

CHAPTER ONE- INTRODUCTION

1.1 Introduction

This chapter introduces the thesis by providing the background to the study as well as the objectives, research questions and justification for carrying out this research. Section 1.2 presents the background to the study, Section 1.3 presents the research problem, Section 1.4 presents the research objectives, section 1.5 provides the research questions and Section 1.6 presents the justification for the study.

1.2 Background

The primary goal of International Financial Reporting Standards (IFRS) is to make international comparisons between companies as easy as possible, as well as for regulators, investors and other users of financial statements to be able to compare like with like when they make their financial decisions. Further IFRS ensure that firms make the same levels of disclosure and employ the same methodologies in reflecting their financial results. International accounting literature provides evidence that investors having no inside information or other advantages base their investment decisions on information disclosed in financial statements (Dung 2001).

Following the global accounting transition to International Financial Reporting Standards, South Africa adopted the International Financial Reporting Standards in the year 2004, for fiscal years starting on or after January 1, 2005. All Johannesburg Stock Exchange (JSE) listed companies were required to report under IFRS. IFRSs are a set of international accounting standards issued by the International Accounting Standards Board (IASB) stating

how particular types of transactions and other events should be reported in financial statements. To all countries that have adopted IFRSs including South Africa, adopting IFRSs would enable companies to attract foreign investment, improve the efficiency of capital markets, offer credibility to the financial statements of companies in the global market and to do away with the need for dual-listed entities to prepare financial statements in accordance with more than one set of accounting principals.

Soderstrom et al (2007) states that a change to IFRSs constitutes change to Generally Accepted Accounting Principles (GAAP) that induces higher quality financial reporting. However, the IFRS framework is so wide that often interpretations differ amongst audit firms resulting in discrepancies in the levels of compliance. In their findings, Ball et al (2000) report that IASs are adopted in some countries to gain instant respectability or to serve as a politically correct substitute for the country's own accounting standards. Ball et al (2000) go further to report that if such adopters do not drastically alter their enforcement mechanisms and the other political, legal and economic institutions affecting reporting incentives, then despite the IAS label their financial statements will not be of high quality and the IAS brand risks being identified as low quality. Owusu-Ansah (1998), suggests that regulators of financial accounting and reporting in Zimbabwe should focus more on newly-listed, small, loss-making, non-affiliated and closely-held companies in their effort to ensure an adequate supply of mandated information in corporate annual reports

The South African Institute of Chartered Accountants (SAICA) is responsible for the adoption and publication of IFRS and supervision of its application throughout South Africa. Through SAICA's close relationship with the JSE, all JSE member firms are required to appoint an external auditor that is duly approved by the JSE and to publish yearly audited accounts. Carlin and Finch (2010) noted that a lack of capacity on the part

of the reporting entity was not the only reason firms did not embrace the changes mandated by IFRS, but rather an unwillingness to do so and therefore call for tough or bright line enforcement.

1.3 Research problem

Considerable research (e.g., Akhtaruddin (2005), Owusu-Ansah (1998), Mokoaleli-Mokoteli and Ojah (2010), Dahawey and Conover (2007), Barako (2007) and Myburgh (2001) has been undertaken to enable us understand the factors that influence company's disclosure practices in the developing countries. The problem is that, this studies concentrate on voluntary disclosure practices and not on mandatory disclosure. There is little empirical evidence that looks at mandatory disclosure practices especially after the accounting profession converted to IFRSs (South Africa 2005) and after the introduction of the King reports on corporate governance (2002). The paper therefore investigates the disclosure practices of JSE listed companies to see how they comply with the mandatory rules as stipulated by the IFRSs and the king reports on corporate governance.

1.4 Research Objectives

- To review the extent to which JSE listed companies comply with corporate mandatory disclosures as required by IFRS.
- To investigate the extent to which JSE listed companies have adopted King II and III reports on corporate governance.
- To investigate the factors that influence companies to comply with mandatory disclosures.
- To build a model that will predict the amount of mandatory disclosure by JSE listed companies.

- To identify areas where attributes of mandatory disclosure practices need to be improved

1.5 Research Questions

- What are the factors that influence companies' compliance with mandatory disclosures?
- Does compliance with mandatory disclosures improve over time after a period of IFRS adoption?
- What measures should be adopted to ensure compliance with mandatory disclosures?

1.6 Justification for the study

Once this study is completed, policy makers such as the JSE will use the results to identify company segments on the JSE that still have low levels of disclosure and advise them on the advantages of disclosure through training within those segments.

In addition, SAICAs mandate to ensure adoption, supervision and application of IFRSs would be assisted through identification of those accounting standards that companies are not complying with and why. This would assist in the formulation of future accounting standards.

Current and potential investors of the JSE can appraise their financial position and performance well knowing the level of information that can be obtained from company annual reports.

SARS assessors can also use information disclosed in company annual reports to carry out tax assessments and can also advise companies on the kind of information that should be disclosed to assist in effective tax assessments.

Summary

The remainder of the report is organised as follows. Chapter 2 reviews related literature and discusses empirical evidence on the various factors that could impact on a company's level of corporate mandatory disclosure practices. Hypotheses emanating from the literature are articulated in terms of the research objectives in the same section. Data selection and collection, and the research techniques are described in Chapter 3. Data description and presentation of results are in Section 4 and the conclusions are in Section 5.

CHAPTER TWO - LITERATURE REVIEW

2.1 Introduction

This chapter provides a review of the literature on disclosure practices. Section 2.2 presents literature on mandatory disclosure; section 2.3 presents literature on voluntary disclosure. The rest of the chapter will review literature on factors that influence disclosure and end with the development of hypotheses that are to be tested by the study.

2.2 Mandatory disclosure

De Medeiros and Quinteiro (2005) describe mandatory disclosure as a means of giving out information that might commonly be kept secret, in compliance with legal regulations or workplace rules. Mandatory disclosure can also be described as giving out information that is required to be disclosed according to the securities laws, accounting principles, and regulatory agencies' regulations. Akhtaruddin (2005) noted a striking feature in corporate reporting: companies provide information to discharge specific obligations: to society, investors, suppliers, creditors and legal authorities. In addition, characteristics such as age, assets and complexity play a big role in the disclosures of listed companies (Hossain and Hammami, 2009).

2.3 Voluntary disclosure

Different scholars hold different opinions toward voluntary disclosure. Tian and Chen (2009) note that listed companies disclose information voluntarily for the sake of a company's image, investors, and accusation risks avoidance. In his study on Kenyan companies, Barako (2007) came to a conclusion that the specific factors that explain the voluntary release of different information types are not the same for all categories of

information. Myburgh (2001) goes further to affirm that due to the heterogeneous nature of users, there is no optimum voluntary disclosure policy for a company to adopt. Nevertheless, firms with reputational capital are more forthcoming with economically important information Mokoaleli-Mokoteli and Ojah (2010). Therefore, voluntary disclosure serves as an effective way for communicating to interest-related parties and describing the corporate prospect. It is thus, meaningful for perfecting listed companies' governance structure and enhancing the protection for investors' interests Tian and Chen (2009).

2.4 Factors influencing mandatory and voluntary disclosure

Finance literature shows that there are various factors that influence firms' mandatory disclosures. These factors include company age, quality of external auditor, company size, company profitability, and ownership structure and industry type.

2.4.1 Company age

Prior studies have identified age as significantly associated with the level of disclosure. Owusu-Owusu Ansah (1998) reported that company age had a significant impact on the mandatory disclosure practices of the sampled Zimbabwean stock exchange listed companies. He went further to note that younger companies suffered competitive disadvantage if they disclosed certain items such as information on research expenditure, capital expenditure, and product development. The costs attributable to disclosure and lack of track record to rely on for public disclosure are also noted as factors influencing disclosure for young companies. Akhtaruddin (2005) on the other hand found company age not to be a significant predictor of compliance with mandatory disclosure in Bangladesh.

2.4.2 Quality of external auditor

External auditors play a major role in the disclosure policies and practices of their clients Owusu-Ansah (1998). To show how important auditors are in South Africa for example, there is an approved JSE auditors' register and these auditors have to undergo a series of compliance tests and training. Auditors may wish to undertake the role of statutory auditors, reporting accountants or IFRS advisers. However, before inclusion on the JSE register, criteria such as, individual accreditation of members of the audit firm, membership of professional bodies registered with the Independent Regulatory Body of Auditors (IRBA), payment of prescribed fees and agreement to be bound by the JSE rules applicable to auditors must be met. The JSE requires all of this in a bid to improve the reporting standards of the firms with which these auditors will be working. .

The JSE has also come up with a set of major roles and responsibilities for auditors listed on their register as stipulated in section 22 of the JSEs accreditation of auditors, reporting accountants and IFRS advisers. These include, monitoring compliance with JSE disclosure requirements, discharge of responsibilities with due care and skill and the mandatory advising of the JSE in cases where the content of the audit report has been misrepresented.

Audit services worldwide on the other hand are demanded as monitoring devices because of the potential conflicts of interest between owners and managers as well as those among different classes of security holders. Because of this role, the auditors' quality is assessed on their ability to discover any breach in the client's accounting system and report such breach to the different stakeholders (DeAngelo 1981). Because an auditors' quality is a very difficult factor to assess and observe, DeAngelo (1981)

recommends auditor size as a surrogate for audit quality. Hodgdon et al (2009) supports the use of the big audit firms as a measure of quality due to their ability to build big international networks and capacity by transferring audit technology and key personnel from areas of high compliance to those of low compliance thus creating quality throughout their offices. Bassett et al (2007) also confirm that companies audited by the big four auditors in the world tend to have higher levels of compliance with regards to both voluntary and mandatory disclosure practices.

