UNIVERSITY OF THE WITWATERSRAND

SCHOOL OF ACCOUNTANCY

RESEARCH REPORT

Perception on the Quality of South African Annual Reports

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Date: 14 May 2012

Degree: Masters of Commerce in Accountancy

Ethics Number: CACCN/1003

A research report submitted to the Faculty of Commerce, Law and Management, University of the Witwatersrand, in partial fulfilment of the requirements for the degree of Master Commerce (50% course work)

Johannesburg, 2012

ABSTRACT

In South Africa, the Conceptual Framework [CF] for Financial Reporting became effective in 2010. In January 2011, the Integrated Reporting Committee of South Africa [IRC] issued a discussion paper on the integrated reporting framework it is currently developing. Both documents provide similar definitions of the attributes that annual reports should possess in order to assist stakeholders make useful decisions. The underlying attributes of relevance, faithful representation, verifiability, comparability understandability and timeliness are also known as qualitative characteristics. This study uses the qualitative characteristics as described in both documents in order to assess the perceived quality of annual reports of South African companies by referring to the opinions of Experts. Based on the prior literature, a total of 18 questions were developed and initial responses were collected in a five point Likert scale, also used for the analysis of data. The research suggests a need for more balance between positive and negative events when companies discuss their annual results in order to improve the perceived quality of annual reports. In addition, the quality of annual reports could be enhanced if companies provide an integrated approach of financial and non-financial information in the annual reports. The results also suggest that relevance could be improved by improving the perception of the usefulness of non-financial information in complementing financial information.

DECLARATION

I declare that this research report is my own work except as indicated in the references and acknowledgements. It is submitted in partial fulfilment of the requirements for the degree of Masters of Commerce in Accountancy in the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in this or any other university.

....

Lucien Olandzobo Dimi

Signed at ......Johannesburg......................

On the ....14....... of.......March................ 2012

DEDICATION

I would like to dedicate this work to these special people:

- My late Mom: for everything she has taught me, especially, always believing in myself and to never give up. May God bless her soul.
- My Dad: Papa, thanks for your endless support and prayers that were refreshing for me.
- My brothers and sisters (Moprezo le DDP, Serdanne, Elvina, Guenole, Chella, Pegguy and others) for your support and prayers.
- Other family and friends, especially bana Kennedy, bendele ekweya te! Eko Simba.
- Last but not least, my Dear Hyrielle: this is for you always being by my side and believing in me, even when I was struggling.

ACKNOWLEDGEMENTS

My praise to God for keeping me healthy during this challenging process that pushed me to the limit.

I would like to express my sincere and most profound gratitude to my supervisor, Mr Warren Maroun for his immeasurable contribution, guidance, advice, encouragements, openness and powerful drive throughout the research process. I don't think there is any word that could describe how I rate his contribution.

I would like to thank Nirupa Padia and Prof Kurt Sartorious for their priceless advice, encouragements and belief shown in me, even when it seemed improbable.

My special thanks the Experts/respondents for using their precious time during such busy period of the year to fill in the questionnaire. Your responses were the core component of this research.

I would like to acknowledge people who participated to the review of the research instrument, and those who review my reports. Your comments were valuable inputs to this study.

My special thanks to Sello and other administrative staff for providing an unconditional assistance and making themselves available to help.

I close this section by showing a heartfelt and unique gratitude to Mr Ludovic Ngatse for giving me the opportunity to explore and face this wonderful experience that has made one of the most significant changes in my life.

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CHAPTER 1: INTRODUCTION

1.1 Purpose of the study

The purpose of this research is to assess the quality of the annual reports of South African (SA) companies for their 2010 financial reporting period, by referring to the opinions of Experts on the extent to which annual reports, in general, comply with the qualitative characteristics of relevance and faithful representation (fundamental characteristics); and understandability, comparability, verifiability and timeliness (enhancing characteristics) per *The Conceptual Framework for Financial Reporting* of the International Accounting Standards Board (IASB) (2010) and *The Integrated Reporting Committee* (IRC) of South Africa (2011).

1.2 Context of the study

The objective of the annual reporting is to provide information that is useful to its users in making decisions in their capacity as capital providers (IASB Conceptual Framework [CF] 2010: paragraph OB2). Current and potential investors are considered as primary users of financial reports (IASB CF 2010). The CF emphasises that qualitative characteristics are the attributes that make financial information decision-useful.

The FASB and IASB have recently been in a process of developing a common conceptual framework based on their existing frameworks (Bullen and Crook 2005). The goal of the new project is to build on the existing frameworks by refining, completing, updating and converging them into a common form that can be used in developing accounting standards (Bullen and Crook 2005; IASB CF 2010; International Integrated Reporting Committee [IIRC] 2011). In September 2010, *The Conceptual Framework for Financial Reporting* (revised) was issued. Among the most prominent changes were a clarification of the qualitative characteristics as either fundamental or enhancing and the replacement of the term 'reliability'.

In South Africa, International Financial Reporting Standards (IFRS) were formally adopted in 2004 and listed companies were required to comply with IFRS for financial periods commencing on or after 1 January 2005 (Coetsee 2007; Deloitte 2012). Adopting IFRS was important for attracting foreign investments for South African (SA) companies; providing credibility to the annual reports of South African companies in the global market; and to eliminating the need for dual listed entities to prepare financial statements in accordance with more than one set of accounting standards (Coetsee 2007).

Recently, listed companies were also required to issue an integrated report for financial years starting on or after 1 March 2010 or explain the reasons why they are not doing so (King III 2009; IRC 2011; Deloitte 2012). The integrated report is described by the King Report on Governance for South Africa (King III 2009) as an all-inclusive presentation of a company's performance in terms of both its financial metrics and sustainability (non-financial performance) (King III 2009; IRC 2011; Deloitte 2012).

The Discussion Paper released in January 2011 by the Integrated Reporting Committee (IRC 2011) of South Africa provides a similar definition of the objective of the annual reports - in terms of integrated reporting - by stating in more detail that integrated reporting should supply users with information that enable them to assess the ability of an organisation to create and sustain value over the short, medium and long-term (also, see Azam, Warraich and Awan 2011; IIRC 2011; Deloitte 2012). Furthermore, the information presented in the annual reports should specify whether the company has sufficiently and efficiently applied its "collective mind" in identifying social, environmental, economic and financial issues that could potentially impact the business, and whether the identified issues have been properly incorporated into the company's strategy (IRC 2011).

This perspective is echoed by the International Integrated Reporting Committee (IIRC) in its discussion paper issued in September 2011 (IIRC 2011). On the international stage, bodies such as, *inter alia*, the Global Reporting Initiative (GRI), the World Business Council for Sustainable Development, the Climate

Disclosure Standard Board, Prince's Accounting for Sustainability Project, the European Federation of Financial Analyst, the United Nation Global Impact and the Collaborative Venture on Valuing Non-Financial Performance have developed numerous standards, principles, methodologies and guidelines for accounting and reporting on non-financial information (IIRC 2011; Solomon 2010).

As stated in the CF (2010), qualitative characteristics are the attributes that make financial information decision-useful. Given that South African financial and non-financial standards have always been in line with standards developed internationally (Coetsee 2007), the underlying requirement also applies to SA companies. In other words, in order for the annual reports issued by SA companies to be decision-useful, they should comply with qualitative characteristics as defined in the CF (2010) and the IRC (2011).

In addition, as King III (2009) - and more recently the IRC (2011) - urge listed companies in SA to comprehensively report on their social, environmental, economic and financial performance, it becomes crucial to assess whether companies are embracing the inevitable change by integrating financial and non-financial information presented in their annual reports (consider: Cho, Freedman and Patten 2012; Solomon 2010; King III 2009; Adams and McNicholas 2007). This research takes one of the first steps in this regard by exploring the perception of experts on whether companies' annual reports disclose financial and non-financial performances in a manner that is relevant, faithfully represented, verifiable, comparable, understandable and available timeoulsy, as per the recommendations of King III (2009), the IRC (2011) and the CF (2010).

1.3 Problem statement

The objective of this research is to assess the perceived quality of annual reports of SA companies based on qualitative characteristics defined by the CF (2010) and the IRC (2011). For this purpose, the perceptions of a sample of Experts concerning the extent of the compliance of these annual reports with the requirements of the CF (2010) and IRC (2011) are considered. The Experts (see Section 1.6) have a wealth of experience in analysing the quality of annual reports with regards to the attributes that make financial reporting decision-useful (consider: Rowley 2012; Creswell 2009). Based on their experience and credibility, their opinion should provide a reliable view on the level of compliance of the information presented and disclosed in the annual reports of SA listed companies with the qualitative characteristics of useful financial information as defined in the CF (2010) and the Integrated Reporting Framework (2011).

1.4 Significance of the study

This study seeks to provide information about the perceived quality of the overall annual reporting process in South Africa, using qualitative characteristics of decision-useful information as defined in the CF (2010) and the IRC (2011). In this respect, the research provides one of the first quantitative studies addressing integrated reporting from an African perspective, given the fairly recent drive for integrated reporting (IRC 2011) and the tendency of corporate governance research to concentrate mainly on Anglo-Saxon contexts (Brennan and Solomon 2008).

Several researchers have attempted to measure the quality of the annual reports by focusing on various quality attributes or 'surrogates' such as earnings management, the relationship between accounting figures and stock prices, and timeliness of reporting (Healy and Wahlen 1999; Schipper and Vincent 2003; Nichols and Wahlen 2004; Barth, Landsman and Lang 2008). For example, a study by Tendeloo and Vanstraelen (2005) indicates that earnings management adversely influences the quality of financial reporting by diminishing its decision-usefulness. They argue that, provided that management portrays an unfaithful representation of the economic performances of the entity, investors are likely to be misled in taking decisions in their capacity as capital providers. Furthermore, in assessing the relationship between accounting figures and the stock market reaction, Nichols and Wahlen (2004) argue that, when changes in accounting information correspond to changes in the market value of the firm, earnings information is relevant and reliable.

Studies addressing the quality of annual reports comprehensively by focusing on financial and non-financial aspects are, however, rare. To date, there is scant research employing the qualitative characteristics - as defined either by the CF (2010) or the Integrated Reporting Committee's Discussion Paper (2011) - to assess the quality of the annual reports. In this light, this study adds value by contributing to the assessment of the quality of the annual reports of SA companies in a fairly novel way: by using the CF (2010) and the IRC's guidelines (2011) as means of assessing social, environmental, economic and performance-related disclosures by SA companies.

The need for reporting non-financial information such as social and environmental performances by companies in SA was formalised with the introduction of King I (1994) in 1994 and was complemented by later developments enshrined in King II (2002) (Solomon 2010; Kakabadse and Korac-Kakabadse 2002; Vaughn and Ryan 2006). With King III (2009), calls were made for a greater degree of integration between financial and non-financial information being reported to different stakeholders and an awareness of a more holistic approach to annual reporting. These views were reinforced by the publication of integrated reporting discussion papers by the IRC (2011) and IIRC (2011).

Given the recent introduction of more formal principles for integrated reporting in early 2011 (IRC 2011), the issue of the quality of annual reports by South African companies dealing with the emerging demands posed by the integrated reporting guidelines is highly relevant (see, for example: Morales and Van Tichelen 2010; South African Institute of Chartered Accountants [SAICA] 2011). By exploring the perceptions of experts on the quality of annual reports as at the end of the 2010 financial reporting period, this research highlights those attributes of the CF (2010) and the IRC (2011) that SA companies are focusing on and addressing while highlighting areas for improvements for prepares of the annual report.

1.5 Delimitations of the study

Firstly, this study only addresses qualitative characteristics as defined by the CF (2010) and the IRC (2011), focusing on the fundamental characteristics (relevance and faithful representation) and the enhancing characteristics of comparability, verifiability, timeliness and understandability. Reliability is not specifically addressed given that the FASB and IASB (2008) resolved that faithful representation was an all-inclusive concept incorporating reliability (SAICA Exposure Draft [ED] 240 2008: BC2.14, BC2.15 and BC2.16). This limitation is a reasonable one given that the CF (2010) and the IRC (2011) are the latest developments addressing the quality or decision usefulness of information presented in annual reports.

Secondly, this study only considers the perceived quality of the annual reports of South African companies. An assessment across countries and between two sets of standards, as carried by other studies (van Beest, Braam and Boelens 2009 for instance), is not in the scope of this study.

Thirdly, the research uses the CF (2010) and IRC (2011) as the basis for assessing decision usefulness of information contained in the annual reports or quality of the annual report disclosure on a holistic basis. Therefore, the CF(2010) and IRC(2011) constitute a 'benchmark' for the purpose of this research and are not subject to testing in their own right (see: Creswell 2009; Power 2003; Maroun, Turner and Sartorious. 2011)

In addition, this study did not analyse the physical content of corporate annual reports. This is in keeping with the fact that the scope of this study is limited to the investigation of the opinions of experts on the quality of the disclosures contained in the annual reports.

1.6 Definition of terms

Qualitative characteristics of decision-useful reporting information:

Attributes that make financial information decision-useful. They can be distinguished as fundamental (relevance and faithful representation) or enhancing (comparability, verifiability, timeliness and understandability), depending on how they affect the usefulness of the information (IASB CF 2010: QC4). Relevance and faithful representation are the most important qualitative characteristics, because they work in concert in making financial reporting information useful for making decisions. (IASB CF 2010: QC17). Regardless of its classification, each qualitative characteristic contributes to the usefulness of financial reporting information.

Integrated Reporting:

The integrated Reporting is a holistic and integrated representation of the company's performance in terms of its financial position and performance as well as its sustainability. Its overarching objective is to enable stakeholders to assess the ability of an organisation to create and sustain value over a short, medium and long-term (King III 2009; IRC 2011; IIRC 2011).

Experts

This research relies on the opinions of a sample of experts to assess annual reports holistically in terms of the provisions of the CF (2010) and IRC (2011). For the purpose of the research an expert is a person with at least five years experience in the preparation of annual reports and who is fully cognisant of the provisions of the CF (2010) and IRC (2011). Experts include both preparers of financial statements, auditors and academics with suitable experience.

1.7 Assumptions

Despite every safeguard to ensure reliable data collection the risk of bias or misunderstood questionnaires cannot be totally eliminated (Alvesson 2003; Creswell 2009). To this end, the questionnaire is formulated in terms of the provisions of the CF (2010) and IRC (2011) to reduce research bias and was carefully administered (see Chapter 3). Nevertheless, there is the tacit assumption that respondents understood the questions and provided an honest and unbiased opinion. It is assumed that their responses reflected their experience and their accumulated knowledge with regards to the assessment of the quality of financial reporting using the qualitative characteristics of the information presented in the annual reports as defined in the CF (2010) and IRC (2011) only.

CHAPTER 2: LITERATURE REVIEW

2.1. Introduction

In this section, relevant literature regarding models applied in prior research, to assess the quality of annual reports are discussed. The underlying discussion include models that use accruals (Healy and Wahlen 1999; Dechow, Sloan and Sweeny 1995), value relevance literature (Barth, Beaver and Landsman 2001; Schipper and Vincent 2003; Nichols and Wahlen 2004) and qualitative characteristics (Jonas and Blanchet 2000; Lee, Strong, Kahn and Wang 2002; McDaniel, Martin and Maines 2002) to assess the quality of annual reporting information. In addition an overview of the qualitative characteristics - as described in the CF (2010) and the IRC (2011) - and the derivation of the questionnaire are outlined.

2.2. Measurement models to assess the quality of annual reports used in prior researches

This section discusses selected prior models applied to assess the quality of annual reports.

2.3.1 Accrual Models

These models examine the level of earnings management as the means of evaluating earnings quality (Healy and Wahlen 1999; van Beest et al. 2009). Under the accruals models, it is believed that management takes advantage of auditing imperfections to employ judgement and to create opportunities for earnings management, whereby they opt for reporting methods and estimates that inaccurately and unfaithfully reflect their firm's economic reality (Healy and Wahlen 1999; Dechow and Skinner 2000; Graham, Harvey and Rajgopal 2005).

Generally, techniques such as "big bath" restructuring charges, premature revenue recognition, "cookie jar" reserves and write-offs of purchased in-process research and development are assumed to undermine the credibility and integrity of the annual reports (Healy and Wahlen 1999). Consistent with Healy and Wahlen (1999), in their respective studies, van Tendeloo and Vanstraelen (2005), and Lo (2007) pointed out that earnings management negatively influences the quality of annual reports by reducing its decision-usefulness.

Several reasons have been put forward as incentives driving managers towards earnings management. Literature addressing earnings management indicates that capital market, contracting and regulatory motivations constitute the main incentives for earnings management (Healy and Wahlen 1999; Dechow and Skinner 2000; Bartov, Givoly, and Hayn 2002; Collingwood 2001; Graham et al. 2005). For instance, studies focusing on the capital market motivations for earnings management uncover that managers engaged in managing earnings for stock market purpose, especially when there is a gap between the company's financial performances and expectations from analysts, in order to prevent adverse information being presented to the stock market (Burgstahler and Eames 1998; Healy and Wahlen 1999; Dechow and Skinner 2000; Collingwood 2001; Bartov et al. 2002; Graham et al. 2005). For example, a study by Kasznik (1999, as reported in Healey and Wahlen 1999) found evidence that firms falling short of earnings forecasts used unexpected accruals, to manage earnings upward and meet investors' expectations.

Also, recent studies concentrating on regulatory motivations for earnings management, found evidence that managers of banks and insurance companies respectively, used specific accruals, such as loan loss provisions and claim loss reserves for property-casualty, to meet regulatory requirements (Healy and Wahlen 1999). On the other hand, studies tackling contract motivations for earnings management, suggested that compensation and lending contracts induce some firms to manage earnings to increase bonus awards, improve job security and mitigate potential violation of debt covenants (Healy and Wahlen 1999).

The accruals models have, however, been put into question (Dechow et al. 1995; Healy and Wahlen 1999; Dechow and Skinner 2000; Lo 2007). According to Dechow et al. (1995); Healy and Wahlen (1999) and Dechow and Skinner (2000), since the underlying models assume that managers use discretionary accruals to manage earnings, the main problem remains how to distinguish between discretionary and non-discretionary accruals. Also, these accruals are only an indirect proxy of earnings quality, excluding non-financial information (van Beest et al. 2009). Furthermore, Lo (2007) points out that the measures of earnings management to assess the quality of earnings are imperfect. In addition, Lo (2007) draws attention to difficulties arising from distinguishing between normal earnings and those tainted by earnings management. The author goes further to indicate that, it is unsurprising that earnings management is hard to detect given that preparers of financial reports are frequently well trained and experienced and that there may be a host of economic or social incentives to engage in the practice. Moreover, Graham et al. (2005) specify that managers are more willing to take real economic actions than use accruals to manage earnings for the simple reason that real economic actions are more difficult to detect.

