticipation or information leakage ([Hribar and Jenkins, 2004](#)), these effects are not persistent and do not translate into a statistically significant cumulative market response. As such, the pre-announcement price movements are more consistent with normal return volatility and idiosyncratic firm-level price movements than with systematic incorporation of restatement-related information.

The absence of a significant response contrasts with expectations that markets should respond negatively to financial restatements either because of the detrimental impact of the restatement on future cash flows and/or on the firm's reputation ([Fragoso et al., 2020](#)). Our

Table 2. Event window AARs and CAARs

Day	AAR	<i>t</i> -statistic (AAR)	% Negative AR	CAAR	<i>t</i> -statistic (CAAR)
t_{-10}	0.5920	0.7244	32	0.5920	0.7244
t_{-9}	-1.4544	-2.6783***	66	-0.8623	-0.8617
t_{-8}	0.0548	0.0753	53	-0.8075	-0.7111
t_{-7}	0.8249	0.9646	39	0.0174	0.0113
t_{-6}	-3.9271	-1.5283	50	-3.9097	-1.1953
t_{-5}	-0.5355	-0.3121	55	-4.4453	-0.9361
t_{-4}	-1.4375	-0.9767	53	-5.8827	-0.9731
t_{-3}	1.2891	1.0362	37	-4.5936	-0.9304
t_{-2}	1.3257	0.6477	29	-3.2680	-0.6775
t_{-1}	-1.8524	-2.0344***	61	-5.1204	-0.9893
t_0	-1.1314	-0.5259	45	-6.2519	-1.1289
t_{+1}	0.0493	0.0442	53	-6.2025	-1.1125
t_{+2}	-0.4184	-0.2998	32	-6.6209	-1.2215
t_{+3}	0.1702	0.1718	45	-6.4507	-1.0917
t_{+4}	-0.0237	-0.0168	34	-6.4744	-0.9177
t_{+5}	0.1204	0.1720	45	-6.3540	-0.9014
t_{+6}	1.3191	0.9284	39	-5.0349	-0.6752
t_{+7}	-0.0191	-0.0250	37	-5.0540	-0.6762
t_{+8}	0.0647	0.0765	42	-4.9893	-0.6605
t_{+9}	-0.4395	-0.4485	55	-5.4288	-0.7130
t_{+10}	0.1928	0.2344	45	-5.2361	-0.6992

Note(s): [Table 2](#) reports the AARs and CAARs for each day in the event window. *, ** and *** indicate significance at the 10%, 5% and 1% levels respectively. Also shown is the percentage of announcements in the sample (total of 38) that yielded a negative AR on each day

Source(s): Authors' own work

Table 3. 21-day, 5-day and 3-day CAARs

Event window	Panel A: All CAAR	t-statistic	Panel B: Positive EPS adjustments CAAR	t-statistic
[−10; +10]	−5.2361	−0.6992	−1.6095	−0.3124
[−2; +2]	−2.0272	−0.9956	−3.3636	−0.8153
[−1; +1]	−2.9345	−1.5193	−4.6311	−1.4069

Note(s): Table 3 reports the CAAR over three event windows: 21, 5 and 3 days for all announcements (Panel A) and for those announcements resulting in a positive adjustment to prior EPS (Panel B). *, ** and *** indicate significance at the 10%, 5% and 1% levels respectively

