Directors' report disclosures: the need for guidelines on form and content.

Masters thesis by

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Declaration

I, Cheyeza Claudia Makumbila, declare this thesis entitled "Directors' report disclosures: the need for guidelines on form and content" is the result of my own research except as cited in the references. The thesis has not been submitted to any university other than Witwatersrand nor accepted in candidature of any other degree.

Signature : ______________________________________

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Abstract

Issue: The South African Auditing Practice Statement 3 (Revised November 2015) (SAAPS 3), *Illustrative reports* issued by the Independent Regulatory Board for Auditors (IRBA) with the aim of providing practical guidance on expressing an opinion on financial statements. SAAPS 3 states that the nature of the directors' report, combined with the absence of suitable criteria by which the report may be evaluated, has the effect of excluding the directors' report from the scope of the auditor's opinion on the full set of related financial statements. However, drawing from the requirements of the Companies Act 2008, auditors are required to express an opinion on the directors' report because it constitutes part of the complete set of annual financial statements .

Purpose: This paper investigates which companies currently disclose what in their directors' report. The study is done to determine if the disclosure items within the directors' report are not enough criteria to be considered for evaluation of the reports during an audit of financial statements. The study also investigates what the perceptions of the users of financial statements are regarding which disclosures they perceive to be important in the directors' report. The purpose is to assess the need for conceptual guidelines on the disclosure and to propose a disclosure framework with suitable criteria developed from the findings of the study. The aim is for the framework to assist in resolving the issue arising from SAAPS 3, which excludes the directors' report from the audit and to allow for an audit on the directors' report.

Design/methodology/approach: Data are collected and analysed using a multi-phase approach. Firstly a qualitative method (thematic content analysis) was used to collect data on what companies are including in their director reports. Secondly data on users' perceptions of director report disclosures were collected using an online questionnaire.

Findings: The findings show that the directors' report as separate report and directors' report together with the corporate governance report disclosure patterns as well as the governance structure are similar for all entities. The similarities in the reports exist even when listing; industry and size differences are taken into account, so the differences have no impact on the disclosures. The similarities result from companies implementing international disclosure patterns combined with local disclosure patterns. Companies take their cues from their peers resulting in mimetic isomorphism. Given the presence of the isomorphic forces which drive consistency on the types of disclosures for the directors' report, there appears to be criteria which can be used for the directors' report evaluation and therefore a disclosure framework is proposed.

Keywords: SAAPS 3; Directors' Report; Disclosures; King IV.

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Chapter 1: Introduction

1.1) Statement of the problem

The South African Auditing Practice Statement 3 (Revised November 2015) (SAAPS 3), *Illustrative reports* was issued by the Independent Regulatory Board for Auditors (IRBA) with the aim of providing practical guidance concerning expressing an opinion on financial statements (IESBA, 2015). SAAPS 3 states that the nature of the directors' report, combined with the absence of specific suitable criteria against which the report may be evaluated, has the effect of excluding the directors' report from the scope of the auditor's opinion on the full set of related financial statements (IESBA, 2015). SAAPS 3's wording has the effect of excluding the directors' report as part of the full set of financial statements to be audited as required by the law which regulates companies.

When drawing from the requirements of the Companies Act (2008), as discussed in Section 2, auditors are required to express an opinion on the directors' report because it constitutes part of the complete set of annual financial statements. As stated by Maroun and Wainer (2014), the wording of the Companies Act explicitly includes the directors' report as part of the complete set of annual financial statements (Companies_Act, 2008). As a result of the inconsistency between what the Companies Act and SAAPS 3 state concerning what is regarded as the full set of financial statements to be audited, this paper will investigate what companies currently disclose in their directors' report. The investigation of disclosures is undertaken to assess if there is a lack of suitable criteria for evaluation by auditors given the current nature of the directors' report disclosures.

The relevance of this research is in ensuring that the law is fully complied with, because "based on the wording in the Companies Act (2008), it is simply not open to an auditor (or indeed the IRBA or even the Companies Commission) to exclude the directors' report from the prescribed complete set of financial statements which are subject to an audit opinion as required by the Act" (Maroun and Wainer, 2014).

1.2) Purpose of the research

This paper investigates what companies currently disclose in their directors' report. The study is undertaken to determine whether the nature of the disclosure items within the directors' report cannot be considered as enough criteria to be used for evaluation of the report during an audit of the full set of financial statements. The study also investigates what the perceptions of the users of financial statements are with regards to which disclosures they deem are important to be included in the directors' report. If the results and the findings of the research indicate the need for guidelines, the study aims to be the first step towards the development of a directors' report disclosure framework (Cohen et al., 2002). A disclosure framework will be suggested with suitable criteria developed from the findings the study in anticipation that it may assist in resolving the issue arising from SAAPS 3 as discussed in Section 1.1 and allow for an audit on the directors' report.

1.3) The significance of the study

The research makes a practical contribution by developing the first directors' report disclosure framework with the aim of providing conceptual guidelines for the evaluation of these reports by auditors. The uncertainty auditors have concerning the evaluation of the directors' report is addressed through the first step towards the development of a disclosure framework to provide guidance on what suitable criteria is, with regards to what companies disclose in their directors' report. The framework can provide auditors with a basis for determining whether or not these disclosures can be the subject matter of an audit engagement (Cohen et al., 2002, Cohen and Hanno, 2000). This research is relevant because as a result of the findings of this study suitable criteria will be determined which auditors can use to evaluate the directors' report. Consequently the auditors' opinion will be based on the complete set of annual financial statements as defined by the Companies Act (2008) and at the same time resolve the issue that arises from SAAPS 3 which contradicts the Companies Act.

The framework will not only be useful for the evaluation by auditors but will also provide guidance for the preparers of the directors' report clarifying what to include and what not to include in these reports. The framework may prove useful to the intended users in assessing the report and aiding users of financial statements in making informed decisions.

1.4) Research questions

The research questions which the paper is attempting to answer are:

1. What do companies disclose in their directors' report?
2. Which disclosures do users perceive as important in the directors' report?

The research questions are identified, firstly to understand what companies disclose within a directors' report. The first question is relevant because to be able to understand the difficulty of assessing the directors' report because of the lack of suitable criteria as stated by SAAPS 3, it is important to identify what items companies are disclosing in these reports.

Understanding what companies disclose in their directors' report will enable the researcher to identify whether there is existence of inconsistencies with regards to what different companies disclose in their directors' report. As stated by SAAPS 3 that there is a lack of suitable criteria to evaluate the directors' report, this may be indicative of the fact that there are inconsistencies in the directors' report disclosures of different companies. However to be able to reach a conclusion about the disclosures, the researcher investigates what companies disclose in the directors' report (please see section 5.1).

In addition to the research of identifying what companies are disclosing in the directors' report, an investigation is done by the researcher to understand which disclosures users of financial statements perceive to be important for inclusion in the directors' report. The investigation is conducted to identify whether the is a perception/expectation gap between what companies deem as relevant disclosures compared to what users deem as relevant disclosures. Therefore from the results of these investigations if a gap is identified, the disclosure framework to be developed will also attempt to bridge the gap so that there can be consensus between what companies disclose and what users require as disclosures.

More importantly the research questions have been identified to assess and develop a solution to the inconsistencies between what the full set of financial statements are that need to be audited as stated by SAAPS 3 and the Companies Act. SAAPS 3 excludes the directors' report as part of the full set of financial statements to be audited, while the Companies Act (2008) includes the directors' report as part of the full set of financial statements to be audited. SAAPS 3 excludes the directors' report on the basis that it lacks suitable criteria for evaluation. The purpose of the research is to assess the whether there is lack of suitable criteria by using the research questions as identified above, and to suggest guidance for the disclosures if the directors' report lacks suitable criteria for evaluation by auditors.

1.5) Assumptions, limitations and delimitations

This study is based on the directors' report disclosures made by companies in their 2016 and 2017 year ends. A limitation exists because the study is confined to two years and no any other years of disclosures will be addressed. These two years were chosen because they represent the latest published annual/ integrated reports and are relevant because the study analyses what companies are currently disclosing in these reports. The two years take into account the latest developments in corporate governance, specifically changes made in accordance with King IV recommendations. The size of the sample is 100 JSE-listed companies: the directors' reports were content analysed using thematic content analysis (see Section 3.1) (Braun and Clarke, 2006).

Thematic content analysis is defined by other researchers as a method for the subjective interpretation of the content of text data through the systematic classification process of coding and identifying themes or patterns (Hsieh and Shannon, 2005). A limitation exists because of the subjective interpretation of the directors' report will be exposed to when data is collected. The limitation arises as a result of the method to be adopted. In order to curtail researcher subjectivity, the reports were only analysed for the presence or absence of specific disclosures and the quality of the disclosures was not addressed (Naynar et al., 2018, Raemaekers, 2015, Maroun et al., 2018).

The scope of the research includes the analysis of companies with primary listing on the JSE which have consistently published annual/integrated reports. Because of the JSE hosting almost 400 companies on the main board, the researcher did not examine all companies listed on the JSE: the sample only included 100 entities listed on the main board. In order to retain the South African-specific focus of this study, directors' report disclosure trends in other jurisdictions were not dealt with (Raemaekers, 2015). Due to the restrictions on sample sizes as mentioned above that only 100 entities are used and the nature of the interpretive analysis method over the data, findings may not be reproduced, and conclusions may not be generalisable (Leedy and Ormrod, 2010).

The second method of collecting data being a questionnaire (see Section 3.1) , it is acknowledged that a lower than expected response rate is a possibility because the return rate for questionnaires tends to be less than 50% (Leedy and Ormrod, 2010, Naynar et al., 2018, Barrett and Kline, 1981, Solomon et al., 2000). Furthermore, response bias may be found due to reliance on 'self-report' data, which means that the respondents will be articulating what they believe to be true or what they think the researcher wants to hear (Leedy and Ormrod, 2010). As a result, this is deemed to be a limitation in the second method. The limitation will be addressed by the fact that each individual will have the opportunity to complete the questionnaire separately and will not be influenced by the perceptions of other respondents.

Chapter 2: Background/ Literature review

2.1) Corporate governance and the director's report

The directors' report is a statutory document produced by the board of directors as required by Companies Act (2008). The board of directors have to produce the directors' report as it is statutorily part of the annual financial statements as it part of the full set of financial statements and directors do not have the option of excluding the report (see Section 2.3) (Companies_Act, 2008). The report details the state of affairs of the company, and it arose out of a general move for greater transparency and accountability in corporate governance (Rossouw et al., 2002, Vaughn and Ryan, 2006). The directors' report tends to be interlinked with the corporate governance report because it reports on matters directly relating to the responsibilities and duties of directors. The sections which follow will discuss the origin of corporate governance in South Africa and the requirements of the Companies Act

(2008) outlining the relationship between the directors' report disclosures and the directors' reporting responsibilities.

2.1.1) Corporate governance in South Africa.

Corporate governance in South Africa was not motivated by any significant crisis in the corporate sector like in the case of a few other countries such as the USA where the Sarbanes-Oxley (SOX) Act of 2002, was enacted following the demise of firms like Enron and WorldCom (Armstrong et al., 2006, Romano, 2004, Maroun et al., 2014). Corporate governance in South Africa was motivated by concerns about competitiveness following the re-admission of South Africa to the global economy after its transition to a fully-fledged democracy after the end of Apartheid (Armstrong et al., 2006, Rossouw et al., 2002, Ntim et al., 2012, Maroun, 2012).

The Apartheid era started in 1948 and ended in 1994 and, until the early 1990s, the South African (SA) economy was virtually isolated from the worldwide market. The SA economy was characterised by a small number of businesses which dominated the economy (Armstrong et al., 2006, Vaughn and Ryan, 2006). The businesses were constituted of mining finance houses with diverse operations and investments functioning mainly in South Africa on account of stringent exchange control limits and the political isolation of the economy (Armstrong et al., 2006). The conflict in South Africa for four decades caused by Apartheid led to concentrated ownership in the hands of the minority white population; this resulted in a division of society on economic and racial lines (Nag, 2015). The consequence of this was that the appropriate functioning of market mechanisms and good corporate governance practices of transparency and disclosure were largely restrained, and were accompanied by excessive complacent private sector management which did not make matters better either because there was no transparency in disclosures (Armstrong et al., 2006, Vaughn and Ryan, 2006).

At the same time, the capital and money markets matured and became well developed by emerging market standards, they were still dominated by a small number of large insurance and pension funds with common ownership structures in which the same private sector institutions were central (Armstrong et al., 2006). Consequently, utilities, infrastructure industries and critical strategic sectors of the economy fell under state-owned entities where the rationale for government involvement was overtly political, and there was no concern given to issues of corporate governance (Armstrong et al., 2006, Kakabadse and Korac-Kakabadse, 2001, Van Zijl et al., 2017).

By the advent of a democratic political dispensation in 1994, South Africa's economy was in an advanced state of decline because of political isolation, inward-looking economic policies and decades of racial exclusion (Armstrong et al., 2006). The economy was vulnerable to external forces because of insufficient net inflows and an unattractive investment climate. The vulnerability motivated a policy of economic liberalisation, with particular emphasis placed on capital market development and corporate governance reform (Armstrong et al., 2006, Kakabadse and Korac-Kakabadse, 2001). Investors demanded reform in both corporate structures and corporate governance practices in exchange for their investment of capital (Kakabadse and Korac-Kakabadse, 2001). Investors wanted assurances that corporations practiced accountability, transparency, and fairness to all stakeholders. These demands were addressed by the King Committee which issued King-I in 1994: this was the first step towards the provision of guidance on good corporate governance for companies (Vaughn and Ryan, 2006). The development of the corporate governance principles demanded by stakeholders is discussed in the next section.

2.1.2) The King Committee and the King Code Report.

Corporate governance has evolved since the formation of the King Committee on Corporate Governance (referred to as King Committee) in 1992 at the instigation of the Institute of Directors of Southern Africa (IoD) (Armstrong et al., 2006). The King Committee was established with the aim of researching and making recommendations on corporate governance in South Africa (Hendricks and Wyngaard, 2009, Kakabadse and Korac-Kakabadse, 2001). The Committee has no official mandate, unlike nearly all other similar initiatives globally, and its recommendations are self-regulatory (Hendricks and Wyngaard, 2009).

The Committee has made an essential contribution to the progress of corporate governance reform in South Africa (Hendricks and Wyngaard, 2009). The extent and sophistication of these reform measures have placed South Africa in the top ranks of developing market economies, and in some cases, even alongside some of the most developed markets (Hendricks and Wyngaard, 2009). The committee's role is to make recommendations on a code of conduct, setting out best business practices, including ethical practices for all types of business enterprises: for example, the internal and external relationships in enterprises to enhance the standards of ethics in business (Rossouw et al., 2002, IoD, 2016).

The USA and UK approach to corporate governance

The recommendations developed by the King Committee are heavily informed by those of the United Kingdom's corporate governance approach, such as Cadbury Report of 1992, rather than the United States of America's (USA) approach to corporate governance (Andreasson, 2011, Ntim et al., 2012, Kakabadse and Korac-Kakabadse, 2001). The critical distinction between U.S. and U.K. corporate governance lies in the regulatory methods and styles adopted by each country (Andreasson, 2011). The United States has adopted a prescriptive regulatory approach. The approach is based on a formal legalism in the context of a litigation culture which stands in contrast to the principles-based approach of the United Kingdom (Andreasson, 2011, Romano, 2004).

The US approach is generally referred to as rules-based, while the UK approach to corporate governance is considered more flexible and is typically described as a principles-based approach (Garrett, 2007). The rules-based approach operates on the assumption that, if the rules do not explicitly prohibit an action, it is permissible. Under the principles-based approach, guidelines are set out, but companies voluntarily decide whether to comply. Typically, if they choose not to comply, the companies must explain to investors that they did not comply, and explain the reasons for non-compliance (Garrett, 2007).

South Africa's colonial legacy and resultant ties with Britain have ensured that corporate governance practices be adopted mainly from the U.K. (Andreasson, 2011). The King Committee and others who were involved in shaping South Africa's evolving corporate governance regime understand the U.K. link as very important, concerning the establishments and history. Therefore, the South African corporate governance and corporate culture are firmly rooted in the British tradition of corporate governance (Andreasson, 2011).

The first King Code report was published in 1994, and the latest was published in 2016. Four reports have been issued so far, the first in 1994 (King I), the second in 2002 (King II), the third in 2009 (King III) and the fourth revision (King IV) in 2016. The first King Code report on corporate governance (King I) established the first standards of conduct for the board of directors of listed companies, banks, and certain state-owned entities (IoD, 1994). The standards not only include financial and regulatory aspects but also advocate for an integrated approach to business management which takes into account the legitimate interests of all stakeholders (Dekker and Holverda, 2002).

In 2002, the Earth Summit was held in Johannesburg at which Mervin King pushed for a revision of King-I to include new sections on sustainability, the role of the corporate board and risk management. King-II was issued and replaced King-I (IoD, 2002). The revised code of governance was applicable from March 2002 (Monks, 2002, Monks and Minow, 2003).