Therefore, conclusions regarding the assessment of the quality of the information in annual reports, based on accruals models, do not provide direct, comprehensive evidence concerning the quality of annual reports and their decision-usefulness (Healy and Wahlen 1999; Dechow and Skinner 2000; van Beest et al. 2009; Lo 2007).

2.3.2 Value relevance

Value relevance models analyse the association between accounting figures and the stock-market reaction, to assess the quality of the annual reports (Barth et al. 2001; Nichols and Wahlen 2004; Bartov, Goldberg and Kim 2005). Accounting earnings are assumed to represent an accounting measure of the changes in the value of the firm to common equity shareholders, while stock return (which is change in the firm's market value over a period plus any dividend paid) represents the capital market's measure of the firm's financial performance over a period of time. When both values are strongly correlated, i.e. when changes in accounting figures correspond to changes in the market value of the firm, it is believed that earnings numbers are relevant and reliable (Nichols and Wahlen 2004). According to Barth et al. (2001), the extant literature defines an accounting amount as 'value-relevant' if it has a foreseen association with the equity market.

In addition, value relevance models are also useful in examining earnings persistence as component of earnings quality (Schipper and Vincent 2003; Nichols and Wahlen 2004). Value relevance studies addressed several questions relating to fair value of debts and equity securities, particularly those held by banks and insurance companies (Petroni and Wahlen 1995; Barth, Beaver and Landsman 1996; Barth and Clinch 1998). These studies unanimously reported that fair value of these securities are reliably measured and investors perceived fair value estimates for the underlying securities as more relevant than historical cost amounts.

Other studies used the 'three links framework', relating earnings to stock returns, developed by Beaver (1998), to assess the relevance and reliability of financial statements (Nichols and Wahlen 2004). The three links framework relating earnings to stock returns states that: (a) current period earnings provide information to predict future period's earnings; which (b) provide information to develop expectations about dividends in future periods; which (c) provide information to determine the share value, which represents the present value of expected future dividends.

Nichols and Wahlen (2004) reported a strong relation between annual/quarterly earnings numbers and stock returns. They reported that firms with positive and increased earnings numbers experienced significant positive stock returns, whereas firms with negative earnings figures, suffered negative stock returns. This suggested that accounting figures provide relevant and reliable information. On the other hand, in their study addressing earnings persistence as element of earnings quality, Nichols and Wahlen (2004) uncovered that firms with strong earnings persistence, outperformed same-size firms with low earnings persistence.

Studies based on value relevance models to assess earnings quality have, however, been questioned with numerous limitations identified (Barth et al. 2001; Nichols and Wahlen 2004; van Beest et al. 2009). For example, Barth et al. (2001) questioned the value relevance of accounting figures (assets, intangibles, long-lived assets) for which no market exists. They further pointed out that fair value of estimates for all non-financial assets cannot be determined by reference to market price, as often as they can for financial instruments. Van Beest et al. (2009) indicate that value-relevant models represent a constant source of limitations as value-relevant literature does not distinguish between relevance and reliability, i.e. it does not explicitly show whether trade-offs have been made when constructing accounting figures. This may happen to be inconsistent with the CF (2010), given that the CF explicitly does not support the substitution of one fundamental quality with another (SAICA ED 240 2008: BC2.56). In addition, it also appears to be inconsistent with the IRC (2011) in its definition of the qualitative characteristics. Moreover, the stock market may not be completely efficient and consequently, stock prices may not represent totally and accurately the market value of the firm (Nichols and Wahlen 2004).

Generally, value relevance models concentrate on presentations and disclosures made in the financial statements, to appraise the quality of the annual reports. Nevertheless, a comprehensive instrument of measurement of the quality of the annual reports should take into account a holistic means of reporting, encompassing non-financial information, and not solely focus on financial statements (van Beest et al. 2009; Solomon 2010; King III 2009). The importance of non-financial information has been addressed with high regards by the IASB (2008, 2010) and the IRC (2011) for the reason that it is believed to complement and supplement financial information (SAICA ED 240 2008; IASB Management Commentary [MC] 2010; IRC 2011).

2.3.3 *Methods using qualitative characteristics to assess the quality financial reporting*

These models use qualitative characteristics to simultaneously evaluate the quality of different aspects or attributes of information, to establish the decision-usefulness of the information disclosed in the annual reports (Jonas and Blanchet 2000). Research addressing the use of qualitative characteristics to measure the quality of annual reports, has attempted to develop questions with regards to specific qualitative characteristics, in order to assess the quality of financial information (Jonas and Blanchet 2000; McDaniel et al. 2002; van Beest et al. 2009). Jonas and Blanchet (2000) developed a series of questions, based on specific components of the major qualitative characteristics of relevance, reliability and comparability, as defined in the FASB's conceptual framework.

Furthermore, McDaniel et al. (2002) used members of audit committees to assess the overall quality of financial reporting, and the quality of financial reporting focusing on attributes of relevance, reliability and comparability, as characterised in the FASB's conceptual framework. Their results suggested that audit committees' members, evaluate the overall quality of financial reporting with reference to the qualitative characteristics of relevance, reliability and comparability as described in the FASB's conceptual framework. In addition, van Beest et al. (2009) developed 21 operational measurement tools based on the fundamental and enhancing qualitative characteristics in order to assess the quality of financial reporting in accordance with ED 240, issued in June 2008 by the IASB.

However, although research based on qualitative characteristics is consistent with the CF (2010) on its aspect of operationalising the qualitative characteristics, the operationalisation evoked above, is based on the existing framework of the FASB for example (Jonas and Blanchet 2000) or the initial Exposure Draft (ED 240 2008) (van Best et al. 2009). In other words, the studies do not consider *all* of the qualitative characteristics per the CF (2010) (revised) in its final form; or are based on the initial exposure drafts preceding the CF (2010) or on US GAAP. In addition, they have not specifically considered the qualitative characteristics within the context of integrated reporting as per the IRC (2011).

2.3. Qualitative characteristics and development of the research instrument

The conceptual framework has indicated that qualitative characteristics are the attributes that make financial reporting decision-useful (IASB CF 2010: QC1). This section addresses the definitions of the qualitative characteristics in terms of the fundamental characteristics of relevance and faithful representation, and the enhancing characteristics of understandability, comparability, verifiability and timeliness, as outlined in the CF (2010). As the IRC (2011) provide similar definitions of the qualitative characteristics, its perspective is also detailed. In addition, this section discusses the questionnaire to be used in this research, inspired by an extensive literature review, used to explore the issue of the quality of South African annual reports.

2.3.1 Relevance

Financial information possesses the quality of relevance if:

> *It is capable of making a difference in the decisions made by users of financial reports. Furthermore, financial information is capable of making a difference if it has predictive value, confirmatory value or both* (IASB CF 2010: QC6, QC7).

The CF (2010: QC8, QC9) indicates that financial information has predictive value if "*it can be used as an input to processes employed by users to predict future outcomes*", and confirmatory value is the quality of information that *"provides feedback about (confirms or changes) previous evaluations".*

Furthermore, the IRC (2011) points out that information presented in the annual reports possesses the quality of relevance if it appropriately assists stakeholders evaluate the company's performance and its capacity to create and sustain value over the short, medium and long-term.

Inspired by prior literature, five questions were constructed in order to asses the perceived relevance of annual reports, referring to predictive and confirmatory value. Consistent with the CF (2010), the IRC (2011), and Jonas and Blanchet (2000), the five questions covered non-financial information which may include potential financial information important to users of annual reports.

The first question which assesses the compliance with predictive value is referred to as the extent to which financial reports provide forward-looking information that help users form expectations and predictions concerning the future of the company (IASB MC 2010; IRC 2011). Annual reports with forward-looking information are regarded as containing management's expectations for the company's future performance. Consequently, the underlying information may be relevant to capital providers and other users, since management has access to private information that is not available to other stakeholders (Bartov and Mohanram 2004; van Beest et al. 2009). In addition, the IRC (2011) argue that, nowadays, stakeholders demand forward-looking information which will enable them to perform a more effective assessment of the total economic value of the company. As a result, companies in SA should include a forward-looking statement, describing the organisation's anticipated future activities and performances. The report should comprise a clear statement of the organisation's future targets on social, environmental, economic and financial grounds (IRC 2011). This perspective is supported by *the Management Commentary Framework* (MC 2010) which considers providing forward-looking information to users amongst its fundamental principles.

The first research question is formulated as follow:

R1: To what extent does the presence of forward-looking information help users form expectations and predictions concerning the future of the company?

The second question addresses the extent to which the presence non-financial information - in terms of the overview of the organisation, its objectives, business opportunities and risks- complement the financial information (IASB MC 2010; IRC 2011). The IRC (2011) has indicated that reports consisting mostly of financial information do not provide sufficient information to enable users to make a comprehensive assessment of the organisation's performance, and its ability to create and sustain value, especially in the context of growing environmental, social, economic and financial challenges. In addition, presenting the users of annual reports with business opportunities and risks will convey the message that management fully understand the business environment and is aware of the potential events that could affect the company, and that the organisation is effectively driven toward a sustainable future (IRC 2011). Furthermore, Jonas and Blanchet (2000) emphasised the importance of disclosing business opportunities and risks, given that this provides an overview of potential future events that could affect the company.

The second research question is formulated as follow:

R2: To what extent does the presence of non-financial information (NFI) - in terms of the overview of the organisation, its objectives, business opportunities and risks - complement the financial information that you have reviewed?

The third question measures the extent to which corporate governance-related issues (in terms of social, health, environmental and compliance issues) are useful for different stakeholders (IRC 2011). Corporate governance is described by Brennan and Solomon (2008: 890) as:

> *The system of checks and balances, both internal and external to companies, which ensures that companies discharge their accountability to all their stakeholders and act in a socially responsible way in all areas of their business activity.*

It has been suggested that poor corporate governance and poor internal control have a negative effect on the quality of financial reporting (Solomon 2010; see: Cohen, Krishnamoorthy and Wright 2002). Corporate governance information adds value to capital providers and increases the likelihood that financial reporting information is relevant and faithfully represented (Sloan 2001; Holland 1999). The IIRC (2011) reported that globalisation, environmental impact, social and health consideration; and expectations regarding corporate transparency and accountability cannot be ignored by annual reporting. Furthermore, in order to ensure that all material issues related to corporate governance are comprehensively reported, the boards of directors of South African companies are compelled to acknowledge their responsibility to ensure the integrity of the annual reports (IRC 2011). The boards of directors are also required to confirm in a statement that a "collective mind" was applied to ensure the reports address all financial and non-financial issues and that the recommendations of King III (2009) were thoroughly observed and respected (IRC 2011). Moreover, in order to be listed, the JSE requires companies to provide evidence of their corporate governance standards, environmental policies, health and safety records, Black economic empowerment credentials and HIV/AIDS policies (Reed 2003; Vaughn and Ryan 2006).

Therefore, the third research question is formulated as:

R3: To what extent is corporate governance-related disclosure – in terms of social, health, environmental and compliance issues – in annual reports, useful for different stakeholders?

The fourth question, related to the assessment of relevance addresses the extent to which annual reports communicate strategic objectives informed by risks, opportunities, macro-economic and social issues and sustainability concerns (IASB MC 2010; IRC 2011). As companies operate in different environments, the IRC (2011) stressed that material disclosures relating to social, environmental, economic and financial issues should be integrated and connected to the business strategy, risks and opportunities, and presented to the stakeholders. It has been argued that the process of creating and sustaining value is not solely dependent on an organisation (IIRC 2011). On the contrary, the entire process is influenced by external factors incorporating economic conditions, social and environmental issues, and technological changes that present risks and opportunities which characterise the environment in which companies operate (IIRC 2011). The review of the "Management Discussion & Analysis" (MD&A), also known as "Management Commentary" (MC) section of annual reports can provide insight with regards to non financial issues and concerns (Jonas and Blanchet 2000). The MC (2010: 24) indicates that if informed properly, the management commentary section of the annual reports should encompass information regarding the nature of the business, management's objectives and the strategies for meeting those objectives, the entity's most significant risks, resources and relationships, and the critical performance measures and indicators that management uses to evaluate the entity's performance against the stated objectives. Moreover, disclosures provided in a Management Commentary, could help users understand: (a) the company's potential risks exposures, its strategies for managing risks and the effectiveness of those strategies; (b) the potential effects of resources that are not presented in the financial statements on company's operations, and (c) the influence of non-financial factors on the presented financial statements (IASB MC 2010). The IIRC (2011) ascertain that companies will gain a competitive advantage if a discussion regarding the extent to which sustainability considerations have been integrated into strategy is provided.

Therefore, the fourth research question is formulated as follow:

R4: To what extent do financial reports communicate strategic objectives informed by risk, opportunities, macro-economic and social issues and sustainability concerns?

The fifth question that assesses the relevance of SA companies measures the extent to which the annual reports allow stakeholders to evaluate the organisation's long- and short-term performance as well as its sustainability (King III 2009; IRC 2011). According to the IRC (2011), information disclosed in annual reports is described as relevant if it effectively assists shareholders evaluate the company's performance and its capacity to create and sustain value over a short, medium and long-term. King III (2009) encourages companies to adopt a more sustainable approach to their business by taking appropriate long term perspective, developing a productive relationship with employees and people in the supply chain, and seriously embracing their ethical, environmental and social responsibilities. The IIRC (2011) espouses a similar perspective by pointing out the importance of a solid relationship between an organisation and its employees, partners' networks, suppliers and customers in the process of creating and sustaining value. Additionally, the underlying process is highly dependent on the availability, affordability, quality and management of the financial, human, intellectual and social resources. In

SA, the Socially Responsible Investment (SRI) index serves as an indicator for investors to identify companies that incorporate sustainability practices in their business activity. The index helps highlight companies that follow the best practices in terms of corporate social responsibility (CSR) (Reed 2003; Rossouw 2005; Vaughn and Ryan 2006).

The research question is therefore formulated as follow:

R5: Overall, to what extent does the annual report allow stakeholders to evaluate the organization's long and short term performance as well as its sustainability?

2.3.2 Faithful Representation

The CF (2010) considers faithful representation as the second fundamental qualitative characteristic subsequent to relevance. A faithful representation of an economic phenomenon is attained when *its depiction is complete, neutral and free from material error* (IASB CF 2010: QC12; IRC 2011). Economic phenomena represented in annual reporting are economic resources and obligations and the transactions and other events and circumstances that change them (IASB CF 2010). Consistent with the operationalisation of relevance, prior literature was referred to in order to operationalise faithful representation.

For the purpose of this research, five questions were put together in order to assess the compliance of financial reporting with faithful representation.

The first question is related to the concept of *free from bias*. It assesses the extent to which significant assumptions and estimates used in preparing the annual reports are well explained. Meanwhile, it is well documented that financial reports can never be entirely free from bias, given that economic phenomena are measured under the conditions of uncertainty (IASB CF 2010). Nonetheless, the CF (2010) argues that, although complete lack of bias cannot be attained, it is imperative to apply a certain level of accuracy for financial reporting to be decision-useful. Hence, it becomes necessary to examine different estimates and assumptions made in the annual reports, in order to ensure that the principles that explain them are provided without bias (Jonas and Blanchet 2000). The IRC (2011) further reports that while presenting their results, companies should avoid selections, omissions and presentation formats that could mislead the decisions of users. In addition, companies should seek to provide results based on both positive and negative events and any other issues that could influence users decisions (IRC 2011).

The research question is therefore formulated as follow:

F1: To what extent are significant assumptions and estimates used in preparing the annual reports explained?

The second question based on faithful representation addresses the extent to which companies explain their accounting policy choices. According to the provision of IAS 8: Accounting policies, estimates and errors, the rules and practices adopted by management in connection with the preparation and presentation of the annual reports have to comply with IFRS and should be comprehensively explained (IASB 2011; Sowden-Service 2011). Jonas and Blanchet (2000), as well as Maines and Wahlen (2006), argued that when well-grounded arguments are provided to justify the choices of the company's accounting policies and principles, the likelihood that preparers fully understand the measurement methods, will increase. Furthermore, when selected accounting policies and principles are clearly portrayed and well-founded, this reduces the risk of users and auditors being mislead (van Beest et al. 2009).

The research question is therefore formulated as follow:

F2: Do companies explain their accounting policy choices?

The third question is related to the concept of neutrality. The CF (2010: QC14) defines neutrality as:

> *The absence of bias in the selection or presentation of financial information. A neutral depiction of a phenomenon is not slanted, weighted, emphasised, de-emphasised or otherwise manipulated to increase the probability that financial information will be received favourably or unfavourably by users.*

The third question, therefore addresses the extent to which annual reports, highlight positive as well as negative events (King III 2009; IASB MC 2010; IRC 2011). According to the IRC (2011), highlighting both positive and negative events increases the transparency of the annual reports. Also, it bolsters the shareholders' confidence and trust in the entity and its management. Given that positive and negative events are exposed, the understanding and the management of risks could be enhanced (IRC 2011). Improved transparency and richness of the information reported could result in a lower cost of capital for the organisation (IRC 2011). Furthermore, Van Beest et al. (2009) argued that preparers of annual reports should make an effort to achieve an objective presentation of events, instead of solely concentrating on the positive events that occurred without mentioning the negative ones. In SA, King III (2009) requires companies to report on how they intend to improve the positive impacts (on the society or the environment in which they operate) created by their activities and how they can mitigate or lessen the negative impacts.

The research question is therefore formulated as follow:

F3: To what extent do companies highlight the negative events as well as the positive events?

The fourth question refers to the extent to which the disclosed strategy, values, risks, risk management policies, social/health/environmental issues, and financial performance of the company is a faithful representation of the true state of affairs. King IIII (2009) reports that strategy, risk, performance and sustainability are inseparable. The MC (2010) indicates that companies should provide stakeholders with non-financial information that reflects management's assessment of non-financial factors that influenced the information presented in the financial statements. In addition King III (2009) and the IRC (2011) indicates companies should make use of an independent assurance function to provide credibility to the organisation's reporting by expressing an independent opinion on the accuracy, completeness and reliability of disclosures in the annual reports; whether it relates to financial, social, environmental, economic, or governance information.

The research question is therefore formulated as follow:

F4: To what extent are the disclosed strategy, values, risks, risk management policies, social/health/environmental issues, and financial performance of the firm a faithful representation of the true state of affairs?