2.4.3 Company size

Owusu-Ansah (1998) defines large companies as multi-product business entities; operating over wider geographical areas with several divisional units. He goes further to describe existing information systems and cost advantage as factors that enable large firms to disclose more information than small ones. This is supported further by Salamon and Dhaliwal (2006) who go on to suggest that since imposing similar disclosure requirements for both big and small firms imposes greater costs on small firms than large firms, small firms should be exempted from certain disclosure requirements such as segmental reporting. Agency theory has been identified as another factor that influences bigger firms to disclose more information (Jensen and Meckling 1976). This line of thinking is supported by the fact that as larger firms use more outside capital, there is an increased incentive to disclose more information. Skinner (1994) has also argued that fear of potential litigation costs arising from non disclosure and reputational concerns are the factors that influence large firms to disclose more information than small ones. Buzby (1975) on the other hand points out that since larger firms are more closely watched by various government agencies, it is possible that these firms believe better reporting will tend to lessen undesired pressures from the

government. Empirical evidence to support the above arguments is very strong with most studies confirming statistically significant positive association between the size of the firm and the level of disclosure.

2.4.4 Company profitability

Profitability has been identified in prior studies as capable of influencing the extent to which companies disclose mandatory information items in their annual reports (e.g., Akhtaruddin, 2005). Wallace & Naser (1995) note that firms with good news (profits) tend to disclose more information especially in a setting where this information allows investors to change the composition of firms in their investment portfolio. Skinner (1994) on the other hand emphasises the fact that potential legal mitigations may prompt the not so well performing firms to disclose information that they would otherwise not have disclosed. This is supported by Lang & Lundholm (1993) who report that the relationship between disclosure and performance varies depending on the legal motivation as certain types of disclosure or non-disclosure may provide a more ready basis for lawsuits than others. However, several research findings have found a positive relationship between profitability and the extent of disclosure (e.g. Owusu-Ansah (1998) and Wallace & Naser (1995)).

2.4.5 Ownership/listing structure

In his findings, Kothari (2000) states that demand for public disclosure is high in cases of diffuse ownership, whereas demand is muted in the presence of concentrated ownership. He went further to describe how weak investor protection laws reduce the likelihood of diffuse ownership but rather promote concentrated ownership. This is

supported further by Ho and Wong (2001) who argue that agency theory in diffuse ownership environments encourages disclosure in order to reduce agency costs and information asymmetry. Ownership on the one hand can be looked at using several different dimensions. For example a study done by Eng and Mak (2003) on Singapore listed firms shows that lower managerial ownership and significant government ownership are associated with increased disclosure. This is associated with the fact that government ownership increases moral hazard and agency problems and so disclosure is a means of mitigating these problems. Ownership can also be looked at through the form of listing that the firm undertakes in order to attract capital from investors.

2.4.6 Dual listing

The recent globalisation of financial markets has led to an increase in investor options to attract capital from foreign investors. Firms have therefore opted for stricter regulatory regimes by listing or cross listing in foreign markets. Victoria et al (2009) identified several factors that encourage foreign listing e.g. The competitive cost of capital structures as they can issue securities in markets with higher liquidity and a lower cost of capital, the wider marketing of products, boosting of the corporate image and gaining political acceptance by projecting the company as being local in the foreign market

2.4.7 Industry type

In their study, Aljifri and Hussainey (2007) noted that industry type is insignificant to the level of corporate disclosures in the United Arab Emirates (UAE). This is so because different sectors have different regulations and thus disclosure is relative depending on the type of sector being referred to. Owusu-Ansah (1998) supports this argument by stating that disclosure practices cannot be measured in the same way across different industries. He stated that factors such as the contribution to a country's national income,

the nature of the work involved and product line diversity are all factors that could impact on disclosure practices in certain industries and that these characteristics manifest themselves in different ways. Tian and Chen (2009) on the other hand find industry type as being a very important factor in the disclosure tendencies of companies. Cooke (1989) found that manufacturing companies disclosed more information than others. This is characterised by the existence of a successful dominant firm that the rest choose to follow or copy.

2.5 Internet reporting and disclosure

There has been a rush by several companies to publish their annual reports on company websites. As supported by Hanifa and Rashid (2005), the internet may very soon occupy the role of the main means of financial reporting. Victoria et al (2009) describe the internet as a better and more effective way of communication due to its speed, volume transparency and timeliness. They go on to conclude that despite its advantages, lack of regulation on website disclosure has forced many Romanian companies to prefer traditional paper based ways of communication. In his study Barac (2004) reports that financial reporting on the internet reduces the costs of financial reporting, enables instantaneous reporting, allows analytical tools to be used on business data and makes it easier to disseminate reports to any place in the world where there is a computer. Revelations in his study do not differ much from those of Victoria et al (2009) as Barac (2004) finds that although internet usage has expanded in South Africa, South African companies still use their websites as a bulletin board with limited real time information and note disclaimers. Despite the limitations on Internet financial reporting, Internet reporting technology is now a well-established activity in countries that have developed securities. Lymer and Debreceeny (2003) argue that professional responses to internet

financial reporting are still inadequate and so propose that the global accounting and audit community take public responsibility to promulgate the most effective and efficient distribution of accounting data via the Web.

2.6 Culture and disclosure

Culture can be described as the learned, socially acquired traditions and lifestyles of the members of a society (Haniffah and Cooke 2002). Since accounting as an activity involves the interaction of both human and non human resources, it is then bound to be a victim of cultural factors. This is supported by Dahawey and Conover (2007) who in their study identified that the adoption of International Financial Reporting Standards, thus disclosures in annual reports in developing nations is strongly influenced by culture, more so in countries with high levels of secrecy. The traditional strength of a culture of relative secrecy in owner-managed and family-controlled companies outweighs the reforming efforts of government to establish a climate of greater accountability and transparency (Ghazali and Weetman 2006). Haniffah and Cooke (2002) on the other hand emphasise that over time, the divergence of disclosures due to culture fade away as societal values converge due to technological developments.

2.7 Regulation and disclosure

Kothari (2000) highlights the enforcement of investor protection laws and disclosure standards as an important determinant of disclosure quality. We cannot isolate disclosure regulations from other current or proposed legal, enforcement, Governance and regulatory elements in a country. These elements sometimes, interact, reinforce and substitute each other (Leuz and Wysocki 2006). Governments regulate securities markets to accomplish goals such as accuracy, efficiency and the fair flow of

information to satisfy the various users of this information. In his study, Owusu-Ansah (1998) noted that the Zimbabwean Companies Act which stipulates the minimum financial accounting and reporting is supplemented by the IASs in order to protect existing and potential investors and creditors. Legislation tends to produce a strong increase in disclosure even before being compulsory (Inchausti 1997). In South Africa, the JSE works hand in hand with SAICA to ensure that JSE listed companies adhere to the disclosure requirements as stipulated by IFRSs and the Companies' Act.

2.8 King II and King III Reports on corporate governance

Corporate governance is viewed as effectively delineating the rights and responsibilities of each group of stakeholders in the company (Ho and Wong 2001). In companies, direction and control is in the hands of the directors who are accountable not only to shareholders but also indirectly to other stakeholders such as employees, suppliers, customers, the government and the community. In South Africa, company law describes the minimum requirements for proper corporate governance. These requirements were expanded on and given practical form by the recommendations of the King II and later the King III Reports.

The King II Report on corporate governance was effected in March 2002 to bring about a form of accountability for affected companies. Although all organisations were encouraged to adopt the code, all listed companies, financial institutions and public sector enterprises, agencies and government (local, provincial and national) departments classed as affected companies were expected to adopt these recommendations. These requirements stretched to directors, board meetings, shares and financial statements. Under the King II report, entities were required to disclose items stretching from board structure and composition, board committees and membership, board meetings,

company secretary, risk management, internal audit, sustainability reporting, organisational integrity, accounting and audit, relations with shareholders and communication.

Later, the companies act (1973) of South Africa was amended to incorporate a number of the issues that were mandated by the King II Report. In an effort to be in line with the new Companies Act of South Africa 2008 and capture changes in international governance trends, the King Committee on Governance issued the King Report on Governance for South Africa 2009 referred to as King III effective 1 March 2010. This is applicable to all entities regardless of the manner of incorporation or establishment. Under King III unlike King II, entities are not obliged to comply but rather apply or explain. Entities are required to include a positive statement in circumstances where they have applied the code and in situations where this has not been applied, those charged with governance should fully explain to the entity's stakeholders. The main focus of the King III report is presentation by firms of an integrated report that includes the firm's operations, integrated sustainability and financial reporting annually. Other issues that were specifically highlighted in King III include, the composition of the board of directors, the defined role and function of the audit committee, the risk based approach of internal audit, alternative dispute resolution and stakeholder relationships, IT governance and risk management.

Prior studies have indicated that improvement in corporate governance leads to more informative disclosures (Beekes and Brown 2006). In their study Basset et al (2007) describe the governance of those having a direct role in the financial reporting process (audit related governance) and those having no direct role referred to as non audit related governance procedures with results showing that improved audit related

governance procedures resulted in improved disclosure and high quality non audit related procedures also resulted in higher levels of mandatory disclosures.

2.9 Hypothesis development

This section develops the hypotheses to be tested in this research. The independent variables for the study are included in this section. These variables include: company size; company age; auditor quality; company profitability; industry membership and ownership/listing structure.

2.9.1 Company size

Empirical evidence shows that company size has a positive effect on a company's mandatory disclosure practices e.g, Owusu-Ansah,1998; Barako,2007; Hossain, 2008). The result of the positive effect of company size on mandatory disclosure suggests that large companies are better in disclosing mandated information as their competitive advantage will not be weakened by such disclosure as it might be for small companies (Owusu-Ansah 1998).

H1: Ceteris paribus , there is a positive relationship between the size of the firm and the level of mandatory disclosure in annual reports.

The variable COMP SIZE (Log sales) is used to capture the effects of size in influencing a firm's level of mandatory disclosure. We expect COMP_SIZE to be positively and significantly associated with the level of mandatory disclosure.