King strongly believed that the King II report was wrong to include sustainability as a separate chapter because it led companies to report on it separately from other elements. In the 2009 King III report the following elements which are: governance, strategy, and sustainability were integrated. In contrast to the earlier versions, King III applied to all entities, public, private and non-profit (IoD, 2009). King encouraged all entities to adopt the King III principles and to explain how these have been applied or how they are not applicable. The King III code of governance became effective from March 2010 (IoD, 2009 and Ntim et al., 2012).

Since King III was issued in 2009, there have been significant corporate governance and regulatory developments (locally and internationally) which need to be taken into account. The other consideration was that while listed companies were generally applying King III, non-profit organisations, private companies, and entities in the public sector were experiencing challenges in interpreting and adapting King III to their particular circumstances. The revision and enhancement of the King Code aimed to make King IV more accessible and tailored to all types of entities across all sectors (IoD, 2016). King Code recognises that companies do not act independently from society, and it is for this reason, the highest standards of corporate governance are encouraged through enterprises with integrity (Hendricks and Wyngaard, 2009, IoD, 2016). This entails a wide range of stakeholders' interests are considered in corporate governance practices as they relate to the fundamental principles of sound financial, social, ethical, and environmental practice (Hendricks and Wyngaard, 2009, IoD, 2016).

The release of latest version of the King Code report in 2016, takes non-financial reporting into a more advanced spectrum (Atkins and Maroun, 2015). It iterates the calls for a stakeholder model of accountability and governance through more direct and clear disclosures, necessitating a coherent reporting strategy for communicating the ability of organisations to create and sustain value in the short, medium and long-term (Atkins and Maroun, 2015). The roles and responsibilities of directors have been further broken down and clearly explained to provide further guidance for application and disclosure in the latest version of the King Code. The next section elaborates on the role of directors.

2.2) Role of directors.

2.2.1) Directors' duties and responsibilities

The King Code establishes the board of directors as central to the South African corporate governance system, with ultimate accountability and responsibility for the performance and dealings of the company. The board of directors are responsible for managing the company and the relationships with the shareholders and other stakeholder groups (Vaughn and Ryan, 2006, IoD, 2016).

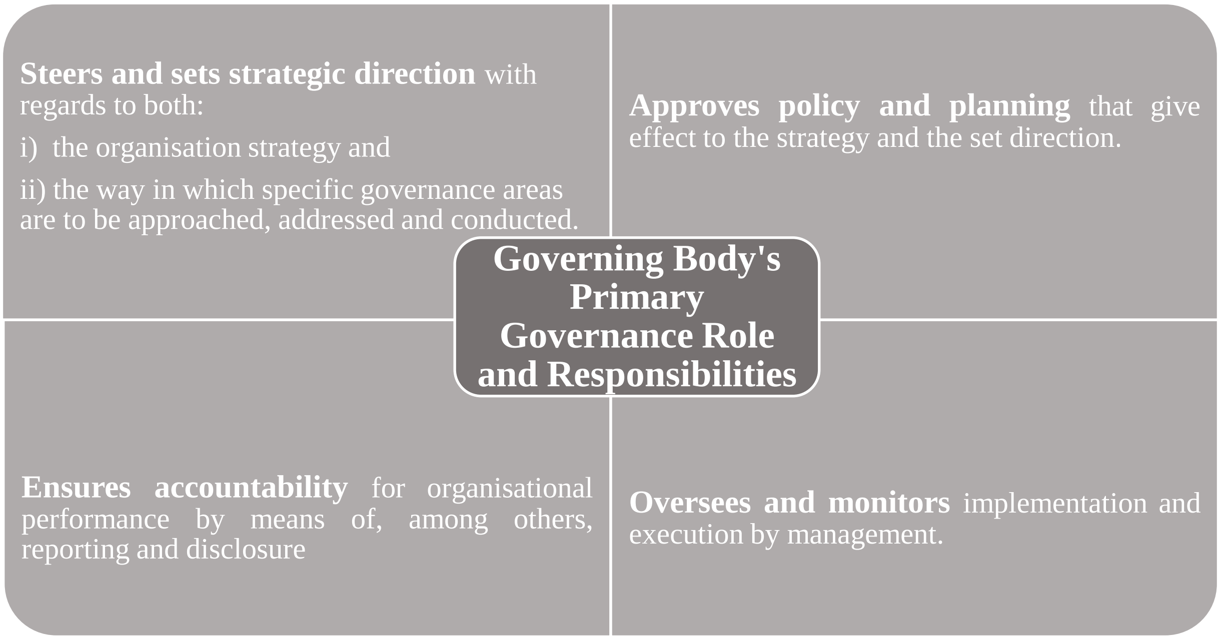
Being on the board of directors means that directors are answerable for decisions made and actions taken. Should there be any transgressions, lack of action and poor performance, the directors will be liable for any loss, damages or costs sustained by the company (Companies Act 2008, s77). Accountability is the cornerstone of reporting. Accountability requires the provision of information about the entity's management of the resources entrusted to it, and this is where the annual financial statements play a significant role in fulfilling the responsibility to provide information to stakeholders (IASB, 2010).

The role of the board and annual financial statements in facilitating accountability is often explained in terms of agency theory (Andreasson). Agency problems arose when the ownership of companies became separated from the control and management functions (Rossouw et al., 2002, Moriarty, 2014). As owners of companies (principals) no longer controlled the management of companies, the responsibility for control shifted to the directors (agents) of the company (Rossouw et al., 2002, Moriarty, 2014, Raemaekers, 2015). The problem created by this situation was that directors (or managers) of companies could abuse their control function or manage the company to their advantage and to the detriment of the owners and other stakeholders. Corporate governance was consequently introduced to ensure that the agents controlled companies in ways that served the interests of the shareholders of the company (Rossouw et al., 2002, Jensen and Meckling, 1976).

The notion of accountability has been gradually extended beyond the interests of shareholders to include the interests of other stakeholders (Rossouw et al., 2002, Atkins and Maroun, 2015). The first move in this direction was to hold boards of directors accountable for the interests of all contracted stakeholders of a company, such as employees, suppliers, and customers (Rossouw et al., 2002). A further move was to view the company as a social institution with responsibilities to those commonly overlooked by companies (IoD, 2009; IoD 2016). Examples include the disadvantaged, the natural environment and future generations. As a result of these developments, boards of companies are now accounting for more than just shareholder interests but for stakeholders' interests as a whole (Rossouw et al., 2002, IoD, 2016).

The board of directors also has the responsibility of overseeing the management functions of the companies to ensure that the management serves the chosen strategic direction as they execute the board's decisions. The board needs to be accountable to the stakeholders and disclose to them the actions taken to serve stakeholders' interests (Rossouw et al., 2002, IoD, 2016). As a result, the directors' report is one of the many reports which informs stakeholders of how directors carried out their duties and responsibilities (Rossouw et al., 2002). Figure 1 illustrates the board of directors' primary roles and responsibilities (as indicated by the King Code).

Figure 1: Board of directors' responsibilities



Roles and responsibilities adapted from page of 21 of King IV Report on Governance for South Africa 2016.

The next section considers the implications of the Companies Act (2008), The South African Auditing Practice Statement 3 (SAAPS 3) and King IV's impact on the directors' report.

2.3) Implications of the law, rules and other recommended codes.

2.3.1) The requirements of the Companies Act (2008)

The Companies Act (2008, s30) requires a company to prepare annual financial statements. These must comply with the applicable financial reporting standards 'as to their form and content', 'present fairly the state of affairs and business of the company', 'explain the transactions and financial position of the business of the company', and should not be incomplete (Companies Act 2008, s29 (1) & s29

(2)). Companies also need to comply with Regulation 27 (2011) of the Companies Act (2008). For most companies, this will amount to preparing a set of financial statements which comply, in all material respects, with International Financial Reporting Standards (IFRS) or International Financial Reporting Standards for small and medium-sized entities (IFRS for SMEs) (Maroun and Wainer, 2014).

Accordingly, a complete set of annual financial statements in terms of the Companies Act (2008) includes:

- a statement of financial position at the end of the reporting period;
- a statement of profit or loss and other comprehensive income;
- a statement of changes in equity for the period;
- a statement of cash flows, and supporting notes.

(International Accounting Standards Board (IASB, 2010))

According to the Companies Act (2008, s30 (3) a), the annual financial statements must also:

> ‘include a report by the directors with respect to the state of affairs, the business and profit or loss of the company, or of the group of companies, if the company is part of a group, including (i) any matter material for the shareholders to appreciate the company’s state of affairs and (ii) any prescribed information’.

If a company’s annual financial statements need to be audited, these financial statements must include the auditor’s report (Companies Act 2008, s30 (3) a). The wording of the Companies Act explicitly includes the directors' report as part of the complete set of annual financial statements (Maroun and Wainer, 2014). SAAPS 3, however, it allows the auditor to exclude the director’s report from the scope of the final opinion in the financial statements.

2.3.2) The South African Auditing Practice Statement 3 and King IV's impact on directors' report

In November 2015, the IRBA published a revised SAAPS 3 containing illustrative audit reports (IESBA, 2015). The revised practice statement illustrates the form and content of independent auditor's reports. On the illustrative reports under the heading 'other information' the following is included:

> 'The directors are responsible for the other information. The other information comprises the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate as required by the Companies Act of South Africa, which we obtained prior to the date of this report and the Annual Report, which is expected to be made available to us after that date. Other information does not include the consolidated and separate financial statements and our auditor's report thereon…. Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance thereon' (IRBA 2015, 28).

SAAPS 3 also states:

> 'In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appear to be materially misstated. If based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact' (IRBA 2015, 28).

It does not seem sufficient for auditors only to read the directors' report to examine inconsistencies with consolidated and separate financial statements when they should be issuing an opinion on the report. The directors' report constitutes part of the annual financial statements and should be within the scope of an auditor's opinion (see Companies Act, 2008).

As indicated by Maroun and Wainer (2014), the audit of the financial statements as required by the Companies Act (2008) is an audit of all financial statements defined in the Act, thus, explicitly including a directors' report. The Companies Act is legally binding and there must be adherence by companies. The only lawful way in which the directors' report can be excluded from the audit opinion is through the alteration of the Companies Act (2008), because, currently, the law is binding and companies and auditors cannot merely comply with particular sections.

The audit of the directors' report is, however, problematic because there are no criteria for evaluating the form and content of the report. IFRS provides guidelines on the form and content of all the annual financial statements that are prescribed by the Companies Act, (2008) except for the auditors' report and directors' report (IASB, 2010c). The auditor's report derives its form and content guidelines from SAAPS 3 and other relevant guidelines from International Standards on Auditing (IESBA, 2015). The form and content of the directors' report is at the discretion of directors. As a result, there is no generally accepted basis for determining exactly what information should be included in a directors' report. The implications of this are that there is no guidance to ensure that the directors' report disclosures deliver transparent, consistent, comparable, relevant and reliable financial or non-financial information.

King IV lays out the governing body's roles and responsibilities and consequently, most of the directors' report disclosures are based on the responsibilities and duties of directors (see Section 2.2.1). Even though most disclosures are driven by the responsibilities of directors in King IV (see IoD, 2016) there still exists a lack of guidance on what information companies should disclose, where it should be disclosed and what form the disclosure should take (Solomon et al., 2000). There is no guidance for the directors' report as there already exists for the other prescribed annual financial statements. The absence of guidance on criteria for the form and content of the directors' report also results in lack comparability of the directors' report. To address these problems, the research examines what companies are currently including in directors' report in order to develop an initial framework which can be used in the future as the criteria for auditing a directors' report.

2.3.3.) Directors' report disclosures.

Accounting reports have been frequently criticized for their historical (backward-looking) information, with short-term orientation and failure to capture the value created through processes that rely on intangible factors not recognised in the financial statements (De Villers and Maroun, 2018). To attend to the information needs of all stakeholders and provide the information required for corporate transparency and accountability, consensus was reached that the business reporting model needed to expand beyond the traditional financial reporting model that emphasised historical, quantified, financial information. The expansion in the reporting model beyond the traditional reporting model can be achieved through preparing an integrated report (Atkins and Maroun, 2015, Dimi et al., 2014, du Toit et al., 2017).

Integrated reporting emerged as a result of developments in non-financial reporting. The phrase 'integrated reporting' was formally introduced in the King Code (King III) as part of the corporate governance reform in South Africa (see Section 2.1) (De Villers and Maroun, 2018). Integrated reporting provides a comprehensive model of business reporting which embraces a broader, integrated range of financial and non-financial information (Atkins and Maroun, 2015, Beattie et al., 2004).

The directors' report is one of the reports found in the integrated report which provides information which moves away from the traditional reporting model focusing mainly on quantified financial information. The report provides corporate transparency and accountability concerning the responsibilities of the board of directors.

Section 299 of the now repealed Companies Act No. 61 of 1973 stated that:

> "…the directors' report shall deal with every matter which is material for the appreciation by the members of the company of the state of affairs, the business and the profit or loss of the company or of the company and its subsidiaries, if any, and shall for that purpose be in accordance with and include at least the matters prescribed by Schedule 4".

Schedule 4, which accompanied the 1973 Companies Act, provided guidance on the disclosures of the directors' report. Schedule 4 specified that the directors' report should be in a narrative form with all descriptive matters under suitable headings and amounts or statistics should be set out as far as practicable in tabular form (Companies Act, 1973). The narrative form of the report itself is a shift from backward-looking, quantified, financial information because it focuses on non-financial disclosures. In this report, any matter which is deemed material for the appreciation of the state of affairs of the company by the directors can be disclosed (Companies Act No. 61 of 1973, Schedule 4).

The directors' report was originally intended to summarise the business operations of a company during a reporting period. The information in the report had to deal with every detail or situation considered material to the appreciation of the state of affairs and the financial position of the company by its stakeholders (Companies Act No.61 of 1973, Schedule 4).

Unless such information was already given in any document annexed to the annual financial statements, Schedule 4 required the following disclosures to be in the directors' report:

> '(a) The nature of the business of the company and its subsidiaries, if any, and any major change therein during the accounting period;
>
> (b) In aggregate figures, the amounts and particulars of any shares, convertible instruments, and debentures issued during the accounting period and the purposes or any circumstances in which such shares, convertible instruments, and debentures have been issued;
>
> (c) Any major change in the nature of the fixed assets of the company and of its subsidiaries, if any, during the accounting period or any change in policy relating to the use of fixed assets;
>
> (d) The amount, if any, already paid or declared or proposed to be paid by way of dividends in respect of each class of shares;
>
> (e) The fact that the business of the company or any part thereof or of a subsidiary has been managed by a third person or a company in which a director has an interest, under

any agreement during the accounting period (if it has been so managed) and the names of such third person or company and the director's interest in such company, if material;

(f) The names of the directors and the secretary, the secretary's business and postal address, and any changes during the accounting period and

(g) The name of the company's holding company and its ultimate holding company, if any, and if any such holding company has been incorporated in a foreign country, the name of that country.'

(Companies Act No. 61 of 1973)

While Schedule 4 is no longer in effect, many of the Schedule 4 disclosures are similar to those recommended by King IV. King IV is structured in a way that, under each principle, there are recommended practices that an entity can apply. Disclosure items are provided under some of the King IV principles that can be used as a guide and as a starting point for what type of information should be disclosed (IoD, 2016). Moreover, the detail of the information to be provided in the narrative should be guided by materiality of the information and should enable stakeholders to make informed decisions. An overview of disclosures expected to be found in the directors' report due to the guidance/suggestions by the King Code as well as Companies Act No. 61 of 1973 have been summarised in Table 1 below.

Table 1: Summary of disclosures	
King Code (King IV)	**Companies Act No. 61 of 1973**
1. Composition of the board (Principle 7;practice 6-13)	1. Nature of business
2. Number of meetings held and attendance (Principle 7; practice 7(d))	2. Share capital and other instruments
3. Diversity targets and achievements (Principle 7; practice 10-11)	3. Significant acquisitions and disposals (change in fixed assets or accounting policy)
4. Independence of the board (Principle 7; practice 25-29)	4. Details of the board of directors and company secretary
5. Period of service (Principle 7;p30)	5. Group structure
6. Board Committees (Principle 8; practice 39-69)	6. Dividends
7. External advisers (Principle 6; practice 3)	
8. Board evaluation (Principle 9; practice 71-75)	
9. Succession planning (Principle 7; practice 13)	
10. Risk governance and IT governance (Principle 11; practice 1-9 & Principle 12; practice 10-17)	
11. Compliance with applicable laws & regulations, non-binding rules, codes and standards (Principle 13; practice 18-25)	
12. Types of assurance (internal and external audit) (Principle 15; practice 40-61)	
13. Stakeholder relationships (Principle 16; practice 1-19)	

2.3.4) The usefulness of the directors' report.