The last question that assesses faithful representation addresses the extent to which non-financial information integrated with the financial reporting is contained in annual reports. King III (2009); the IRC (2011) and the IIRC (2011) have reported the need for an integration of financial and non-financial information in the annual reports. According to the IRC (2011) and the IIRC (2011), the annual reports should lead to a comprehensive integration of different categories of information such as environmental, social, economic and social issues. This should be aimed at assisting distinct stakeholders evaluate the ability of an organisation to create and sustain value in a short, medium and long-term.

The annual reports should provide an integrated connection of the following elements: the organisational overview and its process of creating and sustaining value (business model), the strategic objectives and the strategies to achieve those objectives, the governance structure and how it supports the strategic objective objectives of the organisation, the performance (either financial or non-financial) of the organisation against the strategic objectives and the related strategies, and future prospects in terms future opportunities, challenges and uncertainties that the organisation is likely to face in attempting to achieve its future targets (IRC 2011; IIRC 2011). As a result, both the IRC (2011) and the IIRC (2011) are in the process of developing an integrated reporting framework that will guide organisations communicate a complete set of information to be used by stakeholders to assess organisations' short, medium and long-term prospects in a clear, concise, connected and comparable format (IRC 2011; IIRC 2011).

The research question is therefore formulated as follow:

F5: To what extent is non-financial information integrated with the financial reporting contained in annual reports?

2.3.3 Comparability

The enhancing qualitative characteristic of comparability is defined as *the quality of information that enables users to identify and understand similarities in, and differences among, items* (IASB CF 2010: QC20). Comparability implies that similar situations should be presented similarly, while dissimilar situations should be presented differently (IASB CF 2010: QC24). The CF (2010) indicates that companies should seek to achieve comparability by means of consistency. Consistency refers to the use of the same accounting policies and procedures, either from period to period within an entity or in a single period across entities (IASB CF 2010: QC23).

For the purpose of this research, the compliance of annual reports with comparability is addressed using four questions, mainly based on consistency. Three questions are related to the use of the same accounting policies from period to period by a company, and one question addresses comparability in a single period across companies.

The first question evaluates the frequency of companies' restatement of their previous accounting periods' figures as a result of the implementation of a change in accounting policies or a material prior period error. Restatement of accounting figures is perceived as sending a strongly negative message to the capital market, especially when it affects companies' revenues (Costello and WittenBerg-Moerman 2011; Graham, Li and Qiu 2008; Akhigbe, Kudla and Madura 2005; Baker and Hayes 2004). Although some restatements due to change in accounting policies can be seen a as positive initiative, restatements of accounting figures due to material prior period error can be detrimental to companies market value (Akhigbe et al. 2005; Graham et al. 2008). For instance, it is believed that when accounting figures are frequently restated, investors will have less confidence when using a firm's financial information to evaluate it, for the simple reason that they fear the figures could be contrived (Akhigbe et al. 2005). In addition, negative restatements in cases such as Enron reduce the credibility of a company vis-à-vis the market (Baker and Hayes

2004). As a result lenders tend to increase the borrowing cost and reduce the debt maturity (Costello and Wittenberg-Moerman 2011; Graham et al. 2008).

The research question is therefore formulated as follow:

C1: How frequently do companies restate previous accounting periods' figures, for the effect of the implementation of a change in accounting policy or a material prior period error?

Generally, new rules or regulations cause companies to change their judgements, estimates and accounting policies. For instance, in 2005, all South African listed companies were required to present their annual reports in accordance with IFRS, as result of new rules and legislation (Coetsee 2007). In terms of consistency, the second question addresses the extent to which companies explain how changes in accounting policies or revisions explain the implications of the respective changes (IASB 2011).

The research question is formulated as follow:

C2: In your opinion, to what extent do the notes on changes in accounting policies or revisions explain the implications of the respective changes?

The IRC (2011) also argues that, when there are changes in accounting policies, companies should explain the reasons for these changes and describe their impact. In addition, estimates or material judgements should also be elaborated on to ensure comparability (van Beest et al. 2009). Furthermore, information is more useful if the reported financial, social, economic and environmental performances could be compared against past performances and the strategic objectives and targets (IRC 2011). The third question, therefore, addresses the extent to which companies' social, environmental, economic and financial performance is comparable from period to period.

Therefore, the research question is formulated as follow:

C3: To what extent is the financial, social, economic and environmental performance of the organization comparable from period to period?

Comparability also refers to the use of the same accounting procedures and policies in one period across entities (IASB CF 2010). In assessing the quality of comparability of annual reports of different companies, the prior literature has indicated that the accounting policies used; the structure of the annual reporting and the explications of transactions and other events, are important (van Beest et al. 2009). Additionally, in order to enhance the comparability of information across entities, companies are required, to the extent possible, to include their respective industries' or other organisations' targets, to help users situate the company's performance within an appropriate context (IRC 2011). Moreover, the IIRC (2011) has expressed its desire to develop a reporting framework that would lead to an increase in comparability of annual reports across different jurisdictions universally. The fourth question, therefore, measures the comparability of the information in the annual reports to comparable information provided by other organisations. It is formulated as follow:

C4: To what extent is the information in the financial reports comparable to information provided by other organisations?

2.3.4 Understandability

The enhancing qualitative characteristic of understandability, as defined in the CF (2010), is the "*quality of information that enables users to comprehend its meaning*". The CF (2010) further emphasised that understandability is enhanced when information is classified, characterised and presented clearly and concisely. Information that is clear and concise balances brevity with sufficiency (Jonas and Blanchet 2000). Also, Information that is understandable is easily accessible and usable by the organisation's key stakeholders (IRC 2011). Based on extant literature, the extent to which financial reporting information is understandable is assessed with reference to three questions emphasising the transparency and clearness of the information presented and disclosed in the annual reports (Jonas and Blanchet 2000; IASB CF 2010; IRC 2011).

The first question, assesses the extent to which financial reporting is presented in a well-organized manner. It is believed that, if annual reports are well organized, it is easier to understand where to search for specific information (Jonas and Blanchet 2000). In addition, the IRC (2011) suggest that companies present information in a way that is comprehensible, accessible and usable by key stakeholders.

The research question is therefore formulated as follow:

U1: To what extent are the financial reports that you have reviewed presented in a well organised manner? (E.g. Table of contents, heading, order of components in the financial reporting, etc.)

The second question assesses the extent to which the supporting notes to the financial statements are useful to understanding the financial performance of organisations. It is argued that disclosures made in the notes to the financial statements are important for elaborating on and explaining the disclosures contained in the respective financial statements (van Beest et al. 2009). In particular, narrative explanations increase the understandability of financial information (van Beest et al. 2009).

The research question is therefore formulated as follow:

U2: To what extent are supporting notes to the financial statements useful for understanding the financial performance of organisations?

Finally, the third question assesses the extent to which supplementary information such as a glossary of terms, group structures and cross-referenced electronic media add to the clarity of the annual reports. It is argued that even if technical terminology is unavoidable, an explanation in a glossary may increase the understandability of financial information, even though users are assumed to be reasonably financially literate (van Beest et al. 2009; IRC 2011). In addition, difficult terminology obscures information in financial reporting, and deprives it of its decision-usefulness (SAICA ED 240 2008).

The research question is therefore formulated as follow:

U3: Does supplementary information such as glossary of terms, group structures and cross-referenced electronic media add to the clarity of the annual report?

2.3.5 Timelines

The quality of timeliness is defined in the CF (2010: QC29) and the IRC (2011) as "*having information available to decision- makers in time to be capable of influencing their decisions*". It refers to the time it takes to reveal the information before it loses its decision-usefulness. It is argued that, in general, the older the information is, the less useful it is. Compliance with the quality of timeliness is measured in terms of the appropriateness of the time lag between the end of reporting period and the issue of the annual financial reports to stakeholders (IRC 2011; IASB CF 2010).

The research question regarding timeliness is formulated as follow:

T1: To what extent do you feel that the time lag between the end of the reporting period and the issue of the annual financial report to stakeholders is appropriate?

2.4. Summation

The literature review revealed that certain models have previously been used successfully, to assess the quality of financial reporting. It further revealed that existing measures to assess the quality of financial reporting, either focused on particular components of financial reporting, or used measures that have discrepancies when compared to the CF (2010) and the IRC (2011). Moreover, the literature review addressed the qualitative characteristics and the questions to be used, to assess the extent to which financial reporting disclosures meet each of the qualitative characteristics.

The following table summarises the sub questions developed in the literature review, each serving as a question in the data collection instrument:

Table 1: Research questions

Question No	Question
Relevance	
R1	To what extent does the presence of forward-looking information (e.g. financial reviews, budgets, forecasts) help users form expectations and predictions concerning the future of the company?
R2	To what extent does the presence of non-financial information (NFI) - in terms of the overview of the organisation, its objectives, business opportunities and risks - complement the financial information that you have reviewed?
R3	To what extent does corporate governance-related disclosure – in terms of social, health, environmental and compliance issues – in annual reports useful for different stakeholders?
R4	To what extent do financial reports communicate strategic objectives informed by risk, opportunities, macro-economic and social issues and sustainability concerns?
R5	Overall, to what extent does the annual report allow stakeholders to evaluate the organization's long and short term performance as well as its sustainability?
Faithful Representation	
F1	To what extent are significant assumptions and estimates used in preparing the annual reports explained?
F2	Do companies explain their accounting policy choices?
F3	To what extent do companies, highlight the negative events as well as the positive events?
F4	To what extent are the disclosed strategy, values, risks, risk management policies, social/health/environmental issues, and financial performance of the firm a faithful representation of the true state of affairs?
F5	To what extent is non-financial information integrated with the financial reporting contained in annual reports?
Comparability	
C1	How frequently do companies restate previous accounting periods' figures, for the effect of the implementation of a change in accounting policy or a material prior period error?
C2	In your opinion, to what extent do the notes on changes in accounting policies or revisions explain the implications of the respective changes?
C3	To what extent is the financial, social, economic and environmental performance of the organization comparable from period to period?
C4	To what extent is the information in the financial reports comparable to information provided by other organisations?

Understandability

U1	To what extent are the financial reports that you have reviewed presented in a well organised manner? (E.g. Table of contents, heading, order of components in the financial reporting, etc.)
U2	To what extent are supporting notes to the financial statements useful for understanding the financial performance of organisations?
U3	Does supplementary information such as glossary of terms, group structures and cross-referenced electronic media add to the clarity of the annual report?

Timeliness

T1	To what extent do you feel that the time lag between the end of the reporting period and the issue of the annual financial report to stakeholders is appropriate?

CHAPTER 3: RESEARCH METHODOLOGY

3.1 Research methodology and design

This research is inspired by an interpretive approach (Brennan and Solomon 2008; Creswell 2009; Maroun et al. 2011). This approach is best suited to obtain and explore Experts' opinions on the extent of the correlation between quality of annual reports and the qualitative characteristics of the CF (2010) and the IRC (2011) on a holistic basis. In a research that inspired a similar ontological perspective, Maroun et al. (2011) explored the perceived impact of the capital gain tax (CGT) on the fairness of the SA tax system. They developed a survey questionnaire on a basis of literature review, as well as the opinions of a sample of tax academics and tax practitioners. Another study conducted by O'Dwyer, Owen and Unerman (2011) also used an interpretive-based approach to successfully explore the perceptions of informed participants on auditors legitimisation strategies.

This research shares a similar viewpoint as it seeks to explore the perceptions of Experts on the extent to which annual reports comply with or resonate with the qualitative characteristics per the CF (2010) and IRC (2012). In this way, the research is relatively subjective and is inspired by a more interpretive outlook (Maroun et al. 2011; O'Dwyer et al. 2011). As a result, this research is positioned in a social constructivist perspective (Creswell 2009; Sandberg 2005).

3.2 Population and sample

3.2.1 Population

The population consists of the universe of all IFRS and integrated reporting experts as at 31 December 2010. The selection of the reporting period ending during and up to 31 December 2010 is driven by the fact that the CF (2010) was adopted in 2010, and that King III (2009) and the JSE required SA listed companies to provide an integrated reporting from financial reporting for periods commencing on or after 1 March 2010 (IRC 2011; King III 2009; Morales and Van Tichelen 2010).

The research population is classified under three major categories. The first category is that of academics, consisting of professors and/or senior lecturers in different South African accredited tertiary institutions with experience in assessing the quality of financial reporting by South African companies. The second category is that of experts in practice, consisting of audit practitioners who have a considerable experience in assessing financial reporting issued in accordance with IFRS. The third category is that of experts in commerce, consisting of financial managers/directors or chief financial officers, or any other persons fulfilling such role, and engaged in the preparation, review or analysis of annual reports.

3.2.2 Sample and sampling method

The sample consists of a 40 purposefully selected experts (Cohen et al. 2002; Creswell 2009; Maroun et al. 2011). In order to respect our respondents' privacy and adhere to requirements of the University's ethics committee, this research respected the anonymity of the respondents. This was also an attempt to increase the reliability of the research (Creswell 2009; Maroun et al. 2011).

Experts were drawn from the Big 4 audit firms and academics in Johannesburg, South Africa. Participation by individual experts was driven by ease of access alone. Although purposeful selection may result in a degree of bias (see the research limitations) it does improve the accuracy of responses and hence reliability (Rowley 2012; Creswell 2009).

Proposed experts were contacted either by telephone or via email for information. Where any individual be unavailable, a suitably experienced alternate respondent was requested. To ensure that a maximum coverage was obtained a total number exceeding 40 Experts were contacted by the researcher and completed the questionnaire. For this reason, it is assumed that the size of the sample was significant enough to obtain adequate data. Lack of representative sample and data could have an adverse effect on the credibility of the outcomes (Azam et al. 2011; Hussey and Hussey 2003). (See below for further details on data reliability.)

The use of a small sample of experts is useful in ensuring the quality of the findings, provided that only individuals with high expertise in dealing with annual reports presented in accordance with IFRS were selected (Cohen et al. 2002; Brennan and Kelly 2007; Creswell 2009; Maroun et al. 2011).

3.3 The research instrument

A structured, opinion-oriented questionnaire developed on the basis of a literature review (Chapter 2.3 above) as to which see Appendix A. The questionnaire consists of 18 questions based on the fundamental and enhancing qualitative characteristics as defined in the CF (2010) and the Integrated Reporting Framework (2011) and as elaborated on in Chapter 2.3.

For each question, response were provided using a five-point Likert scale to allow the respondents to select the suitable answer based on their knowledge and experience with regards to the assessment of the quality of annual reports with reference to the qualitative characteristics as defined in the CF (2010) and the IRC (2011). In general, the score '1' in the Likert scale, is rated as "poor quality or poor compliance" while score '5' signifies "high quality or high compliance".

A similar approach was used by van Beest et al. (2009) where the researchers developed 21 questions based on the fundamental and enhancing qualitative characteristics in order to assess the quality of financial reporting in accordance with Exposure Draft 240 issued in 2008 by the IASB (see also Azam et al. 2011). To ensure the reliability of the instrument, the questions were subject to a pilot test and modifications were made accordingly (Leedy and Ormrod 2001; Maroun et al. 2011; Azam et al. 2011).

As the questionnaire is structured, it also adds to the reliability of the data (Creswell 2009; van Beest et al. 2009). Furthermore, the reliability was assured by testing responses using the Cronbach's Alpha test of reliability, which highlighted no major issues (Sijtsma 2009; Nunnally 1962)

3.4 Procedure for data collection

The Experts received the structured questionnaire either by hand or email. For individuals who received the questionnaire by hand, an appointment was requested. Alternatively, Experts were contacted by telephone and invited to participate in the research after which the questionnaire was emailed to them.

To ensure that the questionnaires were completed and that the responses were reliable, a brief description of the nature and purpose of the research was provided to experts (see Cohen et al, 2002). In addition, the questionnaire was designed to be easy to understand and complete and not time consuming to process. Further, all participants were informed that the research was purely for academic purposes; that the research was about their opinions and not a 'correct' answer; and they would remain anonymous. This was to ensure result reliability and a high response rate as a low response rate can result in bias in that results may not be representative of the population (Azam et al. 2011; Hussey and Hussey 2003).

A total of 50 questionnaires were either sent via email or handed to the respondents. A total number of 40 responses were collected (80% response rate).

Data were collected and displayed on a Microsoft Excel spreadsheet. The collected data were organised as follow: the rows classified the 40 respondents, and the columns represented each of the 18 questions categorised under the relevant qualitative characteristic, coupled with its five-point Likert scale. The responses provided by the respondents were entered into the corresponding cell marked with the character 'X' (Azam et al. 2011). For analysis purpose, the character 'X' used to collect data could be substituted with numbers and the detailed displayed data could be aggregated according to the responses given in the five-point Likert scale and the questions.

It is important to notify that for the purpose of this study, the questionnaire was subject to an ethical clearance from the ethics committee of the University (see Appendix E). In addition, respondents' confidentiality was observed and respected throughout the entire process. No issues concerning the nature of the data collection instrument or the ethical nature of the research arose during the study.

3.5 Data analysis and interpretation

For the purpose of this study, a descriptive analysis of data was provided including the mode, mean and median used to provide an overview of the 'scores' of each of the 18 questions and summarise the views of Experts (Groth and Bergner 2006; Abadir 2005; Bickel and Lehmann 1975). In addition, a diagram chart was used in order to visualise the scores on each question (Roth and Mattis 1990). This representation will provide an overall insight regarding the opinions of the Experts on the quality of annual reports for the reporting period ending December 2010. The underlying representation also facilitated a solid interpretation of the results (Amaratunga, Baldry, Sarshar and Newton 2002).

Moreover, data were summarised and aggregated into different but meaningful themes/factors by means of a factor analysis (Ilias and Razak 2011; Bonaci, Mustata and Mutiu 2011; Xiao and Dasgupta 2002; Wang, Tang and Tang 2001; Malhotra 1996; Ford, MacCallum and Tait 1986; Hatcher 1994). To some extent, factor analysis can be considered as a method to ensure quality of data used to perform the analysis (Ford et al. 1986). In order to ensure the meaningfulness, the reliability and the reproducibility of themes (also known as factors), themes or factor were rotated using a Varimax Method (Malhotra 1996; Ford et al. 1986). This approach minimizes the number of variables with high loadings on a factor in order to enhance its interpretability. As a result, the Varimax is regarded as the most suited rotation procedure for grouping the 18 research questions into different simple structures or factors (Malhotra 1996; Ford et al. 1986; Rummel 1970).