Source(s): Authors’ own work

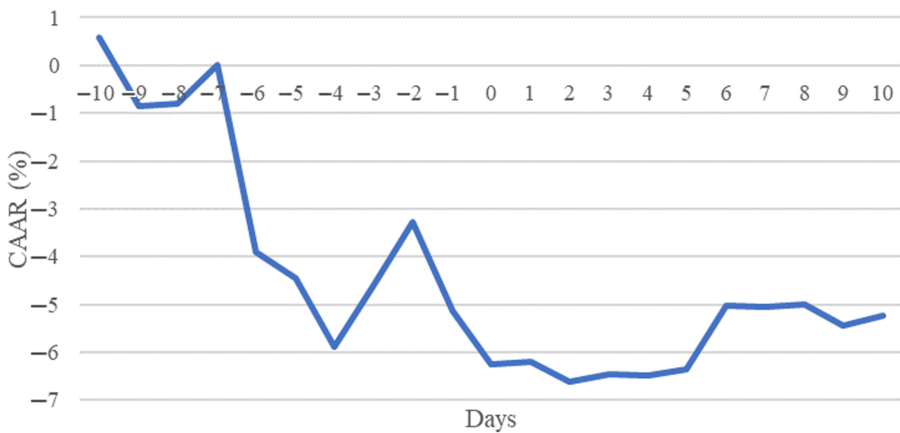


Figure 3. 21-day CAAR. Figure 3 presents the 21-day CAAR for the 38 financial restatements in the sample. Source: Authors’ own work

findings also differ from the international literature, including studies documenting strongly negative reactions in the United States (Hribar and Jenkins, 2004; Palmrose *et al.*, 2004) and comparatively more muted but still negative reactions in Canada (Robbani and Bhuyan, 2010), Germany (Hitz *et al.*, 2012) and China (Wang and Wu, 2011). The results also differ from prior South African evidence which documents negative abnormal returns (Watson and Coetzee, 2012; Watson and Rossouw, 2012). Several factors may explain this divergence. Restatement announcements in South Africa often coincide with other disclosures, such as earnings updates, that convey offsetting information, making it difficult for investors to isolate the valuation impact of the restatement itself. In addition, investors may perceive restatements as technical corrections rather than signals of governance failure, particularly in a market characterised by a relatively strong auditing profession and governance framework. Investors may already be aware of the underlying issues, such as when Steinhoff announced its restatement in December 2017 (Rossouw and Styan, 2021). Importantly, improvements in disclosure practices and corporate governance over time, most notably following the introduction of the King IV code in 2017, may have reduced the informational surprise associated with restatements, leading them to be interpreted as part of a transparent corrective reporting process rather than as evidence of misconduct. It should further be noted that the prior South African studies (Watson and Coetzee, 2012; Watson and Rossouw, 2012) focus exclusively on forced restatements resulting from GAAP Monitoring Panel investigations, which represent a more severe subset of restatements than the broader mix of accounting

irregularities, errors and policy changes examined in this study. Their sample composition is likely to have contributed to the stronger negative reaction. Together, these factors may attenuate market reactions to restatement announcements relative to both earlier South African studies and international findings.

As 31.58% of the restatements (12 of 38) result in an increase in prior EPS, we also estimate the CAAR for these announcements separately (Panel B, [Table 3](#)). Although the 21-day, 5-day and 3-day CAARs remain negative, none are statistically significant. This differs from [Palmrose et al. \(2004\)](#) who find a significant negative response to restatements that increase income in their sample. In our sample, the absence of a significant response suggests that restatements which increase reported earnings are not viewed as distinct from other restatements. Accordingly, the lack of a significant market reaction in the full sample does not appear to be driven by income-increasing restatements.

4.3 Differences in CARs across sub-groups

The results of the comparison of means across sub-groups are presented in [Table 4](#). The mean 21-day and 5-day CARs are higher in the post-King IV period as reflected by the positive mean differences (Panel A); however, these differences are statistically insignificant. The mean difference in 3-day CARs is negative, but likewise insignificant. Overall, there is no evidence to support the hypothesis that the introduction of King IV altered the magnitude of market reactions to restatement announcements. The absence of a differential market response does not provide support for either of the competing hypotheses. Investors do not appear to have interpreted restatements as more serious failures of board oversight in the post-King IV period, nor is there evidence of a more muted response consistent with restatements being viewed as part of a transparent corrective process under the principles-based governance framework. This may indicate that investors place greater weight on firm-specific information conveyed by individual restatements than on the broader governance regime within which they occur. It may also reflect the possibility that investors regarded South Africa's governance environment as relatively strong even prior to King IV, limiting the incremental impact of the governance transition on how restatements are interpreted.