2.9.2 Company age

By virtue of their age, older companies are assumed to be more experienced and therefore likely to disclose more information in their annual reports. Owusu-Ansah

(1998) attributes lower levels of disclosure in small companies to lack of track record especially those started from scratch. A variable COMP_AGE will be used to capture the level of mandatory disclosure. The age of the company is measured in the number of years from the date of incorporation to the end of the 2010 financial year. Companies registered after 31 December 1993 are classified as new companies, companies registered before 31 December 1993 but after 31 December 1978 are classified as old companies and companies registered before 31 December 1978 are classified as very old.

H20: Ceteris paribus, there is a positive relationship between the age of the firm and the level of mandatory disclosure in annual reports.

We expect COMP_AGE to be positively and significantly associated with the level of a firms mandatory disclosure.

2.9.3 Auditor quality

Because auditor quality is not directly observable this is assessed on the auditor's ability to discover a breach in the client's accounting system and report the breach to the different stakeholders (DeAngelo 1981).

H30: Ceteris paribus, there is a positive relationship between auditor quality and the level of mandatory disclosure.

Owusu-Ansah (1998) argues that the big four audit firms have the highest level of independence and therefore can identify errors in accounting systems and disclose them to shareholders. This is because large audit firms have many clients and therefore their level of economic dependence on a particular client is minimal. Secondly, large firms have more to lose in terms of damage to their reputation than small ones. A variable EXT_AUDIT is derived by assigning 1 to EXT_AUDIT if the firm is audited by

one of the big four audit firms and 0 otherwise. We expect EXT_AUDIT to be positively and significantly associated with the level of a firm's mandatory disclosure.

2.9.4 Firm profitability

Profitability has been identified, in prior studies, as capable of influencing the extent to which companies disclose mandatory information items in their annual reports (e.g. Owusu-Ansah, 1998 and Akhtaruddin, 2005). Higher earnings motivate management to provide greater information because managers feel greater disclosure provides assurance to investors of profitability and thus increases the compensation of management (Wallace and Nasser, 1995).

H40: Ceteris paribus, there is a positive association between the performance of the firm in terms of profit margin and the level of mandatory disclosure.

A variable COMP_PROFIT (profit margin) is constructed to measure the profit of the firm. The data will be obtained from the firms' annual report for the financial year 2005 to 2010. COMP_PROFIT is calculated as a percentage of net profit after tax over total assets. We expect COMP_PROFIT to be positively and significantly associated with the level of a firm's mandatory disclosure.

2.9.5 Firm industry

The impact of industry type on the level of mandatory disclosure is a contentious issue with different studies revealing contradictory results. Aljifri and Hussainey (2007) and Owusu-Ansah (1998) found that industry type does not impact on the level of disclosure. Tian and Chen (2009) on the other hand find industry type as being a very important factor in the disclosure tendencies of companies. Cooke (1989) found that manufacturing companies disclosed more information than others. We are in agreement

with Cooke (1998) concerning manufacturing companies. This is because the IFRSs designed for manufacturing companies are simpler to adopt, unlike the more complicated IFRSs designed for specific sectors such as agriculture and mining.

H50: Ceteris paribus, there is a positive association between a firm's industry, membership and the level of mandatory disclosure.

Industry in this instance is defined the same way as Mokoaleli-Mokoteli and Ojah (2010), meaning the main economic activity from which a company derives its main revenue. A variable COMP_IND is constructed to assess the impact of industry type on the level of mandatory disclosure.

2.9.6 Listing structure

The recent globalisation of financial markets has led to an increase in inflow of capital from foreign firms into local financial markets. In an effort to attract foreign capital, firms that have listed in foreign markets or cross listed in foreign markets tend to increase their disclosures. Al-Nasser Abdallah (2005) concurs with this through his analysis by finding that cross listed firms increase their level of disclosure shortly before cross listing in order to gain access to international markets.

H60: Ceteris paribus, there is a positive association between JSE-listed firms that dual list elsewhere and the level of mandatory disclosure in annual reports.

A variable COMP_LIST is used to indicate that the firm is listed on both the JSE and on another capital market. This takes the value of 1 if the firm is listed on both the JSE and another and 0 otherwise.

2.9.7 Control variables

The variable King is included as a control variable to check if the King Report II and III have had an impact on the level of disclosure. King II Report was effected in March 2002 to bring about a form of accountability by affected companies with requirements stretching from board directors, board meetings, shares and financial statements. King III was then effected in March 2010 with the purpose of consolidating all the disclosures into a single integrated report. It can be argued that with the introduction of King II and King III, companies are expected to be more informative about other types of information to show that they are responding to the government's call for greater corporate transparency.

Chapter summary

In this summary, the disclosure patterns of firms differ depending on the age of the firm, size of the firm, auditor quality, ownership/listing structure of the firm and firm industry. Throughout this section, it was discussed how the factors above are likely to affect the mandatory disclosure practices of firms based on empirical findings from prior research. Hypotheses were then developed with respect to firm age, firm size, auditor quality , ownership/listing structure and firm industry. We expect a positive relationship between the size of the firm and the level of mandatory disclosure in the annual reports. A positive relationship between the age of the firm and the level of mandatory disclosure in the annual reports. A positive relationship between the quality of the external auditor and the level of mandatory disclosure. A positive relationship between the firm's industry membership and the level of mandatory disclosure in annual reports and a positive relationship between JSE dual listed firms and the level of mandatory disclosure in the annual reports. Data selection and collection, and the research techniques are

described in section 3. Data description and presentation of results in section 4 and conclusions are presented in section 5.

CHAPTER THREE- METHODOLOGY

3.1 Introduction

This chapter presents the methodologies used to carry out the research. Section 3.2 presents data and the data source. Section 3.3 presents sample selection criteria. Section 3.4 presents construction and scoring of the disclosure index. Section 3.5 presents research design and ordinary least square model to predict the extent to which factors hypothesized under section 2.9 influence the amount of mandatory disclosure.

3.2 Data, data source and sample selection

The study covers companies that are listed on the Johannesburg Securities Exchange by the end 31 December 2010. To be included in the sample, the firms should have been listed for the financial year 2006 to the financial year 2010. The study is conducted using two samples. The main sample consists of all firms listed on the JSE and in the second sample; banks, insurance companies, other financial institutions and real estate firms are excluded. This second sample is referred to as non-financial firms' sample. This will help establish if there is a difference between the mandatory disclosure practices of non-financial firms that are prone to basic disclosure accounting rules as opposed to all firms including financial firms that have specific accounting rules applicable to them. Annual reports for all companies are obtained from company websites and from the McGregor-BFA database while information on the King reports is obtained from company corporate governance reports.

The total number of companies listed on the JSE as at 31 December 2010 was 339. Tables 1 and 2 show the different sample selection processes that have been applied to this study.

Table 1: Summary sample selection criteria all firms

	No of Firms	% of total population
Companies on the main board as at 31st December 2010	339	100%
Excluding:		
Companies listed after financial year 2006	(54)	16%
Companies with missing reports	(115)	34%
TOTAL SAMPLE DATA	170	50%

Table 1 shows the summary sample selection criteria used to select the main sample, which includes financial firms. Excluded from this sample are 54(16%) of the companies representing companies listed after the financial year 2006 so that we work only with firms that were listed between the years 2005 to 2010. About 115 (34%) of the firms are excluded due to missing annual reports.

Table 2: Summary sample selection criteria non financial firms

	No of firms	% of working population
Companies on the main board as at 31st December 2010	339	
Excluding financial firms	(106)	
Working population	233	100%
Companies listed after financial year 2006	(41)	18%
Companies with missing reports	(76)	33%
TOTAL SAMPLE DATA	116	50%

Excluded from the population in Table 2 are 106 financial firms. About 40 companies (18%) that were listed after financial year 2006 are excluded so that we only work with

companies that have been listed on the JSE since 2006. About 76 (33%) of companies were excluded because some of or all of their annual reports from the financial year 2005 to 2010 were not available on the company websites or McGregor database. In many cases, annual reports were only available from the time when the company adopted IFRS which, often was after financial year 2006. The final sample consists of 116 firms.

3.3 Construction of the disclosure index (dependent variable)

The disclosure index in this study is based on the IFRS disclosures checklist. King II and King III Reports on corporate Governance are only to be used as control variables. The assumption that each item of disclosure is equally important has been adopted as in Akhtaruddin (2005). A score of 1 is assigned if a company discloses an item of information and where an item is not disclosed, a score of 0 is attached. A total disclosure score is then calculated by adding up all the individual item scores for each company. The main problem with this approach is that a company may be penalised by assigning a score of zero for the absence of an item of information that is not applicable to it. For example, we may attach a score of 0 on amortisation of intangible assets when the firm does not in fact own any intangible assets. In order to overcome this problem, the relevance of each absent item is investigated and then classified as non-disclosure for a relevant item of reporting and non-applicable for an irrelevant item of reporting. The unweighted approach that assigns all disclosure items in the disclosure index equal importance by assigning similar unit scores is used to come up with the total score of the dependent variable because it permits an independent analysis devoid of the perception of a particular user group (Mokoaleli-Mokoteli and Ojah 2010), unlike the unweighted approach that assigns scores to individual items based on their perceived importance. In

order to minimise subjectivity, the annual reports are read twice in order to familiarise ourselves with the company and its circumstances and then search and identify the key words in the study. This is done in order to make sure that all the objectives of the study are catered for and that none is left out. This will also assist us in prevention of time wastage by looking and searching for only those items that are relevant for the study. Lastly, searching for and identification of keywords in the study will help to ensure that the whole scope of the study is catered for and completed.

The Appendix provides a sample of a disclosure index detailing the Balance sheet, Income statement and General financial statement items. The total weight is shown in table 1 below.

Table 3: Distribution of index items

Items	Number of items	%
General financial statement items	29	41%
Balance sheet items	23	33%
Income statement items	18	26%
Total	70	100%

A total of 70 items shall be used for the index each with equal weight, the balance sheet and general information having the highest number of disclosures. These items are carefully selected taking into consideration items applicable to most companies in the sample.