It should be pointed out that factors were labelled by the researcher (Hatcher 1994; Ford et al. 1986, Comrey 1978; Rummel 1978). For each theme, only items with loading greater than .40 were considered as significant and used in defining that particular theme (Hatcher 1994; Ford et al. 1986, Comrey 1978; Rummel 1978). This ensured that the total variances retained by the factor analysis was not less than 50%, allowing for data richness as well as improved simplification to facilitate analysis (Malhotra 1996; Ford et al. 1986; Rummel 1970). To ensure reliability, the factor analysis is based on the responses of informed experts meaning that, although the researcher has labelled the factors, the composition of the factors themselves is determined in a more objective fashion. (Ford et al. 1986; Tracy 1983) However, it should be pointed out that, due to the nature of this research, the elimination of subjectivity is impossible (Maroun et al. 2011; Creswell 2009).

3.6 Limitations of the study

This study is reliant on the opinions that Experts express on the extent to which financial reporting information comply with qualitative characteristics as defined in the CF (2010) and the IRC (2011). As such there is a measure of subjectivity inherent in this report. In other words, there is the potential for subjectivity for the underlying responses (Alvesson, 2003; Maroun et al. 2011; Creswell 2009; Cohen et al. 2002). Also, since this research is referring to a quantitative technique to analyse qualitative data, the assessment of the qualitative characteristics could be limited. Nonetheless, this approach provides a more concise, simple and clear analysis of the findings (Maroun et al. 2011; Creswell 2009; Neuendorf 2002). On the other hand, it lacks the rich exploratory potential of a more qualitative approach.

Finally the researcher also had to ensure that the collection of data is efficient while ensuring maximum coverage. Nevertheless, the use of relatively small sample sizes due to a purposeful selection sampling approach and inherent time and cost constraints does increase the risk of result bias (Creswell 2009).

3.7 Validity and reliability

3.7.1 External validity

This criterion is related to the degree to which the result obtained from the sample are generalised to the entire population or groups other than the population (Creswell 2009; Andrade 2009; Sandberg 2005; Golafshani 2003; Campbell 1986).

To this end, a sample of 40 experts has been relied upon. To ensure that the results are statistically sound, a Kaiser-Meyer-Olkin Measure of Sampling Adequacy and, Bartlett's Test of Sphericity were performed, as to which see Section 5 (Malhotra 1996; Ford et al. 1986). In addition, participants were purposefully selected to ensure that they were knowledgeable about the subject matter. In addition, although a relatively small sample size was used, this is not inconsistent with the interpretive-inspired nature of this research as well as other studies which have relied on similar sample sizes in comparable contexts (see, for example: Malhotra 1996; Lingard and Rowlinson 2005). What is more, it has been argued that, for the purpose of more interpretive research, the term 'generalisation' should not be restricted to a statistical definition based on extrapolation of results (Andrade 2009; Lee and Baskerville 2003). Instead, validity is ensured by describing the research's limitations (Creswell 2009) and by ensuring that participants are well informed.

In addition, as the assessment of the quality of annual reports based on the opinions of the Experts is highly subjective by nature, the positivist approach of generalisation is inappropriate (Maroun et al. 2011; Azam et al. 2011; Creswell 2009, Golafshani 2003; Winter 2000). As a result, the external validity criterion is maximised by the credibility of respondents and the depiction of the perceptions/opinions in a clear and concise manner (Maroun et al. 2011; Creswell 2009; Golafshani 2003; Winter 2000).

3.7.2 *Internal validity*

According to Winter (2000),

> *Internal validity relates to whether the findings or results of the research relate to and are caused by the phenomena under investigation and not other unaccounted for influences* (see also Creswell 2009 and Campbell 1986).

In order to maximise internal validity and thus ensure that the results of this research are trustworthy, credible and authentic, the research instrument was subjected to a pilot test (Creswell, 2009; Maroun et al. 2011). The underlying procedure plays a central role in terms of ensuring that the results answer the research question (Maroun et al. 2011; Creswell 2009; Winter 2000). A Kaiser-Meyer-Olkin Measure of Sampling Adequacy and, Bartlett's Test of Sphericity were also performed to ensure that the factor analysis performed was appropriate as to which see Section 5 (Malhotra 1996; Ford et al. 2986).

3.7.3 *Reliability*

This criterion deals with whether scientific results can be duplicated under identical conditions (Creswell 2009; Andrade 2009; Sandberg 2005; Golafshani 2003).

However, It has been argued that from an interpretive research point of view, the purpose of the reliability criterion is not to guarantee that a second researcher will reach exactly the same conclusions as the first might have (Andrade 2009; Neuman 1997). On the contrary, producing results that can be trusted and establishing findings that are meaningful and interesting to the readers covers the criteria of reliability (Andrade 2009; Creswell 2009; Golafshani 2003; Trauth 1997). This excludes showing consistent results by repeated analyses (Andrade 2009).

In his discussion of the criteria of reliability in an interpretive approach of research, Sandberg (2005: 59) indicates that:

Criteria of reliability such as replicability and interjudge reliability are of the results of relating to objective reality, and fall outside the scope of achieving reliability within interpretive approach. Instead, the researchers must demonstrate how they have dealt with, controlled and checked their interpretation throughout the research process: from formulating the research question, selecting individuals to be studied, obtaining data from those individuals, analysing the data obtained and reporting the results.

For the purpose of this research, a step towards maximising the reliability of the research instrument was taken by submitting the instrument to series of pilot tests (Creswell 2009; Maroun et al. 2011; Leedy and Ormrod 2001).

In addition, the instrument was subjected to further test of reliability using Cronbach's Alpha; the results confirmed the reliability of the instrument (Sijtsma 2009; Cortina 1993; Nunnalli 1962). As a final safeguard, inherent limitations of this research have been disclosed.

CHAPTER 4: PRESENTATION OF RESULTS

4.1 Introduction

This chapter describes the results of the research. A general overview of the 'scores' provided by Experts, reflecting their perceptions on the quality of annual reporting by South African companies, is outlined. This is based on the perceived extent to which information disclosed in the annual reports is relevant, faithfully portrayed, comparable, understandable and made available timeously to assist stakeholders make comprehensive assessments about companies' abilities to create and sustain value in a short, medium, and long-term, as stressed by the CF (2010) and the IRC (2011).

First, the scores related to each qualitative characteristic are provided and summarised in tables showcasing the mode, median and mean of the sub questions pertaining to the qualitative characteristic. The diagram chart completes the description of the results by supplying information as to the percentages pertaining to the each score. Second, a factor analysis is used to aggregate the data and provide additional insights.

4.2 Respondents

As stated before, the sample consisted of purposeful selection of Experts, from academic, commercial and auditing backgrounds. Of the 50 questionnaires sent to respondents, 40 were completed and returned yielding a response rate of 80%. All questionnaires were correctly completed. No ethical issues were raised during the course of the data collection. No concerns regarding the accuracy of the questionnaire were noted.

4.3 Presentation of the results- relevance

The extent to which SA companies disclosed information that, in the opinion of the Experts, possesses the quality of relevance was addressed by five questions. Respondents' scores for each of these five questions in relation to relevance is provided by Table 2 below. Table 2 also displays the mode, median and mean responses.

Table 2: Descriptive statistics of relevance

Item	Question	Mode	Median	Mean
R1	To what extent does the presence of forward-looking information help users form expectations and predictions concerning the future of the company?	4.00	4.00	3.85
R2	To what extent does the presence of non-financial information (NFI) - in terms of the overview of the organisation, its objectives, business opportunities and risks - complement the financial information that you have reviewed?	3.00	3.00	3.48
R3	To what extent does corporate governance-related disclosure - in terms of social, health, environmental and compliance issues – in annual reports useful for different stakeholders?	4.00	4.00	3.43
R4	To what extent do financial reports communicate strategic objectives informed by risk, opportunities, macro-economic and social issues and sustainability concerns?	4.00	4.00	3.63
R5	Overall, to what extent does the annual report allow stakeholders to evaluate the organization's long and short term performance as well as its sustainability?	3.00	3.00	3.40

With regards to relevance, the table illustrates average (mean) scores of more than 3, with the lowest average score of 3.40 (R5) and the highest average score of 3.85 (R1). As suggested in the table, most of our respondents have assigned a 4 (mode) to the questions R1, R3 and R4. For R2 and R5, the mode was 3. Overall, the questions pertaining to relevance have provided scores above the average of 3 which is the mid score in the five point Likert scale. In addition, in the majority cases, a score of 4 was awarded.

4.4 Presentation of the results-faithful representation

Five questions were used in order to assess the extent to which the Experts perceived information disclosed in the annual reports to be faithfully represented.

The descriptive values of the scores related to faithful representation are presented in the table 3 below.

Table 3: Descriptive statistics of faithful representation

Item	Question	Mode	Median	Mean
F1	To what extent are significant assumptions and estimates used in preparing the annual reports explained?	4.00	4.00	3.53
F2	Do companies explain their accounting policy choices?	4.00	4.00	3.58
F3	To what extent do companies highlight the negative events as well as the positive events?	2.00	2.00	2.20
F4	To what extent are the disclosed strategy, values, risks, risk management policies, social/health/environmental issues, and financial performance of the firm a faithful representation of the true state of affairs?	3.00	3.00	2.93
F5	To what extent is non-financial information integrated with the financial reporting contained in annual reports?	2.00	2.00	2.43

As illustrated by Table 3, the scores allocated by the respondents are on average less than 4 for the five items, with the lowest average score of 2.20 allocated to F3 and the highest average score of 3.58 to F2. Moreover, the mode values suggest that, in most cases, the respondents rated the items either a 4 (F1, F2) or 2 (F3, F5).

4.5 Presentation of the results-comparability

The comparability of the annual reports as perceived by the Experts was assessed with reference to four questions. The results are described in Table 4

Table 4: Descriptive statistics of comparability

Item	Question	Mode	Median	Mean
C1	How frequently do companies restate previous accounting periods' figures, for the effect of the implementation of a change in accounting policy or a material prior period error?	5.00	5.00	4.50
C2	In your opinion, to what extent do the notes on changes in accounting policies or revisions explain the implications of the respective changes?	4.00	4.00	4.05
C3	To what extent is the financial, social, economic and environmental performance of the organization comparable from period to period?	3.00	3.00	3.05
C4	To what extent is the information in the financial reports comparable to information provided by other organisations?	3.00	3.00	3.18

The table shows that the means or average scores pertaining to comparability are higher than 3. The highest mean score is 4.50 provided by C1, followed by 4.05 (C2), while the lowest mean sore is 3.13, provided by C3. C3 and C4 have a mode and average score of 3 implying average responses. The highest value scored with regards to comparability is 5 (mode C1), followed by 4 (mode C2). Further discussions regarding comparability are detailed in the next chapter.

4.6 Presentation of the result-understandability

The Extent to which Experts believe that the information disclosed in the annual reports of SA companies possesses the quality of understandability as defined in the CF (2010) and The IRC (2011), was addressed with three questions.

The results obtained from the three questions concerning comparability are described in Table 5 below.

Table 5: Descriptive statistics of understandability

Item	Question	Mode	Median	Mean
U1	To what extent are the financial reports that you have reviewed presented in a well organized manner? (E.g. Table of contents, heading, order of components in the financial reporting, etc.)	4.00	4.00	4.05
U2	To what extent are supporting notes to the financial statements useful for understanding the financial performance of organisations?	4.00	4.00	3.90
U3	Does supplementary information such as glossary of terms, group structures and cross-referenced electronic media add to the clarity of the annual report?	4.00	4.00	3.95

As demonstrated in Table 5, the mean values suggest that respondents have on average, allocated scores close to 4 (U2, U3) or more than 4 (U1). The mode values detailed in the table suggests that in all cases, the majority of respondents have allocated the score 4 to the questions. The discussion of the result regarding the understandability of information disclosed in the annual reports is provided in the subsequent chapter.

4.7 Presentation of the results-timeliness

The opinion of the Experts on the extent to which the disclosed information in the annual reports is timeously available is addressed by question T1. Table 6 below describe the results relevant to the timeliness of the information presented in the annual reports of South African companies.

Table 6: Descriptive statistics of timeliness

Item	Question	Mode	Median	Mean
T1	To what extent do you feel that the time lag between the end of the reporting period and the issue of the annual financial report to stakeholders is appropriate?	3.00	3.00	3.10

The mean value implies that, on average, the respondents have scored just over 3 for the question regarding timeliness. In addition, the mode of 3, implies that the majority of the respondents have allocated the score 3. Further discussion regarding timeliness is provided in the next chapter.

4.8 Summary

This chapter has provided a detailed presentation of the descriptive statistics as per qualitative characteristics as defined in the CF (2010) and the IRC (2011). Especially, explications regarding the mode and mean values appropriate to each qualitative characteristic were provided. A comprehensive discussion on the implications of these results and how they relate to the quality of the annual reports as stressed by the CF (2010) and the IRC (2011) is outlined in the following chapter. Figure 1, as shown below, provides an overview of the mean value scored by each item of each qualitative characteristic.

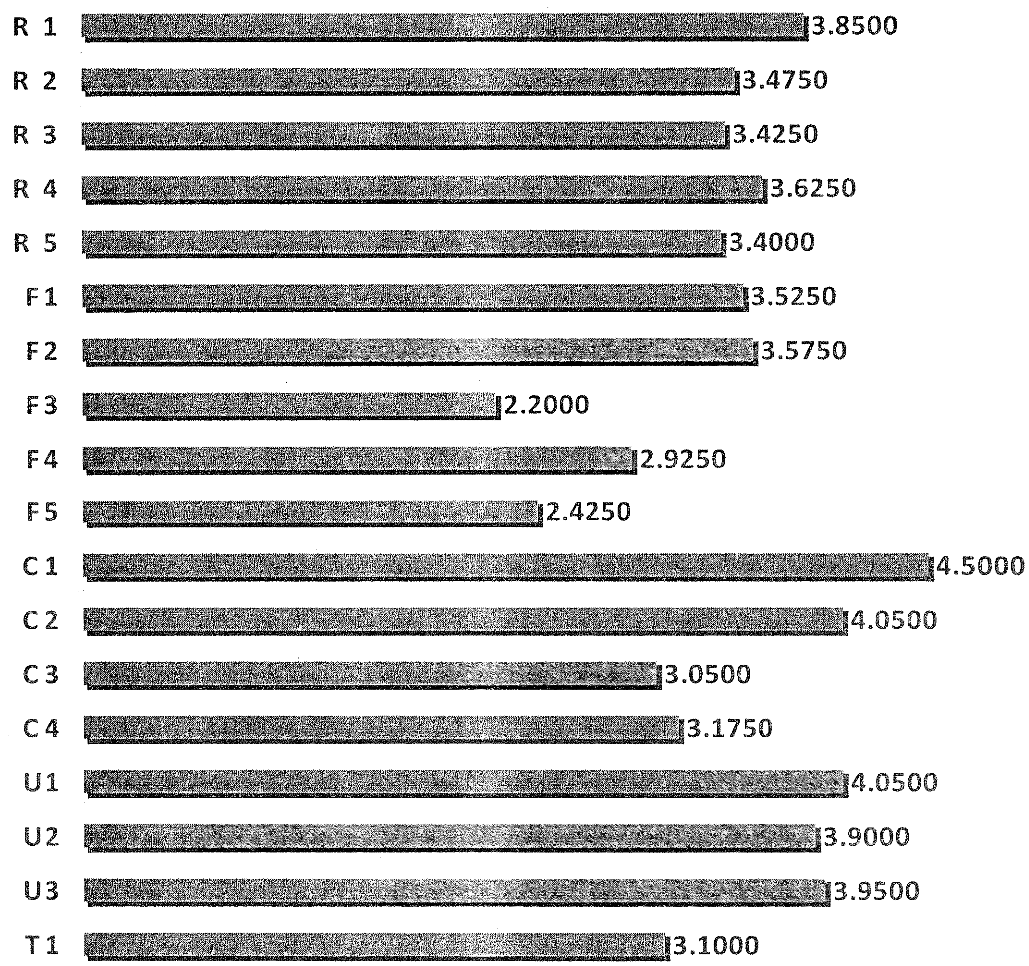

Figure 1: Summary of the mean scores per question.

CHAPTER 5: DISCUSSION OF THE RESULTS

5.1 Introduction

This chapter offers a detailed discussion on and explanation of the results presented in the previous chapter. Firstly a description of each qualitative characteristic as indicated by the IRC (2011) is given. Then, for each qualitative characteristic, an extensive discussion of the results per question is provided. The discussion involves the use of a diagram chart, and the descriptive values presented in previous chapter, to clarify and simplify the understanding of the results. Further analysis is carried out with the use of a factor analysis in section 5.8.

5.2 Discussion of the results-relevance

The quality of relevance, as defined by the IRC (2011: 9) implies that annual reports must be capable of making a difference in the assessments and decisions of stakeholders regarding an organisation's impact on social, environmental, financial and economic systems, and its viability.

The extent to which Experts perceived the information presented in the annual reports of South African as relevant was addressed by five questions inspired by an extensive review of the extant literature (IRC 2011; IIRC 2011; IASB CF 2010; IASB MC 2010; King III 2009; Brennan and Solomon 2008; Vaughn and Ryan 2006; Jonas and Blanchet 2000).

All the questions that assessed the perceived quality of relevance were subject to a Cronobach's Alpha test of reliability (Nunnally 1962) which revealed no material issues. Please see section 5.8 (It should be noted, however, that R4 has been omitted from the factor analysis discussed below as, although its Cronobach Alpha value was acceptable, it did not contribute significantly to the factor analysis).

An overview of the scores for questions [R1 to R5] is provided by the Figure 2 below. Figure 2 displays the mode value of the Likert scale that Experts have scored for each question.