According to the Companies Act (1973) :

> "the annual financial statements of a company shall, in conformity with generally accepted accounting practices or applicable financial reporting standards, fairly present the state of affairs of the company and its business as at the end of the financial year concerned and the profit or loss of the company for that financial year and shall for that purpose be in accordance with and include at least the matters prescribed by Schedule 4 of the Companies Act 61 of 1973, in so far as they are applicable, and comply with any other requirements of this Act".

In South Africa, annual reports comply with the fundamental and enhancing qualitative characteristics of decision-useful information. Companies use *The Conceptual Framework for Financial Reporting* (CF), issued by the IASB (2010), and the reporting principles highlighted by the IRC’s (2011) *Framework for Integrated Reporting and the Integrated Report* to prepare their integrated reports but these frameworks do not deal with the directors’ report (Dimi et al., 2014).

The directors’ report provides a summary of the affairs of the entity as discussed in Section 2.3.3. The report is instrumental because it indicates the direction of a company. With the current emphasis on integrated reporting, many different reports combined with the financial statements are provided to users to report on affairs of the entity, and the amount of information can be overwhelming for stakeholders attempting to understand the information provided (Atkins and Maroun, 2015). However, the directors' report proves useful by providing an overview of the company's finances, recommended dividends, and significant changes to the company's fixed assets, as well as the compliance with laws and regulations. The report provides users with all relevant information for decision making in one report.

Chapter 3: Theoretical framework

3.1. Institutional isomorphism

Isomorphism has been used in different fields, fields such as mathematics, management accounting, and sociology. In sociology isomorphism is defined as a resemblance of a process or structure of one organization to that of another, the result of imitation or independent development under similar constraints (DiMaggio and Powell, 1983). Three main types of institutional isomorphism have been identified and they are normative, coercive and mimetic (Hasmath and Hsu, 2014). Firstly, as the adjective suggests normative refers to the professionalisation of norms, *Normative isomorphism* takes place when companies internalise the norms which derive from a professionalisation of a field and this is the case when companies seek professional guidance (De Villiers and Alexander, 2014, Maroun and van Zijl, 2016).

Secondly, *coercive isomorphism* refers to companies being forced into a course of action. Coercive isomorphism takes place as a result of pressures from other organizations, cultural expectations, governmental mandates, such as law, legislation and financial reporting requirements (DiMaggio and Powell, 1983, De Villiers and Alexander, 2014). Thirdly *mimetic isomorphism* refers to companies benchmarking against or copying the prominent/successful organisations in a particular industry or sector. Mimetic isomorphism results in organizations becoming increasingly homogeneous within given domains and organized around rituals of conformity (Scapens, 2006, De Villiers and Alexander, 2014, Maroun and van Zijl, 2016)

As explained by DiMaggio and Powell (1983), organizational structures, which in the past used to arise from the rules of efficiency in the marketplace, now arise from the institutional constraints imposed by the state and professions (DiMaggio and Powell, 1983). Organizations do not only compete just for resources and customers but also for institutional legitimacy. As a result, organisations experience isomorphic pressures to adopt rules and structures which enhance legitimacy even if these are not necessary for improved efficiency (DiMaggio and Powell, 1983, De Villiers and Alexander, 2014)

On the relevance of isomorphism for director report disclosures in South Africa.

There are a significant number of factors and activities which influence disclosure patterns in corporate reporting. Many of these factors are inter-related (Scapens, 2006). In the context of this paper, as discussed in Section 2 above, the primary drivers of disclosures in the director's report are the Companies Act (2008) and the recommended practices per King-IV.

The Companies Act (2008) indicates that the directors' report should constitute part of the annual financial statements of a company (as discussed in Section 2.3.1). The Companies Act (1973) provided guidelines regarding what could be disclosed in the directors' report (see Table 1, Section 2.3.3). Even though the 1973 Act has been repealed, it is likely that its mandated disclosures have become part of generally accepted reporting practices. Together with the Companies Act (2008), statutory provisions dealing with the directors’ report are likely to be a source of coercive isomorphic pressure which results in companies disclosing similar information in their directors’ report.

Mimetic isomorphism occurs when organisations conform to global trends because they presume this is what is expected of them. Companies benchmark against or copy prominent/successful organisations in a particular industry or sector. As a result, organizations become increasingly homogeneous within given domains and organized around rituals of conformity for directors report disclosures even if it is not the most effective or efficient way of disclosing for that specific organisation (De Villiers and Alexander, 2014).

Organisations end up becoming isomorphic within their environment, and therefore other organisations which occupy a similar position in the field tend to adopt the same rules and structures the others have adopted (De Villiers and Alexander, 2014). For example, if an organisation disclosed pictures of the board of directors in the application of principle 7, practice 6 to 13 of King IV which deals with the board composition. Other entities within the same environment tend to succumb to the pressure and end up disclosing pictures of their board of directors even though King IV does not specifically require pictures of the board to be disclosed.

Finally, normative isomorphism in relation to the directors' report disclosures occurs because of the influence of King Code for corporate governance (see Section 2.3). The King Code has had a significant influence on disclosures and it continues to have influence (Maroun, 2018). The guidelines by King Code are influential because they assist organisations achieve good corporate governance through the adoption of governance principles and practices in a way that does not unduly constrain disclosures. The application of King IV is therefore deemed as the norm for all organisations.

Isomorphic pressures and corporate reporting

Prior findings indicate that even though different organisations may be influenced by different factors (e.g., social factors) disclosure structures and patterns may be remarkably similar (De Villiers and Alexander, 2014). It should be noted that the similarities in the overall structure, pattern, and emphasis of disclosures are not necessarily reflective of corporate priorities and intentions but may be driven by a desire to follow global templates (Scapens, 2006).

Organisations encounter pressures which lead them to adopt rules and structures to enhance legitimacy (DiMaggio and Powell, 1983, Deephouse, 1996). Organisations feel the need to embrace the rules, social norms and expectations of others outside the organisation. In this respect, organisations need to appear legitimate to their broader constituencies and stakeholders need to secure the resources they need for their continued survival. To gain these, legitimacy organisations have to be seen to conform to what is expected of them and this leads to the adoption and application of voluntary codes on reporting (Scapens, 2006, DiMaggio and Powell, 1983). As a result, organisations yield to the pressures of disclosing what is thought to be the acceptable standards of disclosure such as the principles of recommended codes such as the King Code.

There are also broader economic, social and organisational trends that affect the way in which companies provide these disclosures to stakeholders. Institutional theory has been used by De Villiers and Alexander (2014) to understand structures and the process of disclosure, and the same theory can be used in this research to understand, analyse and interpret disclosure patterns like in prior research (Scapens, 2006, De Villiers and Alexander, 2014).

In De Villiers and Alexander (2014), the research examined corporate social responsibility reporting (CSRR) structures through a comparison of disclosure in two countries with different social issues. Their analysis focused on legitimisation offered by an isomorphism. Their findings showed that there are overall similarities in CSRR disclosure patterns even in diverse settings. However, differences in CSRR content at a more detailed level remained (De Villiers and Alexander, 2014). The findings provided evidence that the same reporting template for CSRR disclosure globally is interpreted in a similar way. The evidence suggested that are institutionalised through professionalization (normative isomorphism). While the study and types of disclosures do not entirely relate to the research being done by this paper, the focus on disclosure patterns which were influenced by isomorphism forces is similar to the focus of this research paper as it looks at disclosure patterns of the directors’ report.

In conclusion, the literature review above indicates that there is not clearly set-out guidance on what disclosures should be included in the directors' report (please refer to Section 2.3). The audit of the directors' report is problematic because there are no criteria for evaluating the form and content of the report. IFRS provides guidelines on the form and content of all the annual financial statements that are prescribed by the Companies Act, (2008) but not for the auditors' report and directors' report (IASB, 2010c). The auditor's report derives its form and content guidelines from SAAPS 3 and other relevant guidelines from International Standards on Auditing (IESBA, 2015). The form and content of the directors' report is however left to the discretion of the board of directors.

As a result, there is no generally accepted basis for determining exactly what information should be included in a directors' report. The implications of this are that there is no guidance ensuring that the directors' report disclosures deliver transparent, consistent, comparable, relevant and reliable financial or non-financial information.

Even though section 3 indicates that isomorphism has an impact on the directors' report disclosures as well as the implications of King IV (see Section 2.3.3), there is still no set out guidance on what suitable criteria is for the directors' report as explored through the literature review above. Therefore the research will investigate what companies disclose in the directors' report with the aim of taking the first step towards developing a disclosure framework as a guidance of what can be considered suitable criteria in the evaluation of the directors' report. The next section (Chapter 4) will explain the methodology adopted by this research paper and the results will follow in Chapter 5.

Chapter 4: Methodology

4.1) Method

Data are collected and analysed using a multi-phase approach. Firstly a qualitative method (thematic content analysis) was used to collect data on what companies are including in their director reports (Solomon and Maroun, 2012, Raemaekers, 2015, Leedy and Ormrod, 2010). The thematic content analysis follows a six-step process prescribed by Braun and Clarke (2006) and the process was followed to analyse the directors' report as indicated below:

1. ‘Becoming familiar with the data.
2. Generating initial codes.
3. Searching for themes.
4. Reviewing themes.
5. Defining and naming themes.
6. Producing the report’ (Braun and Clarke, 2006)

The analysis is explained in detail in Section 4.3.

Secondly data on users’ perception of director report disclosures were collected. An online questionnaire was constructed using the disclosure themes identified from the directors’ report using the content analysis exercise. (The disclosure themes were used to develop the questions). The questionnaire was sent to several groups of respondents. This method of collecting data through questionnaire is inspired by an approach used by Solomon et al. (2000) and Naynar et al. (2018). The questionnaire was compiled to gauge the perceived importance of the disclosure items by a group of auditors, preparers of financial statements, academics and others (Solomon et al., 2000, Naynar et al., 2018). A Likert scale was used in the questionnaire to gauge the perceived importance of each disclosure by the respondents (Naynar et al., 2018). Refer to Section 4.3 for the detailed discussion. The responses were reduced using factor analysis to identify core reporting items. These provide the basis for developing a director’s report disclosure framework which will provide guidance on the type of information which directors should be dealing with in a director’s report. This is further explained in detail in Section 4.3.

4.2) Sample

In the first stage of the methodology, the directors’ report of the top-100 companies listed on the Johannesburg Stock Exchange (JSE) were analysed to assess the current form and content of these reports for 2016 and 2017 financial year-end. The top-100 companies analysed are those which have their primary listing on the JSE. The companies have a public interest which covers a wide variety of stakeholders (global interest) (Gilbertson and Roux, 1977, Mlambo and Biekpe, 2007). Therefore, as a result of the widespread stakeholder interest and the companies' extensive operations, it is possible that there are differences in disclosure criteria for particular non-financial information categories such as the directors' report. The differences in the non-financial reports may be existent due to the differences in firm size, industry classification, the degree of geographic dispersion and the country of operations (consider Beattie et al. (2004)). The 100 directors' reports were used in the first stage of data collection through thematic content analysis (see Section 3.1)

In the second stage, a link to the questionnaire was e-mailed to the respondents for completion of the questionnaire (McKenna et al., 2014, Munshi et al., 2016). The questionnaire was e-mailed to auditors (based at the five largest audit firms in South Africa[1]), a group of preparers (from 23 firms in 5 different industries) and academics (from 5 well regarded South African universities).

Auditors' perceptions about the directors' report disclosures, as well as the development of a disclosure framework, are of great importance. The auditors are responsible for the audit of these reports and the research issue arises from the report not being currently included in the audit opinion because of lack of guidelines for auditing the directors' report (IESBA, 2015). The preparers of financial statements are responsible for the annual financial statements as a whole, including the directors' report, so their views regarding a disclosure framework for the report are very valuable. The preparers' views are valuable because they will serve as an indicator of whether the disclosure framework can be useful in the preparation of these reports. Due to this research being academic research, it is deemed appropriate to also consider the views of academics. The academics who participated possess a high level of education and are well experienced in research in the areas of auditing, accounting, and finance.

The academics are used in this research as a proxy for investors on the basis of the research findings by McLean and Pontiff (2016), which indicated the fact that investors learn about mispricing of investment portfolios from academic publications. This indicates that academics are knowledgeable about investors' interests in investments portfolio (i.e. could be shares in companies). Furthermore in

[1] The names of the firms will not be disclosed for confidentiality and ethical reasons.

the research by Dechow and Skinner (2000) the accounting academics views considered were representative of what should be of concern to investors with regards to earnings management within a company. Therefore academics are also used as proxies for investors in this research paper. Nevertheless, the fact that investors are not engaged directly is an inherent limitation of this thesis.

The questionnaire was made available to participants for 3 months (August, September and October 2018). Voluntary and informed participation was taken into account, all participants received an informed consent form (see Appendix C) describing the nature of the research project, as well as the nature of their participation (Leedy and Ormrod, 2010).

4.3) Data collection and analysis

Thematic content analysis

The method entails pinpointing, examining and recording patterns (themes) in the data. The directors' reports were analysed by interpretatively drawing out disclosure items in each directors' report to construct a list of disclosure themes (Braun and Clarke, 2006, Solomon and Maroun, 2012, Naynar et al., 2018). The frequency of each disclosure theme was recorded to provide a measure of the emphasis which the respective companies place on those disclosure themes (Naynar et al., 2018).

The approach is similar to that used by Beattie et al. (2004) and Naynar et al. (2018) where a binary coding scheme was used to score the presence or absence of a disclosure. A tally was kept to record the number of times a specific disclosure/theme is reported, and a score of "1" for disclosure was assigned and "0" for no disclosure (Naynar et al., 2018). Appendix B explains the six steps followed in more detail (Braun and Clarke, 2006).

An Excel spreadsheet was used to accumulate the disclosures as they were identified. As additional items were identified, the list of disclosures was updated resulting in a comprehensive list of disclosure items (Braun and Clarke, 2006, Raemaekers, 2015, Solomon et al., 2000, Leedy and Ormrod, 2010, Naynar et al., 2018). The disclosure items resulted in a disclosure summary which indicates the criteria currently disclosed under the directors' report (Solomon and Maroun, 2012, Raemaekers, 2015, Leedy and Ormrod, 2010).

In order to evaluate relationships between disclosures, a Spearman's rho was used. This is because the Spearman's rho is less sensitive to non-normal distributions of data. Different authors suggest different interpretations of the correlation coefficients. The schematic suggested by Cohen (1988) is used for the purpose of this thesis (please refer to Table 2).

Table 2: Interpretation of correlations

Correlation Coefficient	**Interpretation**
+/- 0.10 to +/- 0.29	Small significance
+/- 0.30 to +/- 0.49	Medium significance
+/- 0.50 to +/- 1.00	Large significance

A similar approach to Cohen's interpretation was adopted. For the purposes of this research, a correlation coefficient above +/-0.6 is considered to be a significantly strong correlation, a correlation coefficient between +/-0.4.to +/- 0.6 is considered to be a moderately strong correlation and, lastly, a correlation coefficient below +/-0.4 is considered to be a weak correlation. The above serves as the first stage of data collection.

Online questionnaire.

The second stage of data collection involved questionnaires to gauge the perceived importance of identified disclosure themes by auditors, preparers of financial statements and academics (see Section 3.1). The respondents were asked to rank each disclosure according to how important they believed it is for that theme to appear in a directors' report using a Likert scale ranging from 1 to 5 where "1" indicates that the disclosure/theme is irrelevant and "5" represents that the information is very relevant (Naynar et al., 2018, Solomon et al., 2000) (See Appendix A).

The responses from the online questionnaire were analysed using principle component analysis (PCA). PCA is used because it is useful in studying interrelationships (Dimi et al., 2014, Naynar et al., 2018, Muthén and Muthén, 2015). The researcher scanned the questionnaire results for univariate correlations greater than 0.7 to confirm that multi-collinearity was not having a significant effect on the results. The determinant of the correlation matrix (un-tabulated) reported correlations along the diagonal greater than the recommended 0.5 (Kline, 2014, Naynar et al., 2018).

A Kaiser–Mayer–Olkin (KMO) test (Kaiser et al., 1970, Kaiser and Rice, 1974) and Bartlett's test of sphericity (Bartlett, 1954) was used to determine if the variables are factorable. When the KMO test finds that the degree of correlation between certain variables is weak, then it is unlikely that those variables have a common factor between them and those variables were excluded from the study (Dimi et al., 2014, Naynar et al., 2018, Barrett and Kline, 1981, Kline, 2014).

To balance the exploratory factor potential to make interpretation easier, a KMO value higher than the recommended minimum of 0.6 was used (Kaiser and Rice, 1974). All factors with an Eigenvalue greater than 1 are retained allowing for retention of the majority of the data's exploratory potential (Ford et al., 1986). This leaves us with 8 factors which explain a cumulative 70% of the total variance in the data. There is no fixed rule for how many factors to retain in an exploratory factor analysis. Using Kaiser's criterion as a rule of thumb, 4 factors should be used for larger data sets (Kaiser and Rice, 1974). In contrast, Jolliffe's criterion suggests using up to 10 factors. The scree plot and variance table in Appendix E show points of inflection at 7 and 9 factors. Taking into account that, after the 8th factors, components have an Eigen value less than 1, it was concluded that 8 factors are appropriate for this research.