3.4 Research design

The crux of this research is to investigate the extent to which the factors hypothesised in section 2.9 affect the amount of disclosure by companies in their annual reports. A linear

multiple regression model is used to test the association between the amount of mandatory disclosure as measured by the disclosure index above and the independent variables discussed in section 2.9. The following predictive model is estimated:

$$MDS_{j,t} = \alpha + \beta_1 COMP_SIZE_{j,t} + \beta_2 COMP_AGE_{j,t} + \beta_3 EXT_AUDIT_{j,t} + \beta_4 COMP_PROFIT_{j,t} + \beta_5 COMP_IND_{j,t} + \beta_6 COMP_LIST_{j,t} + \beta_7 COMP_GOV + \epsilon_{j,t}$$

Table 4 below presents dependent and independent variables, how variables are measured, notations and expected sign.

Table 4: Summary definition of variables and notations in the regression model

Variable investigated	Proxy of variable	Notation in the model	Expected sign
Mandatory disclosure	Relative disclosure score	MDS _{j,t}	
Company size	Log sales	COMP_SIZE _{j,t}	+
Company age	Classified as very old, old and new depending on year of registration	COMP_AGE _{j,t}	+
Quality of auditor	Concentration ratio	EXT_AUDIT _{j,t}	+
Company profitability	Net profit margin	COMP_PROFIT _{j,t}	+
Industry type	Principal economic activity	COMP_IND _{j,t}	?
Ownership/Listing structure	Capital market on which the firm is listed	COMP_LIST _{j,t}	+
Corporate Governance	King reports	COMP_GOV	+
Constant	Constant	α	
Error term	Error term	$\epsilon_{j,t}$	

Chapter Summary

The JSE consists of a significant number of financial firms classified under banks, insurance companies, trusts and real estate firms. Therefore because of the level of significance of these firms, while looking at the data to be used in the study and sources of this data, two samples were selected. One with all firms including financial firms and a non-financial firms' sample. This was done basically to establish whether the

disclosure practices of basic non financial firms differ from the more complicated all firms sample that consists of complicated financial firms. A disclosure index identifying all of the items to be scored was then constructed and lastly we came up with a predictive model that is to be tested by the study. The rest of the report is as follows: Chapter 4 includes a description of the data and presentation of results from the study and chapter 5 conclusions, limitations and recommendations from the study.

CHAPTER FOUR-DATA DESCRIPTION AND PRESENTATION OF RESULTS

4.1 Introduction

This chapter presents and describes the data used and the results. Section 4.2 presents a univariate analysis of independent variables for all firms (including financial firms) . Section 4.3 presents a univariate analysis of independent variables for non-financial firms. Section 4.4 presents diagnostics tests for multicollinearity, heteroscedasticity, linearity and normality of the independent variables. Section 4.5 presents the King reports and their impact on disclosure practices. Section 4.6 presents an analysis of the dependent variable. Section 4.7 presents a regression analysis estimating which variables significantly influence the disclosure and a summary concludes the chapter.

4.2 Univariate analysis- all firms

The characteristics of the variables used in this analysis are summarised in tables 5 and 6 below. Table 5 contains a summary of the descriptive statistics of variables with financial firms included while table 6 has descriptive statistics of variables with financial firms excluded. Under this analysis, we looked at the mean, median, mode and standard deviation of all of the independent variables plus a correlation matrix to test for the relationship between variables.

4.2 (a) Univariate analysis of all firms (including financial firms)

Table 5 below presents descriptive statistics of a sample of an all firms sample that includes firms from the financial sector.

Table 5: Univariate analysis of all firms

Panel (a) - COMP_AGE						
Mean	1.76	1.76	1.76	1.76	1.76	1.76
Median	1.00	1.00	1.00	1.00	1.00	1.00
Standard deviation	0.86	0.86	0.86	0.86	0.86	0.86
Lowest	1.00	1.00	1.00	1.00	1.00	1.00
Highest	3.00	3.00	3.00	3.00	3.00	3.00
Panel (b) - COMP_PROFIT						
	2005	2006	2007	2008	2009	2010
Mean	12.35	16.43	12.92	11.62	7.24	7.36
Median	9,00	10,00	10,00	8,00	7,00	7,00
Standard deviation	23.01	43.91	51.99	35.23	48.69	30.07
Lowest	-131,00	-190,00	-278,00	-343,00	-459,00	-234,00
Highest	90,00	453,00	454,00	96,00	195,00	98,00
Panel (c) - COMP_LIST						
	2005	2006	2007	2008	2009	2010
Mean	0.26	0.26	0.26	0.26	0.26	0.26
Median	0.00	0.00	0.00	0.00	0.00	0.00
Standard deviation	0.44	0.44	0.44	0.44	0.44	0.44
Lowest	0.00	0.00	0.00	0.00	0.00	0.00
Highest	1.00	1.00	1.00	1.00	1.00	1.00
Panel (d) - EXT_AUDIT						
	2005	2006	2007	2008	2009	2010
Mean	0.83	0.84	0.83	0.85	0.84	0.84
Median	1	1	1	1	1	1
Standard deviation	0.38	0.37	0.37	0.36	0.37	0.37
Lowest	0.00	0.00	0.00	0.00	0.00	0.00
Highest	1.00	1.00	1.00	1.00	1.00	1.00

Panel (e) - COMP_IND

	2005	2006	2007	2008	2009	2010
Mean	0.20	0.20	0.20	0.20	0.20	0.20
Median	0.00	0.00	0.00	0.00	0.00	0.00
Standard deviation	0.40	0.40	0.40	0.40	0.40	0.40
Lowest	0.00	0.00	0.00	0.00	0.00	0.00
Highest	1.00	1.00	1.00	1.00	1.00	1.00

Panel (f) - COMP_SIZE (LOG SALES)

	2005	2006	2007	2008	2009	2010
Mean	9.42	9.46	9.59	9.68	9.66	9.70
Median	9.55	9.58	9.67	9.75	9.71	9.74
Standard deviation	0.91	0.97	0.89	0.84	0.95	0.92
Lowest	7.08	7.2	7.32	7.2	6,00	6,00
Highest	11.49	11.67	11.87	11.95	11.73	11.79

Panel(g):MDS

	2005	2006	2007	2008	2009	2010
Mean	63,99	66,15	66,86	67,51	67,82	68,00
Median	65,00	67,00	68,00	68,00	68,00	69,00
Standard deviation	4,38	3,72	3,00	2,75	2,57	2,50
Lowest	39,00	41,00	49,00	55,00	55,00	55,00
Highest	70,00	70,00	70,00	70,00	70,00	70,00

In Table 5, panel (a), COMP_AGE description is the same as that of non-financial firms which is described as follows: Companies that were registered before 31 December 1978 are classified as very old companies while those that were registered before 31 December 1993 but after 31 December 1978 are classified as old companies and those registered after 31 December 1993 are classified as new companies.. For this analysis, the companies were coded 1 for very old companies, 2 for old companies and 3 for new companies. This has been applied consistently for all years as companies are registered only once unless stated.

The sample with financial firms included has a mean of 1.76 and a median of 1. Although the mean is higher than that of non financial firms, the results show a trend similar to that of non financial firms which is that the majority of sample firms are old companies with 52% of sample firms being very old firms, 20% are old companies and 28% are new companies.

Table 5, Panel (b) shows that COMP_PROFIT measured in terms of profit margin was 12.35 in 2005, 16.43 in 2006, 12.92 in 2007, 11.62 in 2008, 7.24 in 2009 and 7.36 in 2010. Median was 9.00 in 2005, 10.00 in 2006, 10.00 in 2007, 8.00 in 2008, 7.00 in 2009 and 7.00 in 2010. Just like the trend with non-financial firms below, there was a drop in the combined mean in 2007 until 2010 that could be an indicator of the global financial crisis that took place starting in the year 2007.

Companies that have been listed on another stock exchange in addition to the JSE define COMP_LIST. Companies are assigned 1 if registered on the JSE and another exchange and 0 is only listed on the JSE. In Table 5, Panel (c), COMP_LIST shows that the combined sample of firms has a mean of 0.26 and a median of 0. This implies therefore that the majority of the combined sample firms are not dual listed firms with only 25% of the sample being dual listed companies while the remaining 75% are only listed on the JSE. Although the combined mean is slightly higher than that of non-financial firms, the results show a similar trend of the majority of firms being only listed on the JSE.

The big four audit firms in South Africa define the independent variable of EXT_AUDIT. Firms are assigned a 1 if audited by the big four audit firms in South Africa and 0 if audited by the smaller firms in South Africa. Table 5, Panel (d) shows

that the big four audit firms in South Africa have a combined mean of about 0.83 in 2005 which increases to 0.84 in 2010. This implies that the big four audit firms audit a bigger proportion of the combined firms in the sample. The big four audit firms audit about 84 % of the sample firms while the other smaller firms audit only 16%. This trend is similar to that of the non-financial firms below.

Table 5, panel (e) only 20% of the sample firms are in the manufacturing sector while the remaining 80% fall in other industries. Similarly, there is decrease in the mean of the combined sample that could probably be due to growth in the size of sample firms listed on the JSE.

Table 5 panel (f) measured in terms of Log sales for the independent variable of COMP_SIZE shows that there has been an increase in sales of the JSE all firms sample from a mean of 9.42 in 2005 to 9.70 in 2010 and a median of 9.55 in 2005 to 9.74 in 2010. This could therefore imply a growth in the size of companies that are listed on the JSE.