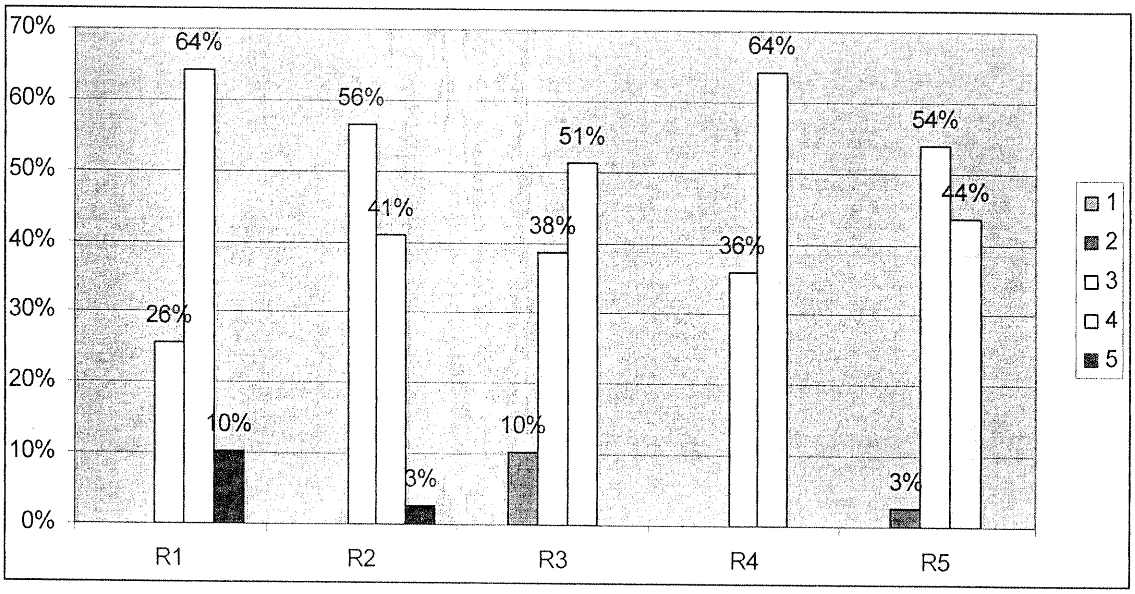

Figure 2: Overview of relevance's scores

The first question [R1] related to the relevance of annual reports of SA companies addressed the extent to which annual reports provide forward-looking information that helps users form expectations and predictions concerning the future of the company (IASB MC 2010; IRC 2011; IIRC 2011). As suggested in Figure 2, a proportion 64% of the Experts believe that in most cases, information presented in the annual reports is helpful (score 4) in assisting users forming their own expectations and predictions regarding companies' future performances. This implies that the Experts perceived the information presented in the annual reports as possessing the quality of predictive ability as defined in the conceptual framework (IASB CF 2010; van Beest et al. 2009).

This also implies that, according to the Experts, users of the annual reports should be capable of properly assessing an entity's expectation of future performance (Bartov and Mohanram 2004). In addition, as required by the IRC (2011), the result related to the first question suggests that South African companies provide a forward-looking statement that allows stakeholders the possibility to assess organisations' anticipated future activities and performance on the social, environmental, financial and economic grounds. Figure 2 also indicates that 26% of the Experts perceived the forward-looking information in the annual reports as marginally helpful (score 3) and 10% of the Experts believed that the presence of forward-looking is very helpful (score 5) in assisting users assess the future of companies.

The second question [R2]related to relevance, addressed the extent to which Experts believed that the presence of non-financial information in terms of the overview of the organisation, its objectives, business opportunities and risks, complement the financial information disclosed in the annual reports (IRC 2011; IIRC 2011; IASB MC 2010; King III 2009). As illustrated in Figure 2, the results pertaining to the second question suggested that 56% of Experts perceived that non-financial information in terms of the overview of the organisation, its objectives, business opportunities and risk is somewhat useful in complementing financial information (score 3). Some 41% of the Experts perceived non-financial information as more useful in complementing financial information and helpful for developing expectations (score 4). These figures imply that the majority of Experts consider that organisations provide reasonable and information regarding their mission, principal activities, markets, products and services (IRC 2011; IIRC 2011). These results also inform that 56% of the Experts perceive that organisations only provide the minimum required information regarding its attitude to risk, as opposed to 41% of the respondents who believe that non-financial information presented in the annual reports is useful and helpful in informing users on how organisations create and sustain value in the short, medium and long-term (IRC 2011).

Overall, the results pertaining to the second question suggest the perception that presence of non-financial either provide reasonable (as conveyed by 56% of the respondents) or sufficient information (as conveyed by 41% of the respondents) to indicate to the stakeholders that management fully understand the business environment and is aware of the potential events that could affect the company including its sustainability (IRC 2011; IIRC 2011).

The third question [R3] assessed the extent to which the Experts believed that corporate governance issues (in terms of social, health, environmental and compliance concerns) presented in the annual reports are useful for different stakeholders (IRC 2011; IIRC 2011; King III 2009; Vaughn and Ryan; Reed 2003). With regards to the underlying question, the results summarised in Figure 2 suggest that a total of 51% of Experts perceived the underlying issues as useful (score 4) in terms of informing different categories of users for assessment and decision purposes, while 38% believe that corporate governance related issues disclosed in the annual reports are somewhat useful (score 3). The results imply that corporate governance-related disclosures (in terms of social, environmental and health issues) disclosed in the annual reports of SA companies are perceived as adding value to capital providers and increase the stakeholders' confidence that annual reports provide relevant information (adapted from Sloan 2001 and Holland 1999). Furthermore, the underlying results also imply that SA companies provide information perceived, in most cases as both useful or reasonably useful, regarding their compliance with the requirements of King III (2009), and the extent to which a "collective mind" was applied in ensuring that annual reports addressed financial and non-financial issues (IRC 2011; IIRC 2011). For companies listed on the JSE Ltd, and from the view point of the Experts, the underlying results suggest that companies provide evidence believed to be either useful or reasonably useful for users in terms their environmental policies, health and safety records and HIV/AIDS policies (Vaughn and Ryan 2006; Reed 2003).

The fourth question [R4] related to relevance assessed the extent to which the Experts perceived that annual reports communicate strategic objectives informed by risk, opportunities, macro-economic and social issues, and sustainability concerns (IRC 2011; IASB MC 2010). The results, as provided in Figure 2, suggested that 64% of Experts believe that each issue regarding the business objectives, risks, opportunities, social issues, sustainability concerns and macro-economic factors, is discussed in full (score 4), while 36% of the respondents perceived that the level of integration of the underlying information is present but limited and not integrated (score 3). These results, point to the fact that the majority of Experts believe that material disclosures in terms of social, environmental and financial issues are moderately integrated and connected with the business strategy, risks and opportunities. Alternatively, the results suggest that a complete and comprehensive integration of the underlying disclosures is perceived to be somewhat wanting in the annual reports, when information is presented to stakeholders. What should be considered as encouraging is the fact the communication of crucial issues relating to: companies' risk exposures; strategies for managing risks; the effectiveness of those strategies; and sustainability, economic and social issues are present in the annual reports.

The fifth question [R5] that assessed relevance, addressed the extent to which Experts believed that information disclosed in the annual reports allow stakeholders to evaluate the organisation's short and long-term performance as well as its sustainability (IRC 2011; IIRC 2011; King III 2009; Vaughn and Ryan 2006; Rossouw 2005). The results are displayed in Figure 2 and suggested that 54% of the Experts believed that, to some extent, the annual reports allow the stakeholders to evaluate companies' short and long-term performances as well as their sustainability (score 3), while 44% of the respondents believe that annual reports provide a good platform for stakeholders to assess the short and long-term performances of companies and their sustainability (score 4).

5.3 Discussion of the results-faithful representation

The quality of faithful representation is defined by the IRC (2011) *"the quality of information that is complete, neutral and free from error".*

The extent to which Experts believed that information presented in the annual reports is faithfully represented was addressed using five questions, inspired by an extensive literature review (IRC 2011; IIRC 2011; IASB CF 2010; IASB MC 2010; King III 2009; Maines and Wahlen 2006; Jonas and Blanchet 2000). Items used to assess the perceived quality of faithful representation were tested to a Cronbach's Alpha test of reliability (Nunnally 1962). The results revealed that the items were reliable. Please see section 5.8

The different values scored by the Experts for each question asked with regards to faithful representation is summarised in Figure 3 below.

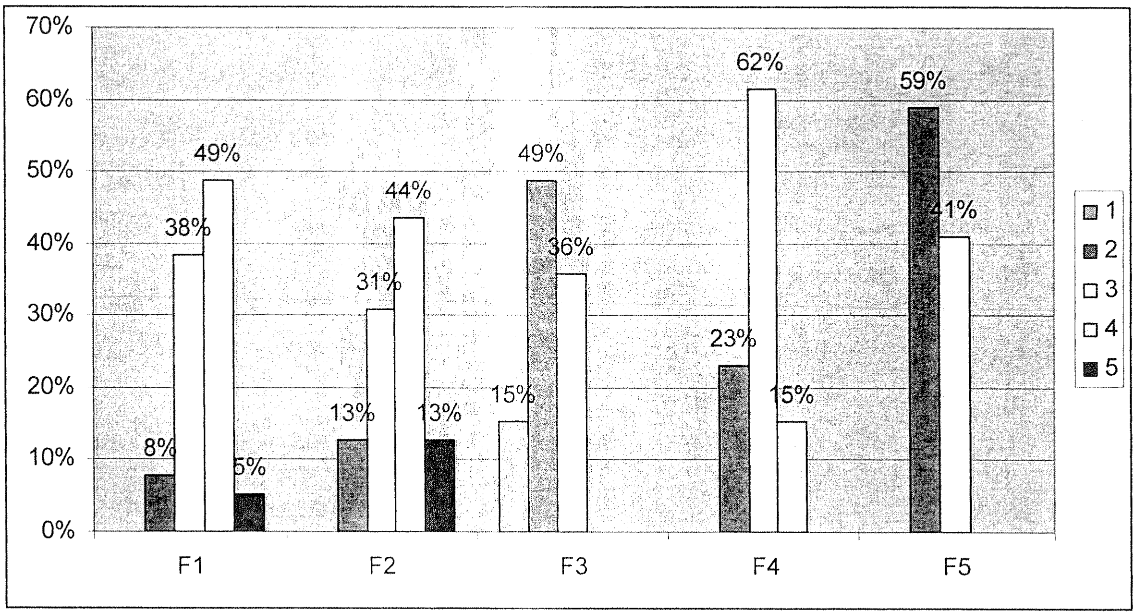

Figure 3: Overview of faithful representation's scores

The first question [F1] concerning the faithful representation of information disclosed in the annual reports of SA companies dealt with the extent to which Expert perceived the significant assumptions and estimates used in preparing the annual reports as well explained (IASB CF 2010; Jonas and Blanchet 2000). As shown in Figure 3, the results revealed that 49% of the respondents felt that they see the estimates and assumptions that companies used in preparing the annual reports as reasonable or rational and well justified. In addition they perceived that the underlying assumptions are mostly consistent with other information contained in the annual reports (score 4). This figure is closely followed by a proportion of 38% of Experts who believe that more often than not, estimates and assumptions used in preparing the annual reports are reasonable or rational. They also believe that more often than not, these estimates and assumptions do not contradict other information contained in the annual reports.

These results convey a good or acceptable level of explanation or justifications regarding the assumptions and estimates used in preparing the annual reports according to our respondents. This implies that it should be possible for a stakeholder to examine the justifications for different estimates and assumptions made in the annual reports, to distinguish whether or not they are biased (IASB CF 2010; Jonas and Blanchet 2000).

The second question [F2] addressed the extent to which the Experts perceived that companies explained their accounting policy choices (IASB 2011; Sowden-Service 2011; Jonas and Blanchet 2000). The results as presented in Figure 3 revealed that 44% percent of the respondents had the same opinion that in most of the time, companies explain their accounting policies choices (score 4), implying that in these cases, companies comply with the requirements of "IAS 8 (IASB 2011; Sowden-Service 2011). These results are seconded by a total number of 31% of the respondents who reported that more often than not, companies explain their accounting policies choices (score 3), implying an average level of compliance with the requirements of IAS 8.

The results related to this question [F2] imply that the majority of the Experts recognise, more often than not that, the arguments that companies provide to justify the choices of certain accounting policies and principles are well-grounded (Maines and Wahlen 2006; Jonas and Blanchet 2000). This also implies that in most cases, misstatements related to the treatment of in the financial information presented in the annual reports, for the reasons that accounting policies are, in most cases explained and well described (van Beest et al. 2009). In addition the presented results suggest that 13% of the respondents believed that companies always explain their accounting policies choices (score 5); while another 13% revealed that companies more often than not, do not explain their accounting policies choices (score 2).

The third question [F3] addressed the extent to which the Experts perceived that companies, in the discussion of their annual results, highlighted the positive as well as the negative events (IRC 2011; IIRC 2011; IASB MC 2010; King III 2009). The results scored in relation to the question, as revealed in Figure 3, show that 64% of respondents answered that companies either mentioned the negative events only in the footnotes (score 1), or emphasised only on positive events (score 2). In fact, 49% of the Experts perceived that the discussion of the annual results only emphasised on positive events (score 2), and 15% felt that negative events are only mentioned in the footnotes (score 1). The remaining 36% percent of the respondents perceived that the discussions of the annual reports emphasised on positive events, but negative events were also mentioned (Score 3). The results revealed a lack of balance between the positive and negative event in the discussion of annual results, according to the Experts. In addition, as the exposition of both positive and negative events lead to a comprehensive and complete understanding and management of the risks (IRC 2011; IIRC 2011; IASB MC 2010; King III 2009), the responses provided by Experts suggest that, in this particular case, stakeholders would only have a partial understanding of the risks with potential effects on companies they assess (IRC 2011; IIRC 2011; IASB MC 2010; King III 2009) This also suggests a need for more neutral discussion of the annual results that would provide a balanced presentation between positive and negative events.

The fourth question [F4] addressed the extent to which the Experts perceived the disclosed strategy, values, risks, risk management policies, social/health/environmental issues, and financial performance, as a faithful representation of a true state of affairs (IRC 2011; IIRC 2011; IASB MC 2010; King III 2009). The results presented in Figure 3 revealed that 62% of the respondents perceived that disclosed strategy, value, risks, risk management policies, social/health/environmental issues and financial performance represented for the most part a faithful representation of the true state of affairs (score 3), which could be perceived as an acceptable level of faithful representation. The result also revealed that 23% of the respondents reported a limited representation of the state of affairs regarding the disclosed strategy, values, risks, risk management policies, social/health/ environmental issues and financial performance (score 2), while 15% reported nearly perfect representation (score 4). These results, for the majority of cases provide the perception that, stakeholders are provided with an acceptable insight regarding financial and non-financial factors that influenced the information presented in the annual reports (IASB MC 2010).

The fifth question [F5] related to faithful representation addressed the extent to which our Experts perceived that non-financial information was integrated with financial information contained in the annual reports (IRC 2011; IIRC 2011; King III 2009). The results, as detailed in Figure 3, revealed the majority of Experts, representing a proportion of 59%, reported that financial and non-financial information are only integrated to a limited extent (score 2). The remaining 41% of Experts reported that financial and non-financial information disclosed in the annual reports is somewhat integrated (score 3).

As the IRC (2011); the IIRC (2011) have reiterated the call for a more integrated annual reports (see also King III 2009) the results confirm the need for greater attention to be paid to ensuring a more integrated approach to reporting.

This perceived level of limited integration of financial and non-financial information could, to a certain point, be understandable for the simple reason that integrated reporting became effective for financial reporting period starting on or after 1 March 2010 (King III 2010). Nonetheless, these results suggest the need for annual reports which will be perceived as providing a comprehensive integration of different categories of information (such as environmental, social, economic and financial) towards assisting distinct stakeholders evaluate companies' ability to create and sustain value in a short, medium and long-term. Again, the results confirm the views of King III and of the IRC (2011) that not enough has been done by SA companies to ensure holistic integrated reporting.

5.4 Discussion of the results-comparability

The description of comparability provided by the IRC (2011) state that:

> *Information is more useful if it can be compared with similar information from other organisations and with similar information for the same organisation for a different time period. Where reporting information policies have been changed, the organisation should explain the reasons for and describe the impact.*

The extent to which the Experts perceived that information contained in the annual reports comply with the quality of comparability was addressed using four questions inspired by a wide literature review (IRC 2011; IIRC 2011; IASB CF 2010; van Beest et al. 2009; Coetsee 2007). For reliability purpose, a reliability test was performed on the different questions used to assess the perceived quality of comparability (Nunnally 1962). The results suggested the questions were reliable. Please see section 5.8. An overview of the scores pertaining to comparability is detailed in Figure 4 below.

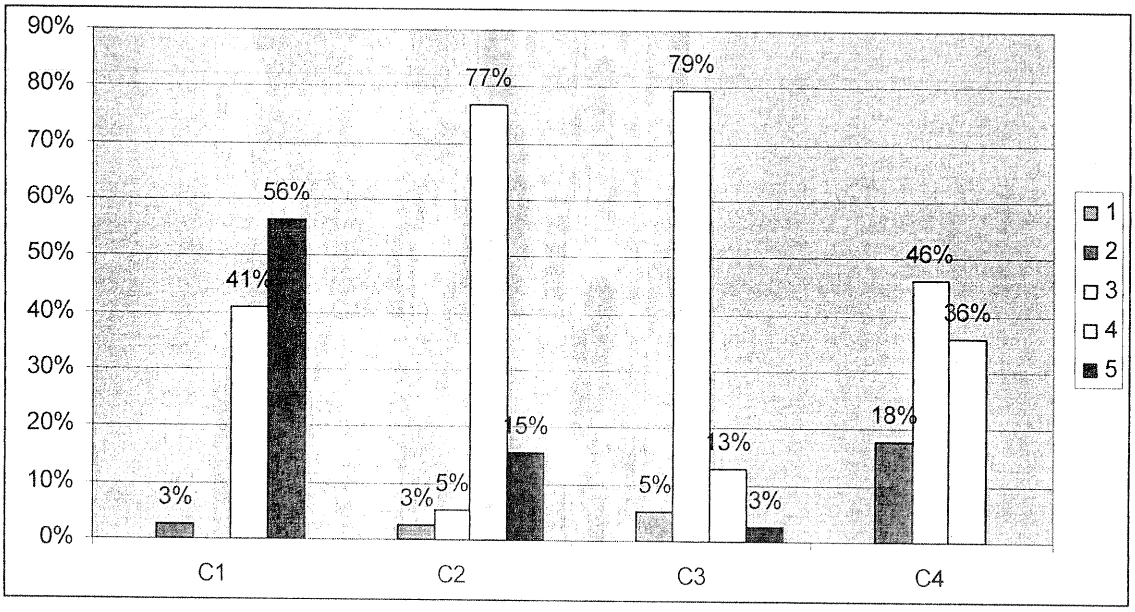

Figure 4: Overview of comparability's scores

The first question [C1] dealt with how frequently companies restate previous accounting periods' figures for the effect of the implementation of a change in accounting policy or a material prior period error. The results, as provided in Figure 4, suggest that the majority of the Experts (56%) were of the same opinion that in most cases, no change occurred due to material prior period error or new accounting policy.

