

An assessment of the quality of South African and Indian listed companies' financial reporting



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Declaration

I hereby declare this research report to be of my own work and unaided by anyone else. It is submitted as part of the completion of the degree of Master of Commerce at the University of the Witwatersrand, Johannesburg involving Coursework and a Research Report. I have not submitted this report anywhere else for the purpose of being awarded a degree or for examination by another University.

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Abstract

Orientation: The accounting profession has been put in the spotlight as a result of the high amount of public failures and corporate collapses. The importance of high-quality financial reporting has been demonstrated not only by the past corporate failures, but also due to the scarce level of capital that is available to be allocated within capital markets.

Research aim: The primary objective of this study was to investigate the quality of financial reporting in South Africa and India.

Motivation for the study: This study contributed to the existing body of literature on financial statements. The focus of this study was on two of the emerging markets of the BRICS nations, South Africa and India. The members of the BRICS are suspected to be some of the strongest economies of the future; therefore, it is imperative that research is conducted in the context of these developing markets. This research analysed financial statement quality, which extends beyond the pure financial aspect of financial reporting since there is a demand for research that is focused on the qualitative aspects of financial reporting as opposed to solely quantitated financial figures.

Research approach and method: This research followed a quantitative approach. The approach employed a 21-index scorecard to score the application of the qualitative characteristics in the financial statements of 50 entities from the JSE and BSE. The entities were selected based on the highest market capitalisation entities for the 2017-year end. The data was analysed using descriptive statistics.

Main findings: The main finding of this study was that the application of the qualitative characteristics in South African companies was high. The application of the qualitative characteristics in India is not as high when compared with South Africa in most aspects; however, timeliness was a characteristic where India outperformed South Africa.

Applications: This research contributes to the existing body of knowledge on financial statements. This research was also a contribution and an investment into the developing markets, as both South Africa and India are emerging markets. This study also unlocked opportunities for further research that can be conducted in relation to this

topic such as the motives behind Indian listed entities not preparing integrated reports as well as a study which analyses the link between financial statement quality and audit quality.

Contributions: This study contributes to the academic literature on financial statements. It also contributes towards the research into developing economies and it unlocks opportunities for future research.

Keywords: decision usefulness, financial reporting quality, India, South Africa

Table of Contents

Declaration.....	2
Acknowledgements.....	3
Abstract.....	4
List of Tables	9
List of graphs.....	9
List of abbreviations.....	9
CHAPTER 1: INTRODUCTION.....	11
1.1 Background	11
1.2 Statement of the problem	12
1.3 Purpose	13
1.4 Research question.....	13
1. 5: Significance of the study.....	13
1. 5.1 Practical contributions of the study.....	13
1. 5.2 Academic contributions	15
1.6: Assumptions and limitations	15
1.6.1 Assumptions.....	15
1.6.2 Limitations	16
1.7 Definition of terms.....	17
1.8 Structure of remaining chapters.....	18
CHAPTER 2: LITERATURE REVIEW	19
2.1 Introduction.....	19
2.2 Literature review strategy	19
2.3 The purpose of high-quality financial reporting	20
2.4 Decision-usefulness	21
2.5 Users of financial statements.....	22
2.6 Agency theory	23
2.7 The Conceptual Framework (CF) with a link to IFRS	25
2.8 The SA and Indian reporting environment.....	29
2.9 The qualitative characteristics.....	30
2.9.1 The fundamental qualitative characteristics	31
2.9.2 The enhancing qualitative characteristics.....	31
2.10 The corporate scandals – SA & India.....	32

2.10.1 Corporate scandals (India)	33
2.10.2 Corporate scandals (South Africa)	33
2.11 Challenges facing the economic environment and link to FS quality	34
2.12 Summary	35
CHAPTER 3: METHODOLOGY	37
3.1 Introduction.....	37
3.2 Overview of method.....	39
3.3: Population and study sample	39
3.4: Sample size and selection of sample	39
3.5 Sources of data	40
3.6 Collection of data.....	40
3.7 Management of data.....	40
3.8 Data analysis.....	40
3.9 Descriptive statistics	41
3.10 Hypothesis testing	42
3.11 Validity and reliability	42
3.11.1 Internal validity.....	42
3.11.2 External validity	43
3.11.3 Content validity	43
3.11.4 Reliability	43
CHAPTER 4: DATA ANALYSIS	44
4.1 Introduction	44
4.2: research questions	44
4.3 Reliability	44
4.4 Research question 1: to what extent are the qualitative characteristics being applied to South African listed companies?.....	46
4.4.1 Fundamental qualitative characteristics	46
4.4.1.1 Relevance	46
4.4.1.2 Faithful representation.....	47
4.4.2 Enhancing qualitative characteristics	49
4.4.2.1 Understandability	49
4.4.2.2 Comparability	50
4.4.2.3 Timeliness	52

4.5 Research question 2: to what extent are the qualitative characteristics being applies to Indian listed companies?	53
4.5.1.1 Fundamental qualitative characteristics	53
4.5.1.2 Relevance	53
4.5.1.3 Faithful representation.....	53
4.5.2.1 Enhancing qualitative characteristics	54
4.5.2.2 Understandability	54
4.5.2.3 Comparability	54
4.5.2.4 Timeliness	55
4.5.2.5 Verifiability	55
4.6 Research question 3: How does the financial reporting quality compare between South Africa and India?	55
4.6.1 Fundamental qualitative characteristics	55
4.6.1.1 Relevance & faithful representation	55
4.6.2 Enhancing qualitative characteristics	56
4.6.2.1 Understandability and comparability	56
4.6.2.2 Timeliness	57
4.7 Results from hypothesis testing	57
4.7.1 Relevance.....	58
4.7.2 Faithful representation.....	59
4.7.3 Understandability.....	60
4.7.4 Comparability	61
4.7.5 Timeliness	62
4.7.6 Verifiability	62
CHAPTER 5: CONCLUSION AND RECOMMENDATIONS FOR FUTURE RESEARCH	63
5.1 Conclusion.....	63
5.2 Recommendations for further research.....	65
References	65
*Appendix A	80
*Appendix B	87

List of tables & Graphs

List of Tables

Table1: Key terminology used in this report	page: 17-18
Table 2: Total Item statistics	page: 45
Table 3: Results for relevance	page: 47
Table 4: Results for faithful representation	page: 48
Table 5: Results for understand ability	page: 50
Table 6: Results for comparability	page: 51

List of graphs

Graph 1: Timeliness Graph	page: 52
Graph 2: Fundamental qualitative characteristics	page: 56
Graph 3: Understand ability and comparability	page: 57

List of abbreviations

IFRS	International Financial Reporting Standards
JSE	Johannesburg Stock Exchange
BSE	Bombay Stock Exchange

SEBI	Securities and Exchange Board of India
BRICS	Brazil, Russia, India, China and South Africa
CF	Conceptual Framework
GAAP	Generally Accepted Accounting Principles
CSR	Corporate Social Responsibility
IASB	International Accounting Standards Board
IAS	International Accounting Standards
FASB	Financial Accounting Standards Board
CIR	Competitive Index Report
MCA	Ministry of Corporate Affairs
ICAI	Institute of Chartered Accountants of India
ASB	Accounting Standards Board
IODSA	Institute of Directors in Southern Africa.

CHAPTER 1: INTRODUCTION

1.1 Background

The major aim of financial reporting is to offer financial information that is that is of high quality and that will be of use to users when making important economic decisions (Van Beest, Braam, & Boelens, 2009). The relevance of good quality financial reporting is demonstrated by its imperative role in providing information that will enable capital providers, as well as other stakeholders to allocate resources and make informed investment and credit decisions (Van Beest et al., 2009). Therefore, high quality financial statements aid in useful decision-making (Barth, Landsman, & Lang, 2008).

The qualitative characteristics in the Conceptual Framework (CF) of the International Financial Reporting Standards (IFRS) include both fundamental characteristics such as relevance and faithful representation, as well as, enhancing qualitative characteristics including comparability, understandability, timeliness and verifiability (IASB, 2015).

There has been a noticeable increase in the public interest of financial statements as a result of the collapse of large firms such as China Medical Technologies (M. Miller, 2017). The recent corporate failures are not exclusively business failures but also audit failures as the auditors are criticised for not detecting the potential failures and warning investors accordingly (Gavious, 2007). These scandals have resulted in a heightened awareness of the potential for fraud and the auditors' responsibility to detect it (Gavious, 2007). As a result of these failures public trust has been lost, and with that, the users perceived ability to use financial statements to allocate capital efficiently (DiPiazza Jr & Eccles, 2002)

There will always be a significant level of judgement that preparers of financial statements will be required to exercise regardless of whether the accounting standards are based on principles or rules (DiPiazza Jr & Eccles, 2002). Accounting for financial statements can result in natural error or in some cases strategic manipulation (Nyor, 2013). Financial statements are the key input into the audit process (RSA, 2008).

This study assessed the financial reporting quality of Indian and South African listed companies. South Africa and India have various similarities including shared qualitative characteristics in terms of financial reporting (IASB, 2015; Pillai, 2007). Both countries are emerging markets and they have both faced auditing scandals and criticism around the auditing profession. In addition, both countries have high corruption indexes (countryeconomy.com, 2016; Crotty, 2017 ; Hart & Silverman, 2014; Klaus 2018). South Africa and India experience similar socioeconomic environments. For example they both suffer a similar burden in terms of diseases such as a high occurrence of HIV/AIDS (Holt, Yasseen, & Padia, 2015; Padia & Yasseen, 2011). The presence of affirmative action policies and economic empowerment are present in both countries (Holt et al., 2015). Both countries form part of the BRICS nations which include Brazil , Russia, India, China and South Africa (Hart & Silverman, 2014).

In the following section, the problem statement at the core of this study is discussed (Section 1.2) followed by an analysis of the purpose of the research (Section 1.3). In Section 1.4 the three research questions that were addressed are provided and in Section 1.5 the significance of the study is discussed in further detail. Thereafter, the limitations and assumptions of the study are attended to (Section 1.6) before providing a glossary to industry specific terms used in the report. This chapter concludes with an outline of the report's structure.

1.2 Statement of the problem

Efficient allocation of resources is extremely important for the improvement and growth of these emerging capital markets (Omarjee, Joosub, & Coldwell, 2016; Wong, 2008). Developing economies rely on external investors, therefore, in order to unlock greater investment opportunities, developing markets have to prepare high quality financial reporting (Oberholster, 1999; Omarjee et al., 2016). Financial statements are an important determinant of capital, credit and investment decisions as they inform investors and other stakeholders when making economic decisions (Van Beest et al., 2009). The quality of financial reporting was assessed through this research in order to determine if there is any potential deficiency in financial reporting quality, as this may be a barrier to growth in the South African and Indian economies.

1.3 Purpose

The purpose of this study is to investigate the quality of financial reporting in both India and South Africa based on the qualitative characteristics of the IFRS and to compare the quality between these two countries. This study has been inspired by research performed by Van Beest et al. (2009). Dimi, Padia, and Maroun (2014) , performed a similar study in 2010 whereby the quality of annual reports in South Africa was assessed. Another study was performed by Padia and Yasseen (2011) where an “examination of strategy disclosure in the annual reports of South African listed companies” was performed.

1.4 Research question

This study addresses three separate research questions:

Question 1: To what extent are the qualitative characteristics being applied by South African listed companies?

Question 2: To what extent are the qualitative characteristics being applied by Indian listed companies?

Question 3: How does the financial reporting quality compare between South Africa and India?

1. 5: Significance of the study

1. 5.1 Practical contributions of the study

During 2017 and 2018 there has been significant criticism around the auditing profession as a result of multiple auditing and accounting scandals that have been exposed during this period. South African scandals include, amongst others, KPMG’s associated fraudulent dealings with Gupta linked companies (Crotty, 2017). Another current scandal that has attracted significant attention was the fraudulent financial reporting that was discovered in Steinhoff in 2017 (Skae, 2018). India faced a similar situation when PWC was auditing the Indian IT giant Satyam in 2009 when Satyam was found guilty of committing financial reporting fraud over a 10 year period (Bhasin, 2013).

These scandals as well as the many others that have occurred during the 21st century have brought the auditing profession into the spotlight (Firth, Rui, & Wu, 2012).

There are many contributory factors to these large corporate scandals. However, one important factor is a lack of strong corporate governance (Bhasin, 2013). Corporate governance, in specific King IV encourages reporting to stakeholders to be transparent and meaningful (IODSA, 2016). This link between weak corporate governance and financial reporting fraud indicates that there is a clear requirement for high quality financial reporting.

Another important reason that South Africa's quality of financial reporting needs to be assessed is due to the recent drop in world ranking in terms of accounting and auditing standards. South Africa was ranked number 1 in the world for auditing and accounting standards for seven consecutive years (Cilliers, 2017). However, The Competitiveness Index Report for 2017-2018 reported South Africa as ranking number 33 worldwide. India ranked number 69 in the world (Klaus 2018). It was an important area of research to identify the factors that contributed to the perceived drop in South Africa's ranking and whether it was due to poor financial reporting quality or rather a decline in investor confidence. South Africa is known for a high standard of integrated reporting (Holt et al., 2015). It was interesting to determine how another member of the BRICS nations compared to South Africa with respect to the quality of financial reporting (Holt et al., 2015).