4.2 (b) Correlation- all firms samples

Table 6: Pearson correlation matrix

Variable	Auditor	Industry	Age	Listing	Profit	Size	King
Auditor	1,000	-0,057	-0,152	0,179	-0,032	-0,048	0,030
Industry	-0,057	1,000	-0,046	-0,108	-0,216	0,114	0,109
Age	-0,152	-0,046	1,000	-0,278	0,083	0,033	-0,031
Listing	0,179	-0,108	-0,278	1,000	0,065	-0,107	0,008
Profit	-0,032	-0,216	0,083	0,065	1,000	-0,221	-0,014
Size	-0,048	0,114	0,033	-0,107	-0,221	1,000	0,278
King	0,030	0,109	-0,031	0,008	-0,014	0,278	1,000

Looking at the correlation results above, the highest relationship is between Kings report (COMP_GOV) and Size (COMP_SIZE) represented by log sales of 0.278. The low coefficients in the all firms correlation matrix above suggest that the problem of multicollinearity is minimal. Taking 0.8 as a maximum coefficient as in Ho and Wong, 2001, the coefficients above are actually very far from the maximum. This therefore can lead us to say that multicollinearity is absent or minimal.

4.3 (a) Univariate analysis- non-financial firms

Table 7: Univariate analysis without financial firms

Panel (a) – COMP AGE						
	2005	2006	2007	2008	2009	2010
Mean	1.68	1.68	1.68	1.68	1.68	1.68
Median	1.00	1.00	1.00	1.00	1.00	1.00
Standard deviation	0.84	0.84	0.84	0.84	0.84	0.84
Lowest	1.00	1.00	1.00	1.00	1.00	1.00
Highest	3.00	3.00	3.00	3.00	3.00	3.00

Panel (b) - COMP_PROFIT (PROFIT_MARGIN)

	2005	2006	2007	2008	2009	2010
Mean	8.21	11.55	9.12	6.92	2.81	3.72
Median	6.00	7.00	8.00	7.00	6.00	6.00
Standard deviation	17.81	46.51	56.18	35.56	53.52	29.83
Lowest	-131.00	-190.00	-278.00	-343.00	-459.00	-234.00
Highest	61.00	453.00	454.00	57.00	195.00	98.00

Panel (c) - COMP_LIST

	2005	2006	2007	2008	2009	2010
Mean	0.25	0.25	0.25	0.25	0.25	0.25
Median	0.00	0.00	0.00	0.00	0.00	0.00
Standard deviation	0.43	0.43	0.43	0.43	0.43	0.43
Lowest	0.00	0.00	0.00	0.00	0.00	0.00
Highest	1.00	1.00	1.00	1.00	1.00	1.00

Panel (d) - EXT_AUDIT

	2005	2006	2007	2008	2009	2010
Mean	0.82	0.84	0.83	0.84	0.84	0.84
Median	1.00	1.00	1.00	1.00	1.00	1.00
Standard deviation	0.39	0.37	0.38	0.36	0.37	0.36
Lowest	0.00	0.00	0.00	0.00	0.00	0.00
Highest	1.00	1.00	1.00	1.00	1.00	1.00

Panel (e) - COMP_IND

	2005	2006	2007	2008	2009	2010
Mean	0.27	0.27	0.27	0.27	0.27	0.27
Median	0.00	0.00	0.00	0.00	0.00	0.00
Standard deviation	0.44	0.44	0.44	0.44	0.44	0.44
Lowest	0.00	0.00	0.00	0.00	0.00	0.00
Highest	1.00	1.00	1.00	1.00	1.00	1.00

Panel (f) - COMP_SIZE (LOG SALES)

	2005	2006	2007	2008	2009	2010
Mean	9.48	9.50	9.65	9.77	9.72	9.75
Median	9.60	9.62	9.73	9.80	9.83	9.83
Standard deviation	0.84	0.93	0.83	0.79	0.88	0.84
Lowest	7.23	7.32	7.32	7.65	6.00	6.30
Highest	11.41	11.52	11.87	11.95	11.73	11.79

Panel(g):MDS						
	2005	2006	2007	2008	2009	2010
Mean	63,92	66,28	66,94	67,66	68,06	68,27
Median	65,00	67,00	68,00	69,00	69,00	69,00
Standard deviation	4,45	3,69	2,99	2,65	2,35	2,25
Lowest	39,00	41,00	49,00	55,00	56,00	56,00
Highest	70,00	70,00	70,00	70,00	70,00	70,00

Table 7, Panel (a) presents statistics for company age. Companies that were registered before 31 December 1978 are classified as very old companies while those that were registered before 31 December 1993 but after 31 December 1978 are classified as old companies and those registered after 31 December 1993 are classified as new companies. For this analysis, the companies were coded 1 for very old companies, 2 for old companies and 3 for new companies.

Since company age does not change over the years (companies are registered only once unless otherwise), the mean (median) for COMP_AGE is 1.68 (1.00) from the financial years 2005 to 2010. This indicates that the sample of non-financial firms comprise a larger proportion of old companies in terms of their registration data. About 56% of sample firms are classified as very old, 20% as old and 24% as new.

Table 7, Panel (b) shows statistics for profitability. Profitability measure COMP_PROFIT is measured in terms of profit margin. Mean profit margin is 8.21 in 2005, rising to 11.55 in 2006 and thereafter dropping to 9.12, 6.92 and 2.81 in 2007, 2008 and 2009 respectively before rising slightly to 3.72 in 2010. Median for the years 2005 to 2010 is 6.00, 7.00, 8.00, 7.00, 6.00, and 6.00. With the highest values ranging from 61,453,454,57,195,98 for the financial years 2005 to 2010 and lowest values ranging

from -131, -190, -278, -343, -459, and -234 for the financial years 2005 to 2010 respectively. Perhaps this pattern is an indicator of global financial crisis that took place starting in the year 2007.

Table 7, panel (c) presents company listing. If a company is dual listed, it is assigned 1 and 0 if a company is only listed on the JSE. The dual listing variable has a mean of 0.25 and a median of 0 throughout the five years. Companies that are dual listed in the sample are very old companies that have been listed on both the JSE and other stock exchanges for a long time (65 years on average). The summary shows that only 25% of the non-financial sample firms have been dual listed for the period 2005 to 2010.

Table 7, Panel (d) shows who audited JSE listed companies. EXT_AUDIT is a dichotomous variable that assigns a value 1 if a company is audited by the big four audit firms in South Africa and 0 otherwise. The variable EXT_AUDIT has a mean of 0.82 in 2005, which grows to 0.84 in 2010. The median is 1 for all the six years from 2005 to 2010. This therefore implies that the big four audit firms have been auditing the biggest proportion of the JSEs non-financial firms from the years 2005 to 2010. The big four audit about 84% of the firms while other auditing firms audit 16%.

Table 7, Panel (e) presents the industry. The variable COMP_IND has been defined by the main economic activity from which a company derives its revenue (see Mokoaleli-Mokoteli and Ojah, 2010). Manufacturing firms (firms that convert raw materials into finished goods) have been assigned a 1 and non-manufacturing firms are assigned a 0. Since this is constant, it has a mean of 0.27 and median of 0 for all the financial years 2005 to 2010, implying that only a small percentage of the sample non-financial firms

are manufacturing firms. About 28% of the sample firms' fall under the manufacturing sector of the industry.

Table 7 Panel (f) presents the size of the company. The variable COMP_SIZE measured in terms of log sales has a mean of 9.48 in 2005, 9.50 in 2006, 9.65 in 2007, 9.77 in 2008, 9.72 in 2009 and 9.75 in 2010. And median of 9.60 in 2005, 9.62 in 2006, 9.73 in 2007, 9.80 in 2008, 9.83 in 2009 and 9.83 in 2010. There is an increase in the mean from financial year 2005 (9.48) to financial year 2010 (9.75) perhaps showing a growth in size of the non-financial firms listed on the JSE.

4.3 (b) Correlation- non financial firms sample

Table 8: Pearson correlation matrix

Variable	Auditor	Industry	Age	Listing	Profit	Size	King
Auditor	1,000	-0,064	-0,179	0,203	0,106	-0,034	0,116
Industry	-0,064	1,000	-0,003	-0,124	0,033	0,032	-0,001
Age	-0,179	-0,003	1,000	-0,184	-0,023	0,060	-0,028
Listing	0,203	-0,124	-0,184	1,000	-0,066	-0,049	-0,042
Profit	0,106	0,033	-0,023	-0,066	1,000	0,014	-0,001
Size	-0,034	0,032	0,060	-0,049	0,014	1,000	0,447
King	0,116	-0,001	-0,028	-0,042	-0,001	0,447	1.000

Just like the all firms sample matrix above. Non-financial firms display a similar trend of low coefficients in the correlation matrix thus rendering the possibility of multicollinearity as minimal. The highest coefficient being given by company size (COMP_SIZE) and King report (COMP_GOV) of 0.447.

4.4 Diagnostics

To fulfill our objective of testing for the effect of the different factors on the extent of mandatory disclosure, diagnostics tests are performed to test for the break down of any of the assumptions that were made in designing the predictive model to be used in the study section under section 3.4.

(a) Tests for multicollinearity

In designing the regression model to be tested, we made an assumption that the collinearity between the independent variables in the model EXT_AUDIT, COMP_SIZE, COMP_PROFIT, COMP_LIST, COMP_IND and COMP-GOV would not be so high as to bias the estimates in our results. We therefore performed three tests to rule out the existence of multicollinearity between the variables. The tests performed include Variance inflation factor and tolerance to rule out multicollinearity. The results are summarised in the tables below with table 7 representing tests for the all firms sample and table 8 for non-financial firms' sample.

Table 9: Measures of multicollinearity-all firms sample

Panel A: Tolerance							
Variable	Auditor	Industry	Age	Listing	Profit	Size	King
Value	0,950	0,926	0,897	0,881	0,899	0,862	0,907
Panel B: Variance Inflation Factor (VIF)							
Value	1,053	1,080	1,114	1,135	1,113	1,159	1,102

To rule out multicollinearity, we computed the Variance Inflation Factor and tolerance for each variable and again as we can see from the results in table 9 above, the VIF

factors for all the variables are very small and so we rule out multicollinearity. This is in line with Owusu-Ansah (1998) where multicollinearity was ruled out if a VIF factor is below 10. The high tolerance levels indicate minimal collinearity. Therefore, based on the results above, we can say that the independent variables under the all firms sample have minimal levels of collinearity and therefore we do not foresee a problem with our estimates and for that, we shall not be transforming our data or making any changes to the data.