Table 3 shows the results of the KMO and Barlett's Test of Spherity. The KMO statistic of 0.833 is greater than recommended 0.6. The test statistics are significant at the 1% level. These results confirm that there is a strong inter-relationship among the responses; that the sample size is adequate for the purpose of this research and that it is appropriate to use PCA for the dataset.

Table 3: KMO and Barlett's Test		
KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.883
Bartlett's Test of Sphericity	Approx. Chi-Square	3925.637
	Df	1035
	Sig.	0.000

Occasionally, certain variables may load about the same on more than one factor, making interpretation ambiguous. To address this, factor rotation was used to clarify the relationships between variables and factors (Öcal et al., 2007, Naynar et al., 2018). The final results are generated using orthogonal rotation (Varimax method) with principal component analysis as the extraction method. This is in keeping with the approach followed by social science research and the assumption that the factors are independent rather than highly inter-related.

For ease of analysis, factor loadings of less than 0.4 are excluded from the analysis. The objective was to minimise the number of variables with high loadings on a factor and generate an interpretable solution (Dimi et al., 2014, Naynar et al., 2018, Osborne, 2015, Hair and Jnr, 2009). The results were finally derived by analysing the factor load of each variable and interpretively grouping the factors based on the factor loads contributing to the factor (Öcal et al., 2007). The next section discusses how the validity and reliability of the research were considered.

4.4) Validity and reliability of the study

A variety of strategies has been used to support the validity and reliability of this study (Leedy and Ormrod, 2010, Creswell and Creswell, 2017). The strategies are as follows:

1) The researcher acknowledges that, as a result of the thematic content analysis, researcher subjectivity may not be entirely avoidable because, as familiarity to the content (directors' report) develops, expectations arise, and the expectations may be imposed on other reports (Leedy and Ormrod, 2010). To curtail researcher subjectivity the six steps prescribed by Braun and Clarke (2006) were strictly adhered to (see Appendix B). Additionally when

coding the directors' report disclosures, the quality of the individual disclosure is not addressed (Naynar et al., 2018). This avoided significant judgement when coding the individual disclosures.

2) To ensure that disclosures identified were complete, every time a new disclosure item was identified and added to the list of disclosures the researcher would go back to the directors' reports which had already been analysed to assess whether or not the disclosure appeared in those reports as well. The content analysis was structured this way (please refer to the steps in Section 4.1) to ensure that all the reports were analysed in the same way and that no details were omitted.
3) Respondents' validation was also considered. The perceptions of all the different categories of participants (auditors, directors, and academics) will indicate if the research inferences make sense based on their own experiences (Leedy and Ormrod, 2010)
4) The questionnaire was conducted online to reduce the risk that participants provide a socially desirable answer. Additionally, the respondents were reassured at the beginning of the questionnaire that they will remain anonymous and that they have a right to withdraw from the study up to the point that their questionnaire is submitted
5) The steps followed in the factor analysis increase the validity and reliability of the research as a result following:
    - Firstly, the questionnaire data collected was used to compute correlations and the results were scanned to assess for correlations greater than 0.7 to confirm that multi-collinearity is not having a significant effect on the results.
    - Secondly, a KMO and Barlett's Test of Spherity was done where the KMO value was 0.883 which is above the recommended minimum of 0.6 (see Section 4.3). The KMO results supported the use of factor analysis and therefore the factors were extracted and analysed (see Section 5.2).

Chapter 5: Results

5.1) Content analysis results

The results in this section reflect the findings identified to address the research question "What do companies disclose in their directors' report?" (raised in section 1.4). The thematic content analysis of the directors' report revealed an overlap with other sections in the integrated reports and annual financial statements. The most significant overlap recognised was with the governance reports or sub-sections of the corporate governance reports. The directors' report of most companies cross-references to the governance reports. Other reports which overlapped with the directors' report include the directors' responsibility reports, remuneration reports, nomination committee reports, audit committee reports, risk committee reporst, chairman and management reports and the secretary certificate.

Due to the overlap, two sets of data were collected. The first data set collected only included disclosures in reports labelled 'directors' report'. The second data set included a combination disclosures found in a company's directors' report and the corporate governance report. Both reports included discussions and an analysis of company affairs provided by the directors. In the cases of the combined reports, a separate or clearly labelled director's report was not included in the company's annual or integrated report

From the analysis of the reports, 46 disclosure themes were identified and the full list of identified disclosures can be found in Appendix A. When comparing the data collected for the two data sets, the differences in the disclosure themes between the two years of both reports are statistically insignificant. The few differences identified are insignificant differences because they range from 1 to 3 differences and the mode of the disclosure differences is 1 for both reports from 2016 to 2017 financial or reporting periods (see Table 4 below). The N row shows the number of total disclosure items disclosed by all the 100 companies in a year under the directors' report. The mean and median under the differences are the same which means that the disclosure items occur at regular frequencies.

Table 4: Descriptive statistics for the disclosure themes data collected.						
	2017 (Directors' report & Corporate governance report)	**2016 (Directors' report & Corporate governance report)**	**2017 (Directors' report)**	**2016 (Directors' report)**	**Differences (Directors report)**	**Differences (Directors' report & Corporate governance report)**
Field Information						
N	46	46	46	46	0	0
Mean	66	65	31	31	0	1
Median	78	78	27	26	1	0

When looking at the correlations between the disclosures, Table 5 below summarises the total number of relationships identified between the disclosures. The Spearman's rho correlation results were condensed to the different categories below. Within each category, there are disclosures which are correlated to one other disclosure. For the discussion of the relationships between the correlated disclosures refer to the section after Table 5.

Table 5: Summary of total correlations.	
Category	**Total**
Strong correlations	49
Moderately strong correlations	181
Weak correlations	380
Total correlations	610

5.1.1) Strongly correlated disclosures.

Table 6 summarises paired disclosures with correlations greater 0.6 that are significant at the 1% level. There are 20 strongly correlated pairs labelled H1 to H20. For example, H1 groups all disclosures which correlate to the board composition, in this cluster the main disclosure is the board composition which is correlated to five other disclosures. So in each cluster H1 to H20, there is one main disclosure correlated to at least two other disclosures.

There is a significant relationship under H1 between the board composition and the executive representation on the board. The relationship has the highest correlation coefficient of $r = 0.729$ ($p<0.01$) when compared to the other disclosures which correlate to the board composition. This is probably a result of the recommendation per King IV which states that the board should comprise of an appropriate mix of executive and non-executive directors (IoD, 2016).

The relationship between the board composition disclosure and the appointment, rotation, and re-election of directors' disclosure also meets expectation. There is a significant relationship between the disclosures of $r=0.661$ ($p<0.01$) because the board composition is dependent on the appointment, rotation and re-election of directors (IoD, 2016). The board can only comprise of the directors who have been officially appointed or re-elected.

The remaining three disclosures under H1 also have a significant relationship with the board composition disclosure but do not meet expectation. The disclosures were not expected to have been correlated to each other. The relationship indicates that as companies disclose the board composition, they also simultaneously disclose the other three disclosures which are the distributions to shareholders disclosure, the directors' interests in the company disclosure, and the events after the reporting date disclosure. In summary, the correlations mean that the relationship between the disclosures increases when the other disclosure increases, but the amount by which they increase by is not consistent because the Spearman's rho correlation coefficient is positive but less than +1.

H2 groups disclosures which correlate to the internal controls disclosure. In this cluster the main disclosure is the internal controls disclosure which is correlated to the internal audit disclosure and risk governance disclosure. There is a strong positive correlation between the internal control disclosure and internal audit disclosure ($r = 0.808$, $p<0.01$). The relationship is reasonable because the internal auditing is an independent appraisal function established to examine and evaluate an organisation's activities and internal controls (Coetzee et al., 2010, IAASB, 2016, Cascarino, 2015). Through the internal audit function internal risks (operational risks) are addressed through the assessment and implementation of internal controls. Under King-IV internal audit forms part of an organisation's risk governance framework so the correlation between risk governance disclosure and the internal audit disclosure is reasonable (IoD, 2016). As a result of companies reporting more detail on their internal audit function there also tends to be an increase in the extent of reporting on risk governance and internal controls.

TABLE 6		DIRECTORS' REPORT			DIRECTORS' REPORT&CORPORATE GOVERNANCE REPORT.	
DISCLOSURES CORRELATION TABLE	**CORR**	**HIGH**	**MODERATE**		**HIGH**	**MODERATE**
The board composition and the executive representation on the board	.729**	√				
The board composition and the distributions to shareholders	.604**	√				
The board composition and the appointment, rotation and re-election of directors' disclosures	.661**	√	H1			
The board composition and directors' interests in the company disclosures	.610**	√				
The board composition and events after the reporting date disclosures	.615**	√				
The internal control systems and the risk governance	.656**	√	H2			
The internal control systems and the internal audit	.808**	√				
Meetings attendance and board tenure	.688**				√	
Meetings attendance and board's responsibilities/activities	.629**				√	
Meetings attendance and established board committees in operation	.758**				√	
Meetings attendance and compliance with listing requirements	.778**				√	
Meetings attendance and business ethics of the company	.647**				√	H3
Meetings attendance and legal compliance programme and penalties	.629**				√	
Meetings attendance and appointment, rotation and re-election of directors	.698**				√	
Meetings attendance and orientation and development programme for directors	.700**				√	
Executive representation on the board and established board committees in operation	.715**				√	H4
Executive representation on the board and legal compliance programme and penalties	.653**				√	
Annual assessment of independence (evaluation) and board's responsibilities/activities	.607**				√	
Annual assessment of independence (evaluation) and appointment, rotation and re-election of directors	.652**				√	
Annual assessment of independence (evaluation) and orientation and development programme for directors	.779**				√	
Annual assessment of independence (evaluation) and information technology (IT) governance	.702**				√	H5
Annual assessment of independence (evaluation) and risk governance	.661**				√	

Board tenure and established board committees in operation	.715**				√	
Board tenure and appointment, rotation and re-election of directors	.621**				√	H6
Board's responsibilities/activities and appointment, rotation and re-election of directors	.657**				√	
Board's responsibilities/activities and orientation and development programme for directors	.658**				√	
Established board committees in operation and company secretary	.645**				√	
Established board committees in operation and legal compliance programme and penalties	.719**				√	
Established board committees in operation and appointment, rotation and re-election of directors	.684**				√	H7
Established board committees in operation and orientation and development programme for directors	.601**				√	
Distributions to shareholders, share capital and shareholder rights	.649**	√		.755**	√	
Distributions to shareholders and significant acquisitions and disposals	.661**				√	H8
Distributions to shareholders and nature of the business	.669**	√		.537**		√
Legal compliance programme and penalties; and information technology (IT) governance	.643**				√	H9
Compliance with listing requirements and application and approach to King Code	.639**				√	H10
Business ethics and appointment, rotation and re-election of directors	.641**				√	
Business ethics and orientation and development programme for directors	.677**				√	H11
Appointment, rotation and re-election of directors and orientation and development programme for directors	.879**				√	H12
Appointment, rotation and re-election of directors and risk governance	.738**				√	
Orientation and development programme for directors and balance and diversity of the board	.663**				√	
Orientation and development programme for directors and risk governance	.718**				√	H13
Independent advice and internal audit	.682**				√	
Independent advice and external audit and non-audit services	.638**				√	H14
Internal audit and external audit and non-audit services	.682**				√	
Internal audit and information technology (IT) governance	.638**				√	H15
Share capital and shareholder rights; and significant acquisitions and disposals	.617**				√	H16
Nature of the business and summary of financial performance	.694**	√		.403**		H17

Remuneration philosophy and policy, and the remuneration committee's terms of reference	.887**	√		.938**	√	H19
Components of remuneration; and retirement and performance benefits	.892**	√		.922**	√	H20
*Correlation is significant at 5% ; *Correlation is significant at 1%.						

In the H3 group the disclosures which correlate with the board meetings attendance disclosure. In this cluster, the main disclosure is the board meetings attendance disclosure and there are eight disclosures under H3 which correlate with the board meetings attendance disclosure. As expected, there is a strong positive correlation among the disclosures, such as between the meetings attendance disclosure and board's responsibilities/activities disclosure ($r = 0.629$; $p < 0.01$). Attending meetings is one of the main responsibilities that the directors have to accomplish in order to fulfil their duties (Companies Act, 2008; IoD 2016).

The board meetings attendance disclosure is correlated to the established board committees in operation disclosure and there is a significant relationship between the disclosures ($r = 0.758$; $p<0.01$). Similarly a strong positive correlation ($r = 0.778$; $p<0.01$) for the compliance with listing requirements disclosure as well as a correlation of ($r = 0.629$; $p<0\ 01$) for the legal compliance programme and penalties disclosure exist. These correlations meet expectation because the Companies Act (2008, s72) requires a company to appoint any number of board committees, with the establishment of the audit committee and social and ethics committees being a statutory requirement for some companies (Companies_Act, 2008). So the relationships are reasonable because the board establishes the committees at a meeting. The compliance with listing requirements and legal compliance correlations also make sense because listed companies are required to comply with the Companies Act (2008) to maintain their listing status.

The meetings attendance disclosure and the appointment, rotation and re-election of directors' disclosure have a significant relationship which also meets expectation because the appointment or re-election of the directors is decided upon by the board of directors as a whole at a meeting. With the other disclosures that are correlated to the meetings attendance disclosure such as the board tenure disclosure, the business ethics of the company disclosure, and development programme for directors' disclosure, the relationship to the meetings attendance was not expected. Though it is rather interesting that they have such a significant positively correlated relationship with the meetings' attendance disclosure. However the relationships are not out of the question, many things can be decided upon by the directors at a meeting; therefore the other disclosures could be part of such decisions.

The H4 cluster comprises only two significant relationships, the first is the executive representation on the board disclosure and the established board committees in operation disclosure which are correlated at $r = 0.715$ ($p<0.01$). The relationship meets expectation and relates to what has been discussed above (see H3 discussion) about the board composition and establishing board committees. The second relationship between the executive representation on the board disclosure and the legal compliance programme and penalties disclosure meets expectation because executive directors oversee the day-to-day activities and therefore provide prompt oversight for a company over compliance with laws and regulations (IoD, 2016).

The H5 cluster is made up of five significant relationships and the main disclosure in this cluster is the annual assessment of independence (evaluation of directors) disclosure. The primary relationship is between the annual assessment of independence (evaluation of directors) disclosure and the orientation and development programme for directors' disclosure. The relationship meets expectation because the evaluation of directors can determine which areas directors need development in for the development programme. The annual assessment of independence disclosure and the appointment, rotation and re-election of directors disclosure also meets expectation because it is only from the assessment result of the assessment of independence that the board can decide to rotate, re-elect or appoint directors in accordance with the balance and diversity recommendation by King Code (IoD, 2016).

In essence, most of the relationships under the clusters from H1-H20 contain significant relationships which meet expectation. This is because the relationships are interrelated and all the disclosures are mainly influenced by the requirements of the Companies Act 2008 as well as the recommendations of the King Code for corporate governance.

A few other significant relationships that are worth noting are the relationship between distributions to shareholders disclosure and the share capital and shareholder rights disclosure from the H8 cluster.

Under the directors' report data the correlation coefficient is r = 0 .649 ($p<0.01$) however the coefficient increases to r = 0 .755 ($p<0.01$) under directors' and corporate governance report data which indicates that the strength of the relationship has increased. This means more entities disclose both items simultaneously under the directors' and corporate governance report. The same explanation applies to the relationship between the remuneration philosophy and policy disclosure and the remuneration committee's terms of reference disclosure: the correlation coefficient increased from r = 0 .887 ($p<0.01$) to r = 0 .938 ($p<0.01$) from the H19 group. The relationship with the overall highest correlation is found in H20, and it also has the same relationship as H8. The components of remuneration disclosure and the retirement and performance benefits disclosure have a correlation coefficient of r = 0 .892 ($p<0.01$) which increased to r = 0 .922 ($p<0.01$) under the directors' and corporate governance report.

However, the relationship between the nature of the business disclosure and the summary of financial performance disclosure under H17, as well as the relationship between the distributions to shareholders disclosure and nature of the business disclosure under H8, have an inverse relationship to the one described above. Their correlation coefficients decreased from the directors' report to the directors' and corporate governance report data instead of increasing. The relationships moved from being statistically significant to being moderately significant. This means that the relationship weakened and fewer companies simultaneously disclose these items in their directors' and corporate governance report. The next section discusses the moderate relationships.