South Africa and India's corporate environments face serious challenges which include corruption (countryeconomy.com, 2016; Hart & Silverman, 2014; Klaus 2018) and low investor confidence (Crotty, 2017 ; Firth et al., 2012). Therefore, high quality financial reporting is of great importance with regard to performing efficient capital allocation (DiPiazza Jr & Eccles, 2002).

This study assesses the quality of financial reporting in South Africa and India and in addition made a comparison between both countries. This study is of significant value as capital markets have become global and there has been exponential growth in international business (Nyor, 2013). Therefore, the quality of reporting in different

countries is a very current and important topic of research (Nyor, 2013). This study has not been performed before, therefore, it is adding significant value. This research is contributing towards an understanding of the development of the emerging markets such as South Africa and India.

1. 5.2 Academic contributions

From an academic perspective, this research makes a contribution to the existing body of knowledge. According to Padia and Yasseen (2011), there is minimal research focused on the quality of information reported in annual reports. This research analysed the quality of information that has been represented in the annual/integrated reports of listed entities. Recent research in this field has been focused on corporate social responsibility (CSR) and integrated reporting and not on the quality of information reported in annual reports. As such, this research contributes to the existing body of knowledge on financial statements. It has also been noticed that the focus of the information required by the users of financial statements has changed from quantitative to qualitative and from financial to non-financial (Flöstrand & Ström, 2006). Hence this research focuses on financial reporting quality which extends beyond pure financial information (Van Beest et al., 2009).

1.6: Assumptions and limitations

1.6.1 Assumptions

An assumption of this study was that reliance could be placed on the financial statements that were used in this research. This assumption was deemed appropriate as the financial statements are audited (RSA, 2008). This research is underpinned by the positivist paradigm, therefore an essential assumption of this research is that the results of the research can be generalised to the entire population (South Africa and India). A key assumption of positivist research is that the researcher is objective and unbiased to the research being performed (Kaminskiy, 2014).

1.6.2 Limitations

The financial reports used in this study were the 2017 financial reports. Therefore, the data used in this study is only for the financial years ending 2017. Another limitation of the research was that the researcher did not analyse the entire population, which would comprise of all the listed companies on each exchange (JSE and BSE). The researcher only used listed and audited financial statements which was another limitation. Another limitation is that only South Africa and India were chosen to be used in this research and the other members of the BRICS were excluded from the research.

The study required the researcher to apply judgement as a result of the methodology that had been used. The researcher needed to apply judgment when giving a score for each criterion in the measurement tool. There was an element of subjectivity, which was minimised through the researcher's sufficient understanding of financial reporting and ability to apply professional judgment when assessing the qualitative characteristics.

As this research was quantitative in nature, there were inherent limitations to this research. This research was a descriptive quantitative study, therefore it did not establish causal relationships between variables, only the correlation between the variables was determined (Leedy & Omrad, 2015).

As this research was exploratory in nature, there was an inherent limitation as this research was carried out to address an issue which has not been researched before (Pratap, 2018). In this study the researcher assessed the quality of financial statements in South Africa and India.

This research was analysed through the lens of the IASB and the IASB'S qualitative characteristics and definitions were used when performing the data analysis. All other available reporting frameworks were excluded.

Another limitation is that this research did not consider the non-financial information that was not included or specifically referred to in the annual reports of the listed entities as this was out of the scope of this research (Van Beest et al., 2009).

1.7 Definition of terms

The following subsection of the introduction includes terms that are specific to the auditing and accounting sector. The table below provides both the term as well as the meaning of that industry specific term.

Table 1: Key terminology used in this report

Term	Meaning
Conceptual Framework	The CF determines the basic principles and concepts that support and guide the presentation of financial statements for external users (IASB, 2015).
IAS 1	International Accounting Standard 1: Presentation of Financial Statements (IASB, 2015).
Fundamental characteristic	Fundamental characteristics make financial information useful. The fundamental characteristics are relevance and faithful representation (IASB, 2015).
Enhancing characteristic	The enhancing characteristics are only useful in the context of relevant and faithfully represented information. The enhancing characteristics include comparability, verifiability, timeliness and understandability (IASB, 2015).

Annual report	An annual report is a publication that listed entities must make available annually to stakeholders to refer to their operations and financial conditions. The beginning section of the report often contains an impressive combination of graphics, photos and an accompanying narrative, all of which are used to further explain the company's activities over the past year. The last section of the report contains detailed financial information (Momoh, 2017).
Integrated report	An integrated report aims to add value to reporting by providing a more holistic form of reporting which describes the value created by a business, through considering non-financial resources such as human, social and intellectual capitals as well as financial capital (Robertson, 2015).

1.8 Structure of remaining chapters

The remainder of this research paper is structured as follows. Chapter 2 is dedicated to the review of the existing body of knowledge as it pertains to the research topic. This is followed by a discussion of the methodology that was followed during the research process (Chapter 3). The report concludes with an analysis of the data (Chapter 4) as well as concluding remarks and recommendations for future research (Chapter 5).

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

In this chapter, the literature review strategy which follows will firstly be discussed (Section 2.2). Thereafter, the concept of high quality financial reporting is explored in Section 2.3 and it was further expanded on in Section 2.4 with reference to the concept of “decision-usefulness”. Section 2.5 analysed the different types of users of financial statements and their needs. Section 2.6 is dedicated to a discussion of the “agency theory” in order to demonstrate how financial statements can assist users when they do not have all the information that they require in order to make a financial decision. In Section 2.7, the CF is discussed with a link to the IFRS. This is followed by a review of the South African and Indian reporting environments as this was important to understand, in order to analyse the financial statements in each respective environment as well as to compare the quality of financial reporting between both countries (Section 2.8). In Section 2.9 the qualitative characteristics that were applicable to South Africa and India based on the reporting environment discussed in Section 2.8 is further expanded on. An overview of the corporate scandals referred to in Chapter 1, that have occurred in both South Africa and India is provided in Section 2.10. This chapter concludes with a discussion of the link between an entity’s operating environment and the quality of the financial reporting in that environment (Section 2.11). The final section of this chapter (section 2.12) provides a summary of the literature review.

2.2 Literature review strategy

A literature review was conducted in order to demonstrate the knowledge that the researcher possess in relation to the chosen field of study (Randolph, 2009). Hart (1998), explained that a literature review enables the researcher to identify what has been done and what still needs to be done in relation to a particular topic, to discover the important aspects relevant to the topic, to gain an understanding of the significance of the problem, to understand the structure of the subject and to unlock new ideas relating to the topic which will give rise to future research ideas. A systematic literature review provides an overview of existing literature pertaining to a clearly formulated research question which critically analyses the relevant research (California, 2018;

Engelbrecht, Yasseen, & Omarjee, 2018). This is appropriate as this research is an assessment of the quality of South African and Indian listed companies' financial reporting, which has been subdivided into three clearly formulated research questions. The literature review provides an overview of the existing literature which relates to the three research questions that this study aims to address. The purpose of this literature review was to clearly understand the attributes of useful information in order to execute this research effectively. The sources of information used in the literature included the CF, IFRS standards, journal articles and online references.

2.3 The purpose of high-quality financial reporting

This section of the literature review is focused on the purpose of high-quality financial reporting. Firstly, the concept of high quality financial reporting is defined and the importance thereof is discussed. The various definitions of “high-quality financial reporting” are explored as this is an essential component of this research study as the research question is based on the financial reporting quality of South African and Indian entities.

The purpose of financial statements is to provide useful information about the entity's financial position, financial performance and cash flows. The users of financial statements are a wide group of corporate bodies, governmental bodies and individuals. The information must be useful in aiding these diverse user groups in making economic decisions (Barth, 2007; IASB, 2015) and can be referred to as “decision-usefulness”.

The importance of good quality financial reporting is demonstrated by its imperative role in enabling both current and potential stakeholders to efficiently allocate resources and make investment and credit decisions (IASB, 2015; Van Beest et al., 2009). Financial reporting quality is a wider concept than financial reporting as it extends beyond pure financial information and includes other disclosure and non-financial information. This additional information aids users in the economic decision making process (Van Beest et al., 2009) .

According to the IASB (2008), financial reporting quality is represented by the level of adherence to the objectives of the CF. In addition, the compliance and application of the

qualitative characteristics with respect to the information disclosed in the entity's financial reports are also representative of the quality of a financial report (Gajevszky 2015).

The academic literature around financial reporting quality, provides various definitions of the concept of quality financial reporting (Gajevszky 2015). Tang, Chen, and Lin (2008) define the quality of financial reporting as the degree to which financial statements provide truthful and real information in relation to the entities main performance and financial position. Biddle, Hilary, and Verdi (2009) define financial reporting quality as the precision with which financial statements provide information on an entity's operations such as cash flows. One of the most internationally accepted definitions of financial reporting quality, is provided by Jonas and Blanchet (2000). They define financial reporting quality as financial information that is complete and transparent, as well as information that does not mislead the decisions of the users of financial reports.

According to P. B. Miller (2002), the quality of financial reporting is an attitude and not a set of rules or guidelines. This attitude requires companies to communicate with their stakeholders to gain a clear understanding of their needs and what will be useful to them (P. B. Miller, 2002). Companies will not provide quality financial reporting through solely complying with the required reporting frameworks such as GAAP, IFRS and IAS. Companies have to voluntarily expand on the information that they provide in their financial statements (P. B. Miller, 2002). There have been negative consequences that have arisen from a lack of high quality financial reporting including the high levels of uncertainty that stakeholders experience from poor quality financial statements, the risk that this uncertainty fosters, the demand for a higher rate of return stemmed from the risk referred to and lastly a higher cost of capital and security prices (P. B. Miller, 2002).

2.4 Decision-usefulness

In the previous section, the concept of "decision-usefulness" was introduced in the discussion of the purpose of financial reporting. In the 2010 Conceptual Framework, the main objective of financial reporting was to primarily provide useful information to stakeholders (Zhang & Andrew, 2014). In this subsection, the meaning of decision usefulness will be expanded on.

Gassen and Schwedler (2010), analysed the IASB and Financial Accounting Standards Board (FASB) framework project, which placed “decision usefulness” as the primary objective of financial reporting. However, research in this area of accounting has not developed an undisputed measure of “decision-usefulness”. Dandago and Hassan (2013) describe “decision-usefulness” based on the meaning provided by Scott (1997), as being the approach to the preparation of financial accounting information, where the emphasis is on the decision-making ability of investors (Dandago & Hassan, 2013). The primary stakeholders that are considered in assessing the level of “decision usefulness” of information are investors and creditors (providers of capital) (Dandago & Hassan, 2013; Zhang & Andrew, 2014). Since the stakeholders who use financial statements are key in determining the usefulness of a financial report, the different users of financial statements will be discussed in the following section in order to gain a clearer understanding of the usefulness of information in the decision making process of the different user groups.

2.5 Users of financial statements

This section of the literature review is dedicated to a discussion of the different types of users of financial statements and an analysis of the different aspects of the financial statements that the various user groups are interested in. This is important for this research study as in order to assess “decision usefulness”, the important user groups need to be determined as different elements of financial reporting are important to the assessment of decision usefulness of different users.

The types of decisions that the users make include whether to buy or sell equity in the entity, to assess the performance of management, to assess the ability of management to compensate employees appropriately, to assess the entity’s ability to settle debt, to determine the taxation policies, to determine the amount of distributable dividends and profits and to supervise and control the activities of the entity (IASB, 2015).

The users of audited financial statements are potential investors, buyers, suppliers, customers, government and employees. They use a company's financial statements to: make investment decisions; evaluate the performance of management; identify the strategies of the entity; and assess the financial performance of the entity. Certain users will use the financial statements to identify policy issues (for example: governmental bodies) (Gandziuk, 2016).

Mirshekary and Saudagaran (2005), conducted research on the perceptions and characteristics of users of corporate financial statements in developing economies. In their research they focused on the economy of Iran, however, the results from their research can be applied to all developing economies. The results of their research suggested that annual reports are used by stakeholders in determining investment and other economic decisions. Therefore, annual reports are important in the decision-making process of users. In many developing countries, users of financial statements are more dependent on information provided in the annual reports of entities. The results indicated that the most important information to the users of financial statements is the income statement, the auditors' report and the balance sheet, in that exact order. Amongst certain groups of users such as bank officers, tax officers and auditors, there is a lack of consensus on the most important items in a financial report. On average most of the users consider annual reports that are published late, a lack of reliability of the information provided and a lack of adequate disclosure to be the key concerns with financial reports in developing economies (Mirshekary & Saudagaran, 2005). The results of this study were applied to this research in order to understand the users' perception of what is important in terms of annual reports in the emerging economy of Iran and replicating it to the focus of this study which was South Africa and India.