Table 10: Measures of multicollinearity- Non financial firms sample

Panel A: Tolerance							
Variable	Auditor	Industry	Age	Listing	Profit	Size	King
Value	0,902	0,980	0,940	0,912	0,979	0,788	0,778

Panel B: Variance Inflation Factor (VIF)							
Value	1,108	1,020	1,064	1,097	1,022	1,270	1,286

The VIF factors under the non-financial firms' samples are all below 10 and therefore the possibility of multicollinearity affecting our results being very low. Same applies to the high tolerance levels. Based on the results from the correlation , VIF and tolerance, there are low levels of collinearity and therefore no transformations will be made to the variables to be used in the regression models.

(b) Test for heteroscedasticity

In designing the OLS regression model under section 3.4, we made an assumption that the variance of the error term is constant and that the error terms have a constant variance. However in some cases this may not be the case and therefore the errors could distort our results. In order to rule out the effects of heteroscedasticity in our model, we performed the white test by regressing the

squared residuals on all distinct regressors, cross-products, and squares of regressors of the variables and obtaining the Lagrange multiplier that we compared to the Chi-square. The results are below in table 11 for all firms sample and table 12 for the non-financial firms' sample.

Table 11: White's test for heteroscedasticity- all firms sample

RSQ	0,166
N Observations	678,00
N*RSQ	112,64
XSQ(N)	10 906 470,00

Where RSQ is R squared from the OLS estimate, N represents the observations and XSQ the Chi squared. at 5 degrees of freedom.

From the table above, XSQ(N) which is the chi square multiplied by the number of observations is greater than the product of RSQ and the number of observations. White's test rules state that if XSQ(N) is greater than NRSQ then the variance of the standard errors is homogenous and therefore there exists no heteroscedasticity. In our results above, this is the case and therefore the all firms sample does not indicate heteroscedastic tendencies and so no transformations will be made to the data.

Table 12: White's test for heteroscedasticity-non-financial firms

RSQ	0,185
N Observations	912,00
N*RSQ	168,76
XSQ(N)	979 488,00

Where RSQ is R squared from the OLS estimate, N represents the observations and XSQ the Chi squared. at 5 degrees of freedom.

Just like with the all firms sample, the hypothesis that the variance of the standard errors is constant applies with the non financial firms from the results above. XSQ(N) is greater than N RSQ and so because there is no heteroscedasticity, there will be no transformations made to the non-financial firms' data set.

(c) Test for normality

When designing the model to be used in regression analysis, we made an assumption that our data is normally distributed. In order to test for the normality of our test data, we applied the Anderson Darling value method in which we compared the A squared values to the critical value. The rule of thumb under this method states that if the A squared is less than critical then there exists normality and the data is normally distributed.

The all firms sample has a critical value of 0.989 at 99.5% which is greater than the A squared of 0.425. This therefore means that the data is normally distributed.

In the non-financial firms sample we ran a regression and obtained a critical value at 95% of 14.06 while A squared is 0.43 which means that the critical value is greater than A squared rendering the data normally distributed.

Given the results from the normality tests above, there is evidence to show that our data is normally distributed and since this was one of our assumptions, we shall not be making any transformations to our data.

(d) Test for linearity

Our assumption in this study was that the data would depict linearity characteristics and show a line of best fit. Our test involved running a regression on the variables to be used in this study, transposing them to create new values of independent and dependent variables upon which we ran a regression on the new values. The results for both the all firms sample and non-financial firms sample gives the same OLS values for both the old variables and the transposed variables and therefore indicated properties of linearity.

The above diagnostics tests were performed in order to ascertain that all the assumptions that we made while designing the OLS model in section 3.4 have been met. Otherwise failure to meet them would result in errors in the regression results. From the results above, the data does not contain multicollinearity, the data is normally distributed, there are no heteroscedastic characteristics and the data possesses linear characteristics. This based on the above, we shall proceed and run an OLS regression in section 4.7 to test the hypothesis developed in section 2.

4.5 King Reports on Corporate Governance and disclosure

The main sample results show that there was an improvement in the level of King II disclosure requirements in 2005, 71% of the firms disclosed more than 10 of the 13 disclosure items of King II. This then grew to 80%, 82%, 88%, 91% and 92% for the years 2006, 2007, 2008, 2009 and 2010 respectively. Just as non-financial firms, similar items of human capital development and environmental disclosures were the major culprits to which disclosures were missing. The King III report was not applicable for the years under review, as it only became effective with the financial year starting 1 March 2010. Some financial firms adopted it early and from a review of the integrated reports, there is an increase in disclosure and the most notable change is the fact that all information has been condensed into an integrated report therefore making it easier for users to access information easily.

In assessing the impact that the King Reports on Corporate Governance had on disclosure, it was noted that for the non-financial firms sample, 69% of the firms disclosed 10 out of the 13 King II disclosure index items in 2005. This trend improved with 81%, 84%, 92% and 96% for the years 2006, 2007, 2008, and 2009 consecutively. It is noted from this trend that over the years, there was a great improvement in the level of King II disclosures. One item however that has had low levels of compliance is item 11 (disclosure of human capital development levels through the number of females and previously disadvantaged groups). Although there has been great improvement over the years, some companies have not yet complied with this item. Disclosure of environmental corporate governance is another item that has not met much compliance but is steadily improving. Also in the earlier years, we found that companies were not disclosing the number of board meetings held and attendance at these meetings, however

this has greatly improved over the years. Despite the items above that have had slow compliance, it is noted that the King II Report led to improvements in disclosures with companies disclosing more general information in their annual reports than previously done.

With the introduction of King III, the question is, will there be an increase in the levels of disclosure? This question is hard to answer in this study as this became effective in the financial year starting 1 March 2010 and the study looked at financial years ending 2010 of which all the firms in the sample were not applicable. However, some results of the study indicate that there were firms that adopted King III much earlier and the results show that with the adoption of King III there was an increase in the level of disclosure in annual reports through the integrated reporting system in which firms disclose all operations, sustainability and financial results in one report thus making it easier for the users of information to access all relevant information in one report without having to look at different reports for different information.

4.6 Analysis of the dependent variable

Table 13 below shows the disclosure practices of JSE listed companies from the time when South Africa adopted the IFRSs in 2005 up until the financial year 2010. These disclosure practices are based on a disclosure index containing 70 items that was adopted for this research (appendix A). In the analysis of the dependent variable, we first look at the sample where financial firms have been included (panel a) and then subsequently analyse the sample exclusive of financial firms later (panel b).

Table 13: Analysis of the dependent variable**Panel (a) All firms including financial firms**

	Number of firms					
	2005	2006	2007	2008	2009	2010
20-30	0	0	0	0	0	0
31-40	1	0	0	0	0	0
41-50	2	1	1	0	0	0
51-60	20	8	4	4	4	4
61-65	82	52	26	24	16	10
66-70	65	109	139	142	150	156
	170	170	170	170	170	170

Panel (b) - Excluding financial firms

Disclosure index	Number of firms					
	2005	2006	2007	2008	2009	2010
20-30	0	0	0	0	0	0
31-40	1	0	0	0	0	0
41-50	2	1	1	0	0	0
51-60	13	3	2	3	3	3
61-65	52	28	17	15	8	2
66-70	48	84	96	98	105	111
	116	116	116	116	116	116

Table 13, Panel (b) above shows a summary of an analysis of the dependent variable for a sample that is inclusive of financial firms. Similar to the non-financial firms below, all firms were able to disclose more than 30 (43%) of the disclosure items above. Only 1 firm disclosed less than 41(56%) of the 70 items on the disclosure index in 2005.

The panel further shows that there is a steady increase in the number of firms conforming to the mandatory disclosures. In 2005, we see 20 firms disclosing between 51-60 of the disclosure items and the number decreased to 8 firms in 2006 and ended with only 4 between 2007 and 2010. The same trend is followed for 61 to 65 items and 66 to 70 items. Thus, it is implied that over the years, there has been a great

improvement in the level of mandatory disclosure practices of JSE listed firms from the time South Africa adopted the IFRSs up to the financial year 2010.

Notable specifically to financial firms was that items 2 and 3 (annual revenue and cost of sales) on the income statement were especially not classified as such by financial firms due to their characteristic nature that doesn't allow for those items to be disclosed as such throughout the research period. Also, specific to financial firms, are items 1 and 2 on the balance sheet (current and noncurrent assets and liabilities) where financial firms do not separate between current and non-current but rather disclose assets and liabilities in order of liquidity. This item was not disclosed throughout the research period. As with non-financial firms, some firms adopted the IFRSs in financial year 2005 while others did so in later years. About 20 of the financial firms only adopted IFRSs in the financial year 2006 while the rest adopted the IFRSs in 2005. All the financial firms had adopted IFRSs by financial year 2010.

Also noted with financial firms inclusively was the fact that only 6 of the sample financial firms had not disclosed post balance sheet events in 2005 and the item was only disclosed in later years.. Only 4 firms did not disclose this item for previous financial years leaving us to wonder whether it did not exist or was an item just being left out.

The analysis in Table 13, Panel (b) shows a growing improvement in the level of mandatory disclosure of JSE listed non-financial sample firms. From the table above, all firms have at least more than 30 (43%) of the 70 disclosure items in the disclosure index. A further analysis shows that over the years, i.e. from the financial year 2005

when South Africa adopted IFRSs, there has been an increase in the number of firms adhering to the mandatory disclosures as exhibited by the numbers above. For example, in 2005, there were only 48 firms (41%) of the 116 sample firms disclosing more than 65 of the 70 disclosure items in the disclosure index and this figure increased to 84 firms in 2006, 96 firms in 2007, 98 firms in 2008, 105 firms in 2009 and 111 firms in 2010.