5.1.2) Moderately strong correlations

A significant number of moderate correlations was identified between the pairs of disclosures. There are 33 sets of moderately strong correlations labelled M1 to M33, which are made up of 181 separate pairs of correlated disclosures attached as Table 14 in appendix D. Because of the magnitude of the results (list of the correlations was too long), not all the relationships are dealt with. This approach does not diminish understanding the outcome of the results because the relationships have more or less the same implication. As explained in Section 4.1, for the purpose of this research a correlation coefficient between +/-0.4.to +/- 0.6 is considered to be a moderately strong correlation.

Most of the relationships meet expectation because as mentioned in Section 5.1.1, the disclosures are influenced by the Companies Act, and the King Code for corporate governance and the disclosures are interrelated. This is not indicative of the fact that the relationships do not make sense however, the disclosure relationships are random and some wouldn't have been expected. One example is the relationship between the board resolutions disclosure and the nature of the business disclosure under M2. The nature of the business is not necessarily dependent on the board resolution in any way; nevertheless the relationships are not unreasonable. The unlikely relationship between the disclosures under this category indicates that as a company discloses the other disclosure; they simultaneously disclose the other correlated disclosure too. So the relationship is a positive correlation indicating that when one disclosure increases, the other disclosure increases as well.

One of the relationships which stand out is the relationship between the executive representation on the board disclosure and the appointment, rotation and re-election of directors' disclosure which meets expectation under M3. As expected the disclosures have a moderately strong correlation with a coefficient of $r = 0.578$ ($p<0.01$) under the directors' report, however it decreased to $r = 0.480$ ($p<0.01$) under the directors' and corporate governance report. The relationship makes sense because the executive representation is dependent on who has been appointed in the executive positions of the entity. Even though there is a decrease in the correlation when looking at the directors' and corporate governance report, this is not alarming because the relationship is still moderately strong.

In M4 the annual assessment of independence (evaluation) disclosure and the balance and diversity of the board disclosure have a moderately strong correlation of $r =0.498$ ($p<0.01$) under the directors' report, which increases to $r=0.599$ ($p<0.01$) to under the directors' and corporate governance report. The relationship is reasonable because the assessment of independence maintains the balance and diversity recommended for the board of directors by King IV. The board of directors are expected to promote diversity in their membership across a variety of attributes that are relevant for promoting better decision-making and effective governance (IoD, 2016). The assessments enable the board of directors to promote diversity of the board of directors.

As expected the annual assessment of independence (evaluation) disclosure and the conflict of interest also have a moderately strong positive correlation ($r = 0.572$; $p<0.01$) under M4. These disclosures are interrelated because they are subject to the legal provisions of the Companies Act and the recommendations of King IV which state that each member of the board of directors should submit a declaration of all financial, economic and other interests held by the member and related parties at least annually or whenever there are significant changes (IoD, 2016, Companies_Act, 2008). Therefore this allows for the assessment of conflict of interest which the board of directors may have. The independence of directors has to be holistically assessed and substance over form considered (IoD, 2016).

Under M8 there is another relationship worth noting: the company secretary disclosure and the legal compliance programme and penalties disclosure which have a moderately strong positive correlation ($r = 0.584$; $p<0.01$). The relationship meets expectation given the role of a company secretary. In terms of Companies Act, the company secretary is responsible for the efficient administration of a company, specifically regarding compliance with statutory and regulatory requirements and ensuring proper implementation by the board of directors (Companies_Act, 2008).

The pairs of disclosures which are moderately correlated are all reasonable and, they all interlink in some way, whether through the recommendations of King IV or the provisions of the Companies Act or both. For both data sets, the strongly correlated disclosures and moderately strong correlated disclosures, the relationships are positive indicating that as one disclosure increases, the other one increases too. This means that when a company discloses one disclosure, they also disclose the other disclosure which it is strongly correlated to. This is further supported by the disclosures' correlations being significant at the 0.01 level, indicating that there is only 1% chance of the relationship between the disclosures being incorrect. The next section discusses the industry and size effects.

5.1.3) Industry and size effects.

There is, as yet, no generally applicable global corporate governance model for the directors' report (Carver, 2010). Corporations tend to work within the parameters set out by national laws, regulations and recommended practices, as well as the economic goals and expectations of shareholders. There has, however, been some measure of convergence in corporate governance internationally, mainly resulting from the standards required by international investors and capital markets (Fligstein (Fligstein and Choo, 2005). As a result of the above, when collecting data on what companies disclose (as per research question from Section 1.4), the researcher also collected data regarding which industry the companies are in, the stock exchange they are listed in as well as the size of the companies using market capitalization. The effects of isomorphism are evident from the fact that directors' report disclosures are largely consistent regardless of listing, industry and size differences among companies.

During data collection, the reports of the companies were assessed for their primary and secondary listing. Per Figure 2, most of the companies (78%) are primarily listed on the Johannesburg Stock Exchange (JSE). Approximately 13% are listed on the London Stock Exchange, 2% on the Luxemburg Exchange, 2% on the Warsaw Stock Exchange, 2% on the Stock Exchange of Mauritius, 1% on the New York Stock Exchange and 1% on the Euronex and Swiss Stock Exchange (please refer to Figure 2 below)

Figure 2: Primary Listing

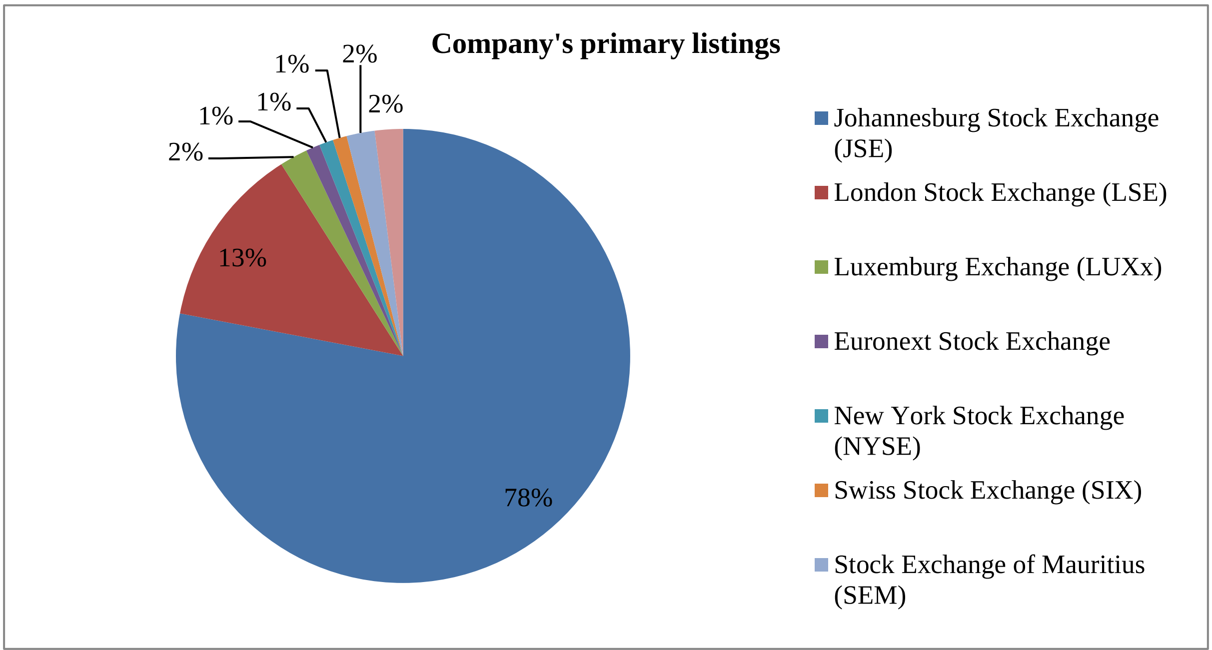


Table 7 below tests for differences in disclosures for companies which have their primary listing on the JSE and those companies which have their listing on other exchanges.

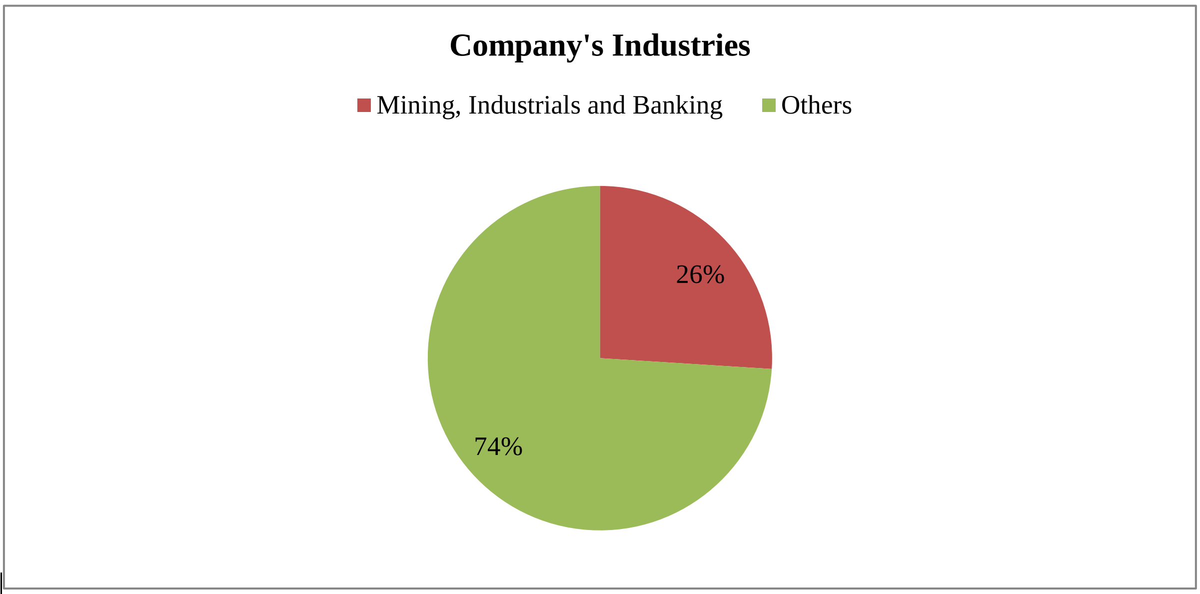
Table 7: Test statistics for primary listing				
	Panel A		**Panel B**	
	TOTAL2017 (Directors' report & Corporate governance report)	**TOTAL2016 (Directors' report & Corporate governance report)**	**TOTAL2017 (Directors' report.)**	**TOTAL2016 (Directors' report)**
Mann-Whitney U	734.000	744.000	409.000	415.500
Wilcoxon W	987.000	997.000	662.000	668.500
Z	-1.035	-.951	-3.747	-3.694
Asymp. Sig. (2-tailed)	.301	.341	.000	.000
a. Grouping Variable: Listing code				

The analysis differentiates between companies which include the directors' report as part of their corporate governance report (Table 7, Panel A) and those which have a separate directors' report (Table 7, Panel B). The directors' report disclosures provided by companies primarily listed on the JSE being compared with those companies primarily listed on a different exchange. The disclosure frequencies are statistically significant in 2016 (U_{2016}= 415.500; $p<0.01$) and 2017 (U_{2017}= 409. 000; $p<0.01$). This makes sense because the directors' report is a statutory requirement in South Africa but not necessarily so in other jurisdictions. Coercive isomorphism is at work in South Africa because of the Companies Act requirements, JSE rules, and corporate governance rules directly influencing the structure and patterns of the directors' report disclosures as discussed in Section 3 (De Villiers and Alexander, 2014).

However the results indicate that, when comparing corporate governance report disclosures together with the directors' report disclosure provided by companies that are primarily listed on the JSE and those that are not primarily listed on the JSE, the actual disclosure frequencies are statistically insignificant (U_{2017}= 734.000; $p> 0.1$) for 2017 even though the directors' report is a statutory requirement for South Africa companies. When looking at the reports at a combined level (the directors' report together with the corporate governance report), the companies are following disclosure trends visible from an international level (the reports have similarities for companies that are primarily listed on the JSE and those that are not primarily listed on the JSE). So the companies disclose what other international companies are disclosing in their reports. Which clearly indicates that in addition to a legal pressure to include the director's report as part of the financial statements (for JSE listed companies), the companies try to remain competitive by doing what other companies are doing at a global level. This provides evidence of the operation of mimetic isomorphism (De Villiers and Alexander, 2014, Scapens, 2006, DiMaggio and Powell, 1983).

When looking at the effects of industry on disclosures, Figure 3 below shows that 74% of the companies are in the mining, industrials and banking sector, while only 26% of the companies sampled are in other industries such as food and clothing industries. Figure 3 represents the different industries of all the 100 companies that were used in the sample to collect data (please refer to Section 4.2).

Figure 3: Industries



When differences in industries (Figure 3 and Table 8 below) are taken into account, the results from Figure 3 and Table 8 support the findings from Figure 2 and Table 7 as discussed above. The findings indicate that regardless of listing and industry differences similarities in disclosure pattern remain between the different companies.

Table 8 : Test statistics for industries[a]

	Panel A		Panel B	
	TOTAL2017 (Directors' report & Corporate governance report)	**TOTAL2016 (Directors' report & Corporate governance report)**	**TOTAL2017 (Directors' report)**	**TOTAL2016 (Directors' report)**
Mann-Whitney U	836.500	824.000	650.000	638.000
Wilcoxon W	1161.500	1149.000	2928.000	2916.000
Z	-.009	-.119	-1.651	-1.758
Asymp. Sig. (2-tailed)	.993	.905	.099	.079

a. Grouping Variable: Industry

Panel A in Table 8 shows the result of companies which disclose the directors' report together with the corporate governance report. The comparison of what was disclosed in the reports for 2016 (U_{2016}=824.000; $p>0.05$) and 2017 (U_{2017}=836.500; $p>0.05$) indicates that differences in disclosures are statistically insignificant.

Table 8, Panel B shows the results of companies which disclose the directors' report as a separate report. The comparison of what was disclosed in the reports for 2016 (U_{2016}=638.000; $p>0.05$) and 2017 (U_{2017}=650.000; $p>0.05$) indicate that, for both years, differences in disclosures are statistically insignificant. The results for Panel A and B indicate that the industry is not having an impact on the information that is included in the directors' report.

Overall, the industry differences have no impact on the disclosure items reflected on both reports. The only differences which exist are the detailed explanations of the disclosure items for each company. For example, a mining company and a banking company will have different explanations under the nature of the entity disclosure item. However, the disclosure item for the nature of the entity remains the same for both companies. After the consideration of industry effects on disclosure, the different companies' size effects are taken into account as per the information below (Figure 4).

Figure 4: Company Size

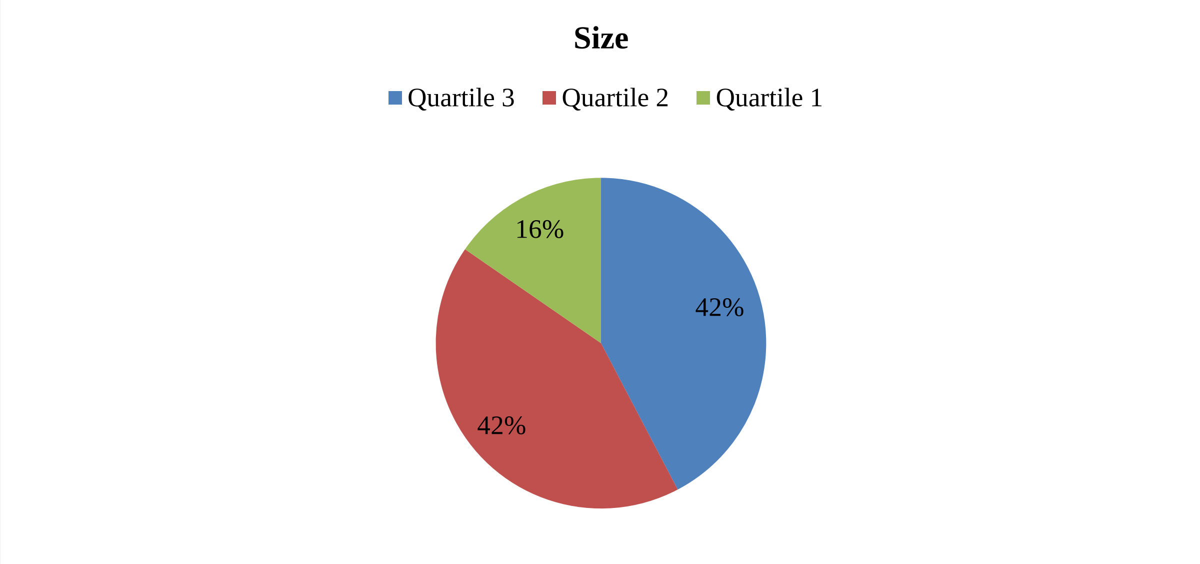


Figure 4 shows the sizes of the companies according to market capitalisation. Only 16% of the companies fall within quartile 1 of the market capitalisation figures, while 42% fall within quartile 2 and 42% within quartile 3. The chart indicates that 42% (quartile 3) of the companies fall in the same category of having the highest market capitalisation when compared to the other companies from the same sample. Quartile 2 also has 42% of companies that are in the middle in terms of market capitalisation. The companies with the lowest market capitalisation when compared to the other companies from the same sample are within quartile 1, which has 16% of the companies within it.