2.6 Agency theory

This section of the literature review is dedicated to a discussion of the agency theory which refers to the information asymmetries that exist between the manager and the shareholder within an entity (Jensen & Meckling, 1976). Financial reporting attempts to minimize the information discrepancies that exist (Watts & Zimmerman, 1983). In addition to the discussion of the agency theory, it will also be linked to the purpose of

financial reporting. Agency theory demonstrates that owners do not always manage the entity (Jensen & Meckling, 1976). This theory aids in indicating the usefulness of financial statements as they indicate to the owners of the entity how effectively management have executed their roles and responsibilities (Dharwadkar, George, & Brandes, 2000).

Jensen and Meckling (1976) defined the agency relationship as a contract whereby one or more persons (the principal(s)) appoint another person (the agent) to perform some service on their behalf, which involves granting a significant amount of decision making authority to the agent. When the manager of an entity is not the sole security holder, it is believed that he/she has an incentive not to act in the best interest of the entity (Fama, 1980).

An example of a pure agency relationship is the relationship between the shareholders and managers of a public entity as there is a separation between ownership and control (Jensen & Meckling, 1976). Financial reporting is a mechanism designed to ensure that discrepancies in information between managers and shareholders are kept to a minimum (Watts & Zimmerman, 1983).

The agency theory will result in the principal incurring “agency costs” in order to prevent the agent from acting in a manner that can harm the principal. Agency costs are the sum of the monitoring expenses incurred by the principal, bonding costs incurred by the agent and the residual loss. Monitoring costs refer to the expenditure paid by the principal in order to incentivise the agent to act in the best interest of the entity. Bonding expenditure refers to expenditure paid by the agent as a guarantee that he/she will act in the best interest of the entity. Lastly, the residual loss refers to the loss resulting from the difference between the decisions that the agent has taken as opposed to the decision that would be in the principal’s best interest (Jensen & Meckling, 1976).

There are internal measures that can be put into place by the entity in attempt to reduce the negative effects of the agency relationship. An example of an internal measure that can be taken is when the board of directors of an entity assist the shareholders in assessing management’s performance (Dharwadkar et al., 2000). The board of

directors of an entity can assist shareholders and other stakeholders by providing high quality financial statements (Dharwadkar et al., 2000).

2.7 The Conceptual Framework (CF) with a link to IFRS

In this subsection of the literature review, the evolving nature of financial reporting is analysed. The CF is defined and the changes in the CF introduced in 2018 will be briefly discussed. The strengths and weaknesses of IFRS and specifically of the CF are also analysed. An analysis based on the literature is necessary since it is of key importance to have a thorough understanding of the CF, as the measurement tool used in this study was based on the qualitative characteristics of the framework.

The IASB and FASB joined forces in order to create the CF (Whittington, 2008). The CF was issued by the International Accounting Standards Board (IASB). The purpose of the CF is to aid the IASB when they are developing or changing any IFRS in order to ensure that the developments made will be based on consistent concepts. The alignment between the CF and the IFRS will result in financial information that is more useful to investors, lenders and other creditors. The CF also aims to assist preparers of financial reports to apply consistent accounting policies for transactions when no other standard is applicable or when there is an accounting policy choice within a standard. The CF also aspires to assist all parties in understanding and interpreting the IFRS (IASB, 2018a).

Within the CF of the IFRS, there are qualitative characteristics. These qualitative characteristics are the focus of this research. These characteristics aid in meeting the objective of financial reporting (Barth, 2013). As mentioned in the introduction, the qualitative characteristics include fundamental as well as enhancing characteristics. The fundamental characteristics are faithful representation as well as relevance. The enhancing qualitative characteristics are understandability, comparability, timeliness and verifiability (IASB, 2015).

One of the enhancing qualitative characteristics is comparability (IASB, 2015). As capital is a scarce resource, comparability is a crucial characteristic of financial reporting as it allows stakeholders to compare companies' financial reports and allocate

their capital most efficiently. It is believed that comparability is the main reason that financial statements are prepared. Therefore, in order to create comparable financial reports, high quality reporting is essential (Barth, 2013).

The IASB released its new CF in March 2018. The new CF will replace the Framework issued in 2010. The new CF will be effective from the 1st of the January 2020. This CF was created with the aim of replacing the previous framework, which omitted some important principles and other principles were unclear and outdated (IFRS, 2018). The new CF redefined elements such as an “asset” and a “liability” (IASB, 2018b).

The qualitative characteristics in the new CF have been slightly modified. In terms of the fundamental characteristics, materiality has been added. Materiality refers to information, that if it is omitted it will influence the decisions that the primary users of financial statements will make. There is no given threshold of materiality; it will vary between companies and specific situations (IASB, 2018b). In terms of the enhancing qualitative characteristics, there has been no change between the previously issued framework in 2010 and the newly issued framework in 2018 (IASB, 2018b).

The strengths and weakness of the CF will be discussed in order to indicate that there are limitations to the CF. It is important to understand that the framework in the context of which the quality of financial statements was analysed, is flawed and imperfect. In order to effectively analyse the strengths and weakness of the CF, an analysis of the advantages and disadvantages of the IFRS firstly needs to be performed. Thereafter the strengths and weaknesses of the CF are discussed, as the CF is a component of the IFRS (IASB, 2015).

A study performed by Ball (2006), explored the advantages as well as the disadvantages of the IFRS. One advantage that was mentioned is that there is implicit success which has been achieved in developing a comprehensive set of ‘high quality’ standards, as there are almost 100 countries that have adopted them. The IFRS has also obtained a convergence in standards with prevalent non-adopters (such as the US). One of the disadvantages of the IFRS is that the different countries will implement

the standards in substantially different ways. The belief that uniform standards will produce consistent financial reporting is a naïve thought (Ball, 2006).

In a study performed by Barth et al. (2008), the strength of the IFRS is emphasised, as it revealed that entities applying International Accounting Standards (IAS) had higher quality financial statements than those that did not. The measure that was used by Barth et al. (2008) to determine high quality financial reporting was the less earnings management there was, the more timely loss recognition and higher value relevance of earnings and equity book value there will be. The results of this study, found that usually firms applying IAS had a lower amount of earnings smoothing, a reduced amount of managing of earnings towards a goal, timely recognition of losses, and a higher quantity of amounts that were accounted for with share prices (Barth et al., 2008). The intention of the IASB is to develop a set of high-quality financial reporting standards that are acceptable on a global scale. This goal is achieved through the issuing of principles-based standards, as this aims to reduce the amount of acceptable alternative treatments of accounting for the same transaction and to require accounting measurements that better reflect an entity's economic reality (Barth et al., 2008). Accounting quality will increase if standard setters can take actions that will limit management's opportunistic mind-set in determining the correct accounting treatment (Barth et al., 2008).

The CF was analysed in terms of its strengths and weaknesses. The discussion commences with an analysis of the weaknesses of the CF, thereafter the strengths of the CF are explored.

Christensen (2010) criticised the IASB's CF for containing no specific guidelines for the trade-off between relevance and reliability. This was also emphasised in the "Alternative View", which is a view that supports the stewardship perspective of accounting (Whittington, 2008). This view emphasises the importance of reliable information in the preparation of financial statements (Whittington, 2008). The final version of the framework issued in 2010 removed "stewardship" as the main objective of financial reporting, and the key objective was now to provide "useful information" to stakeholders. The stakeholders included only stakeholders who were providers of capital (Zhang &

Andrew, 2014). Therefore, the CF was more aligned with a neoliberal agenda. The neoliberal perspective values relevance above reliability (Zhang & Andrew, 2014).

The one aspect of the CF that was criticised above is that the sole objective within the framework is on the “decision-usefulness” of information. The preliminary draft paper that was issued by the IASB emphasised that the objective of “stewardship” is encompassed within that objective (Lennard, 2007). The qualitative characteristics are intended to make financial reporting more “useful” to both current and potential investors, lenders and other creditors (IASB, 2015). The intention of the qualitative characteristics will therefore follow aspects of both viewpoints. It is stated that the concepts of “stewardship” and “decision-usefulness” do not conflict. They are parallel and the only differentiating factor between the two viewpoints is their focus (Lennard, 2007). However, the work of Lennard (2007), suggests that stewardship is a very imperative element of financial reporting and that it has to be integrated into the reporting process. The “usefulness” is aimed at both current and future stakeholders, therefore placing both types of stakeholders as being of equal importance. This is in line with an accountability perspective (Whittington, 2008). The concept of “decision usefulness” will have different connotations for a neoliberal as opposed to a steward, despite the fact that this concept replaced stewardship as the primary objective of financial reporting (Zhang & Andrew, 2014). Therefore, the qualitative characteristics display aspects of both viewpoints.

The way in which this research assessed the qualitative characteristics followed an accountability perspective. This was chosen, as stewardship is part of the “living law” of the accountancy profession, which emphasises that accountability is a natural and vital element of the accounting profession (Murphy & O’Connell, 2013). Accounting as a profession does not make logical sense unless accountability/stewardship is a primary objective (Murphy & O’Connell, 2013). Stewardship is concerned with the relationships between the accountant and accountee (Murphy & O’Connell, 2013). Another reason that stewardship is vitally important is because society has lost faith in the accounting profession. In order to restore this trust there has to be a greater emphasis on stewardship/accountability (Murphy & O’Connell, 2013).

2.8 The SA and Indian reporting environment

In this subsection of the literature review the reporting environment in South Africa and India is examined. Firstly, the accounting standards that are adopted within South Africa and India are reviewed. In the literature a comparison is made between IFRS and Indian Accounting Standards/Indian GAAP, as IFRS is mandatory for South African listed entities. This comparison was necessary as this research is comparing the quality of financial reporting between South Africa and India. The final component of this subsection is dedicated to a comparison of the ratings of the strength of the auditing and accounting standards in South Africa and India according to the Competitiveness Index Report (CIR).

South African listed entities could use one of three reporting standards until the financial year beginning on or after the 1st of December 2012. The three optional reporting standards included IFRS, IFRS for small to medium size enterprises or South African Generally Accepted Accounting Practice. From March 2012, South African entities had to use IFRS or IFRS for SME's when preparing financial statements (Deloitte, 2017a).

Indian Accounting Standards were required to be mandatorily adopted from the 1st of April 2016 for companies who are listed on any stock exchange and have a net worth of 500 Crores or more (Deloitte, 2017b). Indian Accounting Standards are converged with IFRS (Deloitte, 2017b). The entities that have not transferred to Indian Accounting Standards will be reporting using Indian GAAP. Unlike IFRS, which is developed by the IASB, Indian GAAP was developed by the Ministry of Corporate Affairs (MCA). Indian GAAP is only used by Indian companies, whereas IFRS is used by a wide variety of developed and emerging economies worldwide (Waingankar, 2018).

The reporting framework for the preparation of financial statements was issued by The Accounting Standards Board (ASB) of the Institute of Chartered Accountants of India (ICAI) in 2000. Indian GAAP refers to the same qualitative characteristics as the IFRS; however, faithful representation is omitted and is replaced with reliability, but faithful representation is included as an element of reliability. Reliability and relevance are the fundamental concepts of the framework. The enhancing qualitative characteristic of verifiability is omitted from the qualitative characteristics. The enhancing qualitative

characteristic of timeliness is a component of comparability under Indian GAAP (ASB, 2000).

In terms of the Indian Accounting Standards, the ICAI has proposed the main qualitative characteristics of financial reporting. These characteristics include understandability, relevance, reliability and comparability. Reliability refers to the how successfully the financial statements represent what they purport to. This is the same as the qualitative characteristic per IFRS, which is “faithful representation” (Pillai, 2007). The other characteristics such as timeliness are referred to in the framework created by the ICIA (Pillai, 2007). Therefore, the qualitative characteristics of Indian Accounting Standards are essentially the same as the qualitative characteristics per the CF (IASB, 2018b; Pillai, 2007).

South Africa is known for a high standard of integrated reporting (Holt et al., 2015). South Africa was ranked number one in the world for auditing and accounting standards for seven consecutive year’s (Cilliers, 2017). However, the CIR for 2017-2018 downgraded South Africa’s ranking to number 33 worldwide. In terms of Indian auditing and accounting standards, they were ranked number 69 in the world in the CIR for 2017-2018 (Klaus 2018). In comparison to the 2016-2017 CIR, India’s ranking in terms of auditing and accounting standards has dropped as India was previously ranked number 64 worldwide (Klaus, 2017). Therefore, both South Africa and India have experienced a decline in the perceived strength of their auditing and accounting standards. The decline in the strength of the auditing and accounting standards is discussed in the findings section (Chapter 4) of this report.

2.9 The qualitative characteristics

In this section of the literature review the qualitative characteristics, which has been concluded above to be applicable to both South African and Indian companies, are discussed (IASB, 2015; Pillai, 2007). Each characteristic is defined, along with a description of how the particular qualitative characteristic can be measured.