Some of the notable disclosure issues identified in this analysis include the fact that firms do not adhere to items 3 and 4 of the income statement. About 18 (16%) of the sample firms did not disclose cost of sales and other operating expenses separately but rather grouped them all together making it difficult to identify the expenses or costs that are directly attributable to the main activity of the business. This was noted for these companies for all of the 18 companies in the financial years from 2005 till 2010.

While other firms either disclosed post balance sheet events (item no 21 in the general items) or indicated that there were none, about 5 (4%) of the sample firms did not disclose any post balance sheet items or non-existence of any thereof for all the financial years from 2005 to 2010. This therefore left a big question as to whether this item was simply just being left out or whether there were actually no post balance sheet events that took place for these firms.

For the financial years 2005-2007, 69 (59%) of the sample firms did not disclose maturity analysis of the disclosed financial instruments. However, by financial year 2008, they had started disclosing except for 12 (10%) of the sample firms that did not disclose maturity analysis for all of the six financial years. 73 (63%) of the sample firms did not adopt IFRSs in the first mandatory year (2005), but the majority adopted IFRSs

in the financial year 2006 while the rest adopted IFRSs in financial year 2007. Thereafter, despite South Africa adopting IFRSs in 2005, about 2 (2%) of the sample firms had not adopted IFRSs by the financial year 2010.

4.7 Multivariate test

In order to test the hypothesis, a multiple regression analysis was conducted using Ordinary Least Squares (OLS) estimates. The results of the multivariate test of the hypothesis are documented below.

Table 14 provides regression results between the dependent variable which is a mandatory disclosure score ($MDS_{j,t}$) and the independent variables using the all firms sample.

Main sample (financial firms inclusive)

Table 14: Regression estimates - main sample (financial firms inclusive)

Variable	Expected sign	Coefficient	Standard error	P-Value	
EXT_AUDIT	+	-0,060	0,253	0,811	
COMP_LIST	+	0,711	0,218	0,001	*
COMP_PROFIT (PROFIT_MARGIN)	+	-0,008	0,002	0,001	*
COMP_AGE	+	0,051	0,111	0,646	
COMP_IND	+	0,407	0,223	0,068	
COMP_SIZE (LOG SALES)	+	0,120	0,048	0,013	**
KING REPORT	?	0,960	0,045	0,000	***
INTERCEPT	?	54,281	0,639	0,000	***
R squared		0,425			
F-Value		95,471		0.000	***

Where *, **, *** represent significance at 10%, 5% and 1% levels respectively.

The variable EXT_AUDIT was found to be insignificant in determining mandatory disclosure practices in the all firms sample. The assumption was that companies audited by the big four audit firms in South Africa disclose more information than their counterparts audited by smaller firms. Contrary to expectations, the results have a negative coefficient too. Similar results from prior studies by Owusu-Ansah (1998) for Zimbabwean listed firms; Mokoaleli-Mokoteli and Ojah (2010) for South African listed

firms also indicate that EXT_AUDIT is not a predictor in the levels of disclosure. Perhaps this can be attributed to Barako (2007)'s findings that, external audit quality is important for financial information disclosures but not general information disclosures. Therefore given that the disclosure index used in the study was mainly focused on IFRSs general disclosures, EXT_AUDIT did not translate as important.

COMP_LIST as measured by companies that are listed on more than one exchange including the JSE was found to be significant at 10% conventional level for the all firms sample and it had a positive sign as per our expectations. Our assumption was based on the reasoning that multi listed firms would disclose all standardised mandatory disclosures in a bid to attract foreign capital, this appears to be the case and as expected, these multilisted firms are keen on adopting these standards to be able to tap into the various markets. The results are in disagreement with Mokoaleli-Mokoteli and Ojah (2010).

COMP_PROFIT measured by profit margin was found to be significant at 10% conventional levels. Contrary to our expectations, the coefficient came out negative. The Hypothesis that highly profitable companies will disclose more mandatory information was supported by studies by Owusu-Ansah (1998) and Akhdaruddin (2005) and the fact that managers are motivated to disclose more information to appease shareholders. However, the results above prove otherwise and this could be interpreted to mean that the mandatory disclosures affordable by the less profitable companies and therefore profitable companies are not at an advantage when it comes to mandatory disclosures.

COMP_AGE was found to be insignificant in determining mandatory disclosure practices in the all firms sample. This is supported by studies by Mokoaleli-Mokoteli and Ojah (2010) and Akhtaruddin (2005), and contradicted by findings by Owusu-Ansah (1998). The assumption here was that the effect of the learning curve would act against new firms in disclosing some information however, the results show that when it comes to mandatory information, the age of the firm doesn't matter as it is standard information that can be reported by any firm.

Despite COMP_IND having a positive coefficient as per our expectations, it was found to be insignificant and therefore not a determinant in the level of mandatory disclosure of JSE listed firms. COMP_IND defined by the firm's principle activity in this case manufacturing firms involved in the conversion of raw materials into finished goods were assumed to have an advantage over their more complicated counterparts that have to comply with specific standards such as agriculture, mining and financial firms. However, the results indicate otherwise and could be interpreted to mean that it doesn't matter the type of industry the firm belongs to in order to disclose mandatory information, more so, it could be concluded that the disclosure used in the study is based on basic disclosures that are common to all industries. Although Cooke (1992) found manufacturing companies disclosed more information, Owusu Ansah's (1998) study did not find COMP_IND to be significant just like in the results above.

COMP_SIZE measured in terms of Log sales was found to be a significant factor in the determination of the level of mandatory disclosure in the all firms sample. And as per our expectations, the results show a positive coefficient. This is in line with results from Akhtaruddin (2005) and Mokoaleli-Mokoteli and Ojah (2010). Big firms measures in

terms of Log sales enable them to disclose more information than their smaller counterparts perhaps due to economies of scale related to their size.

COMP_GOV given by the King Report on Governance disclosures was found to be a significant factor and with a positive coefficient. The assumption was that the King Reports on Corporate Governance would increase mandatory disclosure of listed companies. The hypothesis was based on the assumption that with the introduction of the King Reports on Corporate Governance, there was bound to be an increase in the level of mandatory disclosure. The results could be interpreted to mean that with the introduction of the King Reports on Corporate Governance, firms were bound by two standard reporting guidelines that tended to bridge the gap where one did not represent a particular line of users.

It is important to note that the disclosures used for this analysis are based on IFRSs requirements and not users needs and therefore results could be different for users needs. Further still, the F value was found to be significant at 1% conventional level, which confirms that the model applied for this study was a relevant model.

Non-financial firms

Table 15: Regression estimates - non-financial sample

Variable	Expected sign	Coefficient	Standard error	P-Value	
EXT_AUDIT	+	0,027	0,294	0,928	
COMP_LIST	+	0,839	0,254	0,001	*
COMP_PROFIT (PROFIT_MARGIN)	+	-0,006	0,002	0,020	**
COMP_AGE	+	0,148	0,127	0,244	
COMP_IND	+	0,225	0,232	0,331	
COMP_SIZE (LOG SALES)	+	0,170	0,059	0,004	*
KING REPORT	?	0,902	0,051	0,000	***
INTERCEPT	?	54,402	0,729	0,000	***
R squared		0,430			
F-Value		72,271		0.000	***

Where *, **, *** represent significance at the 10%, 5% and 1% levels respectively.

The results in table 11 above show that EXT_AUDIT is insignificant in determining the level of mandatory disclosure. As expected, the coefficient came out positive, the same as in the all firms sample above. The same explanation could be given for the non-financial firms sample, that the big four audit firms in South Africa that define audit quality are very influential only when it comes to disclosure of financial information Barako (2007) and not general mandatory disclosures.

COMP_LIST was found to be significant at the 10% conventional level and had a positive coefficient as per our expectations. And just like in the all firms sample, a similar conclusion can be made for the non financial firms, that many of the multi listed firms on the JSE are secondary listings on the JSE and will jump at the chance to be able to appeal to a wider market allowing them to raise capital from those markets.

COMP_PROFIT given by profit margin was found to be significant at 5% conventional level. Contrary to our expectations, the coefficient came out negative. This is similar to the results in the all firms sample and can be interpreted to mean that mandatory information is standardised information that can be collected and disclosed by any firm despite of its profitability.

COMP_AGE was found to be insignificant in assessing the factors that influence mandatory disclosure practices of JSE listed non-financial firms. The results are however in line with with Mokoaleli-Mokoteli and Ojah (2010) and Akhtaruddin (2005) whose studies found COMP_AGE not to be a significant determinant in the level of disclosure. The assertion here was that older firms would find it easier to disclose more mandatory information as they have been operating for a longer time than their younger counterparts.

The results show that COMP_IND (manufacturing) is insignificant in determining the mandatory disclosure practices of JSE listed non-financial firms. Just like with the all firms sample above, these results can be interpreted to mean that when it comes to

general IFRSs disclosures, no particular industry is superior to the other except when it comes to those specific standards that are more emphasised for certain industries.

COMP_SIZE measured in terms of Log sales was also found to be significant at 10% conventional level. This is in line with findings by Akhtaruddin (2005), which found size to be a significant contributor to the level of mandatory disclosure in Bangladesh. It can be concluded just like with the all firms sample that the size of a firm does influence disclosure when it comes to general IFRSs disclosure items perhaps due to the big economies of scale that they contain.

COMP_GOV was found to be significant with the non-financial firms sample just like the all firms sample above. And just like the all firms sample interpretation above, it can be concluded that although the two disclosures (IFRSs and King Report) are derived from separate sources, they influence each other as they bridge the gap where one does not satisfy certain users.

Just like with the all firms sample above, it is important to stress the fact that the study was based on general IFRSs requirements and not specific user needs and that the results could be different if specific user needs had been taken into consideration. And to confirm that the model applied is a relevant model, the F value results above are less than 0.05 and thus significant at 1% conventional level.