Table 9 : Test statistics for company size[a]

	Panel A		Panel B	
	TOTAL2017 (Directors' report & Corporate governance report)	**TOTAL2016 (Directors' report & Corporate governance report)**	**TOTAL2017 (Directors' report)**	**TOTAL2016 (Directors' report)**
Mann-Whitney U	342.500	353.500	442.500	445.000
Wilcoxon W	667.500	678.500	767.500	770.000
Z	-2.904	-2.773	-1.723	-1.693
Asymp. Sig. (2-tailed)	.004	.006	.085	.090

a. Grouping Variable: Size quartile

Even when the differences in sizes of the companies are taken into consideration there are still no differences in the disclosures found in the directors' report. Table 9, Panel B shows that the company sizes are not having an impact on the disclosures under the directors' report as the statistics reflect in

2016 (U2016=445.000; p>0.05) and 2017 (U=442.500; p>0.05), the differences are statistically insignificant. Panel A also indicates that there are no difference in the directors' report disclosed under the corporate governance report as the statistics in Table 9 indicate, 2016 (U2016=353.500; p>0.01) and 2017 (U=342.500; p>0.01) that there are also no statistically significant differences.

However, differences between the directors' report as a separate report and the corporate governance report exist. The results indicate that even though larger companies tend to disclose more general information in the corporate governance report, the directors' report remains consistent across the different entities and their differences in sizes.

The findings show that the directors' report as a separate report and within the directors' report with the corporate governance report disclosure patterns and governance structure are similar for all entities. The similarities are a result of companies implementing international disclosure patterns combined with local disclosure patterns. Companies take their cues from their peers resulting in mimetic isomorphism being the outcome (De Villiers and Alexander, 2014, Scapens, 2006). The three isomorphic forces collectively influence the directors' report and the directors' report together with the corporate governance report disclosures patterns and practices adopted by companies worldwide. With normative isomorphism becoming more important as the field of non-financial disclosures matures and becomes more professionalised, for example, there is now availability of integrated reporting and King Code specialists (De Villiers and Alexander, 2014). As a result the similarities will only become advanced.

In summary, the results under section 5.1 are the findings from the investigation undertaken to address research question one where the question was raised about what disclosures do companies disclose in their directors report (see Section 1.4). Disclosures were identified and there correlations between disclosures analysed as per the discussion for section 5.1.1. Some of the disclosure were found in a company's directors' report while some were not found in all the directors' report. For those disclosures that were found in all the directors' reports it was noted that there were similarities in those disclosure across all entities, regardless of size, industry or listing on the stock exchange. The next section discusses the factor analysis results.

5.2 Factor analysis results

This section discusses the results of the factor analysis, the findings under this section relate to the second research question which was "Which disclosures do users perceive as important in the directors' report?" as raised under (section 1.4). Table 10 below shows the disclosures as per the factor analysis with strong loadings on each factor (see Section 4.3). To reduce the dimensionality of the data, PCA (principle component analysis) was used to examine patterns of correlations among the questions used to measure the respondents' perceptions regarding which disclosures they deem important and should be in the directors' report[2]. Please note that in this section the respondents are also referred to as users of financial statements.

All 46 disclosures were subjected to the principal component analysis. All disclosure items loaded sufficiently on the components/factors and no disclosure was excluded from the solution (see Table 10). The final solution comprises 8 components/factors with strong disclosure loadings on each. In total, the factor analysis explains 70 per cent of the variations in the data. There are, however, a number of cross-loading situations (disclosures which loaded heavily on more than one factor) which needed careful interpretation (Osborne and Costello, 2004, Osborne et al., 2008).

[2] The KMO statistic is greater than 0.7 which is in excess of the recommended minimum value of 0.6 (Kaiser et al., 1970; Kaiser and Rice, 1974). According to Bartlett's test of sphericity, the data correlations are statistically significant with $p < 0.001$, and it was concluded that the sample size was adequate to perform factor analysis (Barlett, 1954; Naynar 2018)

Table 10: Rotated Component Matrix

Question No	Component							
	1. Composition of the board of directors and their interests in the company, as well as the current state and future prospects of the company	2. The benefits of stakeholders and rights over the company.	3.Board's responsibilities	4 Compliance with laws, regulations and recommended practices	5 Nature of the business	6 Annual assessment of independence and board resolutions.	7 Remuneration benefits of directors	8 Risk governance and business ethics
42	0.755							
35	0.648	0.436						
21	0.639							
20	0.634							
44	0.613							
13	0.575					0.483		
32		0.680						
37		0.615						
36		0.596			0.487			
45		0.575					0.556	
14		0.524		0.406				
33		0.459						
18		0.420						
9			0.626					
2			0.613					
8			0.592		0.400			
3			0.516			0.515		
29			0.502					
19		0.430	0.482					
22			0.468					
31			0.443					
43				0.740				
27				0.640				
15				0.634				
28		0.473		0.535				
1	0.417			0.505				
25					0.656			
24					0.643			
23					0.633			0.423
10			0.414	0.415	0.551			
26					0.517			
11					0.505			
4						0.761		
7						0.700		
5						0.669		
6				0.510		0.518		
41							0.711	
40							0.706	
46							0.604	

39								0.578	
38								0.420	
16									0.773
17									0.615
30									0.580
34									0.554
12									0.410
Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.									
a. Rotation converged in 27 iterations.									

The components/factors calculated were interpretively named according to the types of disclosures that loaded in each factor (shown in Table 11 below).

Table 11: Factor analysis disclosures	
Component/ Factor	**Component/factor name**
1	Composition of the board of directors and their interests in the company as well as the current state and future prospects of the company.
2	The benefits of stakeholders and rights over the company.
3	Board's responsibilities and activities in the company.
4	Compliance with laws, regulations and recommended practices of good corporate governance
5	Nature of the business, how the business is composed, its internal control systems, internal audit and external audit.
6	Annual assessment of independence and board resolutions.
7	Remuneration benefits of directors.
8	Risk governance and business ethics of the company.

For each of the components identified from the factor analysis, the number of times the disclosures making up a component/factor is disclosed in the directors' report under review is contrasted with the perceived importance of the disclosures (based on the questionnaire results). This is used to highlight possible perception gaps (Naynar et al., 2018).

***Factor analysis key findings*.**

The discussion in this section addresses the second research question from Section 1.4 about which disclosures users perceive as important. Table 12 below compares the frequency measures of the disclosures disclosed by companies to the users' perceived importance (used as a proxy for assessing an expectation gap). The expectation gap is measured by comparing the results of the frequency measure score of disclosures disclosed by companies against the frequency measure score of users' perceived importance regarding which disclosures they deem are important in the directors' report.

Table 12: Expectation gap frequencies			
Component/Factor	**Sum of average score per company**	**Perceived importance per questionnaire**	**Outcome**
1) Composition of the board of directors and their interests in the company as well as the current state and future prospects of the company	4.41	4.50	No issues
2) The benefits of stakeholders and rights over the company.	3.73	4.13	Some expectation gap
3) Board's responsibilities and activities in the company	4.98	4.15	No issues
4) Compliance with laws, regulations and recommended practices of good corporate governance	2.90	4.07	Big expectation gap
5) Nature of the business, how the business is composed, its internal control systems, internal audit and external audit.	4.60	4.21	No issues
6) Annual assessment of independence and board resolutions	2.81	4.29	Big expectation gap
7) Remuneration benefits of directors.	3.33	4.25	Some expectation gap
8) Risk governance and business ethics of the company	3.37	4.36	Some expectation gap

As per Table 12 the most notable perception gaps involve component/factor 4 and 6 where the outcome column shows that there is a noticeable expectation gap. Whereas less material differences are reported for component/factor 2, 7 and 8 as reflected in Table 12, the outcome is that there is fewer expectation gaps. While consistencies are found for the remaining components which are 1, 3 and 5 where no expectation gap issues were identified.

Insignificant differences exist for disclosures under component/factor 2, 7 and 8. This suggests that there are adequate disclosures provided by companies for disclosure on the benefits of stakeholders and their rights over the company (factor 2). As well as disclosures on remuneration benefits of directors (factor 7) and on risk governance of the company (factor 8). The latest King Code emphasises the role of directors over risk governance, as well as stakeholder inclusivity because companies are seen as an integral part of society (IoD, 2016). The influence of the King Code might be the reason that there are insignificant differences in the expectations of the users of financial statements (respondents to the questionnaire) because companies are disclosing accordingly (IoD, 2016).

More emphasis is placed on disclosing details for factor 1, 3 and 5 by the companies than by the respondents (see Table 12 for the statistics). The factors (1, 3 and 5) do not have any expectation gap and the disclosures relating to this factors are: the composition of the board of directors, the directors' interests in the company, the current state and future prospects of the company (factor 1) as well as all other disclosures falling under factor 3 and 5 (see Table 13). The results suggest that more than sufficient detail is being provided by the companies for disclosures under the mentioned factors. The detail relating to the disclosures might not necessarily be a problem unless if the companies are disclosing large amounts of information that is not relevant to users. The companies need to abide by the fundamental principles such as those provided by the conceptual framework about disclosing useful and relevant information (IASB, 2010). The detail of the information provided by the companies needs to be relevant and useful to users.

Overall, the results suggest that the respondents place more emphasis on the disclosure which deal with compliance with laws, regulations and the recommended practices of good corporate governance than the companies reporting on these disclosures (Component/factor 4). The same applies to the disclosure on the annual assessment of independence and board resolutions (Component/factor 6).

The disclosures under factor 4 and 6 had a sum of average disclosure per company of 2.9 for factor 4 and it was 2.81 for factor 6. However, the factors (4 &6) scored a score of 4.07 for factor 4 and 4.29 for factor 6 for perceived importance by the users (see Table 12). The results suggest that there is less detail disclosed for disclosures under factor 4 and 6 while greater detail is expected by the respondents which shows existence of an expectation gap (Naynar et al., 2018). Respondents seem to require more detail on the annual assessment of independence and board resolutions (factor 6) to be able to assess the types of decisions taken by the board of directors to determine whether all resolutions are always in the best interest of the company or not. More detail on board resolutions would also provide transparency with regards to whether there is compliance with laws, regulations and recommended practices of good corporate governance by the board when making decisions.

The findings of this study indicate that inconsistencies exist between the focus placed by the companies on certain directors' report disclosures and the perceived importance of these disclosures by respondents. A sensitivity test (see Appendix F) was conducted on the characteristics of the respondents to assess for impact on the results. The respondents' position or the type of career had no statistically significant impact on the results of the respondents. There was also no impact for the years of experience probably because all respondents have an advanced understanding of financial reporting. Results show that a perception gap has developed due to the companies placing emphasis on disclosures not considered as equally important as their users (Naynar et al., 2018).

As a result of the findings a directors' report disclosure framework has been proposed, please refer to Section 6 for the framework guidance and disclosure framework discussion.

6. Conclusion

6.1 Key findings and disclosure framework

The purpose of this paper was to investigate what companies currently disclose in their directors' report. The study was done to assess if there are suitable criteria which can be used for evaluation of the directors' report by auditors, given the current exclusion of the directors' report from the audit opinion (please refer to Section 1). In addition, the paper also investigated which disclosures users of financial statements perceive are important to be in the directors' report.

The findings of the study were then used to develop the first disclosure framework to be used as criteria for evaluation of the directors' report (see Table 13). As noted from the discussion in Chapter 1(Section 1.1) and Chapter 2 (Section 2.3) the wording of the Companies Act explicitly includes the directors' report as part of the complete set of annual financial statements (Companies_Act, 2008). The study deems it appropriate for the directors' report to be included in the audit opinion of the financial statements because the directors' report is part of the financial statements as defined by Companies Act (2008).

The researcher investigated what disclosures companies disclose in their directors' report and the results indicated that there are 46 disclosure items that can be found under the directors' report and the combined directors' and corporate governance report (please refer to Section 5.3). The findings show that the directors' report as a separate report and the directors' report together with the corporate governance report disclosure patterns and governance structure are similar for all entities. The similarities in the reports exist even when listing, industry and size differences are taken into account, so the differences have no impact on the disclosures (see Section 5.1.3). The similarities are as a result of companies implementing international disclosure patterns combined with local disclosure patterns. Companies take their cues from their peers resulting in mimetic isomorphism being the outcome (De Villiers and Alexander, 2014, Scapens, 2006). The three isomorphic forces collectively influence the directors' report and the directors' report together with the corporate governance report disclosures patterns and practices adopted by companies worldwide (please refer to Section 3.1).

The 46 different disclosures have been used in Table 13 below to develop the disclosure framework which outlines the disclosures found in the directors' report. The listed disclosures can serve as suitable criteria for auditors to be able to evaluate the directors' report. The disclosure framework can be used in the preparation and evaluation of the directors' report because it was compiled using different directors' reports indicating that not all reports disclose all the relevant disclosures as identified.

In the development of the disclosure framework as per Table 13 below, the financial statement users' perceptions were taken into account. The users' perceptions with regards to which disclosures in the directors' report they perceive are important (please refer to Section 5.2). The users perceived the composition of the board of directors and their interests in the company, as well as the current state and future prospects of the company (which is component 1) as important and ranked these highest with a frequency score of 4.50 out of 5 (please refer to Table 12 in Section 5.2). The list of disclosures under this theme is shown in column 2 of the disclosure framework table. The disclosure list focuses on the composition of the board and the prospects of the entity as a whole.

The disclosure theme which ranked second highest with a score of 4.29 out of 5 (please refer to Table 12 in Section 5.2) is the annual assessment of independence and board resolutions (which are component 6). The list of disclosures which fall under component 6 disclosure theme are shown in the disclosure framework in Table 13. The disclosure list focuses on the independence of the directors as well as the decisions taken by the board of directors (board resolutions). Factor 6 has the largest expectation gap so the disclosures under this factor need to be improved and taken into account by companies in their directors' report disclosures.

In overall all the disclosure theme (factors) were ranked highly in the disclosure framework because they were perceived by users as important. The disclosure themes all have a score of above 4 out of 5 which is greater than 80% (please refer to Table 12 in Section 5.2). The disclosures that form part of the disclosure themes can be found in the disclosure framework in Table 13 and they deal with all the different disclosures relating to that specific theme. The users' perception were taken into account in the development of the framework because the findings in Section 5.2 indicated that there are some inconsistencies with what companies disclose and what the users expect.

Table 13: Directors report disclosure framework

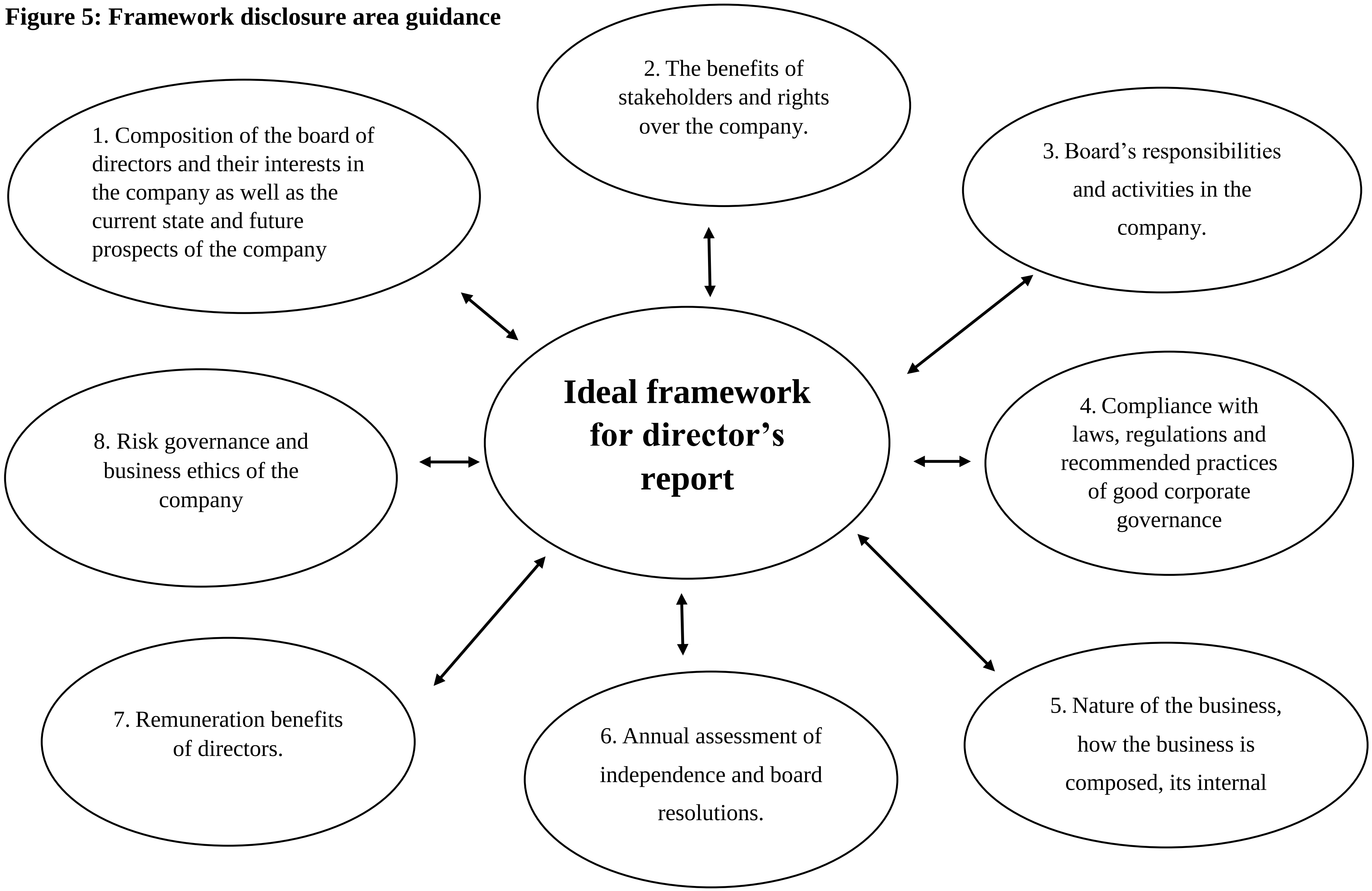
Areas of disclosures	Disclosure List
1. Composition of the board of directors and their interests in the company as well as the current state and future prospects of the company.	• Board composition (directors' names, age and qualifications). • Going concern assumption. • Directors' interests in the company. • Conflict of interest. • Significant acquisitions and disposals. • Business rescue proceedings. • Summary of financial performance.
2. The benefits of stakeholders and rights over the company.	• Distributions to shareholders. • Stakeholder engagement. • Share capital and shareholder rights. • Share buy-back/capitalisation issue. • Nature of the business. • Succession planning. • Borrowing powers.
3. Board's responsibilities and activities in the company.	• Meetings attendance. • Board resolutions. • Board's responsibilities/activities. • Established board committees in operation. • Appointment, rotation and re-election of directors. • Company secretary. • Orientation and development programme for directors. • Independent advice. • Meetings of the board by order and matters discussed. • Directors' liabilities and indemnities.
4. Compliance with laws, regulations and recommended practices of good corporate governance.	• Board composition (directors' names, age and qualifications). • Annual assessment of independence (evaluation).