2.9.1 The fundamental qualitative characteristics

There are two fundamental qualitative characteristics, namely relevance and faithful representation (IASB, 2015). Per the CF, relevance is information that could make a difference to the decision made by users. According to Van Beest et al. (2009), relevance can be assessed through the forward looking information that is provided, such as business risks and opportunities, fair value measurement of assets and the description of significant events that have affected the entity (Van Beest et al., 2009).

The characteristic of faithful representation builds onto the principle of relevance, as the financial statements can not only represent relevant information, but the information must faithfully represent the phenomena that it intends to (IASB, 2015). According to Van Beest et al. (2009), faithful representation can be measured according to the arguments provided to support estimations, assumptions and accounting policies made in the financial statements, the description of the balance of positive and negative events that have affected the entity, the audit report issued, and the level of disclosure on corporate governance.

2.9.2 The enhancing qualitative characteristics

The enhancing qualitative characteristics include understandability, comparability, timeliness and verifiability (IASB, 2015). This information enriches the usefulness of the information that is relevant and faithfully represented (IASB, 2015).

The qualitative characteristic of understandability is defined per the CF as presenting , classifying and characterising information in a manner that is understandable to the users of the financial statements (IASB, 2015). The measurement basis that was used by Van Beest et al. (2009) to measure understandability, was the manner in which the annual report was presented, the amount of tables and graphs given which clarified the financial information, the clarity of the notes to the financial statements, the amount of industry specific jargon used in the annual report, and the size of the glossary.

The characteristic of comparability, allows the users of financial statements to be able to identify similarities and differences between items (IASB, 2015). Barth (2013), identified comparability to be the most essential enhancing qualitative characteristic as capital is a scarce resource. According to Van Beest et al. (2009) this characteristic is measured through the clarity of the notes if there are changes in accounting policies, assumptions or estimates, the number of years that the financial statements have benchmarked against, the manner in which the annual report is presented as well as the amount of financial ratios and indexes.

The qualitative characteristic of timeliness refers to financial information being available to the users in time for them to make their decisions (IASB, 2015). With reference to the measurement tool created by Van Beest et al. (2009), timeliness was measured by the number of days the audit report was issued after the companies' financial year end.

Per the CF, verifiability is linked to faithful representation as it is defined as information that aids users in assuring that information presented in financial statements represents the economic phenomena that it is intended to represent (IASB, 2015). There was no measurement basis for verifiability in the rating scale provided by Van Beest et al. (2009), however verifiability can be measured by the audit report given to an entity. This is appropriate as the role of the auditor is to give an opinion of the representation of financial statements to assess if they faithfully represent the state of the entity (Francis, 2011).

2.10 The corporate scandals – SA & India

This subsection of the literature is dedicated to a review of the corporate scandals that have occurred in India and South Africa. This review draws attention to the shocking corporate scandals that have occurred over the past decade. The corporate scandals have resulted in a loss of trust in the accounting profession (Firth et al., 2012; Murphy & O'Connell, 2013). The faith can be restored in the profession through being accountable to stakeholders. The manner in which entities are accountable to stakeholders is through their financial statements (Murphy & O'Connell, 2013; Watts & Zimmerman, 1983). Both India and South Africa have experienced significant corporate failures

which have brought a higher level of criticism around the auditing and accounting profession (Bhasin, 2013; Gavius, 2007).

In recent years there have been a large amount of corporate scandals and failures such as Enron, WorldCom and Parmalat (Phala, Yasseen, Padia, & Mohamed, 2018). The corporate failures indicate a deficiency with respect to corporate governance which can be improved through corporate reporting reforms. Corporate disclosure is an important element of corporate governance which aims to encourage a greater degree of transparency and accountability in order to improve the public trust in corporate reporting (Phala et al., 2018).

2.10.1 Corporate scandals (India)

The largest corporate failure in India's history was the Satyam Scandal in 2009; the event was referred to as "India's Enron" by the Indian media. The scandal was the result of the fraud committed by Ramalinga Ruga who was the then chairman of the globally competitive IT giant. The fraud was committed through the manipulation of financial statements by overstating assets and income and understating liabilities. Investors lost 2.82 billion dollars as shares in Satyam dropped by more than 70%. This devastating event had a ripple effect which led to employees losing their jobs, customers losing their suppliers, banks losing their financial assets and competitors suffering reputational damage. This corporate failure was an indication of corporate governance issues in India and the Securities and Exchange Board of India (SEBI) improved corporate governance by strengthening financial reporting guidelines for public companies. PWC, the auditor of Satyam from 2000, was criticised for not detecting the fraud during their 9 year audit tenure (Bhasin, 2013).

2.10.2 Corporate scandals (South Africa)

Comparable fraud has occurred in South Africa with the recent fraudulent findings involving KPMG South Africa and Gupta linked businesses (Crotty, 2017). One of the findings regarding this scandal indicated that KPMG was auditing the Gupta owned entity, Linkway Trading. This entity was accused of using taxpayers' reserves valued at R30 million to fund a private family function (Quintal & Hosken, 2017). Another recent fraudulent event has occurred in VBS Mutual Bank; where approximately R1.5bn was

discovered to have been looted. More than 22 000 investors have lost their deposits (Dolley, 2018). Individuals that worked within the entity created the illusion that money had been deposited into the company. This was done by using the bank's electronic accounting system to create false general ledger entries which reflected deposits (Dolley, 2018).

These devastating corporate failures have resulted in a poor image around the accounting and auditing profession, therefore it is important that trust in the profession is restored (Firth et al., 2012; Murphy & O'Connell, 2013). One way of restoring trust would be through high quality financial reporting (Murphy & O'Connell, 2013).

2.11 Challenges facing the economic environment and link to FS quality

This sub-section of the literature review addresses the connection between the economic environment and the quality of financial reporting within these environments. This section is focused on a review of the literature which indicates that market forces are not the only driving force in the allocation of resources within emerging markets, such as South Africa and India (Oberholster, 1999). The supplementary disclosure that is required within developing economies, such as South Africa and India, is discussed based on the existing body of knowledge.

South Africa and India are both developing economies that form part of the BRICS nations (Hart & Silverman, 2014). The practice of accounting in the developed economies of the world differs from the practice in emerging markets. Accounting in the developed economies is designed in a manner where the market forces will allocate resources, whereas in the developing economies the market forces are not the sole forces behind the resource allocation decisions (Oberholster, 1999; Samuels, 1990). Another factor that drives the crucial decisions of resource allocation in developing economies is government intervention (Oberholster, 1999). In a South African context, the influence of government on free market forces was illustrated through the example of the Department of Health regulating the prices of pharmaceutical products and medicines (Oberholster, 1999).

In order for financial reporting to be useful in developing countries, the economy and social climate has to be relevant (Oberholster, 1999; Samuels, 1990). Accounting information needs to extend beyond the desire that facilitates business decisions, but the information must aid in scarce resource allocation (Samuels, 1990). Therefore, financial reporting in third world countries and developing economies should have additional disclosure to the information required for decision-making in business related matters. The additional information should address national problems and how these issues can be resolved (Oberholster, 1999).

In a South African context, The Institute of Directors in Southern Africa (IoDSA) issued the King Code of Governance Principles and the King Report on Governance (King III). This was issued in September 2009. King III was effective from the 1 March 2010, replacing King II. The new code and report are integrated into the Companies Act no 71 of 2008, which became effective on the 1st of May 2011. This code of governance is believed to be a non-legislative code on principles and practices (Directors & Africa, 2017). The new King Code was released on the 1st of November 2016, which replaced King III in its entirety (Directors & Africa, 2017; IODSA, 2016).

Corporate governance in India increased significantly after the corporate scandals and failures that occurred. In the Indian reporting environment, the framework for corporate governance has been aligned with the international standards. The Companies Act 2013 of India has corporate governance provisions. The SEBI's guidelines also strive to ensure that investors are protected and the exchange has required Indian companies to comply with the best practices, mentioned in the guidelines (prathiksharavi, 2018).

2.12 Summary

The purpose of financial reporting is to provide useful information to a wide group of stakeholders to aid them in their financial decision-making process (Barth, 2007). Through the discussion above it is clear that the term “high quality financial reporting” was defined differently by the various academic literature (Biddle et al., 2009; Gajevszky 2015; Jonas & Blanchet, 2000; P. B. Miller, 2002; Tang et al., 2008). The concept of “decision usefulness” was discussed as it is of key importance since the primary

purpose of providing financial statements is to provide useful information (IASB, 2015). The different types of users include investors, creditors, suppliers, buyers, employees and government. The different stakeholders have different areas of interest in the financial statements, and this needs to be taken into consideration in order to provide useful information to all stakeholders (Gandziuk, 2016; IASB, 2015; Mirshekary & Saudagaran, 2005). The agency theory further emphasises the requirement to prepare high-quality financial statements as the owners of entities need to be fully informed how management are conducting the operations. This is done through financial statements (Dharwadkar et al., 2000; Jensen & Meckling, 1976). The CF, its purpose and the development and changes that were made in the newly issued CF 2018 were discussed. The CF is a part of the IFRS, hence when the strengths and weaknesses of the CF were discussed, the discussion had to commence with the strengths and weaknesses of IFRS. The CF is of high importance to this research as the measurement of high-quality financial reporting was based on the qualitative characteristics per the CF.

The South African listed entities will be preparing their financial statements using IFRS whereas Indian companies will be preparing financial statements based on either Indian GAAP or Indian accounting standards (Deloitte, 2017a, 2017b). The qualitative characteristics, which are the basis of this research, appear to be converged between IFRS and the qualitative characteristics of Indian GAAP and Indian Accounting Standards (Pillai, 2007). In terms of the strength of the auditing and accounting standards in South Africa and India, there has been a drop in both their rankings, however South Africa's decline in world ranking is more concerning as it is more significant (Klaus, 2017; Klaus 2018) .

Since the qualitative characteristics form the basis of this research, they were each defined and a measurement approach for each was given based on the research performed by Van Beest et al. (2009). The definitions of the qualitative characteristics were based on IFRS.

The corporate failures were analysed by further explaining how the fraud occurred. This chapter links into the research due to the large amount of corporate failures that have

occurred which have put the auditing and accounting profession into the spotlight (Firth et al., 2012) and through being accountable to stakeholders the trust in the profession can be restored (Murphy & O'Connell, 2013). The corporate scandals reiterated the deficiency in corporate governance and in specific, the corporate reporting of South African and Indian listed entities. The final part of the literature analysed the link between the economic environment that an entity operates in and the quality of financial reporting. The findings of the literature indicated that unlike developed economies, the resource allocation within emerging countries are driven by other forces besides market forces, such as government intervention (Oberholster, 1999; Samuels, 1990). The emerging economies have to incorporate other additional disclosures in order to demonstrate how they are striving towards solving social, environmental and any other problems within their developing countries (Oberholster, 1999). In both the emerging economies of this research, South Africa and India, there has been additional disclosure required to improve the financial reporting quality.

CHAPTER 3: METHODOLOGY

3.1 Introduction

This chapter is dedicated to the methodology followed in this research. This study is within a positivist research paradigm that uses a quantitative research method. Positivism is reliant on the philosophical belief that information is based on realism, idealism and critical realism. The objective of a positivist study is to generate results that are generalisable to an entire population (Chilisa & Kawulich, 2012).

Positivism is dependent on quantifiable observations which will lead the researcher to statistical analyses. Positivism links to this research as the objective of this research is to perform data collection and interpret the results in an objective manner in order to assess the quality of financial reporting for the entire population of South African and Indian companies (Chilisa & Kawulich, 2012; Dudovskiy, 2018b)

There are other research paradigms including constructivist /interpretivist, transformative/emancipatory and postcolonial/indigenous paradigms (Chilisa & Kawulich, 2012). Constructivist research is used to understand human nature; therefore,

this paradigm was not appropriate for this research study. The transformative research paradigm is aligned to research that has the objective of terminating myths and empowering individuals to change society, therefore it is evident that this paradigm was not suitable for this research. The final paradigm is a postcolonial paradigm. This type of paradigm is suitable for research which has the objective of challenging the shortfall in the thinking of the former colonised and aims to rebuild a body of knowledge that encourages transformation and social change for the individuals that were historically oppressed (Chilisa & Kawulich, 2012) .

This research was performed through data collection (JSE and BSE highest 50 market capitalisation companies) and interpretation of the results which will be shown in the analysis of the data in Chapter 4. Examples of other positivist studies in the accounting field dedicated to the quality of financial statements and integrated reporting include Surty, Yasseen, and Padia (2018), Yasseen, Moola-Yasseen, and Padia (2017) and Barth et al. (2008).

This study is an investigation into the quality of the financial statements prepared by South African and Indian listed companies. This study compared the quality of financial reporting between these two developing economies. The purpose of quantitative research is to identify relationships between variables and from this relationship draw a conclusion which confirms an existing theory (King, Keohane, & Verba, 1994; Leedy & Omrad, 2015). The original data in this study was not numerical in nature. However, it was analysed and used to generate numerical data that was tested and interpreted by the researcher in order to identify the relationship between the different variables. This research is therefore quantitative in nature.