When the underlying changes occurred, companies did restate the annual reports in the last 5 years (score 5). In addition, 44% of the Experts felt that companies rarely restated previous accounting periods' figures due to a material prior period error (score 4). The results imply that an aggregated total of 97% of Experts believe that the annual reports of SA companies represented either a very good or excellent level of consistency with regards to the frequency of restatement due to new accounting policies or prior periods' error.

The second question [C2] related to the comparability of annual reports was addressed the extent to which Experts perceived that the notes on changes in accounting policies or revisions explained the implications of the respective changes (IRC 2011; IASB 2011; Sowden-Service 2011; Coetsee 2007). The results, detailed in Figure 4, suggested that a total of 77% percent of our respondents perceived that, in cases of changes in accounting policies or revisions, these changes or revisions, including the reasons and consequences, were explained in the notes (score 4).

Fifteen percent (15%) of the Experts perceived that in cases of companies' changing accounting policies or making revisions, these changes are comprehensively explained, with the implications detailed (score 5). These results are consistent with the stipulations of IAS 8 which require companies to provide substantial disclosures when there is change in accounting policies, in order to maintain the comparability of annual reports (IASB 2011; Sowden-Service 2011). These results also appear to be consistent with the provisions of the IRC (2011) which reports that, in cases of changes in accounting policies or revisions, companies should explain the reasons for the changes and describe their impacts.

The third question [C3] addressed the extent to which Experts perceived organisations' financial, social, economic and environmental performances as comparable from period to period (IIRC 2011; IIRC 2011; King III 2009). With regards to this particular question, the results (Figure 4) revealed an overall acceptable level of comparability of social, environmental, economic and social performance from period to period. A total of 79% of Experts reported that, more often than not, users are able to compare their financial environmental, social and economic performances from period to period (score 3). In addition, 13% of Experts felt that companies compared their performance from one period to another on financial, social, economic and social grounds (score 4).

The final question [C4] regarding comparability assessed the extent to which Experts perceived the information in the annual reports as comparable to similar information provided by other organisations (IRC 2011; IIRC 2011; IASB CF 2010; van Beest et al. 2009; Jonas and Blanchet 2000). The results presented in Figure 4 suggest that most of the Experts (46%) reported that the structure and the accounting policies of annual reports are comparable with equivalent information provided by other organisations (score 3). This is followed by a proportion of 36% of Experts who reported that the structure, the accounting policies and the explanations of events of annual reports are comparable with equivalent information provided by other organisations (score 4). The underlying results suggest a good level of comparability of information in annual reports to comparable information across entities from the view point of the Experts.

5.5 Discussion of the results-understandability

In describing the quality of understandability, the IRC (2011) state that:

> *Organisations should strive to present information in a way that is understandable, accessible and usable by key stakeholders. The implications of certain data may need to be explicitly stated. Organisations should avoid the use of jargon, and where the use of technical terms is unavoidable; a glossary of terms would be helpful to users of the reports.*

The extent to which information presented in the annual reports is believed to possess the attribute of understandability was addressed with three question built on existing literature (IRC 2011; IASB CF 2010; SAICA ED 240 2008; van Beest et al. 2009; Jonas and Blanchet 2000). The results are detailed in Figure 5 and discussed in the subsequent paragraphs. A reliability test (Cronobach's Alpha) was conducted to assess the reliability level of different questions used to assess the perceived understandability of annual reports presented by South African companies (Nunnally 1962). The results suggested a good level of reliability of these questions. Please see section 5.8

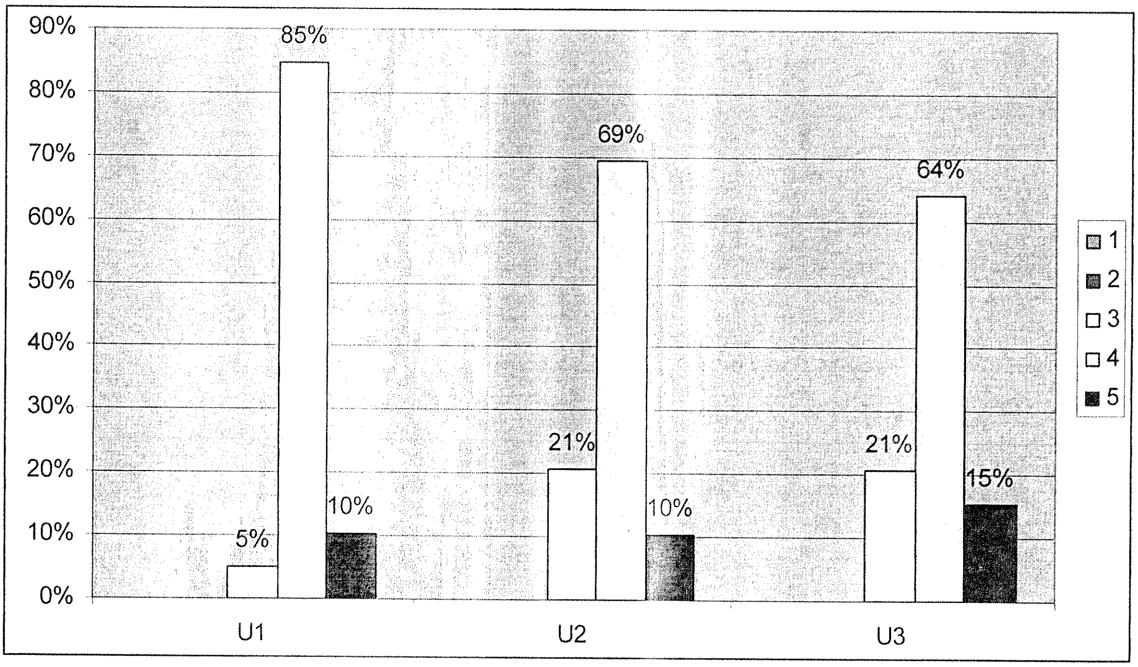

Figure 5: Overview of understandability's scores

The first question [U1] addressed the extent to which Experts perceived the annual reports they have reviewed as presented in a well-organised manner (IRC 2011; Jonas and Blanchet 2000). The presented result (Figure 5) suggested that a total of 85% of Experts believe that the annual reports they have reviewed are well organised, and that the information is well presented. In addition, they found it easy to follow and the annual reports successfully enhanced their understanding of the entities under review (score 4).

In addition, 10% of the respondents believed that the annual reports were perfectly organised and that information was perfectly presented (score 5). As literature has underlined the necessity to present information in the annual reports in a well-organised, accessible and usable manner (IRC 2011; van Beest et al. 2009; Jonas and Blanchet 2000), the underlying results imply a very good organisation of the information disclosed in the annual reports from the perspective of the Experts.

The second question [U2] addressed the extent to which the Experts considered the supporting notes to the financial statements as useful for understanding the financial performance of organisations (van Beest et al. 2009; Beretta and Bozzolan 2004; Jonas and Blanchet 2000). The results related to the question (Figure 5) revealed that a total of 69% of Experts believe that the supporting notes to the financial statements were useful for understanding the financial performance of organisations (score 4). This is followed 21% of our respondents that the supporting notes were somewhat useful (score 3).

Overall, the results pertaining to this question have shown a good perception of the usefulness of the notes to the financial statements in terms of providing supportive explanations and understanding of financial performance of organisations from the stand point of the Experts.

The third question [U3] assessed the extent to which Experts believed that supplementary information such as glossary of terms, group structures and cross-referenced electronic media add to the clarity of the annual reports (IRC 2011; SAICA ED 240 2008). As illustrated in Figure 5, the results revealed that 64% of Experts perceived supplementary information - such as glossary of terms, group structures and cross-reference electronic media - make a worthwhile contribution to the clarity information presented in the annual reports (score 4). In general, the results related to this particular question convey a very good contribution of supplementary information to the clarity of information presented in the annual reports according to the Experts.

5.6 Discussion of the results-timeliness

In reporting on the quality of timeliness, the IRC (2011) indicated that:

> *Timeliness means having information available to stakeholders in time to be capable of influencing their assessments and decisions... Reporting should occur on a regular schedule and information should be available in time for stakeholders to make informed decisions...*

The extent to which Experts perceived that information in the annual reports was timely available to help users make assessments and decisions was assessed in terms of the appropriateness of the time lag between the end of the reporting period and the issue of the annual reports to stakeholders (IRC 2011;

IASB CF 2010). The results presented in Figure 6 suggested that a total of 85% of Experts felt that the time lag is acceptable, although more prompt reporting would add value. Nonetheless, they believe that the current time lag is not detrimental to users of the annual reports for their assessment and decisions (score 3). The item constructed to assess the perceived of timeliness was tested to a reliability test (Cronobach's Alpha) and the related results suggested a good level of reliability (Nunnally 1962) Please see section 5.8

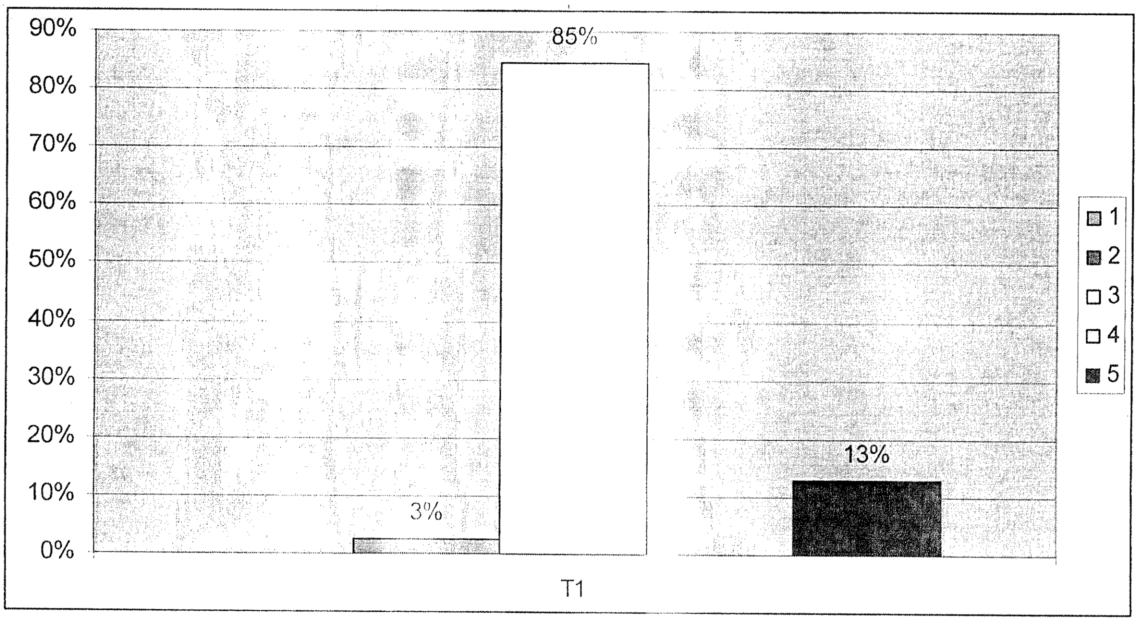

Figure 6: Overview of timeliness' scores

5.7 Summation

In this chapter, an extensive discussion of the results as pertaining to each item (question) used to asses each qualitative characteristic as defined in the CF (2010) and the IRC (2011) is outlined. The conclusions regarding the findings are summarised in the table below, as per qualitative characteristics.

Table 7: Summary of the findings

Qualitative Characteristic	Outcome from the Experts' standpoint
Relevance	• Annual reports are perceived as useful in providing forward looking information to stakeholders; • Non-financial information such as the overview of the organisation, its objectives, business opportunities and risks, is perceived as helpful or somewhat helpful in terms of complementing financial information in the annual reports. • Corporate governance disclosures in terms of social, health, environmental and compliance issues are useful for different stakeholders in making assessment for decision purpose. • Issues regarding the business objectives, risks, opportunities, social issues, sustainability concerns and macro-economic factors, are discussed in full and there is some level of integration. • For most part, the annual reports allow stakeholders to evaluate organisations' short- and long-term performance as well as sustainability.
Faithful Representation	• Estimates and assumptions made by companies in preparing the annual reports are reasonable/rational or fairly reasonable/rational and well explained or fairly well explained. • Companies' accounting policies choices are well explained or fairly well explained. • There is a lack of balance between positive and negative events in companies' discussions of the annual results. The discussions emphasised positive events and may be biased. • For most part, the disclosed strategy, values, risks, risk management policies, social/health/environmental issues and financial performance of the firm is a faithful representation of a true state of affairs.

	• Non-financial information is, only to a limited extent ore somewhat, integrated to financial information presented in the annual reports.
Comparability	• Companies do not/or very rarely restate previous accounting periods' figure for the effect of material prior period error or implementation of change in accounting policies. • In the event of changes to accounting policies or revisions, detailed explications are given and there is adequate disclosure of the reasons for the changes. • More often than not, the financial, social, economic and environmental performances of organisations are comparable from period to period. • There is a measure of comparability between organisations and over time
Understandability	• Annual reports are presented in a well organised manner. Information is well presented. It is easy to follow and the annual reports successfully enhance the understanding of the entity under review.
	• The supporting notes to the financial statements are useful for understanding the financial performance of organisations. • Supplementary information such as glossary of terms, group structures and cross-referenced electronic media make some contribution to the clarity of annual reports.
Timeliness	• The time lag between the end of the reporting period and the issue of the annual reports is acceptable. Although more prompt reporting would be beneficial, the current time lag is not detrimental to the users of the annual reports.

5.8 Factor Analysis

In order to simplify the data collected and provide additional insights into experts' perceptions of annual reporting this study used a factor analysis to summarise and reduce data to significant and explicable themes or factors (Ilias and Razak 2011; Bonaci et al. 2011; Pikkarainen, Pikkarainen, Karjaluoto and Pahnila 2006; Xiao and Dasgupta 2002; Wang et al. 2001; Malhotra 1996; Ford et al. 1986). For this research, different credible individuals were used to complete the questionnaire and hence inspire the labelling of the different factors. In addition, the labelling process was consistent with the definition of the qualitative characteristics as provided in the CF (2010) and the IRC (2011).

A correlation matrix consisting of 17 variables was constructed and regrouped into 6 factors (Ilias and Razak 2011; Bonaci et al. 2011; Xiao and Dasgupta 2002; Wang et al. 2001; Ford et al. 1986). This current matrix is different from the initial factor matrix that used 18 items referring to the questions built on the instrument. Of the 18 variables, the reliability test (Cronbach's Alpha) revealed the need to exclude the item R4 in order to strengthen the correlation among the variables and increase the justification of the appropriateness of the use of the factor analysis (Malhotra 1996; Ford et al. 1986).

As recommended by Malhotra (1996), Osborne and Costello (2004); Ford et al. (1986); Bonaci et al. (2011) and Ilias and Razak (2011), factor analysis require factors to be correlated for its use to be appropriate. We test the appropriateness of the use of factor analysis in this particular research. We referred to the Bartlett's test of sphericity to test the null hypothesis that variables are uncorrelated. Another test consisting of testing the sampling adequacy was performed by using the Kaiser-Mayer-Olkin (KMO) measure of sampling adequacy (Ilias and Razak 2011; Bonaci et al. 2011; Xiao and Dasgupta 2002; Wang et al. 2001; Malhotra 1996; Ford et al. 1986). The results of the respective tests are revealed in Table 8.

Table 8: KMO and Bartlett's Tests

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.470
Bartlett's Test of Sphericity	Approx. Chi-Square	280.222
	Df	136
	Sig.	.000

As shown in the table, the results of the KMO and the Bartlett's Test of Sphericity show that factor analysis is appropriate in this context. The KMO value is fairly larger than the minimum value required (.470>.3) and the Chi-Squared statistic (Bartlertt's test of Sphericity) was significant at 280.222 for 136 degrees of freedom. Hence, the null hypothesis was rejected.

These results confirm that our sample size was adequate the analysis and that the factor analysis was appropriate given that variables were correlated (Ilias and Razak 2011; Bonaci et al. 2011; Osborne and Costello 2004; Xiao and Dasgupta 2002; Wang et al. 2001; Malhotra 1996; Ford et al. 1986).

In addition, the communality values, described by Malhorta (1996) as the amount of variance a variable shares with all the other variables being considered, are displayed In Table 9 in order to highlight the degree of correlation among the variables.

Table 9: Communality values

Variables	Initial	Extraction
R1 To what extent does the presence of forward-looking information (e.g. financial reviews, budgets, forecasts) help users form expectations and predictions concerning the future of the company?	.629	.487
R2 To what extent does the presence of non-financial information (NFI) - in terms of the overview of the organisation, its objectives, business opportunities and risks - complement the financial information that you have reviewed?	.548	.548
R3 To what extent does corporate governance-related disclosure - in terms of social, health, environmental and compliance issues – in annual reports useful for different stakeholders?	.675	.435
R5 Overall, to what extent does the annual report allow stakeholders to evaluate the organization's long and short term performance as well as its sustainability?	.606	.522
F1 to what extent are significant assumptions and estimates used in preparing the annual reports explained	.530	.686
F2 Do companies explain their accounting policy choices?	.660	.597

F3 To what extent do companies, highlight the negative events as well as the positive events?	.613	.530
F4 To what extent is the disclosed strategy, values, risks, risk management policies, social/health/environmental issues, and financial performance of the firm a faithful representation of the true state of affairs?	.430	.396
F5 To what extent is non-financial information integrated with the financial reporting contained in annual reports?	.516	.607
C1 how frequently do companies restate previous accounting periods' figures, for the effect of the implementation of a change in accounting policy or a material prior period error?	.732	.688
C2 to what extent do the notes on changes in accounting policies or revisions explain the implications of the respective changes?	.733	.849
C3 To what extent is the financial, social, economic and environmental performance of the organization comparable from period to period?	.430	.293
C4 to what extent is the information in the financial reports comparable to information provided by other organisations?	.702	.724
U1 to what extent are the financial reports that you have reviewed presented in a well organised manner? (E.g. Table of contents, heading, order of components in the financial reporting, etc.)	.781	.787
U2 to what extent are supporting notes to the financial statements useful for understanding the financial performance of organisations?	.750	.901
U3 does supplementary information such as glossary of terms, group structures and cross-referenced electronic media add to the clarity of the annual report?	.692	.570
T1 To what extent do you feel that the time lag between the end of the reporting period and the issue of the annual financial report to stakeholders is appropriate?	.736	.552

The appropriateness and the significance the correlation among the variable are displayed in Appendix B and C which shows the Pearson's and the Spearman's correlation table (Malhotra 1996).