	• Company secretary. • Compliance with listing requirements. • Application and approach to King Code (corporate governance). • Balance and diversity of the board. • Stakeholder engagement. • BBE empowerment.
5. Nature of the business, how the business is composed, its internal audit and external audit.	• Composition of the group (subs)/ consolidated entities. • Internal control systems. • Internal audit. • External audit and non-audit services (independence). • Information technology (IT) governance. • Nature of the business.
6. Annual assessment of independence and board resolutions.	• Board resolutions. • Controlling shareholder representation on the board. • Executive representation on the board. • Annual assessment of independence (evaluation). • Board tenure.
7. Remuneration benefits for directors	• Remuneration & nomination committee terms of reference. • Remuneration philosophy and policy. • Components of remuneration. • Retirement and performance benefits. • Borrowing powers. • Political donations.
8. Risk governance and business ethics of the company	• Business ethics of the company and where they can be found. • Legal compliance programme and penalties. • Internal control systems. • Risk governance. • Events after the reporting date.

The directors' report disclosure framework is the first developed framework which aims to provide conceptual guidelines for the evaluation of the directors' report by auditors. This has been done to address the uncertainty auditors have with the evaluation of the directors' report. The framework's aim is to resolve the uncertainty auditors have in evaluating the report because there were no suitable criteria to assess against. The framework provides guidance on what companies can disclose in their director reports and what auditors can use as a basis when evaluating the reports. As a result, the audit opinion will be based on the complete set of annual financial statements as defined by the Companies Act (2008).

Turning to the disclosure guidance for the framework in Figure 5 below, the disclosure guidance (rotated matrix) summarises the main disclosure themes identified. Component 1 is in step 1 of the rotated matrix (Figure 5 below) as a disclosure theme and, as discussed above, the theme relates to the composition of the board and current state and future prospects of the company. For the list of disclosures which fall under this disclosure theme please refer to the disclosure framework in Table 13. The same applies to the rest of the disclosure themes. The rotated matrix (Figure 5 below) only shows the main disclosure theme, while the disclosure framework provides a detailed list of the disclosures under each theme.

Figure 5: Framework disclosure area guidance



6.2. Implications and recommendations

Given the presence of the isomorphic forces which drive consistency on the types of disclosures for the directors' report, there appear to be criteria which can be used for the directors' report (see Section 3.1). As shown in Table 13 the disclosure list presented was compiled using existing disclosures by the companies in their reports. Although not all companies disclose all the identified disclosure in the directors' report prior findings indicate that even though different organisations may be influenced by different factors (e.g., social factors) disclosure structures and patterns are remarkably similar (De Villiers and Alexander, 2014). However, the similarities in the disclosures may not necessarily reflect corporate priorities and intentions but may be driven by a desire to follow generally accepted practices such as those presented by King Code (Scapens, 2006).

Organisations encounter pressures which lead them to adopt generally accepted practices to enhance legitimacy (DiMaggio and Powell, 1983, Deephouse, 1996). Organisations feel the need to embrace the rules, social norms and expectations of others outside the organisation. In this respect, organisations are pressured to adopt similar disclosures in their directors' report to appear legitimate to their broader constituencies and stakeholders to secure the resources they need for their continued survival.

An example indicative of such pressures was mentioned earlier in Section 3.1 where an organisation disclosed pictures of the board of directors in the application of principle 7, practice 6 to 13 of King IV which deals with the board composition. Other entities within the same environment tend to succumb to the pressure and end up disclosing pictures of their board of directors, even though King IV does not specifically require pictures of the board to be disclosed (IoD, 2016). To enhance legitimacy organisations have to be seen to conform to what is expected of them and this leads to the adoption and application of voluntary disclosures on reporting (Scapens, 2006, DiMaggio and Powell, 1983).

The findings of the paper indicate that regardless of the attempt by the entities in adopting similar disclosures to enhance legitimacy there still appears to be an expectation gap in existence (see Section

5.2). The expectation gap arises from the differences in comparing what disclosures users perceive as important in the directors' report against what companies currently disclose. The results of the expectation gap have been discussed in detail under Section 5.2. In order to address the perception gap, it is recommended that more research be conducted to understand further the specific causes of the perception gap using the identified disclosure themes in Figure 5 and disclosure list in Table 13. Additional factors can be considered when investigating the perceptions of users because the study only took into account the type of career or field and years of experience of the respondents. The implications of this would be that more understanding of the disclosure themes will be obtained and the disclosure framework adjusted to include new findings.

6.3. Limitations and areas for future research

Finally, the results of this study give rise to a number of areas for future research. The study serves as the first attempt towards the development of a directors report disclosure framework. It will be useful to explore whether or not the disclosures in the separate directors' report and the directors' report within the corporate governance report have remained consistent in the 2018 financial period. It would be useful to explore the 2018 financial year because the King IV report was issued in 2016 so in the 2016 and 2017 reports there was still a learning curve present in incorporating the newly structured recommended principles and practices.

A limitation exists because the study was confined to two years and no other years of disclosures were addressed. The two years were chosen because they represented the latest published annual/ integrated reports and were relevant when the study was conducted because the study analysed what companies were currently disclosing in these reports. However, taking the 2018 financial year into consideration will expand the study and update findings with the latest disclosures patterns.

The size of the sample was 100 JSE listed companies which had their directors' reports content analysed using thematic content analysis (see Section 3.1) (Braun and Clarke, 2006). The JSE hosts almost 400 companies on the main board, the researcher did not examine all companies listed on the JSE. The sample only included entities listed on the main board. Additionally, in order to retain the

South Africa-specific focus of this study, directors' report disclosure trends in other jurisdictions were not dealt with (Raemaekers, 2015). This presents an opportunity for further research to expand the size of the sample of the companies which were analysed and consider directors' report disclosure trends in other jurisdictions (i.e. the United Kingdom).

Another area for future research which may be explored is the perception gap between companies and users by taking into account a wide variety of the users of the financial statements. The users of financial statements which were considered in this study were limited to only three groups of users being academics, auditors and financial statement preparers. The academics are used in this research as a proxy for investors on the basis of the research findings by McLean and Pontiff (2016), that investors learn about mispricing of investment portfolios from academic publications. This indicates that academics are knowledgeable about investors' interests in investments portfolio (i.e. could be shares in companies). Nevertheless, the fact that investors are not engaged directly is an inherent limitation of this thesis and this presents an area for future research where investors can be directly engaged. Additionally, it would also be useful to further the research to consider the opinions of the regulators (IRBA and FASB) about the development of a directors report disclosure framework in ensuring that the requirements of the Companies Act are complied with.

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Appendix A: Sample questionnaire

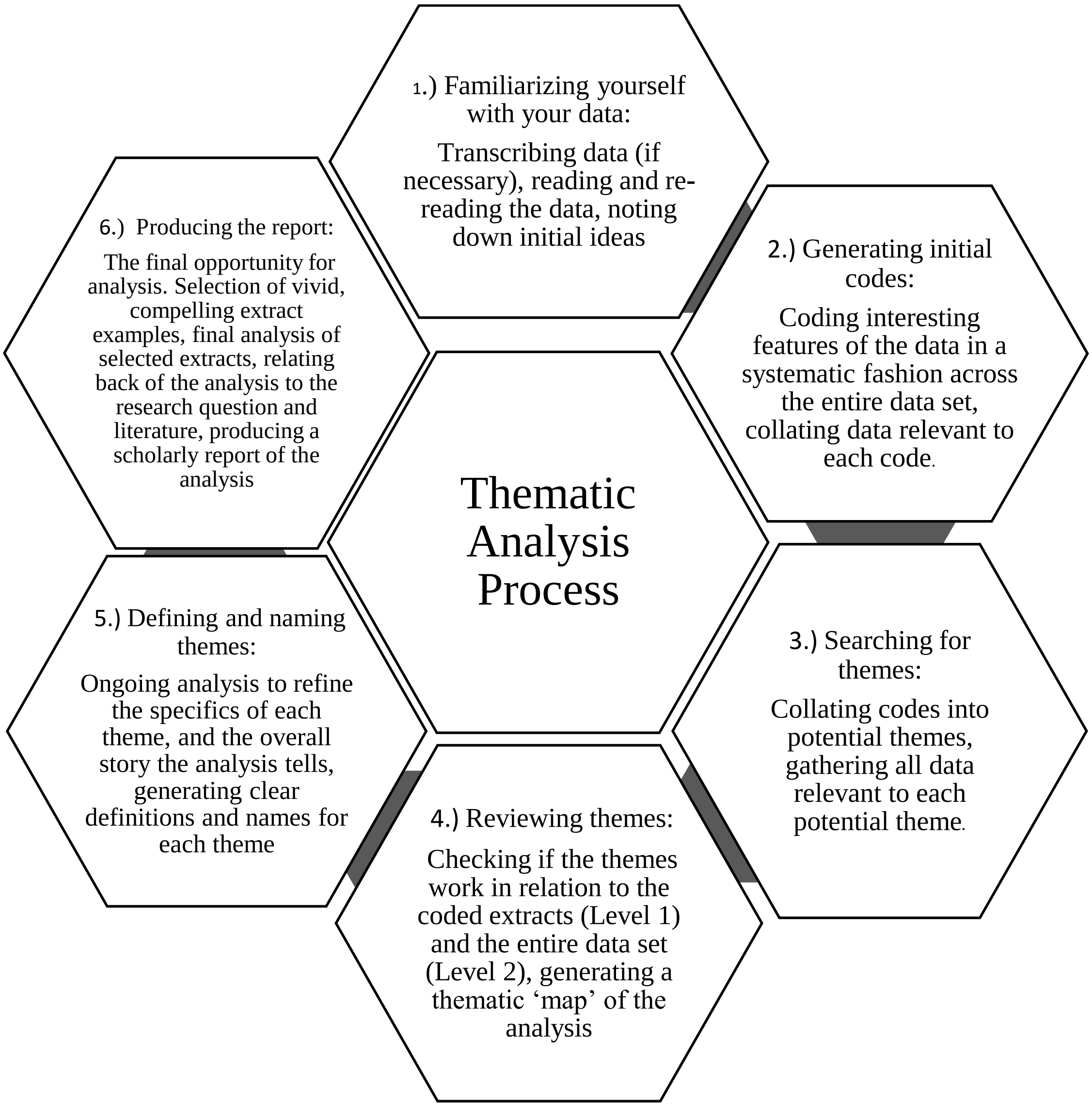
List of directors' report and corporate governance disclosure items identified from the principal component analysis

"1" indicates the disclosure is totally irrelevant, and "5" means the disclosure is very relevant.

Disclosures	1	2	3	4	5
1. Board Composition (Directors' names, age and qualifications)					
2. Meetings attendance					
3. Board resolutions					
4. Controlling shareholder representation on the Board					
5. Executive representation on the board					
6. Annual assessment of independence (evaluation)					
7. Board tenure					
8. Board's responsibilities/activities					
9. Established board committees in operation					
10. Company Secretary					
11. Composition of the group (subs)					
12. Distributions to shareholders					
13. Going concern assumption					
14. Compliance with listing requirements					
15. Application and approach to King Code (corporate governance)					
16. Business ethics of the company					
17. Legal compliance programme and penalties					
18. Appointment, rotation and re-election of Directors					
19. Orientation and development programme for directors					
20. Directors' interests in the company/ Insider Trading					
21. Conflict of interest					
22. Independent advice					
23. Internal control systems					
24. Internal audit					
25. External audit and non-audit services (independence)					
26. Information technology (IT) governance					
27. Balance and diversity of the board					
28. Stakeholder engagement					
29. Meetings of the board by order and matters discussed					
30. Risk governance					
31. Going concern assumption					
32. Directors' liabilities and indemnities					
33. Share capital and shareholder rights					
34. Share buy-back/capitalisation issue					
35. Events after the reporting date					
36. Significant acquisitions and disposals					
37. Nature of the business					
38. Succession planning					

39. Remuneration & Nomination committee terms of reference					
40. Remuneration philosophy and policy					
41. Components of remuneration					
42. Retirement and performance benefits					
43. Business rescue proceedings					
44. BBE Empowerment					
45. Summary of financial performance					
46. Political donations					

Appendix B: Phases of thematic analysis



Content adapted from Braun and Clarke (2006)

Appendix C: Information sheet and consent form.

Title: Directors' report disclosures: the need for guidelines on form and content.

Dear Sir/ Madam

You are kindly invited to participate in this research project. The choice to participate is entirely up to you, choosing not to take part will not disadvantage you in any way. However, it would be an honour if you participated. Before you decide whether you want to take part, it is important for you to understand why the research is being done and what your participation will involve.

Please take time to read the following information carefully:

1) The South African Auditing Practice Statement 3 (SAAPS 3) (Revised November 2015), Illustrative reports were issued by the Independent Regulatory Board for Auditors (IRBA) with the aim of providing practical guidance to registered auditors who report on financial statements. SAAPS 3 states that the nature of the directors' report, coupled with the absence of suitable criteria against which the report may be evaluated, has the effect of excluding the directors' report from the scope of the auditor's opinion on the prescribed full set of related financial statements.
2) However, drawing from the requirements of Companies Act, 2008 states that auditors are required to express an opinion on the directors’ report because it constitutes part of the complete set of annual financial statements (Companies_Act, 2008).
3) This research will investigate what companies currently disclose in their directors’ reports to assess if there are any flaws in the form and content of directors’ reports. This study will be done to determine if a proposal of the first step towards providing conceptual guidelines (framework) for the form and content of directors’ reports is necessary, because if suitable criteria is present, then the director’s report will be included in the scope of the auditor’s opinion.
4) If you agree to participate, you will have to complete the online questionnaire by clicking on the link emailed to you. The questionnaire will not take more than 10 minutes to complete.
5) There are no material risks posed by participating. Your identity and place of employment will be kept confidential. No personal information will be collected from you. There are also no right or wrong responses – this research is only interested in your opinions and perceptions.
6) You will not receive any compensation for participating in the research. There is no direct benefit from participating or not participating in the research.

7) Should you be interested, a copy of the final report will be available to you on request.

It is up to you to decide whether to take part or not. If you decide to take part, please complete the consent form below and remember you are still free to withdraw at any time from the study without giving a reason.

CONSENT FORM FOR PARTICIPANTS IN RESEARCH STUDIES

Please complete this form after you have read the Information Sheet above.