Quantitative research design can be either descriptive or experimental. A descriptive study determines if there is an association between the variables used in the study (Leedy & Omrad, 2015). While an experimental study establishes whether there is causal relationship between variables (Leedy & Omrad, 2015). This research analysed the relationship between variables, therefore it is a descriptive study.

3.2 Overview of method

The method that was used is a replication of the scorecard that was originally created by Van Beest et al. (2009) as a measurement tool to assess the quality of financial reports. This method was adapted by Dimi et al. (2014). The measurement tool is a rating scale which allows the researcher to rank a certain element of the financial report with a score from 1 to 5 (Van Beest et al., 2009). The scoring card/ rating system are attached as Appendix A. There were no adaptations to this rating scale as it is applicable to the CF of the IFRS, Indian GAAP and Indian Accounting Standards. This is appropriate as South Africa is using IFRS and India is using either Indian Accounting Standards or Indian GAAP, which are based on and are largely converged with IFRS Standards (Pillai, 2007). Domestic companies in India have not formally adopted or committed to adopting IFRS (IFRS, 2017). The qualitative characteristics per Indian Accounting Standards and Indian GAAP are substantially the same as the qualitative characteristics per IFRS (Pillai, 2007).

3.3: Population and study sample

50 companies were selected from the JSE and 50 companies were selected from the BSE. This sample population was selected based on the highest market capitalisation on each exchange.

3.4: Sample size and selection of sample

A purposive sample was used in this research. Purposive sampling is a non-probability sampling method where the researcher selects the sample using his/her own judgment (Dudovskiy, 2018b). The advantage of this method is that it is low cost and time effective (Dudovskiy, 2018a). This sample is appropriate as the researcher has chosen the sample size to be based on the entities with the highest market capitalisation on each respective exchange. All the top 50 companies of each respective exchange were included in the sample, unless their 2017 annual reports were not publicly available. The top 40 companies were used in a similar study performed by Holt et al. (2015). This indicated that the sample size is acceptable (Israel, 1992). The highest market capitalisation entities were selected as it allows for comparability to be achieved, as the

entities used will be the largest in the market for each country (Galpin & Krommenhoek, 2013). In the study performed by Van Beest et al. (2009), the researcher used 40 entities from the UK, Dutch and US stock markets respectively.

3.5 Sources of data

The data used in this research, were the audited annual reports/integrated reports of the respective listed entities. For the South African entities, an integrated report was issued which comprised of both summarised financial statements as well as the qualitative information and disclosures required. However, the Indian entities only issued annual reports, which were then utilised for the data capturing process. This data was publicly available on the official websites of the listed entities on both exchanges. The reports of the entities contained all the necessary information that was required in order to obtain all the required data for the score card.

3.6 Collection of data

The data was acquired through the collection of the annual reports/integrated reports of the listed entities on both the JSE and BSE for the 2017 financial years. The data collection process and the submission of the research paper was completed by the 28th February 2019.

3.7 Management of data

The data was accurately kept as a saved file on the computer. The scoring of the qualitative characteristics was done in an Excel spreadsheet, which comprised of two separate sheets. One was for the data collected on the JSE listed companies and the other sheet related to the data collected for the BSE companies.

3.8 Data analysis

The researcher ranked each company's compliance with the qualitative characteristics in the CF using the ranking system attached as Appendix A. The ranking system is a 5-point ranking arrangement. A ranking of 5 signifies high levels of compliance with the

qualitative characteristic. A ranking of 1 signifies poor levels of execution of the qualitative characteristics (Van Beest et al., 2009).

With the assistance of a statistician, the data was analysed further. This study is exploratory and the data collected was analysed using a descriptive analysis technique (Leedy & Omrad, 2015). The analysis was performed using the 21-item index that was used in the study performed by (Van Beest et al., 2009). The results of the research were presented using descriptive statistics. Descriptive statistics are used to describe a set of data (Leedy & Omrad, 2015). The researcher analysed the points of central tendency (mean, median, mode) and the variability (standard deviation) (Leedy & Omrad, 2015). In order to compare the quality of financial reporting between India and South Africa, the data for each country was be graphed and compared. The data was tested in order to assess if it is normally distributed and the relevant hypothesis tests were performed in order to make the appropriate comparison.

3.9 Descriptive statistics

The researcher used descriptive statistics to describe the set of data (Leedy & Omrad, 2015). The points of central tendency were calculated including the mean, median and mode (Leedy & Omrad, 2015). These statistical measures were calculated for both South Africa as well as India. The data was plotted to identify outliers and likely distributions. The Shapiro-Wilk test, a normality test was also performed. This is important as it determined which inferential statistical procedure was required to be performed, in order to assess if there was a significant difference between the quality of reporting in South Africa and India. The statistical procedure that was used was dependent on whether the data was parametric or nonparametric (Leedy & Omrad, 2015).

If the data is normally distributed, the statistical measure used to determine the variability of the data will be the standard deviation (Leedy & Omrad, 2015). This measure was calculated for both the South African and Indian data group. This measure provided information relating to how the data values are spread out in the distribution (Tabachnick & Fidell, 2014).

3.10 Hypothesis testing

The following hypothesis was used in order to compare the quality of financial reporting between South Africa and India:

H₀ -There is no significant difference between the quality of financial reporting in South Africa and India.

H₁ - There is a significant difference between the quality of financial reporting in South Africa and India.

The data was tested in order to assess if it is parametric or nonparametric (discussed above). If the data is parametric a T-Test was performed and a p-value was calculated accordingly (Leedy & Omrad, 2015).

If the data is nonparametric, then a Mann-Whitney U test was performed in order to test the hypothesis (Leedy & Omrad, 2015). A p-value will also be calculated if this test is carried out (Shier, 2004).

The lower the p-value is, the greater the probability that the null hypothesis was rejected (Leedy & Omrad, 2015). The level of statistical significance was 5%. If the p-value is less than the required level of confidence (0.05) then the null hypothesis will be rejected, and it can be concluded that there is a significant difference between the quality of financial reporting in South Africa and India.

3.11 Validity and reliability

3.11.1 Internal validity

The study is a replication of a study performed by Van Beest et al. (2009). The method that was used in this study was tested for internal validity in the original study referred to above. Internal validity refers to the manner in which the design and data used in a study will allow accurate conclusions to be drawn regarding the cause and effect relationships within the data (Leedy & Omrad, 2015). The Cronbach's alpha was used to test the internal validity of the measurement tool. Therefore it is evident that the measurement tool will produce reliable results and it is acceptable (Van Beest et al., 2009).

3.11.2 External validity

External validity is the extent to which the results of the research can be generalised to make predictions about the entire population (Shuttleworth, 2009). This research does not test the entire population and therefore external validity needs to be achieved. The methodology achieved external validity as the supervisors of this research are familiar and experienced with the methodology being used. The sample size that was selected was also sufficient based on similar studies such as the study performed Holt et al. (2015) where the highest market capitalisation companies were selected which aids in achieving greater comparability (Galpin & Krommenhoek, 2013) .

3.11.3 Content validity

In order for the researcher to score the qualitative characteristics he/she had to exert judgement (Van Beest et al., 2009). The two supervisors oversaw the rating process to ensure objectivity. The researcher and the supervisors are from an academic background with expertise in financial reporting. However, it should be noted that judgement in itself will not cause a threat to the validity and reliability of this study (Unerman, 2000).

3.11.4 Reliability

Reliability was achieved as listed companies' financial statements are prepared by professional and competent individuals. In addition, financial statements of listed entities will be audited and are therefore more reliable (RSA, 2008). The method employed in this study is considered to achieve validity and reliability as it has been widely used in other business research studies (Holt et al., 2015; Padia & Yasseen, 2011; Phala et al., 2018; Santema & Van de Rijt, 2001).

CHAPTER 4: DATA ANALYSIS

4.1 Introduction

In this chapter, the three research questions that were addressed in this report will be restated in Section 4.2. The reliability of the results will thereafter be discussed (Section 4.3). The results of research question 1 and 2 will be analysed (Section 4.4 – Section 4.5). In Section 4.6, the results of the final research question will be analysed and the hypothesis will be tested (Section 4.7).

4.2: research questions

The data analysis addressed each research question that was introduced in Chapter 1. The three research questions were:

Question 1: To what extent are the qualitative characteristics being applied by South African listed companies?

Question 2: To what extent are the qualitative characteristics being applied by Indian listed companies?

Question 3: How does the financial reporting quality compare between South Africa and India?

4.3 Reliability

The results of the data were reliable, as the Cronbach's alpha was calculated. An alpha of 0.785 was calculated. This indicates that the results of this study are acceptable. The total items statistics table (Table 2) indicates that if any of the rating criteria were removed the alpha would not change to a different level of acceptance. It will consistently remain within the acceptable range. This indicates that the data collected is acceptable.

Table 2: Total Item Statistics

Item-Total Statistics					
	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Squared Multiple Correlation	Cronbach's Alpha if Item Deleted
R1	64.55	52.659	.298	.272	.781
R2	64.37	47.379	.599	.508	.755
R3	66.79	55.495	.203	.129	.785
R4	64.40	53.876	.354	.326	.776
F1	65.73	57.731	.043	.167	.791
F2	63.20	57.244	.107	.833	.788
F3	65.04	50.243	.605	.482	.759
F4	63.94	57.690	.221	.378	.784
F5	63.67	51.796	.468	.374	.768
U1	64.27	49.098	.653	.638	.754
U2	65.07	50.883	.556	.467	.762
U3	63.63	55.420	.149	.253	.790
U4	65.48	51.273	.635	.658	.760
U5	65.90	45.561	.546	.644	.761
C1	63.17	56.858	.177	.823	.784
C2	65.30	56.703	.130	.330	.788
C3	64.64	58.417	-.019	.366	.793
C4	65.06	56.364	.190	.285	.784
C5	64.31	49.768	.656	.607	.756
C6	63.67	55.653	.174	.263	.787

4.4 Research question 1: to what extent are the qualitative characteristics being applied to South African listed companies?

4.4.1 Fundamental qualitative characteristics

The results for the application of the fundamental qualitative characteristics in South Africa were analysed first, thereafter, the enhancing qualitative characteristics were analysed.

The first measure in the rating scale related to relevance.

4.4.1.1 Relevance

R1 was the extent of forward-looking statements that the company includes in their annual/integrated report to help the users of financial statements to form expectations concerning the future of the company (Van Beest et al., 2009). The mean score was 3.67 (see Table 3), which is between a score of 3-4. A score of 3 indicates that there is a separate sub-section of the forward-looking information, whereas a score of 4 indicates that there are extensive predictions in relation to the forward-looking information. The mode as well as the median of **R1** is 4 which is a high rating. The minimum rating that was given to any JSE listed company of the data collected was 2, and the highest rating was 5. Therefore, no JSE top 50 company scored a rating of 1, which would indicate that no forward-looking information was provided. **R2** assessed how in depth the non-financial disclosure of the business opportunities and risks were in the respective entities reports (Van Beest et al., 2009). The mean was 4.39, the median was 5 and the mode was 5. No company scored lower than a rating of 2 (see Table 3). This score indicates that the majority of entities received a score of 5 for this criterion. In terms of **R3** which relates to the extent to which the company uses fair value rather than historical cost. The results for this criterion indicate that most of the entities used only historical cost as a measurement basis. The mean score was 1.44 which is between a score of 1 and 2 and the mode was 1. The final relevance criteria that was assessed was **R4**, **R4** rated the extent to which the entities results provide the users of the annual report with valuable feedback regarding the manner in which market events and important transactions affected the company (Van Beest et al., 2009). The mean result was 3.8 and the mode was 4, indicating that usually feedback was present and in some

companies the feedback helped the user of the annual report understand how transactions and events affected the entity (refer to table 3).

Table 3: Results for relevance

Qualitative Characteristic	Mean			Standard Deviation			Median			Mode			Min			Max	
	SA	INDIA		SA	INDIA		SA	INDIA		SA	INDIA		SA	INDIA		SA	INDIA
RELEVANCE																	
R1	3.67	3.24		1.11	1.04		4	3		4	4		2	1		5	5
R2	4.39	2.86		0.87	0.93		5	3		5	3		2	1		5	5
R3	1.44	1.00		1.11	0.00		1	1		1	1		1	1		5	1
R4	3.80	3.44		0.89	0.64		4	3		4	3		2	2		5	5

The results for relevance for South Africa were consistent with the strong accounting and auditing reputation that South Africa has. The results were positive with the exception of **R3**. This may be as a result of many of the IFRS standards allowing for choices between fair value and historical cost (IASB, 2016). The application of the qualitative characteristic of relevance was assessed in the study performed by Smith (2017). The mean score that was obtained for relevance was 3.02. Therefore, it is evident that relevance amongst public sector companies as well as listed entities needs to be improved. In the study performed by (Van Beest et al., 2009), the mean score obtained for relevance amongst the IFRS applying entities was 3.18. Therefore, the mean score calculated overall for South African listed entities' relevance criteria was 3.325 (calculated from Table 3). This could indicate that the relevance in financial statements in South African entities is higher than the Dutch and US entities that apply the IFRS or that financial statement quality has improved over time.