Given the relatively small sample size and hence low statistical power, we evaluate whether this finding of no statistically significant difference in mean CARs across sub-groups reflects the absence of an effect or insufficient statistical power to detect an effect using the minimum detectable effect (MDE) ([Dufo et al., 2007](#)). The MDE is the smallest true difference in means that the study could reliably detect given the sample size and variance. The MDE was calculated assuming a two-sided test with a 5% significance level and 80% power. [Table 4](#) reports these values. For the 21-day, 5-day and 3-day CARs, the absolute MDEs of 42.75%, 11.57% and 11% imply that differences smaller than these respective thresholds would not be detectable with reasonable power. Thus, while we do not observe a statistically significant difference between the pre- and post-King IV period CARs, the analysis is only sensitive to relatively large effects, especially over the 21-day window. Smaller but potentially meaningful differences cannot be ruled out.

Restatements attributed to errors are associated with a higher CAR while those attributable to irregularities yield lower CARs especially over a 21-day horizon (mean difference of -64.03%) (Panels B-D). Although the mean CARs vary across sub-groups, these differences are not statistically distinguishable from zero. The MDE results confirm that the study only has power to detect relatively large differences between groups. For example, for accounting irregularities, a true difference of more than 21.34% in the 5-day CAR would be required to achieve statistical significance.

Although none of the mean CAR differences across restatement types are statistically significant, restatements attributed to irregularities exhibit the most negative mean CARs, consistent with stronger market penalties for disclosures associated with fraud or corruption ([Palmrose et al., 2004](#)). Policy-related restatements also show negative CARs over shorter

Table 4. Comparison of means across sub-groups

CAR	Mean difference (%)	Welch <i>t</i> -test	Wilcoxon test	MDE (%)
<i>Panel A: King IV</i>				
21-day	3.105	−0.2216	136	42.754
5-day	2.6502	−0.6556	150	11.5653
3-day	−1.8199	0.4903	212	11.0004
<i>Panel B: Error</i>				
21-day	26.7327	−0.836	89	50.659
5-day	5.8763	−1.572	73	13.918
3-day	5.9576	−1.1289	100	13.1657
<i>Panel C: Irregularity</i>				
21-day	−64.029	0.7069	66	72.9945
5-day	−4.6111	1.4608	75	21.3387
3-day	−11.0904	0.8996	66	19.674
<i>Panel D: Policy change</i>				
21-day	1.8619	−0.2105	100	62.9183
5-day	−5.613	1.1023	107	16.9069
3-day	−1.608	0.37	89	16.2116
<i>Panel E: Repeat</i>				
21-day	19.2064	0.9014	78	68.727
5-day	−3.063	−0.5236	60	18.791
3-day	9.6038	0.9392	65	17.304

Note(s): Table 4 reports the mean differences in 21-, 5- and 3-day CARs across sub-groups defined by the introduction of King IV (Panel A), the reason for the restatement (Panels B–D) and whether the firm has previously issued a restatement (Panel E). For each comparison, the mean difference is computed as the average CAR for observations classified as belonging to that group minus the average CAR for the remaining observations. For each comparison, the table presents results from the Welch *t*-test and Wilcoxon rank-sum test together with the absolute value of the minimum detectable effect (MDE), which indicates the smallest difference in means that the study has sufficient power to detect at the 5% significance level with 80% power. *, ** and *** indicate significance at the 10%, 5% and 1% levels respectively

Source(s): Authors’ own work

horizons, suggesting that accounting policy changes may signal lower expected future cash flows, in contrast to [Akhigbe et al. \(2005\)](#). By comparison, error-related restatements are associated with positive mean CARs across all windows, possibly because investors view such errors as isolated rather than symptomatic of broader governance failures ([Callen et al., 2006](#)).

Finally, the results in Panel E show that firms with a history of prior restatements do not exhibit consistently lower CARs across window periods as both the Welch *t*-test and Wilcoxon rank-sum tests indicate that these differences are insignificant. This differs from the findings of [Gondhalekar et al. \(2012\)](#) and [Mun \(2022\)](#). The small number of repeat offenders in the sample may be a contributing factor, as shown by the MDE values.