Tittle of the study: Directors' report disclosures: the need for guidelines on form and content

Details	Please tick or initial
I understand that if I decide at any time during the research that I no longer wish to participate in this project, I can notify the researcher involved and withdraw from it immediately without giving any reason. Furthermore, I understand that I will be able to withdraw my data up to the point of submission of my responses.	
I understand that the information I have submitted may be published in a journal article and that I can request a copy of the final article.	
I understand that my personal information will not be collected. My identity and that of my employer and/or clients will be kept confidential and will not be referred to directly in the final report.	

Participant's Statement:

I ____

agree that the research project named above has been explained to me to my satisfaction and I agree to take part in the study. I have read both the notes written above and the Information Sheet about the project, and understand what the research study involves.

Signed______________________________ Date_________________________.

Appendix D: Correlation results

TABLE 14		DIRECTORS			DR+CG		
DISCLOSURES CORRELATION TABLE	CORRE	HIGH	MODERATE		HIGH	MODERATE	
Board tenure and political donations	.421**		√				
Board tenure and board's responsibilities/activities	.506**					√	
Board tenure and compliance with listing requirements	.535**					√	
Board tenure and business ethics of the company	.445**					√	M5
Board tenure and legal compliance programme and penalties	.506**					√	
Board tenure and risk gorvenance	.569**					√	
Board's responsibilities/activities and established board committees in operation	.584**					√	
Board's responsibilities/activities and company secretary	.449**					√	
Board's responsibilities/activities and compliance with listing requirements	.522**					√	
Board's responsibilities/activities and legal compliance programme and penalties	.489**					√	
Board's responsibilities/activities and conflict of interest	.463**					√	M6
Board's responsibilities/activities and information technology (IT) governance	.491**					√	
Board's responsibilities/activities and balance and diversity	.535**					√	
Board's responsibilities/activities and stakeholder engagement	.467**					√	
Board's responsibilities/activities and risk gorvenance	.503**					√	
Established board committees in operation and compliance with listing requirements	.477**					√	
Established board committees in operation and business ethics of the company	.490**					√	
Established board committees in operation and conflict of interest	.505**					√	
Established board committees in operation and internal audit	.446**					√	M7
Established board committees in operation and information technology (IT) governance	.462**					√	
Established board committees in operation and balance and diversity of the board	.438**					√	
Established board committees in operation and risk gorvenance	.505**					√	
Company secretary and appointment, rotation and re-election of directors	.512**		√	.425**		√	
Company secretary and directors' interests in the company	.468**		√	.450**		√	
Company secretary and; share capital and shareholder rights	.401**		√				
Company secretary and events after the reporting date	.431**		√				
Company secretary and nature of the business	.427**		√				M8
Company secretary and legal compliance programme and penalties	.584**					√	
Company secretary and conflict of interest	.505**					√	
Company secretary and internal control	.483**					√	
Company secretary and internal audit	.446**					√	

Composition of the group (group structure) and distributions to shareholders	.563**		√	.473-		√	
Composition of the group (group structure) and; share capital and shareholder rights	.415**		√				
Composition of the group (group structure) and nature of the business	.423**		√				M9
Composition of the group (group structure) and events after the reporting date	.541**		√				
Composition of the group (group structure) and summary of financial performance	.466**		√				
Distributions to shareholders and appointment, rotation and re-election of directors	.474**		√				
Distributions to shareholders and directors' interests in the company	.474**		√				
Distributions to shareholders and events after the reporting date	.400**		√				M10
Distributions to shareholders and summary of financial performance	.585**		√				
Distributions to shareholders and BBE empowerment	.461**					√	
Distributions to shareholders and summary of financial performance	.479**					√	
Legal compliance programme and penalties; and external audit and non-audit services	.419**		√				
Legal compliance programme and penalties; and appointment, rotation and re-election of directors	.559**					√	
Legal compliance programme and penalties; and orientation and development programme for directors	.568**					√	
Legal compliance programme and penalties; and conflict of interest	.543**					√	
Legal compliance programme and penalties; and internal control systems	.568**					√	M11
Legal compliance programme and penalties and internal audit	.522**					√	
Legal compliance programme and penalties and external audit and non-audit services	.446**					√	
Legal compliance programme and penalties and stakeholder analysis/engagement	.467**					√	
Legal compliance programme and penalties and risk gorvenance	.595**					√	
Compliance with listing requirements and legal compliance programme and penalties	.568**		√	.522**		√	
Compliance with listing requirements; and external audit and non-audit services	.422**		√	.483**		√	
Compliance with listing requirements and business ethics	.483**					√	
Compliance with listing requirements and appointment, rotation and re-election of directors	.492**					√	
Compliance with listing requirements and orientation and development programme for directors	.513**					√	
Compliance with listing requirements and independent advice	.401**					√	M12
Compliance with listing requirements and information technology (IT) governance	.531**					√	
Compliance with listing requirements and balance and diversity of the board	.423**					√	
Compliance with listing requirements and stakeholder engagement	.436**					√	
Compliance with listing requirements and risk gorvenance	.442**					√	
Application and approach to King Code (corporate governance); and legal compliance programme and penalties	.485**					√	M13

Business ethics and legal compliance programme and penalties	$.446^{**}$					√	
Business ethics and conflict of interest	$.417^{**}$					√	
Business ethics and independent advice	$.458^{**}$					√	
Business ethics and internal control	$.402^{**}$					√	
Business ethics and internal audit	$.486^{**}$					√	M14
Business ethics and external audit and non-audit services	$.458^{**}$					√	
Business ethics and balance and diversity of the board	$.553^{**}$					√	
Business ethics of the company and political donations	$.492^{**}$		√				
Business ethics and risk gorvenance	$.500^{**}$					√	
Going concern assumption and legal compliance programme and penalties	$.463^{**}$		√				M16
Appointment, rotation and re-election of directors and directors' interests in the company	$.532^{**}$		√				
Appointment, rotation and re-election of directors and share capital and shareholder rights	$.433^{**}$		√				
Appointment, rotation and re-election of directors and events after the reporting date	$.427^{**}$		√				
Appointment, rotation and re-election of directors and conflict of interest	$.431^{**}$					√	
Appointment, rotation and re-election of directors and internal control systems	$.448^{**}$					√	
Appointment, rotation and re-election of directors and internal audit	$.406^{**}$					√	M17
Appointment, rotation and re-election of directors and external audit and non-audit services	$.414^{**}$					√	
Appointment, rotation and re-election of directors and information technology (IT) governance	$.456^{**}$					√	
Appointment, rotation and re-election of directors and balance and diversity of the board	$.569^{**}$					√	
Appointment, rotation and re-election of directors and remuneration committee terms of reference	$.422^{**}$					√	
Appointment, rotation and re-election of directors and remuneration philosophy and policy	$.458^{**}$					√	
Orientation and development programme for directors and conflict of interest	$.560^{**}$					√	
Orientation and development programme for directors and independent advice	$.402^{**}$					√	
Orientation and development programme for directors and internal control systems	$.451^{**}$					√	
Orientation and development programme for directors and internal audit	$.481^{**}$					√	M18
Orientation and development programme for directors and external audit and non-audit services	$.471^{**}$					√	
Orientation and development programme for directors and information technology (IT) governance	$.569^{**}$					√	
Orientation and development programme for directors and stakeholder analysis/engagement	$.458^{**}$					√	
Directors' interests in the company and share capital and shareholder rights	$.433^{**}$		√				
Directors' interests in the company and events after the reporting date	$.472^{**}$		√				
Directors' interests in the company and nature of the business	$.456^{**}$		√				M19
Directors' interests in the company and conflict of interest	$.597^{**}$					√	
Directors' interests in the company and independent advice	$.400^{**}$					√	

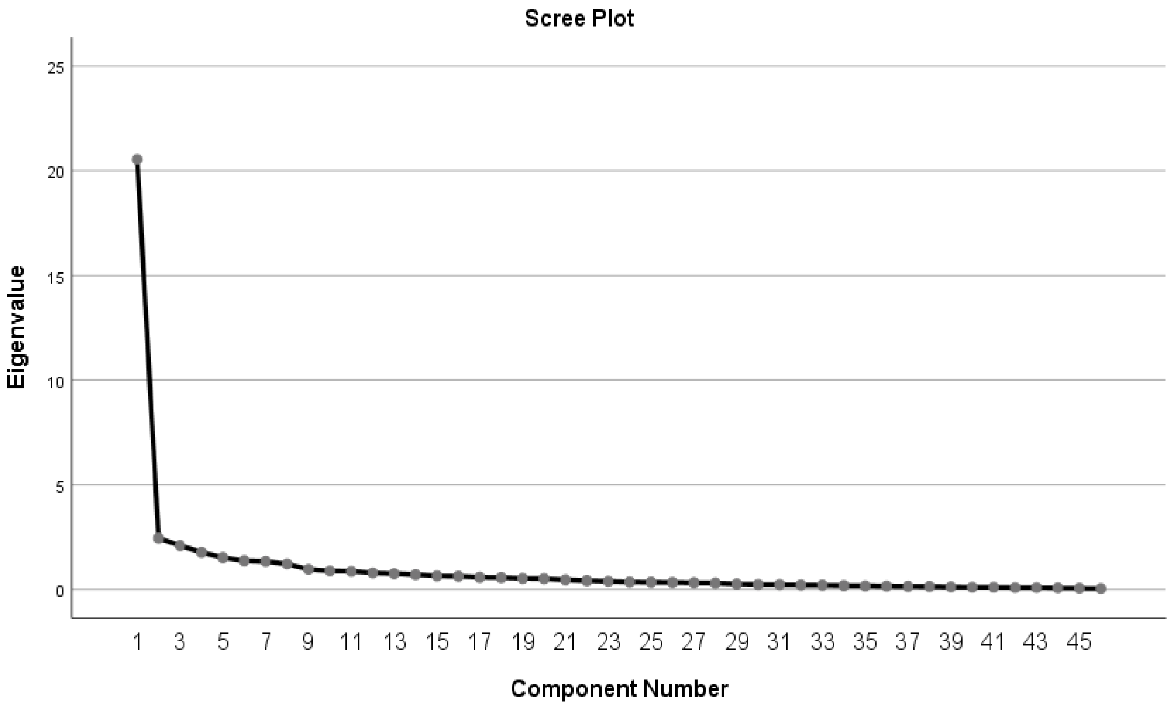
Conflict of interest and independent advice	.479**					√	
Conflict of interest and internal control systems	.420**					√	
Conflict of interest and internal audit	.572**					√	
Conflict of interest and external audit and non-audit services	.479**					√	
Conflict of interest and information technology (IT) governance	.499**					√	M20
Conflict of interest and balance and diversity of the board	.404**					√	
Conflict of interest and stakeholder analysis/engagement	.436**					√	
Conflict of interest and risk gorvenance	.519**					√	
Independent advice and internal control systems	.540**					√	
Independent advice and information technology (IT) governance	.418**					√	M21
Independent advice and stakeholder analysis/engagement	.466**					√	
Independent advice and risk gorvenance	.500**					√	
Internal audit and risk governance	.471**		√	.585**		√	
Internal audit and business rescue	.492**		√				
Internal audit and balance and diversity of the board	.415**					√	M22
External audit and non-audit services; and information technology (IT) governance	.535**					√	
External audit and non-audit services; and stakeholder analysis/engagement	.466**					√	M23
External audit and non-audit services; and risk gorvenance	.570**					√	
Information technology (IT) governance and balance and diversity of the board	.453**					√	
Information technology (IT) governance and stakeholder analysis/engagement	.524**					√	
Information technology (IT) governance and risk gorvenance	.533**					√	M24
Information technology (IT) governance and succession planning	.516**					√	
Balance and diversity of the board; and stakeholder analysis/engagement	.428**					√	
Balance and diversity of the board; and risk gorvenance	.499**					√	
Balance and diversity of the board; and succession planning	.466**					√	M25
Balance and diversity of the board; and remuneration philosophy and policy	.426**					√	
Stakeholder engagement and risk gorvenance	.491**					√	M26
Share capital and shareholder rights; and events after the reporting date	.491**		√				
Share capital and shareholder rights; and nature of the business	.472**		√	.536**		√	
Share capital and shareholder rights; and remuneration philosophy and policy	.433**		√				M27
Share capital and shareholder rights; and BBE empowerment	.462**					√	
Significant acquisitions and diaposals; and nature of the business	.517**					√	
Significant acquisitions and diaposals; and BBE empowerment	.444**					√	M28
Significant acquisitions and diaposals; and summary of financial performance	.403**					√	
Events after the reporting date and nature of the business	.418**		√				M29

Nature of the business and remuneration philosophy and policy	.441**		√				
Nature of the business and remuneration committee and nomination committee's terms of reference	.509**		√				M30
Nature of the business and BBE empowerment	.423**					√	
Remuneration philosophy and policy; and retirement and performance benefits	.497**					√	
Remuneration committee and nomination committee's terms of reference; and retirement and performance benefits	.412**		√	.451**		√	M31
Remuneration committee and nomination committee's terms of reference; and components of remuneration	.409**					√	
Retirement and performance benefits; and summary of financial performance	.553**					√	
Components of remuneration and summary of financial performance	.548**					√	M32
Meetings attendance and executive representation on the board	.535**					√	
Meetings attendance and annual assessment of independence	.559**					√	
Meetings attendance and company secretary	.477**					√	
Meetings attendance and application and approach to King Code (corporate governance)	.516**					√	
Meetings attendance and conflict of interest	.500**					√	
Meetings attendance and independent advice	.483**					√	M33
Meetings attendance and internal audit	.559**					√	
Meetings attendance and external audit and non-audit services	.565**					√	
Meetings attendance and information technology (IT) governance	.531**					√	
Meetings attendance and balance and diversity of the board	.577**					√	
Meetings attendance and stakeholder engagement	.509**					√	
Meetings attendance and risk gorvenance	.538**					√	

Weak correlations[i]

- Some correlations could not be computed because at least one of the variables was a constant. The following disclosures are those that could not be computed:
- The Pearson and Spearman correlations for the orientation and development programme for directors' disclosure could not be computed under the directors' report dataset. So there was no correlation to any other identified disclosure.
- The same goes for the information technology (IT) governance; meetings of the board by order and matters discussed and succession planning.
- The Pearson and Spearman correlations for the board composition disclosure could not be computed under the directors' report, and governance report dataset. So there was no correlation to any other identified disclosure. This was the only disclosure under the data set which correlations could not be computed.

Appendix E: Factor analysis scree plot



Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	20,543	44,658	44,658	20,543	44,658	44,658	4,491	9,764	9,764
2	2,452	5,330	49,987	2,452	5,330	49,987	4,487	9,754	19,517
3	2,089	4,541	54,528	2,089	4,541	54,528	4,235	9,206	28,723
4	1,762	3,830	58,359	1,762	3,830	58,359	4,109	8,933	37,656
5	1,518	3,300	61,659	1,518	3,300	61,659	4,011	8,720	46,376
6	1,368	2,975	64,634	1,368	2,975	64,634	3,890	8,456	54,832
7	1,339	2,911	67,545	1,339	2,911	67,545	3,596	7,818	62,650
8	1,213	2,638	70,183	1,213	2,638	70,183	3,465	7,532	70,183

Appendix F: Sensitivity analysis

Test 1 - Effect of position

Jonckheere-Terpstra Testa and Test Statistics[a,b]

	A-R factor score 1 for analysis 1	A-R factor score 2 for analysis 1	A-R factor score 3 for analysis 1	A-R factor score 4 for analysis 1	A-R factor score 5 for analysis 1	A-R factor score 6 for analysis 1	A-R factor score 7 for analysis 1	A-R factor score 8 for analysis 1
Kruskal-Wallis H	3.222	1.561	8.978	9.973	6.101	8.371	3.724	4.469
df	5	5	5	5	5	5	5	5
Asymp. Sig.	0.666	0.906	0.110	0.076	0.297	0.137	0.590	0.484
Observed J-T Statistic	1958.000	1941.000	2139.000	2244.000	2350.000	2222.000	2149.000	1647.000
Asymp. Sig. (2-tailed)	0.970	0.952	0.278	0.091	0.021	0.118	0.253	0.078

a. Kruskal Wallis Test

b. Grouping Variable: Position

Test 2 - Effect of experience

Test Statistics[a,b]

	A-R factor score 1 for analysis 1	A-R factor score 2 for analysis 1	A-R factor score 3 for analysis 1	A-R factor score 4 for analysis 1	A-R factor score 5 for analysis 1	A-R factor score 6 for analysis 1	A-R factor score 7 for analysis 1	A-R factor score 8 for analysis 1
Kruskal-Wallis H	4.923	1.701	2.552	2.009	2.692	0.621	3.172	2.698
df	3	3	3	3	3	3	3	3
Asymp. Sig.	0.178	0.637	0.466	0.571	0.442	0.892	0.366	0.441
Observed J-T Statistic	683.000	581.000	559.000	499.000	568.000	627.000	425.000	706.000
Asymp. Sig. (2-tailed)	0.298	0.980	0.846	0.429	0.917	0.629	0.126	0.204

a. Kruskal Wallis Test

b. Grouping Variable: Years' experience