It has been argued that performing a factor analysis with a small sample size could prove to be problematic with regards to the replication of the study

(Costello and Osborne 2005; Ford et al. 1986; Malhotra 1996). The above reliability tests (and the Chronbach Alpha test below), however, confirm the appropriateness of the factor analaysis. What is more it has been extensively reiterated that this research is inspired by an interpretive approach and that the issue of replicability is not central for this study (Creswell 2009; Maroun et al. 2011) (The risk of smaller sample sizes posing an issue to result validity has been noted as an inherent limitation of this research).

On a final note, Malhotra (1996) pointed out that the use of a large sample to perform factor analysis could be problematic given that many factors are likely to be statistically significant, although from a practical point of view, they may account for only a small proportion of the total variance.

For the purpose of this study, the Principal Axis Factoring was used and 18 iterations were required for the extraction of the factors (or themes). As recommended by Malhotra (1996), Ford et al. (1986), only factors with Eigenvalues greater than 1.0 were retained and the remaining factors were excluded from the model. The results provided in Figure 7 revealed that a total of 18 factors were produced, but only 6 possessed an Eigenvalue greater than 1 and were retained.

As illustrated in Figure 7 below, beyond factor 6, the remaining factors have Eigenvalues inferior to 1.0, justifying that six factors would be sufficient for a factor analysis to be performed.

Furthermore, the retained extracted factors have a cumulated variance of 60% which is the minimum required for the retained factor to be representative of the factor analysis (Malhotra 1996). The results regarding the scores of Eigenvalues and variances of all the factors are provided in Appendix D.

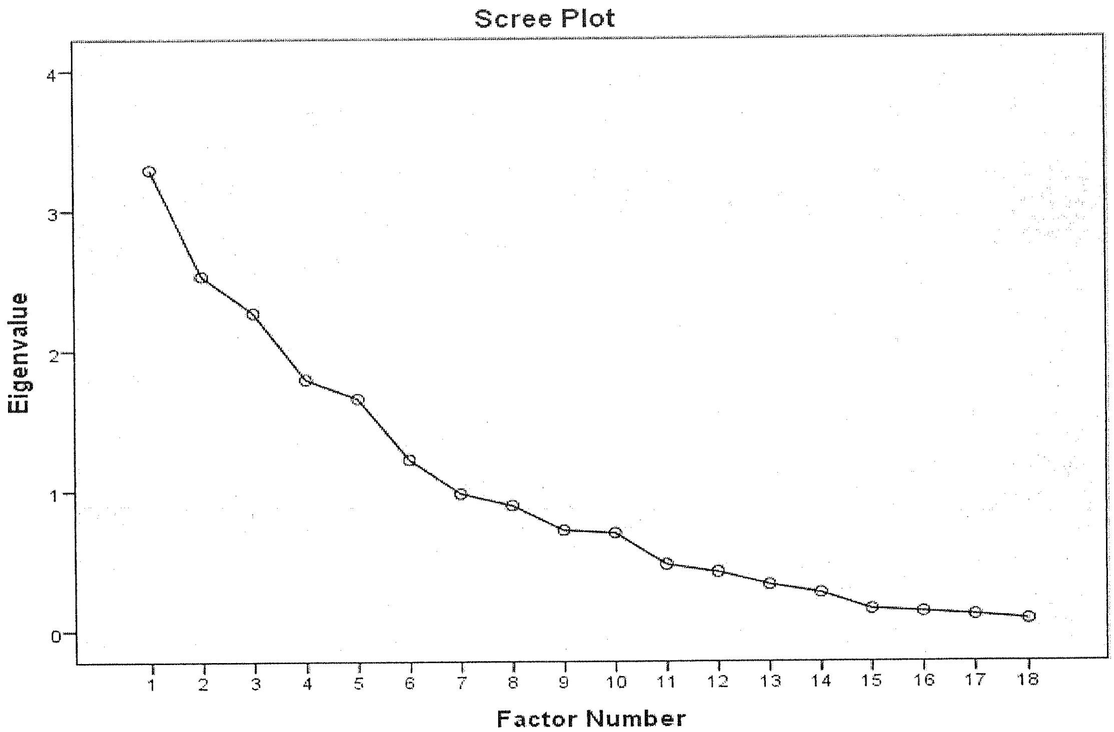

Figure 7: Extracted Factors and their respective Eigenvalues

From the process described above, an initial matrix (the factor matrix) was extracted presenting the factors with different variables forming them, and the correlations between the factors and the variables (Malhotra 1996; Ford et al. 1986; Ilias and Razak 2011). The correlation between each factor and its variables is also known as the factor's loadings (Malhotra 1996; Ford et al. 1986). The factor matrix extracted with most significant factors (six retained factors) is provided by Table 10 below.

Table 10: Initial factor matrix

Variables	Factor					
	1	2	3	4	5	6
F2 Do companies explain their accounting policy choices?	.759					
C4 to what extent is the information in the financial reports comparable to information provided by other organisations?	-.611		.374	.379		
T1 To what extent do you feel that the time lag between the end of the reporting period and the issue of the annual financial report to stakeholders is appropriate?	.591					

R3 To what extent does corporate governance-related disclosure - in terms of social, health, environmental and compliance issues – in annual reports useful for different stakeholders?	-.563			.322		
F5 To what extent is non-financial information integrated with the financial reporting contained in annual reports?	.452	-.449				.402
U3 does supplementary information such as glossary of terms, group structures and cross-referenced electronic media add to the clarity of the annual report?	.428	.425			.324	
R2 To what extent does the presence of non-financial information (NFI) - in terms of the overview of the organisation, its objectives, business opportunities and risks - complement the financial information that you have reviewed?	.387			.338		
F1 to what extent are significant assumptions and estimates used in preparing the annual reports explained		-.655			-.341	.389
U1 to what extent are the financial reports that you have reviewed presented in a well organised manner? (E.g. Table of contents, heading, order of components in the financial reporting, etc.)		.615		-.552		
U2 to what extent are supporting notes to the financial statements useful for understanding the financial performance of organisations?	-.432	.531			-.329	.339
C1 how frequently do companies restate previous accounting periods' figures, for the effect of the implementation of a change in accounting policy or a material prior period error?			.779			
C2 to what extent do the notes on changes in accounting policies or revisions explain the implications of the respective changes?		-.531	.673			
R5 Overall, to what extent does the annual report allow stakeholders to evaluate the organization's long and short term performance as well as its sustainability?	.435		.548			
R1 To what extent does the presence of forward-looking information (e.g. financial reviews, budgets, forecasts) help users form expectations and		.351		.447		

predictions concerning the future of the company?						
C3 To what extent is the financial, social, economic and environmental performance of the organization comparable from period to period?				-.441		
R4 To what extent do financial reports communicate strategic objectives informed by risk, opportunities, macro-economic and social issues and sustainability concerns?				-.303		
F3 To what extent do companies; highlight the negative events as well as the positive events?					.670	
F4 To what extent is the disclosed strategy, values, risks, risk management policies, social/health/environmental issues, and financial performance of the firm a faithful representation of the true state of affairs?		.325			.418	

The initial factor matrix shows many variables that are correlated with the different factors, making the interpretations difficult (Malhotra 1996; Ford et al. 1986). As a result, the matrix is subject to rotation. The aim is for each factor to have non zero or significant loadings or coefficients with only some of the variables (Malhotra 1996; Ford et al. 1986). Similarly, the variables should have non zero or significant loadings with only some of the factors. The rotation does not affect the variables' total communality and hence total variance explained by the analysis although the percentage variance accounted for by each factor changes (Malhotra 1996). The rotation required 8 iterations to produce a rotated matrix. Also, the matrix was extracted using the Principal Axis Factoring method of extraction (Malhorta 1996; Ford et al. 1986). In addition, the varimax procedure, mostly used in minimising the number of variables with high loadings on a factor, thus enhancing the interpretability of the factors (Malhotra 1996; Ford et al. 1986). Table 11 below presents the rotated factor matrix.

Table 11: The rotated factor matrix

Variables	Factor					
	1	2	3	4	5	6
T1 To what extent do you feel that the time lag between the end of the reporting period and the issue of the annual financial report to stakeholders is appropriate?	.690					
R3 To what extent does corporate governance-related disclosure - in terms of social, health, environmental and compliance issues – in annual reports useful for different stakeholders?	-.662					
C4 to what extent is the information in the financial reports comparable to information provided by other organisations?	-.606	.521				
F2 Do companies explain their accounting policy choices?	.605		-.455			
R5 Overall, to what extent does the annual report allow stakeholders to evaluate the organization's long and short term performance as well as its sustainability?	.572	.437				
C2 to what extent do the notes on changes in accounting policies or revisions explain the implications of the respective changes?		.825				
C1 how frequently do companies restate previous accounting periods' figures, for the effect of the implementation of a change in accounting policy or a material prior period error?		.776				
U1 to what extent are the financial reports that you have reviewed presented in a well organised manner? (E.g. Table of contents, heading, order of components in the financial reporting, etc.)			.775	-.370		
U2 to what extent are supporting notes to the financial statements useful for understanding the financial performance of organisations?			.676		.364	.323
R4 To what extent do financial reports communicate strategic objectives informed by risk, opportunities, macro-economic and social issues and sustainability concerns?			.399			
F1 to what extent are significant assumptions and estimates used in preparing the annual reports explained				.809		

F5 To what extent is non-financial information integrated with the financial reporting contained in annual reports?				.672		
F3 To what extent do companies; highlight the negative events as well as the positive events?					-.690	
R1 To what extent does the presence of forward-looking information (e.g. financial reviews, budgets, forecasts) help users form expectations and predictions concerning the future of the company?					.597	.381
R2 To what extent does the presence of non-financial information (NFI) - in terms of the overview of the organisation, its objectives, business opportunities and risks - complement the financial information that you have reviewed?					.551	
F4 To what extent is the disclosed strategy, values, risks, risk management policies, social/health/environmental issues, and financial performance of the firm a faithful representation of the true state of affairs?						.579
U3 does supplementary information such as glossary of terms, group structures and cross-referenced electronic media add to the clarity of the annual report?	.456					.566
C3 To what extent is the financial, social, economic and environmental performance of the organization comparable from period to period?						-.435

In the rotated factor matrix, factors are reorganised to display only the most highly correlated variables with their respective factors. The difference with the initial matrix factor is that in this particular case, variables with high loadings are not represented in more than one factor (Malhotra 1996).

In order to check the reliability of the extracted items per factor, we performed a Cronbach's Alpha reliability test on each factor (Sijtsma 2009; Cortina 1993; Nunally 1962). The results of the test revealed that one item, namely R4 - affiliated to Factor 3 – should be left out because the reliability of the factor increased dramatically (from .54 to .65) without that particular variable; also given it communality value (.224) (Malhotra 1996). The results of the reliability test pertaining to each factor is summarised in tables below.

Table 12: Reliability statistics for Factor 1

Cronbach's Alpha	N of Items
.73	5

Table 13: Reliability statistics for Factor 2

Cronbach's Alpha	N of Items
.73	2

Table 14A: Reliability statistics for Factor 3 with R4

Cronbach's Alpha	N of Items
.54	3

Table 14B: Reliability statistics of Factor 3 without R4

Cronbach's Alpha	N of Items
.65	2

Tables 16A and 16B illustrate the considerable increase in the reliability of factor 3 from .54 to .65 following the removal of R4.

Table 15: Reliability statistics for Factor 4

Cronbach's Alpha	N of Items
.645	2

Table 16: Reliability statistics for Factor 5

Cronbach's Alpha	N of Items
.60	3

Table 17: Reliability statistics for Factor F6

Cronbach's Alpha	N of Items
.50	3

Overall, the results of the Cronbach's Alpha test have shown that the respective factors are reliable. The values of the Cronbach's Alpha are equal or greater than the minimum of .50 required by the rule of thumb regarding the reliability of an interpretive research (Nunnally 1962). This provides a final safeguard that, in spite of the relatively smaller sample sizes, the factor analysis results are still meaningful.

Following the reliability test, a rotated matrix without R4 was produced compiled with the labelling of the respective factors. We provide a discussion regarding ach factor in subsequent paragraphs. As pointed out previously, the research relies on the opinions of well-informed participants which inspire the labelling of the individual factors (Malhotra 1996; Ford et al. 1986; Bonaci et al. 2011; Ilias and Razak 2011). In addition, the labelling took into consideration the description of the qualitative characteristics as provided in the CF (2010) and the IRC (2011). Table 18 and Figure 7, respectively, resume principal variables correlated to each factor with their descriptive statistics, and the mean scores of each relabelled factor. Despite this, the labelling of factors will inevitably involve a degree of judgment on the part of the researcher (Malhotra 1996) which is brought to the attention of the reader as a possible limitation of the data analysis (Creswell 2009).

The underlying process has been useful in terms of grouping the 17 remaining questions (given that the reliability test excludes R4) into six factors combined according their strong correlation with items or question used to assess different qualitative characteristics. The six factors that were extracted by the means of factor analysis were constructed from the 18 questions that broke down the definition of the qualitative characteristics of relevance, faithful representation, verifiability (included under faithful representation for similarities of some questions), comparability, understandability, and timeliness as defined in the CF (2010) and the IRC (2011).

Table 18: Relabelled factors and the descriptive statistics of their respective variables

Factors	N	Variables correlated to factor	Minimum	Maximum	Mean	Std. Deviation
Richness and timeliness of the annual reports	40	T1, R3, C4, F2, R5	2.40	4.00	3.0950	.45739
Change in accounting policies	40	C1, C2	2.00	5.00	4.2750	.53048
Understandability of the annual reports	40	U2, U1	3.00	5.00	3.9750	.40746
Integration of financial and non-financial information in the annual reports	40	F1, F5	2.00	4.00	2.9750	.53048
Neutrality and predictive ability of the annual reports	40	F3, R2, R1	3.00	4.67	3.7083	.45409
Fair presentation and comparability of non-financial information	40	F4, U3, C3	2.00	3.67	3.2250	.44904
Valid N	40					

This table present the mean scores of different factors that form the matrix used for an interpretation of data using a factor analysis.

With regards to the first factor labelled "richness and timeliness of the annual reports" encompassing the variables T1, R3, C4, F2 and R5, the mean value of 3.0950 suggest an overall acceptable level perception of richness and timeliness of information disclosed in the annual reports of SA companies, from the viewpoint of the Experts. An extensive discussion relative to results pertaining to each variable of this factor is detailed in previous sections.

The second factor labelled "Changes in accounting policies" is consisted of variables C1 and C2. The mean score of 4.2750 suggest an overall very good perception of consistency with regards to change in accounting policies, whether it is due to a material prior period error or a new legislation. Section 5.5

above presents a comprehensive discussion regarding the variables of this factor.

The third factor named "Understandability of the annual reports" is consisted of variables U1 and U2. The mean value of 3.9750 suggest an overall good perception with regards to the extent to which information disclosed in the annual reports SA is understandable from our respondents point of view. For details regarding the discussion of the perceived understandability of the annual reports of SA companies, please refer the section 5.6 above.

The fourth factor labelled "Integration of financial and non-financial information in the annual reports" is formed by the variables F1 and F5. The mean score of 2.9750 suggest that the Experts reported a need for a more integrated reporting on non-financial and financial information, as previously detailed in section 5.4.

The fifth factor branded "Neutrality and predictive ability of the annual reports" encompasses variables F3, R2 and R1. The mean score of 3.7083 suggested a general good perception of the neutrality and predictive ability of the annual reports from our respondents' perspective. However, as demonstrated in section 5.4, stand alone; there is still need for improvement for a more balanced discussion on both positive and negative events.

The last factor named "Fair presentation and comparability of non-financial information" is consisted on variables F4, U3 and C3. The mean score of 3.2250 advocates an overall acceptable perception of the extent to which non-financial information in the annual reports is fairly presented and comparable, from our respondents' point of view. A comprehensive discussion is provided in the previous sections.

To close this section, an overview of the mean scores of the respective factors is displayed in Figure 8 below, for more insights and understanding of the discussion.

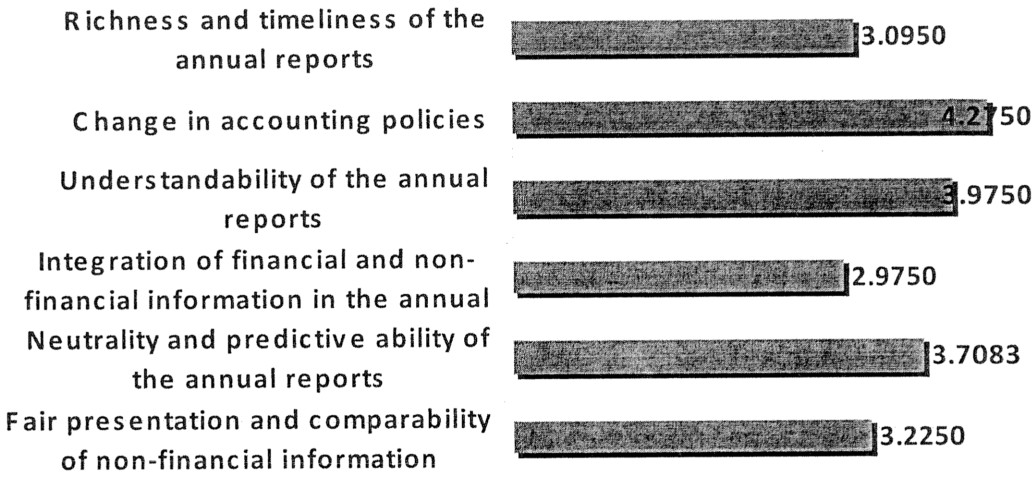

Figure 8: Overview of the mean score per factor

CHAPTER 6: CONCLUSION OF THE STUDY

This study was inspired by an interpretive method to assess the perceived quality of annual reports of SA companies with a financial year ending on or before 31/12/2010. It did so by referring to the opinions of experts concerning consistency of the annual reports with the qualitative characteristics of relevance, faithful representation, verifiability, comparability and understandability and timeliness as defined in the CF (2010) and the IRC (2011).

This study was conducted in a context where CF (2010) became effective in 2010 and the IRC (2011) issued a discussion paper on integrated reporting. In effect, both documents which have described the attributes the annual reports must possess in order to appropriately assist stakeholders to assess companies' financial and non-financial performance in a short, medium and long-term. Both documents constitute the most recent developments in the financial reporting context at a time when concerns about the quality of annual reports, particular the integration of information contained therein is becoming a topic of debate.