4.4 Robustness tests

The results from the regressions conducted for the purposes of robustness are shown in [Table 5](#). There is limited evidence that the introduction of King IV systematically altered market reactions to financial restatements across event windows as the King IV indicator is negative and statistically significant only for the 3-day CAR (−3.75%). This aligns with the negative mean difference across the sub-groups for the 3-day CARs (see [Table 4](#)), suggesting more negative short-term market responses after the introduction of King IV, as per [Jategaonkar et al. \(2012\)](#). However, this effect does not persist over longer horizons and becomes

insignificant in the presence of other variables. Irregularity-related restatements are associated with significantly more negative 3-day CARs (−13.15%), consistent with the market penalising disclosures perceived as more severe. This also follows the negative mean differences observed in Table 4 across sub-groups sorted based on this characteristic. Policy-related restatements show evidence of a negative association but only with the 21-day CAR (−3.62%). Overall, the results suggest that the market responds more to restatements caused

Table 5. Cross-sectional regression results

	Model (1)	Model (2)	Model (3)	Model (4)	Model (5)
<i>Panel A: 21-day CAR</i>					
King IV	−3.8470			−0.5733	2.7047
Error		0.3919		−2.6239	28.6158
Irregularity		−64.2101		−74.8995	4.1105
Policy		−3.6192**		−3.2752	22.2884
Repeat			11.9486	33.2147	−12.8541
EarnPos					28.7688**
EarnNeg					10.9473*
Return					−0.0759**
Size					−1.7423
ΔEPS					−0.0413
Prior ΔEPS					0.0685***
Adj. R-squared	−0.023	0.0833	−0.0197	0.0804	0.2428
<i>Panel B: 5-day CAR</i>					
King IV	−0.8416			3.9793	3.9225
Error		−0.7901		−2.3979	24.9982
Irregularity		−6.2743		−7.2120	17.3424
Policy		−6.9017		−9.2893	20.4267
Repeat			−4.7678	−5.1457	−3.1988
EarnPos					13.2472*
EarnNeg					2.1792
Return					0.0113
Size					−1.4824
ΔEPS					−0.0339
Prior ΔEPS					0.0218
Adj. R-squared	−0.0245	−0.0177	−0.0114	−0.0474	−0.1479
<i>Panel C: 3-day CAR</i>					
King IV	−3.7487**			−3.9764	−0.7096
Error		−1.6803		−0.9769	−1.2976
Irregularity		−13.1494*		−15.2228	1.3805
Policy		−4.3310		−1.9452	−1.9528
Repeat			5.6583		−4.9438
EarnPos					4.4511
EarnNeg					3.0585
Return					0.0245
Size					−0.1479
ΔEPS					−0.0348
Prior ΔEPS					−0.0110
Adj. R-squared	−0.0230	0.0501	−0.0034	0.1224	−0.2177

Note(s): Table 5 reports regression results examining the effects of the introduction of the King IV code, the reason for the restatement (accounting error, irregularity or policy change) and whether the firm has previously issued a restatement, together with a set of control variables, on 21-, 5- and 3-day CARs in Panels A, B and C respectively. Newey–West heteroscedasticity and autocorrelation standard errors are used. *, **, and *** indicate significance at the 10%, 5% and 1% levels respectively

Source(s): Authors' own work

by accounting irregularities and accounting policy changes than errors. However, both become insignificant after controlling for other variables. The regression results also confirm the conclusion from the comparison of means that the market does not respond differently to firms that have restated their financials previously.

Among the control variables, concurrent earnings announcements are associated with stronger market reactions over the 21-day window, with larger effects for positive than negative earnings news (28.77% and 10.95%, respectively). Positive earnings announcements are also positively related to the 5-day CAR. The amplified CARs when restatements occur simultaneously with earnings updates suggest that the market response to earnings information may dominate the restatement effect. While the positive response to good news is expected, the favourable reaction to negative earnings announcements may reflect that the news is less adverse than anticipated or that investors incorporate other price-relevant information not captured in the financial statements (Chen and Tiras, 2015). Consistent with Files *et al.* (2009), these results suggest that firms may combine restatement disclosures with earnings announcements to mitigate potential reputational damage. The size of the firm does not significantly impact the CAR (Fragoso *et al.*, 2020). Although smaller firms are typically subject to greater information asymmetry and less analyst coverage, these results suggest that restatement announcements convey limited incremental information to the market.