4.4.1.2 Faithful representation

The mean score for the first criterion, **F1**, for faithful representation was 2.31 and the mode was 2. This score does indicate that general explanations were usually given for the assumptions and estimations that entities made in the annual report. The minimum score obtained was 1, indicating that companies on the JSE only described the estimations. The mean score for **F2** was high at a mean of 4.80; and with a mode of 5. **F2** analysed the extent to which companies base their choice of accounting policies on

valid arguments. The cause of such a high score was because the majority of entities on the JSE have not changed their accounting policies. The minimum score was 2, indicating that no entity made a change to their accounting policy without explaining it to the users. The mean score for **F3** was 3.47 and the mode score was 3; indicating that entities did mention the positive and negative events. **F4** had a mean of 4.14 and a mode score of 4. **F4** was concerned with the type of audit opinion that the entity was given. All entities on the JSE had an unqualified audit opinion; however, the opinion was only on the financial figures. The final criterion for faithful representation is **F5**. This criterion analysed the corporate governance in the entity, and the mean was high, at 4.82, with a mode of 5 and with no entity scoring lower than 4. (Refer to Table 4)

Table 4: Results for faithful representation

Qualitative Characteristic	Mean			Standard Deviation			Median			Mode			Min			Max	
Faithful representation	SA	INDIA		SA	INDIA		SA	INDIA		SA	INDIA		SA	INDIA		SA	INDIA
F1	2.31	2.26		0.84	0.44		2	2		2	2		1	2		5	3
F2	4.80	4.82		0.63	0.60		5	5		5	5		2	2		5	5
F3	3.47	2.46		0.78	0.65		3	3		3	3		2	1		5	3
F4	4.14	4.00		0.35	0.00		4	4		4	4		4	4		5	4
F5	4.82	3.86		0.56	0.90		5	4		5	4		2	1		5	5

The results for faithful representation were not of a high standard because only general explanations accompanied estimations and assumptions and most entities did not make changes to accounting policies. However, all the entities did obtain an unqualified audit opinion and had high quality disclosure on corporate governance. In comparison to the study performed by Dimi et al. (2014), the mean score for **F2** was 3.58 which indicates that the accounting policy choices were explained fairly well. However, the mean score obtained for **F2** in this study was high at 4.8, but this was influenced by the high volume of entities that did not make changes to their accounting policies during the year. the results for **F5** do however indicate that despite the fact that the accounting policies are

not changed, the audit reports are rarely modified (Dimi et al., 2014). In comparison to Dimi et al. (2014), there was a common finding amongst **F3**. The mean score that was calculated was 3.95, in comparison to the mean score calculated in this study of 3.47. There is clear evidence that South African entities have focused on the positive events that have impacted on their company (Dimi et al., 2014). Van Beest et al. (2009) calculated the mean score for faithful representation as 3.69. This indicates that the quality of financial reporting has improved in respect to faithful representation since 2005 amongst IFRS applying entities as the total mean calculated in this study was 3.91 (calculated from Table 4). This is therefore confirming the findings of Van Beest et al. (2009), where the researcher believed that financial reporting quality has improved over time.

4.4.2 Enhancing qualitative characteristics

4.4.2.1 Understandability

The first criterion **U1** is concerned with whether the annual reports are presented in a well organised manner. The mean score was high at 4.27 and the mode was 5. For the next criterion, **U2**, the mean score was lower at 3.41 and the mode was 3, this is due to the fact that the notes to the financial statements were usually at a high level and difficult to understand. **U3** assessed the presence of graphs and tables in the reports. There was a mean score of 4.43 and a mode score of 5 indicating that entities usually have more than 6 graphs or tables in their integrated report and that these graphs helped clarify financial information that was presented. **U4** assessed the extent to which industry specific jargon was present in the report. The results suggest that for most entities the jargon was explained in a text or a glossary and the mean score was 2.90 and the mode score was 3. The minimum score given was 1, indicating that entities had jargon that was industry specific that was not explained. The final criteria for understandability was **U5**, the mean score was 2.94 and the mode score was 4 indicating that the glossary was usually not more than 1 page in length (refer to Table 5).

Table 5: Results for understandability

Qualitative Characteristic	Mean		Standard Deviation		Median		Mode		Min		Max	
Understandability	SA	INDIA	SA	INDIA	SA	INDIA	SA	INDIA	SA	INDIA	SA	INDIA
U1	4.27	3.18	0.87	0.63	4	3	5	3	1	2	5	5
U2	3.41	2.44	0.83	0.61	3	2	3	2	2	1	5	4
U3	4.43	4.35	0.92	1.07	5	5	5	5	2	1	5	5
U4	2.90	2.14	0.76	0.50	3	2	3	2	1	1	4	4
U5	2.94	1.28	1.50	0.86	3	1	4	1	1	1	5	5

In conclusion, the understandability of JSE listed entities is satisfactory, however there is a lot of industry specific jargon that is used which makes the financial statements more difficult to understand as well as unclear and high-level notes are provided as supplementary information to the financial statements. These two lower scores for **U2** and **U4** will negatively affect the “decision-usefulness” of the information. In comparison to a study performed by Smith (2017), it was evident that the overall mean score for understandability was 3.59. This indicates that there was area for improvement with respect to understandability in public entities.

4.4.2.2 Comparability

The first criterion **C1** is in line with F2, as they both assessed changes in the accounting policies of the entity. **C2** had a mean score of 2.82 and a mode of 3 indicating that usually when there was a revision in accounting estimates there were clear notes regarding the revision. However, the minimum score for these criteria was 1 indicating that some entities had a revision without any notes. **C3** assessed the extent to which entities restated prior period figures for changes in accounting policies or revision in estimates. The mean of 3.37 and the mode of 3 indicate that entities usually only restated the prior year. **C4** reviewed the entities’ comparisons with previous years. Most entities scored a 3 indicating that they did a 5-year review. There was a minimum score

of 1, which indicates that some entities on the JSE do not compare current year results with prior years. **C5** assessed how comparable the financial report was. The mean score was 4.22 and the mode was 4, indicating that most entities scored a 4. The final criterion for comparability was **C6**. This criterion assessed the number of financial ratios in the annual report. Most companies scored 5 for this criterion, indicating that they had more than 10 ratios in the annual report. The results are summarised in Table 6.

Table 6: Results for comparability

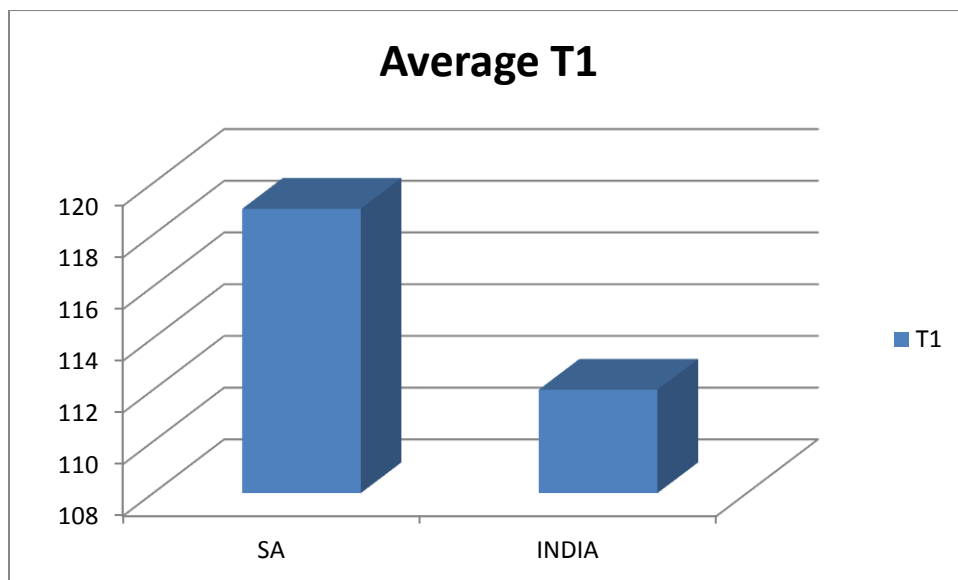
Qualitative Characteristic	Mean		Standard Deviation		Median		Mode		Min		Max	
Comparability	SA	INDIA	SA	INDIA	SA	INDIA	SA	INDIA	SA	INDIA	SA	INDIA
C1	4.86	4.82	0.49	0.60	5	5	5	5	2	2	5	5
C2	2.82	2.60	0.62	0.78	3	3	3	3	1	1	4	4
C3	3.37	3.36	0.56	0.66	3	3	3	3	2	1	5	5
C4	3.06	2.84	0.81	0.37	3	3	3	3	1	2	5	3
C5	4.22	3.16	0.76	0.62	4	3	4	3	2	2	5	4
C6	4.53	4.18	0.70	0.96	5	4	5	5	1	1	5	5

The comparability of annual reports which was assessed in a similar study, performed by Dimi et al. (2014), revealed that there was a lack of inter-organisational comparability (**C5**) which had a mean score of 3.18. The mean score for **C5** in this study was 4.22; therefore, there has been an improvement amongst South African entities in respect of comparability. This indicates that the conclusion reached by Van Beest et al. (2009) was correct as the quality of financial reporting had increased over time. This study also confirmed that companies did not make frequent changes to their accounting policies (Dimi et al., 2014). Amongst public sector entities, it was determined that the total mean score for comparability was 3.26 when compared to the total mean score of comparability in this study of 3.81 (calculated from Table 6). It is evident that the information usefulness is higher amongst South African listed entities as opposed to South African public-sector entities.

4.4.2.3 Timeliness

In order to assess timeliness, the numbers of days between the audit report and the end of the financial year were recorded. The graph below (Graph 1) indicates the average timeliness for South Africa and India. JSE listed entities on average take 118 days to issue the audit report from the end of the financial period. In comparison to the study performed by Dimi et al. (2014), it was reinforced that despite the fact that financial statements are provided in a timely manner, there could be improvement in respect to the timeliness to ensure that the usefulness of financial statements is improved.

Graph 1: Results for timeliness



In comparison to the study performed by Smith (2017), it was determined that the mean score for the qualitative characteristic of timeliness was 1.99, which is evidently low. It is clear that the qualitative characteristic of timeliness for listed entities as well as public entities has to be improved in order to improve the usefulness of information.

4.3.2.4 Verifiability

There was no measurement tool to assess the enhancing qualitative characteristic of verifiability in the rating scale. However, **F4**, which assessed the audit opinion that the entities on the JSE received is an appropriate measurement of verifiability. The most

common score (mode) was 4, indicating that the annual reports were verifiable as all the entities received an unqualified opinion.

4.5 Research question 2: to what extent are the qualitative characteristics being applies to Indian listed companies?

4.5.1.1 Fundamental qualitative characteristics

4.5.1.2 Relevance

For the first criterion, **R1**, entities on the BSE received a mean score of 3.24, and a mode score of 4 was achieved. This score indicates that the average score was between entities having a part subsection and extensive predictions on forward-looking information. The next criterion was **R2**, the mean score was 2.86, indicating that entities did provide information on business risks and opportunities. Most entities scored a 3, indicating that there was useful information provided in the annual reports of BSE listed entities. For **R3**, most entities scored a 1, indicating that they only use historical cost and do not measure elements of their financial statements at fair value. The result for **R4** was a mean score of 3.44 and a mode of 3, this criterion assessed whether information on events that affected the entity during the year were included in the annual report. (Refer to Table 3.)

4.5.1.3 Faithful representation

F1 was the criterion that measured how valid the arguments were for certain assumptions and estimates provided. The mean score was 2.26, which indicated that only general explanations were provided. The most common score obtained for **F1** was 2. **F2** measured the validity behind the accounting policies chosen. The mean score was 4.82; this score was obtained as there were not many changes in the accounting policies during the year. For the criterion of **F3**, the mean score was 2.46 and the mode score was 3, indicating that on average the entities did focus on the positive events that influenced them. **F4** was the measurement tool that assessed the audit opinion that entities received. All entities received a 4 as there was no audit opinion given on non-financial information, however all entities received an unqualified opinion. The last criteria, **F5** assessed the strength of corporate governance within the entity. The mode

was 4, indicating that most entities did pay extra attention to corporate governance. (Refer to Table 4.)