Chapter summary

In this chapter, we presented and discussed the results of the different techniques carried out in order to analyse the factors that influence corporate mandatory disclosure

practices of JSE listed firms. This was done separately for each sample, i.e. the all firms sample that includes financial firms and the non-financial firms sample. We carried out a univariate analysis for the descriptive statistics of the variables involved. We then tested for the existence of collinearity, heteroscedasticity, linearity and normality using various diagnostics. In this section, we analysed the impact of the King Reports on Corporate Governance to the levels of disclosures and concluded that with the introduction of the King Reports, firms were being encouraged to disclose more information in their annual reports in order to meet specific requirements of their stakeholders and with the introduction of King III, stakeholders will be able to obtain all information under one report.

A review of the dependent variable also showed that companies on the JSE have over the reviewed period i.e. financial years 2005 to 2010 shown an improvement in the amount of disclosures in their annual reports and although some firms were slow in adopting IFRSs fully, the majority were fully compliant by financial year 2008.

A regression was run to test the significance of each of the independent variables on the level of disclosure and the results are as follows: Company listing, company size, King Report and intercept were found to be significant at the 10%, 5% and 1% levels for both the all firms sample and the non-financial firms sample. The remaining variables of company industry, company profit and company age were found to be insignificant in determining corporate mandatory disclosure practices of both the all firms sample and the non-financial firms sample.

CHAPTER FIVE- CONCLUSION, LIMITATIONS AND RECOMMENDATIONS

5.1 Conclusion

Disclosure is steadily gaining more importance due to increased cross-cultural trading and global stock markets. As a result, accounting regulators and companies are increasingly putting corporate disclosure on their agendas, Dahawey and Conover (2007). The purpose of this study therefore is to investigate the factors that influence the corporate mandatory disclosure practices of JSE listed companies.

The disclosures are based on general IFRSs requirements and not specific users' requirements. The research is also characterised into two samples with the first sample comprising of all JSE listed firms including financial firms and the second sample comprising non-financial firms. In this research, we discover that although JSE listed companies were compelled to comply with IFRSs for financial reporting periods beginning on or after 1 January 2005, some only adopted IFRSs in the financial year beginning 2006 and this is applicable to both samples.

There is evidence of increase in the level of disclosure with both samples over the years. For example an increase from 41% of non financial firms disclosing more than 90% of the disclosure items in 2005 to 95% of the firms in 2010, the same trend is followed by the sample with financial firms inclusive. On aggregate, the increase in disclosure could be attributed to the improved regular reviews by the JSE of its members and the after effects of the global recession that occurred, beginning in 2007.

However, a further analysis of this study indicates that the company listing, followed by company profit, King Report and size mainly determines corporate mandatory disclosure for the all firms sample. This could be explained as follows: companies listed in more than one stock exchange are always keen on adopting standards that will enable them to obtain capital from many sources. Company profit follows closely behind and this could be explained by the fact that for any company making profits, the managers feel compelled or obliged to communicate the good news to shareholders and other stakeholders and therefore disclose more information. The King Report's influence became a significant factor and considering that it was drafted to be able to cater for the various stakeholders that were not necessarily covered by auditors, it has eventuated as a major determinant in the level of disclosure. Lastly, we look at company size as a significant determinant in mandatory disclosures. This is understood in the context of the economies of scale that these large companies generate. Usually these companies have several trading operations in various parts of the world and this enables them to develop skills advantages from the skilled areas to the not so skilled areas and thus increased disclosures.

When it comes to non-financial firms, the same order and explanation is given as above. Thus we can form a conclusion that when it comes to mandatory disclosure, the determinants are the same for all firms including financial firms and non-financial firms and that the quality of external auditor, company profit and company age are the factors responsible for these mandatory disclosures. We can also conclude that the sector a firm belongs to does not influence the level of disclosure, as mandatory information is general information that any firm in any industry should be able to disclose. The quality of external auditor does not matter, as this is general mandatory disclosure, which may

not necessarily need high quality auditors to be able to disclose it. Company size and age also follow the rule that this is general information, which can be disclosed at the minimum by any firm.

Given the results and explanations above, does this suggest that regulators should pay more attention to those factors that were found not to be significant and neglect the significant ones? Probably yes, but it should however be noted that the study had several limitations that could have influenced the outcome. Importantly each item on the disclosure index was scored the same whereas in reality they could have been scored based on importance to specific users; secondly, there could have been an issue of causality that could not be eliminated through running a regression. It is also important to note that the study focused on a sample of companies listed on the JSE, further research could be done on companies that were not listed on the JSE, this could perhaps have yielded different results due to their diverse nature in size, industry and profitability.

5.2 Recommendations

Based on the findings above, policy makers may find the recommendations below very useful in the development of new disclosure requirements and while reviewing the already existing requirements:

- Whereas companies endeavor to disclose the breakdown of expenses into direct costs and other costs in the notes to the financial statements, there is a need to review how companies interpret this information as many are putting expenses in clusters and leaving out some mandatory information.

- Although the standards do not clearly state what should come first but simply state that the financial statements should be arranged in a systematic way. One soon discovers that companies are each arranging the financial statements in their own way, which makes it quite cumbersome for comparatives, e.g. some state accounting policies together with notes to the financial statements while others disclose them before the income statement and statement of comprehensive income. Perhaps policy makers could be clearer on the systematic arrangement of the financial statements.

- Although there is no particular regulation on the information published on company websites, some companies were found to have unsigned annual reports on the company websites, which often results in the authenticity of the annual reports, published on company websites being questioned. In order to add value to annual reports that are published on company websites, companies should publish only signed copies.

Finally, this study focuses on a trend of JSE listed companies from the financial years 2005 to 2010, it would be interesting to look at the same trend with non listed companies and see whether the results come out the same as those of listed companies.

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APPENDIX A:

King II

1. Brief CV of each director standing for election or re-election at the annual general meeting.
 2. Disclosure of a charter stating the directors' responsibilities.
 3. Categorisation of directors as executive, non executive and independent.
 4. Disclose balance between executive and non executive directors.
 5. Disclose membership of remuneration committee.
 6. Disclose individual directors remuneration benefits and share options.
 7. Disclose number of board & committee meetings held and attendance.
 8. Composition of remuneration and audit committees.
 9. Disclosure of environmental corporate governance.
 10. Policies defining social investment prioritisation, initiatives to support BEE.
 11. Disclose human capital development, number of staff, females and previously disadvantaged individuals.
 12. Disclosure whether the audit committee has adopted formal terms of reference.
- Directors should report that, it is their responsibility to prepare financial statements that fairly present the state of affairs of the company.

King III

13. Apply or explain-A positive statement of application when applied or explain if not applied.
14. Integrated report, showing financial information and sustainability information.
15. Risk management: addressing the safeguarding of IT assets, disaster recovery and continuity of operations.

16. Balance of executive and non executive directors with majority non-executive.
17. A minimum of 2 executive directors to the board i.e. ceo and finance director.
18. Chairman of the board should be an independent non executive director.
19. Audit committee should consist of at least 3 members.

Appendix A

Balance Sheet

20. Assets disclosed as current and non current assets on face of balance sheet.
21. Liabilities disclosed as current and non current on face of balance sheet.
22. Disclosure of property and equipment on face of balance sheet.
23. Trade and other receivables on the face of the balance sheet.
24. Trade and other payables on the face of the balance sheet.
25. Deferred tax asset/liabilities on the face of the balance sheet.
26. Share capital/ equity on the face of the balance sheet.
27. Currency of presentation on the face of the balance sheet.
28. Level of rounding used on the face of the balance sheet.
29. At least one year's comparative information on the face of the balance sheet?
30. Maturity analysis of financial assets and liabilities.
31. Credit risk exposure.
32. Liquidity risk exposure.
33. Currency risk exposure.
34. Investments in subsidiaries, associates.
35. Full disclosure of property showing accumulated depreciation and movements.
36. Depreciation methods and useful life of assets.
37. Intangible assets.
38. Collateral on borrowings.

- 39. Reconciliation of opening and closing intangible assets.
- 40. Financial assets and liabilities held for trading, held to maturity, loans and receivables.
- 41. Contingencies.
- 42. Provisions.
- 43. Policy on revaluation.

Income statement

- 44. At least one year's comparative information.
- 45. Revenue.
- 46. Cost of sales.
- 47. Operating expenditures.
- 48. Finance costs.
- 49. Taxation.
- 50. Currency used and level of rounding.
- 51. Components of tax expense.
- 52. Reconciliation between tax expense and accounting profit multiplied by applicable tax rate.
- 53. Accounting policy for revenue recognition.
- 54. Segment revenue for each reportable segment.
- 55. Significant categories of revenue recognised.
- 56. Directors remuneration.
- 57. Auditors remuneration.
- 58. Net profit or loss for the period.
- 59. Staff remuneration.
- 60. Depreciation for the year.

61. Amortisation of intangible assets.

General financial statement items.

62. Balance sheet.

63. Income statement.

64. Cash flow statement.

65. Accounting policies.

66. Statement of changes in equity.

67. Legal form of the entity.

68. Country of incorporation.

69. Registered office.

70. Principal activities.

71. Name of the company on all pages of the financial statements.

72. Financial year end.

73. Cash flow into operating, investing and financing activities.

74. Date of financial statements authorisation.

75. Statement of compliance with IFRS.

76. Notes to the financial statements.

77. Dividends proposed.

78. Listing of board of directors.

79. Audit report.

80. Directors report.

81. Statement of directors responsibilities.

82. Post balance sheet events.

83. Table of contents.

- 84. Numbering of all pages.
- 85. Systematic numbering of notes to the financial statements.
- 86. Signatures by directors for approval of financial statements.
- 87. Basis of preparation of the financial statements.
- 88. Financial risk management.
- 89. Functional and reporting currency.
- 90. Related party transactions.