The cumulative returns in the run-up period have a negative impact on the 21-day CAR, consistent with expectations that firms with stronger prior returns are more affected as the market is surprised by the restatement (Fragoso *et al.*, 2020). The prior-period EPS revision is positively related to the 21-day CAR, indicating that the magnitude and context of earnings information play an important role in shaping investor responses, as found by Thompson and McCoy (2008). Overall, however, explanatory power is limited.

5. Conclusion

This study investigates the stock market response to financial restatement announcements by firms listed on the JSE between 2007 and 2023, with particular attention to the impact of the King IV corporate governance framework and the reason for the restatement on the market response. Using an event study, we find that CARs across standard event windows are negligible, suggesting markets show limited response to restatement announcements. Differences in market reactions across the pre- and post-King IV periods, across restatement reasons and between firms with and without prior restatements are economically immaterial.

Overall, the findings reveal that in the South African context financial restatements are not systematically perceived as price-relevant shocks and that the introduction of King IV had little impact on stock market reactions. The finding of limited market response differs from the results of international studies, including a strong negative market reaction in the United States and a more muted but still negative response in other markets (Palmrose *et al.*, 2004; Wang and Wu, 2011; Hitz *et al.*, 2012). The absence of a market response implies that investors may view many restatements as technical corrections within a relatively strong governance and enforcement environment in South Africa rather than as a signal of reporting failure. At the same time, the MDE analysis indicates that the study only has power to detect relatively large differences in market reactions, implying that smaller but meaningful effects cannot be ruled out. The results also deviate from prior South African studies of a negative market reaction (Watson and Coetzee, 2012; Watson and Rossouw, 2012), which can be attributed to the broader sample of financial restatements examined in this study compared to only forced restatements analysed in prior work. The absence of a differential market response across the pre- and post-King IV periods does not support either competing hypothesis, suggesting that investors place greater weight on firm-specific information conveyed by individual restatements rather than the governance regime or that South Africa's governance environment was perceived as relatively strong even prior to King IV.

For market participants, these results suggest that, on average, restatement announcements do not provide strong standalone trading signals in the South African context, though reputational costs and regulatory scrutiny may still arise in cases involving accounting irregularities. For policymakers, the findings highlight the importance of a strong governance framework to minimise negative effects of restatements on public trust in financial markets and suggest that well-functioning governance environments may limit adverse spillovers to market confidence and capital flows. More broadly, the findings caution against generalising evidence from larger, developed markets to well-regulated emerging market settings. Much of the existing evidence on market reactions to restatements is drawn from the United States, whose institutional features cannot be assumed to apply elsewhere. Our finding that South African investors do not respond systematically to restatement announcements despite a well-developed governance framework and disclosure environment underscores the value of evidence grounded in Majority World contexts for developing a more complete understanding of how investors respond to financial restatements (Uddin, 2025).

This study is subject to several limitations. Financial restatements are relatively rare in South Africa, resulting in a small sample that constrains statistical power and limits generalisability. The disaggregation of this sample across subgroups, namely the pre- and post-King IV periods, restatement types and firms with and without prior restatements, further reduces the number of observations available for each grouping, constraining the strength of inferences that can be drawn from the subgroup analyses. These results should therefore be interpreted as reflecting average market responses within this institutional setting and period. Future research could benefit from larger cross-country samples or longer horizons. Endogeneity is a concern given the co-occurrence of financial restatement announcements and earnings disclosures. Although we control for concurrent earnings news, future studies using larger samples could explicitly distinguish between clean restatement events and those accompanied by earnings updates. While this study focuses on the King IV governance regime, the King V Report effective for financial years ending after 1 January 2026 may further shape how investors interpret financial reporting quality and corrective disclosures.

Acknowledgments

The authors would like to thank the participants of the 2nd Corporate Governance Conference (December 2023) in Stellenbosch, South Africa for valuable feedback.

Notes

1. We also test the significance using the standardised cross-sectional test which controls for event-induced volatility and serial correlation, and the non-parametric sign test which is less sensitive to violations of the normality assumption (Brown and Warner, 1980, 1985). Our results are robust to the use of these alternative tests.
2. We consider a ten-year period before the start of the sample for this measure.

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