4.5.2.1 Enhancing qualitative characteristics

4.5.2.2 Understandability

There were 5 criteria for understandability. For the first criteria **U1**, entities on the BSE scored an average of 3.18 and a mode of 3. Therefore, the results indicate an average score for the manner in which the annual report is presented. The second criteria, **U2**, measured how comprehensive the notes to the financial statements are. Most of the entities scored 2, indicating that there were very short explanations that were difficult to understand. **U3** reviewed the number of graphs and tables that supported the financial information given. The mean score was 4.35 and the mode was 5, indicating that usually entities provided more than 10 graphs and tables (refer to Table 5). **U4** assessed the amount of industry specific jargon used in the annual report. The mean score for entities on the BSE was 2.14 and the mode was 2, as most entities did not have a glossary describing industry specific terms and there was a high volume of industry specific jargon that was used in the annual report. The final criterion was **U5**, the mean score for U5 was 1.28 and the mode was 1. This was a result of most entities not having a glossary. This low score for U5 is not within the spirit of the CF.

4.5.2.3 Comparability

The results for comparability were determined with reference to the 5 criteria on the rating scale. The score for **C1**, correlated to the score given for **F2** because they are both reviewing the effects of the changes in the accounting policies of the entity. **C2** assessed the effectiveness of the notes to any changes in assumptions or estimates. The mean score of 2.6 and the mode of 3 indicate that entities usually have a revision with clear notes. The criteria of **C3** reviewed the restatement of prior period figures when there was a change in accounting estimates or a change in accounting policies. Entities usually obtained a rating of 3 indicating that only the prior year's figures were restated. **C4** indicated that most entities did a 5- year comparison, as the mean score was 2.84 and the mode was 3. **C5** assessed how comparable the annual reports of the entities were. The most commonly attained score was 3. The final criterion, **C6**,

measured the number of financial ratios that were presented in the annual report. The mode for **C6** was 5, which indicated that most entities presented more than 10 financial ratios. (Refer to Table 6.)

4.5.2.4 Timeliness

The average time that it took entities, measured by **T1**, to issue the audit report from the end of the financial year was 110 days. (Refer to Graph 1)

4.5.2.5 Verifiability

This score will correlate to the score for **F4**, which was a mean of 4. All entities' financial information was verifiable as all entities on the BSE received unqualified audit opinions. (Refer to Table 4.)

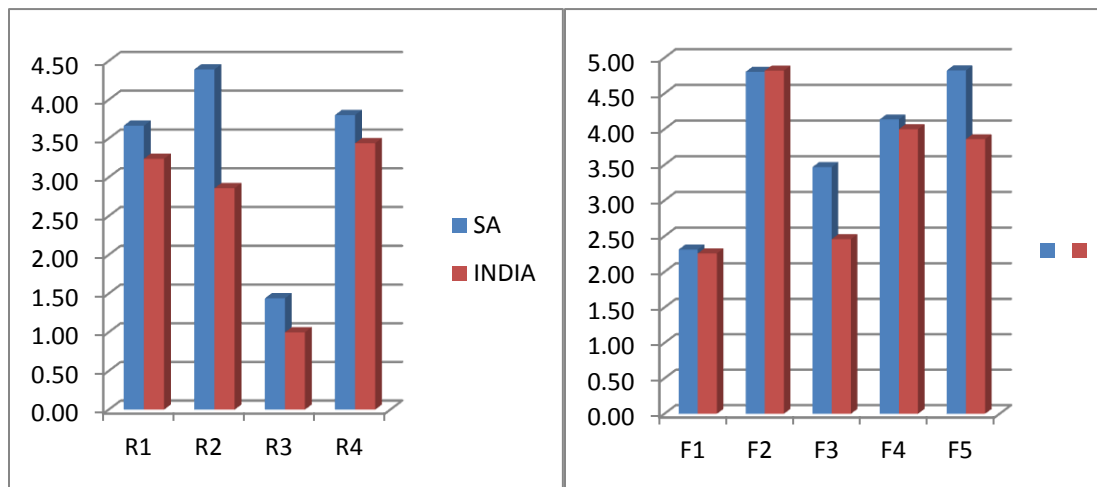
4.6 Research question 3: How does the financial reporting quality compare between South Africa and India?

4.6.1 Fundamental qualitative characteristics

4.6.1.1 Relevance & faithful representation

By referring to Graph 2, it is evident that South Africa outperforms India in every criterion for relevance. The biggest discrepancy between South Africa and India is **R2**. This criterion assessed the non-financial information provided in terms of business risks and opportunities. In terms of the other fundamental qualitative characteristic, namely, faithful representation, South Africa has outperformed India in terms of all criteria except for **F2** where both countries got the same mean. The biggest discrepancy in terms of the results for faithful representation was with respect to **F5**. This could be as a result of South Africa's exceptional corporate governance policies. Therefore, the results of the fundamental qualitative characteristics indicate that South Africa's quality of financial reporting exceeds India's.

Graph 2: Comparison between South Africa and India in terms of relevance and faithful representation



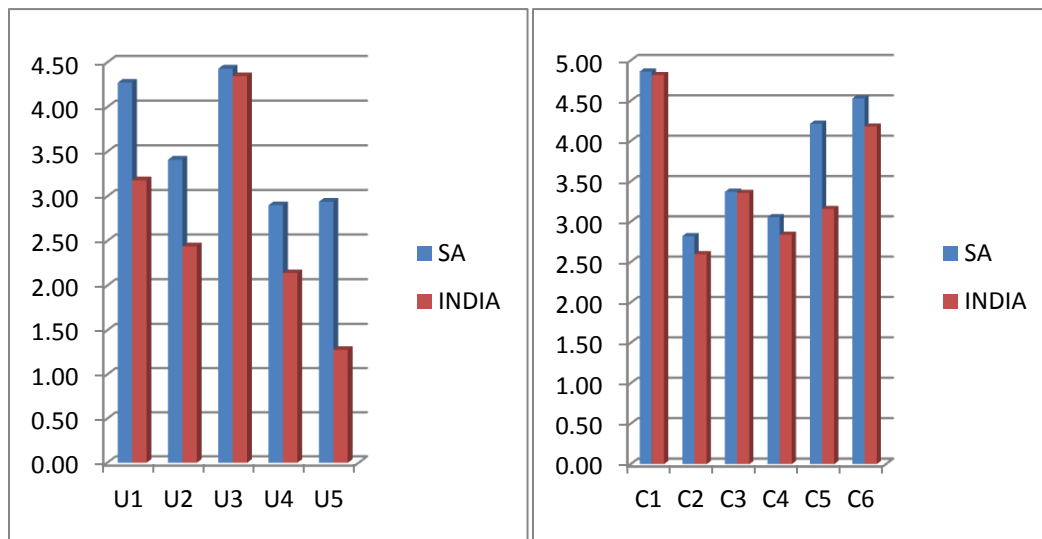
Therefore, for both relevance and faithful representation, South Africa's application of the qualitative characteristics exceeded India. The results for **F2** were the same as the majority of the entities on both the JSE and BSE respectively did not change their accounting policies.

4.6.2 Enhancing qualitative characteristics

4.6.2.1 Understandability and comparability

In terms of the enhancing qualitative characteristics, the qualitative characteristic of understandability is being applied to a greater extent in South African, JSE listed entities as opposed to BSE listed entities (see Graph 3). The characteristic that differs drastically between South Africa and India is **U5**, which looked at the size of the entity's glossary. It was noticed that the majority of Indian, BSE entities did not include a glossary in their annual report. South Africa outperformed India in terms of the characteristic of comparability. The most significant difference arose in **C5**; this criterion assessed how comparable the entities annual report is to other entities. Indian, BSE listed entities were not comparable with one another as their layout and information presented differed from one company to the next.

Graph 3: Comparison between South Africa and India in terms of understandability and comparability



Therefore, in terms of both understandability as well as comparability, South Africa outperformed India. The most drastic differences arose in terms of **U5** and **C5**. The lower results for India will have a negative effect on user's perception of the financial statements as the "decision- usefulness" of the information will be negatively affected.

4.6.2.2 Timeliness

Graph 1 indicates that Indian, BSE listed entities are more timely in the presentation of the financial statements than South African, JSE listed entities.

4.7 Results from hypothesis testing

The hypothesis testing that was performed was based on the following null and alternate hypothesis:

H₀: There is no significant difference between the quality of financial reporting in South Africa and India.

H₁: There is a significant difference between the quality of financial reporting in South Africa and India.

The test that was performed in order to assess this hypothesis was dependent on the normality of the data. The data was non-parametric and not normally distributed.

Therefore the appropriate test to ascertain the correct hypothesis was the Man Whitney U Test (Leedy & Omrad, 2015). This test will result in a p-value. The following scale indicates the level of confidence and acceptance or rejection of the null hypothesis.

For each variable:

If $p < 0.05$ we reject the NULL with 95 percent confidence

If $p > 0.05$ we fail to reject **H₀**

If $p < 0.01$ we reject the NULL with 99 percent confidence

Appendix B indicates the p-value for each criterion in the scorecard. The p-value of each criterion is discussed in the discussion that followed below.

4.7.1 Relevance

The p-value for **R1** was 0.043.; this indicates that there is a significant difference between the financial reporting quality, ascertained with 95% confidence. This difference arose due to the fact that South African entities listed on the JSE provided more in-depth, future-looking information. This could be with respect to the aspiration of maintaining a high reputation of financial reporting or could be as a result of the high focus on corporate governance in South Africa.

The p-value for **R2** was 0.000. This indicates that the null hypothesis can be rejected with 99% confidence. This significant difference may be as a result of South African companies producing an integrated report which has a greater degree of non-financial disclosure including business risks and opportunities.

R3 had a p-value of 0.003. Therefore, there is a significant difference between the use of fair value versus historical cost between South African and Indian listed entities. Both South African and Indian entities did not use fair value as a main measure of elements in the financial statements.

R4 has a p-value of 0.018. Therefore there was a significant difference between the qualities of financial reporting in terms of this criteria. The level of significance was 95%. It is evident that the inclusion of events or transactions affecting the entity differed between South Africa and India. With reference to the results in Table 3, the difference

could be as a result of the different reporting environments in South Africa and India and the required level of disclosures on non-financial information.

4.7.2 Faithful representation

The results of the p-value for **F1** indicated that the null hypothesis must be accepted as the score exceeded 0.05. The score was 0.548. This criterion did not differ between South Africa and India. The entities did not explain in sufficient details the assumptions and estimations they had used. The descriptions given in the annual reports and integrated reports were brief.

The p-value for **F2** was 0.797, which again indicates that the null hypothesis will be accepted. This is as a result of the highest market capitalisation entities of both exchanges not changing their accounting policies on a regular basis.

The p-score for **F3** indicated that there was a significant difference between the quality of financial reporting in South Africa and India. This difference was at a confidence level of 99% as the score was 0.000. This criterion assessed the balance of positive and negative events in the annual report. It was noticed that JSE listed entities on average (per the mean calculated in Table 4), was higher than for BSE listed entities. As the entities in these emerging economies are dependent on foreign investment, there is greater motivation to solely provide the positive information about the entity.

The next p-score was 0.007 for **F4**, indicating there was a significant difference between the audit opinions given to South African and Indian listed entities. This difference arose due to the additional information that was audited in some South African entities.

The final criterion for faithful representation was **F5**. The p-value calculated for this criterion was 0.00, and this score indicates that the null hypothesis can be rejected with 99% confidence. Therefore, this indicates that the corporate governance disclosure is significantly greater in South African entities as compared to Indian listed entities. This could be as a result of the King Code as well as the high level of auditing and accounting standards in South Africa.

Therefore, in respect of the fundamental qualitative characteristics there was a significant difference between the quality of financial reporting in South Africa and India.

4.7.3 Understandability

The first enhancing qualitative characteristic which was assessed, **U1**, resulted in a p-score of 0.000, indicating there is a significant difference, at a confidence level of 99% in the presentation of the financial statements between South African and Indian listed entities. This may be as a result of the types of reports presented. As mentioned above, the South African listed entities presented an integrated report whereas the Indian listed entities presented annual reports.

The second criterion was **U2**. The p-score was also 0.000. This indicates that there was a significant difference, at a confidence level of 99%, with respect to the quality of the notes supporting the financial figures provided in the annual/integrated reports.

The p-score for **U3** indicated there is no significant difference between the financial reporting quality of South Africa and India with a p-score of 0.815. The amount of graphs and tables presented to support the financial information presented in the annual report/integrated report was similar for South Africa and India.

The p-score for **U4** indicated there is a significant difference between the financial reporting quality of South Africa and India. At a confidence level of 99%, the p-score was 0.000. This is due to the fact that both countries' highest market capitalisation entities used a large amount of unexplained jargon. However, the jargon was explained through the glossary in South African listed entities, whereas the Indian listed entities usually did not contain a glossary or detailed explanations of the jargon used in the annual report/integrated report.

The final criterion for understandability was **U5**. The p-score was 0.000 indicating that there was a significant difference between the quality in respect of this criteria at a confidence level of 99%. This is because all South African, JSE listed entities provided a glossary whereas very few Indian listed entities provided a glossary.

Therefore, in conclusion, there was a significant difference between the understandability of financial statements in South Africa and India. The only criteria that did not indicate a significant difference between South Africa and India was **U3**.

4.7.4 Comparability

The first criterion for comparability was **C1**. The p-score was calculated to be 0.932. This score indicates that there is no significant difference between the quality of financial reporting for this criterion between South Africa and India. This is because the minority of South African and Indian companies had changes in their accounting policies.

The p-score for **C2** was 0.131. This value indicates that there is no significant difference between South African and Indian listed entities in respect of the clarity of the notes that explain any changes in accounting policies and estimates. Therefore, it is again evident that the minority of entities made changes in accounting estimates and policies and the entities that did make changes in assumptions and estimates provided general explanations in both JSE and BSE entities.

The p-score for **C3** also indicated there is no significant difference between the quality of financial reporting in respect of this criterion. This criterion measured the extent to which entities restated prior period financials in respect of changes in accounting policies and changes in accounting estimates and assumptions. The p-value was 0.894. This indicates that there is no significant difference in the quality of financial reporting between South Africa and India. Most entities from both countries presented only the previous year's financials.

The p-score for **C4** was 0.146. This score indicates that there is no significant difference between the quality of financial reporting in respect to the comparison of the current years financial results with the prior year's results. Both South African listed entities on the JSE and Indian listed entities on the BSE provided a 5-year comparison of the results, with no description of the meaning of the variation between the years.

The p-score for **C5** was 0.00, indicating that there is a significant difference in respect of this criterion between South Africa and India. This significance is at a confidence level

of 99%. This difference is as a result of South African financial statements being much more comparable than Indian listed entities' financial statements.

The final comparability criterion measured the number of financial ratios and indexes provided in the entities annual report or integrated report. The p-score for **C6** was 0.058. This score indicated that there is no significant difference between JSE and BSE entities. Both respective exchanges provided a high quantity of financial ratios and indexes.

In conclusion, there was not a significant difference in respect to comparability between South Africa and India. The only criterion for which a significant difference existed was **C5**. This is as a result of South African entities presenting their integrated reports in a more comparable manner.

4.7.5 Timeliness

There was no p-score for timeliness, however from the mean above it was determined that there was a difference between the timeliness for South African listed entities and Indian listed entities. South African listed entities financial statements are approved by the auditor over a longer period as compared to Indian listed entities.

4.7.6 Verifiability

The p-score for verifiability is the same as the p-score for **F4**. Therefore, the results and discussion for this would be identical.

In conclusion, from the results of the p-value discussed above, the null value of the hypothesis test can be rejected, and the alternative hypothesis can be accepted. Therefore, there is a significant difference between the quality of financial reporting in South Africa and India.

CHAPTER 5: CONCLUSION AND RECOMMENDATIONS FOR FUTURE RESEARCH

5.1 Conclusion

There have been a significant number of corporate scandals that have occurred. These corporate scandals have put the auditing and accounting profession into the spotlight (Firth et al., 2012). The auditing profession has been criticised for not detecting and warning investors of the potential failures (Gavious, 2007). The deficiency is relating to corporate governance issues within the entities., Corporate governance can be improved through corporate reporting reforms (Phala et al., 2018). Therefore, through higher quality financial reporting, corporate governance can improve.

Financial reporting quality is a wider concept than financial reporting as it includes qualitative information and it extends beyond pure financial information and disclosures (Van Beest et al., 2009). The purpose of financial reporting is to provide useful information to users of the financial statements (IASB, 2015). The concept of “decision-usefulness” was discussed in Chapter 2 of this study.

The existing body of literature that was reviewed was done to establish the attributes of useful decision making in order to execute the research effectively. The literature began by analysing the purpose of financial reporting as this links to the main research question of this study. The concept of “decision-usefulness” was introduced in Chapter 2, as the main reason that financial statements need to be produced. The users of financial statements and their interests were also discussed as this is essential to understanding the “decision-usefulness” of information. Agency theory was discussed as a key reason that financial statements need to be produced as the interests of managers and owners are not always aligned. The CF was discussed as this is the framework where the qualitative characteristics are found. This study based the assessment of quality financial reporting on the qualitative characteristics within the CF. the South African and Indian reporting environments were discussed as the understanding of the reporting frameworks were essential to the execution of this research. The qualitative characteristics were discussed in detail, through definitions and measurements. This was fundamental as the qualitative characteristics were the measurement tool that was used to assess the quality of financial reporting. The

literature concluded by discussing the corporate scandals that have occurred in South Africa and India, in order to justify the requirement to restore the lost faith into the profession through high quality financial reporting (Murphy & O'Connell, 2013). Developing economies were identified as requiring a higher level of financial reporting quality as market forces are not the only factors that will influence the allocation of resources (Oberholster, 1999).

In Chapter 3 the methodological approach to this study was discussed. This study was an exploratory, descriptive, quantitative research study (Leedy & Omrad, 2015). This methodology is underpinned by a positivist paradigm, which is suitable as the results of this research will be used to generalise to the entire population of South Africa and India (Chilisa & Kawulich, 2012). The measurement tool used in this study was a 21-index scorecard, replicated from the study performed by (Van Beest et al., 2009). This scorecard rated elements of the financial statements from a score of 1-5, 1 being poor execution of the particular qualitative characteristic whereas a score of 5 indicates excellent execution in respect to the execution of a particular qualitative characteristic (Van Beest et al., 2009).

Chapter 4 was dedicated to the data analysis of the research. This data was analysed using descriptive statistics. The data analysis addressed each research question separately. Each of the three research questions were divided between fundamental and enhancing qualitative characteristics. The hypothesis test was carried out using the Man Whitney U Test as the data was assessed to be non-parametric and it did not follow a normal distribution. The mean and mode scores for each fundamental and enhancing qualitative characteristic were discussed in detail for South Africa and India respectively. This addressed question 1 and 2 of the research study. The results of the hypothesis test indicated that there was a significant difference between the quality of financial reporting in South Africa and India as the p-score was on average lower than the level of significance of 0.05. The results also indicated that overall the quality of financial reporting is higher for South Africa than India.

5.2 Recommendations for further research

The findings from the research have allowed for the unlocking of further research opportunities that will contribute to the body of literature that exists around this research topic. The data capturing process revealed that entities listed on the JSE are required to prepare both an annual report as well as an integrated report on an annual basis. There is more information provided in an integrated report, therefore, it would be interesting to understand the reasoning behind the BSE only requiring an annual report to be presented. The data capturing process revealed that majority of Indian listed entities on the BSE were audited by Deloitte, PWC or another smaller/medium sized firms (not big 4 firms), in comparison to entities listed on the JSE. The trends that were noticed were that the big 4 audit firms dominated the highest market capitalisation firms on the JSE. An interesting area of future research would be to investigate the reasons behind the greater diversification of auditors of high market capitalisation entities on the BSE or the link between financial reporting quality and the auditors.

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*Appendix A

Question no.	Question	Operationalisation
<i>Relevance</i>		
R1	To what extent does the presence of the forward- looking statement help in forming expectations and predictions concerning the Future of the company?	1 = No forward-looking information 2 = Forward-looking information not an apart subsection 3 = Apart subsection 4 = Extensive predictions 5 = Extensive predictions useful for making expectation
R2	To what extent does the presence of non-financial information in terms of business opportunities and	1 = No non-financial information 2 = Little non-financial information, no useful for forming expectations

	risks complement the financial information?	3 = Useful non-financial information 4 = Useful non-financial information, helpful for developing expectations 5 = Non-financial information presents additional information which helps developing expectations
R3	To what extent does the company use fair value instead of historical cost	1 = Only HC 2 = Most HC 3 = Balance FV/HC 4 = Most FV 5 = Only FV
R4	To what extent do the reported results provide feedback to users of the annual report as to how various market events and significant transactions affected the company?	1 = No feedback 2 = Little feedback on the past 3 = Feedback is present 4 = Feedback helps understanding how events and transactions influenced the company 5 = Comprehensive feedback
<i>Faithful representation</i>		
F1	To what extent are valid arguments provided to	1 = Only described estimations 2 = General explanation

	support the decision for certain assumptions and estimates in the annual report?	3 = Specific explanation of estimations 4 = Specific explanation, formulas explained etc. 5 = Comprehensive argumentation
F2	To what extent does the company base its choice for certain accounting principles on valid arguments?	1 = Changes not explained 2 = Minimum explanation 3 = Explained why 4 = Explained why + consequences 5 = No changes or comprehensive explanation
F3	To what extent does the company, in the discussion of the annual results, highlight the positive events as well as the negative events?	1 = Negative events only mentioned in footnotes 2 = Emphasis on positive events 3 = Emphasis on positive events, but negative events are mentioned; no negative events occurred 4 = Balance pos/neg events 5 = Impact of pos/neg events is also explained
F4	Which type of auditors' report is included in the annual report?	1 = Adverse opinion 2 = Disclaimer of opinion 3 = Qualified opinion 4 = Unqualified opinion: Financial figures

		5 = Unqualified opinion: Financial figures + non-financial information in IR
F5	To what extent does the company provide information on corporate governance?	1 = No description CG 2 = Information on CG limited, not in apart subsection 3 = Apart subsection 4 = Extra attention paid to information concerning CG 5 = Comprehensive description of CG
<i>Understandability</i>		
U1	To what extent is the annual report presented in a well organised manner?	Judgement based on: - complete table of contents - headings - order of components - summary/ conclusion at the end of each subsection
U2	To what extent are the notes to the balance sheet and the income statement sufficiently clear?	1 = No explanation 2 = Very short description, difficult to understand 3 = Explanation that describes what happens 4 = Terms are explained (which assumptions etc.) 5 = Everything that might be difficult

		to understand is explained
U3	To what extent does the presence of graphs and tables clarify the presented information?	1 = no graphs 2 = 1-2 graphs 3 = 3-5 graphs 4 = 6-10 graphs 5 = > 10 graphs
U4	To what extent is the use of language and technical jargon in the annual report easy to follow?	1 = Much jargon (industry), not explained 2 = Much jargon, minimal explanation 3 = Jargon is explained in text/ glossary 4 = Not much jargon, or well explained 5 = No jargon, or extraordinary explanation
U5	What is the size of the glossary?	1 = No glossary 2 = Less than 1 page 3 = Approximately one page 4 = 1-2 pages 5 = > 2 pages
<i>Comparability</i>		
C1	To what extent do the notes to	1 = Changes not explained

	changes in accounting policies explain the implications of the change?	2 = Minimum explanation 3 = Explained why 4 = Explained why + consequences 5 = No changes or comprehensive explanation
C2	To what extent do the notes to revisions in accounting estimates and judgements explain the implications of the revision?	1 = Revision without notes 2 = Revision with few notes 3 = No revision/ clear notes 4 = Clear notes + implications (past) 5 = Comprehensive notes
C3	To what extent did the company adjust previous accounting period's figures, for the effect of the implementation of a change in accounting policy or revisions in accounting estimates?	1 = No adjustments 2 = Described adjustments 3 = Actual adjustments (one year) 4 = 2 years 5 = > 2 years + notes
C4	To what extent does the company provide a comparison of the results of current accounting period with previous accounting periods?	1 = No comparison 2 = Only with previous year 3 = With 5 years 4 = 5 years + description of implications 5 = 10 years + description of implications

C5	To what extent is the information in the annual report comparable to information provided by other organisations?	Judgement based on: - accounting policies - structure - explanation of events In other words: an overall conclusion of comparability compared to annual reports of other organizations
C6	To what extent does the company presents financial index numbers and ratios in the annual report?	1 = No ratios 2 = 1-2 ratios 3 = 3-5 ratios 4 = 6-10 ratios 5 = > 10 ratios
<i>Timeliness</i>		
T1	How many days did it take for the auditor to sign the auditors' report after book year end?	1 = 5-5.99 2 = 4-4.99 3 = 3-3.99 4 = 2-2.99 5 = 1-1.99

*Appendix B

	R1	R2	R3	R4	F1	F2	F3	F4	F5	U1	U2	U3	U4	U5	C1	C2	C3	C4	C5	C6
Mann-Whitney U	989.000	336.500	1050.000	950.000	1207.500	1254.500	466.000	1100.000	431.500	413.500	481.000	1220.500	559.000	527.000	1268.500	1098.500	1258.500	1111.500	392.000	1024.500
Wilcoxon W	226.400	1611.500	2325.000	2225.000	2533.500	2580.500	1741.000	2375.000	1706.500	1688.500	1756.500	2445.500	1834.500	1802.500	2543.500	2373.500	2584.500	2386.500	1667.500	2299.500
Z	-2.026	-6.611	-2.931	-2.369	-.601	-.258	-5.891	-2.702	-6.390	-6.214	-5.881	-.234	-5.391	-5.747	-.085	-1.510	-.133	-1.455	-6.348	-1.895
Asymp. Sig. (2-tailed)	.043	.000	.003	.018	.548	.797	.000	.007	.000	.000	.000	.815	.000	.000	.932	.131	.894	.146	.000	.058