A total of 18 questions, tested on a Cronbach's Alpha test of reliability, were included in a questionnaire that constituted the data collection instrument. A five point Likert scale was used to measure initial responses. The results of the research, as summarised in Table 7, representing the scores awarded by Experts, reflect their opinions based on their experience and knowledge, suggested some important revelations with respect to the extent to which annual reports of SA companies were perceived to be relevant, faithfully represented (including verifiable), comparable, understandable and timely available.

In particular, the results of this research have also shown that there still room for improvements regarding the quality of the annual reports as defined in CF (2010) and the IRC (2011). For instance the quality of relevance could be enhanced if non-financial information is more useful in complementing financial information presented in the annual reports. Also, the annual reports will be perceived as relevant if, for most part, stakeholders can use them to evaluate companies' sustainability as well as long and short-term performances. Both of these criticisms support the concerns of the IRC (2011) and King III (2009): that more needs to be done to ensure high quality holistic reporting to stakeholders.

Moreover, the results of this study have demonstrated the need for more balance between positive and negative events in companies' discussion of their annual results, in order to improve the perception of faithful representation of annual reports of SA companies (from the Experts point of view).

Further, companies should strive for a more integrated approach of financial and non-financial information in the presentation of their annual reports. This point is particularly crucial for the reason that major institutions either locally or internationally (IRC 2011; King III 2009; IIRC 2011) have called for comprehensive integration of different category of information such as environmental, social, economic and financial towards assisting distinct stakeholders to assess companies' short- and long-term viability.

The results have also indicated a general acceptable, reasonable, good, and very good perception with regards to the comparability, understandability and timeliness of annual reports of SA companies, from the view point of the Experts.

This research was not, however, without its limitations. Most notably it lacks the rich exploratory potential of a purely interpretive research project (Brennan and Solomon 2008; Creswell 2009; Maroun et al. 2011). It also relies on statistics that are based on relatively small sample sizes that could affect generalisability of the findings despite the reliability safeguards introduced. Finally, as per Alvesson (2003) and Creswell (2009) it is impossible to totally eliminate bias from experts' responses.

In light of the above, future research may seek to consider a more qualitative approach for assessing the quality of the annual reports as defined in the CF (2010) and the IRC (2011). In particular it would be useful to explore why companies excel in certain areas of disclosure but not others. Whether or not experts' perceptions of specific companies with different levels of disclosure were affected and examining why that is the case could also prove insightful. For example, could it be the case that high quality disclosure is a means of legitimising an organisation? Does high quality disclosure imply a lower cost of capital? An alternative avenue would be to replicate this study in other jurisdictions to create a comprehensive account of global reporting quality.

Nonetheless, this study is a first attempt towards quantifying the perceived quality of annual reports of SA companies in accordance with the CF (2010) and the IRC (2011). It is therefore one of the first studies to explore the issue of integrated reporting specifically in an African context (see: Brennan and Solomon 2008).

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QUESTIONNAIRE ON THE ASSESSMENT OF THE QUALITY OF FINANCIAL REPORTING OF SA COMPANIES, USING QUALITATIVE CHARACTERISTICS AS DEFINED IN THE CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING ISSUED IN 2010

Respondent's personal data

Surname	
First Name	
Company Name	
Current Job Title	
Cumulated Professional Experience (in terms of years)	

Relevance of the financial reporting for the reporting period ended 31/12/2010.		
Q no.	**Question**	**Please use the character [X] to select the suitable proposition**
R1	In your opinion, to what extent does the presence of forward-looking information (e.g. financial reviews, budgets, forecasts) help users form expectations and predictions concerning the future of the company?	In most cases: [ ] 1= Not helpful at all [ ] 2= Marginally helpful [ ] 3= Somewhat helpful [ ] 4= Helpful [ ] 5= Very helpful
R2	In your opinion, to what extent does the presence of non-financial information (NFI) - in terms of the overview of the organisation, its objectives, business opportunities and risks - complement the financial information that you have reviewed?	In most cases: [ ] 1= NFI is inappropriate. It does not complement the financial information. [ ] 2= NFI is present but only marginally complements the financial information. [ ] 3= NFI is somewhat useful, complementing financial information. [ ] 4= NFI is useful, complementing financial information, and is helpful for developing expectations. [ ] 5= NFI is highly useful, comprehensively complementing financial information by providing additional information which helps developing expectations

R3	To what extent does corporate governance-related disclosure - in terms of social, health, environmental and compliance issues – in annual reports useful for different stakeholders?	In most cases: ☐ 1= Not useful at all ☐ 2= Marginally useful ☐ 3= Somewhat useful ☐ 4= Useful ☐ 5= Very useful
R4	In your opinion, to what extent do financial reports communicate strategic objectives informed by risk, opportunities, macro-economic and social issues and sustainability concerns.	In most cases: ☐ 1= No communication ☐ 2= There is some communication on certain of these elements. ☐ 3= There is communication on business objectives, risks, opportunities, social issues, sustainability concerns and macro economic factors but this is limited and not integrated. ☐ 4= Each of the noted issues are discussed in full and there is some level of integration. ☐ 5= There is detailed disclosure of strategic objectives and how these have been informed by risks/opportunities, social issues, macro-economic developments and an awareness of the need for sustainability.
R5	Overall, to what extent does the annual report allow stakeholders to evaluate the organization's long and short term performance as well as its sustainability?	☐ 1= Not at all ☐ 2= Only to a limited extent ☐ 3= Somewhat ☐ 4= For the most part ☐ 5= Comprehensively

Faithful Representation of the financial reporting for the reporting period ended 31/12/2010			
Q no	**Question**	**Please use the character [X] to select the suitable proposition**	
F1	In your opinion, to what extent are significant assumptions and estimates used in preparing the annual reports explained		In most cases :
		[ ]	1= Estimâtes/assomptions are disclosed but are not well explained or justified and are inconsistent with other information contained in the annual report.
		[ ]	2= Estimates/assumptions are disclosed but there are numerous instances where they are not reasonable/rationale or justified. There are material inconsistencies with other information contained in the annual report.
		[ ]	3= Estimate/assumptions are reasonable/rationale more often than not. More often than not, they do not contradict other information contained in the annual report.
		[ ]	4= Estimates/assumptions are mostly reasonable/rationale and are mostly justified. They are mostly consistent with other information contained in the annual report.
		[ ]	5= Estimates/assumptions are reasonable/rationale and are clearly and comprehensively justified. They are fully consistent with other information contained in the annual report.
F2	Do companies explain their accounting policy choices?		In most cases:
		[ ]	1= Never/choices are not explained or determinable.
		[ ]	2= Sometimes
		[ ]	3= More often than not
		[ ]	4= Most of the time
		[ ]	5= Always
F3	In your opinion, to what extent do companies, highlight the negative events as well as the positive events?		In most cases:
		[ ]	1= The discussions highlight negative events only in footnotes.
		[ ]	2= The discussions emphasise on positive events.
		[ ]	3= The discussions emphasise on positive events, but negative events are mentioned, no negative events occurred.
		[ ]	4= The discussions balance between positive and negative events.

			5= The discussions comprehensively balance between the positive and the negative events, and their respective impacts are also highlighted and explained.
F4	To what extent is the disclosed strategy, values, risks, risk management policies, social/health/environmental issues, and financial performance of the firm a faithful representation of the true state of affairs?		1= Not at all
			2= At least to some extent
			3= For the most part
			4= Almost entirely
			5= Disclosed information is perfectly consistent with information available from other sources.
F5	To what extent is non-financial information integrated with the financial reporting contained in annual reports?		1=Not at all
			2= Integrated to only a limited extent
			3= Somewhat integrated
			4= Mostly integrated
			5=Comprehensively integrated

Comparability of the financial reporting for the reporting period ended 31/12/2010.			
Q no	**Question**		**Please use the character [X] to select the suitable answer**
C1	In your opinion, how frequently do companies restate previous accounting periods' figures, for the effect of the implementation of a change in accounting policy or a material prior period error?		In most cases:
			1= Material changes/restatements are a common occurrence
			2= Material changes/restatements in the last 1 to 2 years
			3= Material changes/restatements in the last 2 to 3 years.
			4= Material changes/restatements in the last 5 years
			5= No changes/restatements in the last 5 years
C2	In your opinion, to what extent do the notes on changes in accounting policies or revisions explain the implications of the respective changes?		In most cases:
			1= Changes/revisions are either not adequately disclosed or explained.
			2= Changes /revisions are disclosed with only minimum explanations to ensure compliance with IFRS only.
			3= Changes/revisions are explained and adequate reasons for the change are provided.
			4= Changes/revisions, including reasons and consequences, are explained.
			5= No changes/comprehensive explanations of, changes in accounting policies or revisions.
C3	To what extent is the financial, social, economic and environmental performance of the organization comparable from period to period?		1=Not comparable
			2=Somewhat comparable
			3=More often comparable than not
			4=Mostly comparable
			5=Totally comparable

C5	In your opinion, to what extent is the information in the financial reports comparable to information provided by other organisations?		In most cases:
		☐	1= Information in the financial reporting is not comparable to comparable information provided by other organisations.
		☐	2= Only the structure of the financial reporting is comparable to that of other organisations.
		☐	3= The structure and accounting policies are comparable with equivalent information provided by other organisations.
		☐	4=The structure, accounting policies and explanation of events are comparable with equivalent information provided by other organisations.
		☐	5= Comprehensive comparability of structure, accounting policies and events with comparable information provided by other organisations.

Understandability of the financial reporting for the reporting period ended 31/12/2010.		
Q no	**Question**	**Please use the character [X] to select the suitable proposition**
U1	In your opinion, to what extent are the financial reports that you have reviewed presented in a well organised manner? (E.g. Table of contents, heading, order of components in the financial reporting, etc.)	In most cases: [ ] 1= Poorly organised and difficult to follow [ ] 2= Information shows some signs of organisation but the structure and logical progression require material amendment. [ ] 3= Acceptable – information is adequately organised and can be followed but improvements could be made [ ] 4= Well organised. Information is well presented. It is easy to follow and the annual report successfully enhances our understanding of the entity under review. [ ] 5 = Perfectly organised. Information is perfectly presented. It is easy to follow and the annual report is instrumental for gaining an understanding of the entity under review.
U2	In your opinion, to what extent are supporting notes to the financial statements useful for understanding the financial performance of organisations?	In most cases: [ ] 1= Not at all useful [ ] 2= Marginally useful [ ] 3= Somewhat useful [ ] 4=Useful [ ] 5=Extremely useful
U3	In your opinion, does supplementary information such as glossary of terms, group structures and cross-referenced electronic media add to the clarity of the annual report?	[ ] 1= Supplementary information makes little or no contribution to clarity [ ] 2= Supplementary information makes only a marginal contribution to clarity [ ] 3= Supplementary information makes some contribution to clarity. [ ] 4= Supplementary information makes a worthwhile contribution to clarity. [ ] 5= Supplementary information makes a highly significant contribution to clarity.

Timeliness of the financial reporting for the reporting period ended 31/12/2010.			
Q no	**Question**	**Please use the character [X] to select the suitable proposition**	
T1	To what extent do you feel that the time lag between the end of the reporting period and the issue of the annual financial report to stakeholders is appropriate?		In most cases:
		[ ]	1= Time lag is not reasonable
		[ ]	2= The time lag is inappropriate; more prompt reporting would add significant value
		[ ]	3= The time lag is acceptable. Although more prompt reporting would add value, the current time lad is not detrimental to users of the annual report.
		[ ]	4= The time lag is appropriate. More prompt reporting would be beneficial but the present situation does not detract materially from the usefulness of the annual report.
		[ ]	5= The time lag is appropriate. Presently, annual reports are released to users sufficiently close after year-end.

Appendix B: the Pearson's correlation table

		R 1	R 2	R 3	R 4	R 5	F1	F2	F3 T	F4	F5	C1	C2	C3 T	C4	U1	U2	U3	T1
R1 To what extent does the presence of forward-looking information (e.g. financial reviews, budgets, forecasts) help users form expectations and predictions concerning the future of the company?	Pearson Correlation	1	.387*	-.292	-.203	.114	-.053	.124	-.309	.183	-.040	.069	-.056	-.229	.065	-.080	.357*	.274	.187
	Sig. (2-tailed)		.014	.068	.209	.485	.747	.446	.052	.258	.808	.672	.731	.155	.689	.625	.024	.087	.248
	N	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40
R2 To what extent does the presence of non-financial information (NFI) - in terms of the overview of the organisation, its objectives, business opportunities and risks - complement the financial information that you have reviewed?	Pearson Correlation	.387*	1	-.074	-.177	.034	-.128	.269	-.323*	-.043	-.007	-.036	-.331*	-.256	-.281	-.113	-.093	.074	.134
	Sig. (2-tailed)	.014		.651	.275	.835	.432	.094	.042	.791	.966	.825	.037	.111	.079	.487	.567	.652	.409
	N	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40
R3 To what extent does corporate governance-related disclosure - in terms of social, health, environmental and compliance issues – in annual reports useful for different stakeholders?	Pearson Correlation	-.292	-.074	1	-.126	-.474**	-.049	-.425**	.033	.079	-.093	.089	.079	-.045	.481**	-.083	.188	-.264	-.371*
	Sig. (2-tailed)	.068	.651		.439	.002	.764	.006	.839	.629	.568	.585	.628	.782	.002	.611	.245	.100	.018
	N	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40
R4 To what extent do financial reports communicate strategic objectives informed by risk, opportunities, macro-economic and social issues and sustainability concerns?	Pearson Correlation	-.203	-.177	-.126	1	.096	.137	-.322*	-.076	.074	-.065	.122	.166	.128	.119	.235	.144	-.153	-.069
	Sig. (2-tailed)	.209	.275	.439		.556	.399	.043	.641	.648	.689	.452	.307	.431	.463	.144	.376	.345	.672
	N	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40
R5 Overall, to what extent does the annual report allow stakeholders to evaluate the organization's long and short term performance as well as its sustainability?	Pearson Correlation	.114	.034	-.474**	.096	1	.105	.420**	-.082	.092	.113	.440**	.272	-.053	-.119	-.097	-.121	.299	.298
	Sig. (2-tailed)	.485	.835	.002	.556		.519	.007	.614	.574	.489	.004	.089	.747	.465	.553	.458	.061	.062
	N	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40
F1 to what extent are significant assumptions and estimates used in preparing the annual reports explained	Pearson Correlation	-.053	-.128	-.049	.137	.105	1	.202	-.115	-.258	.506**	-.028	.386*	-.003	.016	-.281	-.125	-.297	-.009
	Sig. (2-tailed)	.747	.432	.764	.399	.519		.211	.481	.109	.001	.864	.014	.988	.920	.079	.443	.063	.954
	N	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40
F2 Do companies explain their accounting policy choices?	Pearson Correlation	.124	.269	-.425**	-.322*	.420**	.202	1	.060	.035	.424**	-.069	-.061	-.006	-.372*	-.313*	-.414**	.204	.441**

Appendix B: the Pearson's correlation table

	Sig. (2-tailed)	.446	.094	.006	.043	.007	.211		.714	.832	.006	.673	.708	.970	.018	.049	.008	.207	.004
	N	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40
F3 To what extent do companies, highlight the negative events as well as the positive events?	Pearson Correlation	-.309	-.323*	.033	-.076	-.082	-.115	.060	1	.279	-.030	-.117	-.027	.031	.189	.058	-.219	.025	-.276
	Sig. (2-tailed)	.052	.042	.839	.641	.614	.481	.714		.081	.855	.474	.868	.848	.243	.724	.174	.878	.085
	N	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40
F4 To what extent is the disclosed strategy, values, risks, risk management policies, social/health/environmental issues, and financial performance of the firm a faithful representation of the true state of affairs?	Pearson Correlation	.183	-.043	.079	.074	.092	-.258	.035	.279	1	-.060	.098	-.140	-.283	.148	.123	.130	.269	.143
	Sig. (2-tailed)	.258	.791	.629	.648	.574	.109	.832	.081		.712	.549	.391	.077	.363	.449	.425	.094	.379
	N	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40
F5 To what extent is non-financial information integrated with the financial reporting contained in annual reports?	Pearson Correlation	-.040	-.007	-.093	-.065	.113	.506**	.424**	-.030	-.060	1	-.200	.014	-.204	-.214	-.375*	-.310	.073	.176
	Sig. (2-tailed)	.808	.966	.568	.689	.489	.001	.006	.855	.712		.216	.932	.206	.185	.017	.052	.655	.278
	N	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40
C1 how frequently do companies restate previous accounting periods' figures, for the effect of the implementation of a change in accounting policy or a material prior period error?	Pearson Correlation	.069	-.036	.089	.122	.440**	-.028	-.069	-.117	.098	-.200	1	.580**	.056	.309	.103	.147	.201	.211
	Sig. (2-tailed)	.672	.825	.585	.452	.004	.864	.673	.474	.549	.216		.000	.731	.052	.527	.366	.213	.191
	N	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40
C2 to what extent do the notes on changes in accounting policies or revisions explain the implications of the respective changes?	Pearson Correlation	-.056	-.331*	.079	.166	.272	.386*	-.061	-.027	-.140	.014	.580**	1	.123	.434**	-.251	.017	-.225	-.147
	Sig. (2-tailed)	.731	.037	.628	.307	.089	.014	.708	.868	.391	.932	.000		.448	.005	.119	.917	.162	.365
	N	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40
C3 To what extent is the financial, social, economic and environmental performance of the organization comparable from period to period?	Pearson Correlation	-.229	-.256	-.045	.128	-.053	-.003	-.006	.031	-.283	-.204	.056	.123	1	.033	.175	-.118	-.234	.076
	Sig. (2-tailed)	.155	.111	.782	.431	.747	.988	.970	.848	.077	.206	.731	.448		.841	.279	.467	.145	.642
	N	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40
C4 to what extent is the information in the financial reports	Pearson Correlation	.065	-.281	.481**	.119	-.119	.016	-.372*	.189	.148	-.214	.309	.434**	.033	1	-.218	.310	-.039	-.352*

Appendix B: the Pearson's correlation table

comparable to information provided by other organisations?	Sig. (2-tailed)	.689	.079	.002	.463	.465	.920	.018	.243	.363	.185	.052	.005	.841		.177	.051	.810	.026
	N	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40
U1 to what extent are the financial reports that you have reviewed presented in a well organised manner? (E.g. Table of contents, heading, order of components in the financial reporting, etc.)	Pearson Correlation	-.080	-.113	-.083	.235	-.097	-.281	-.313*	.058	.123	-.375*	.103	-.251	.175	-.218	1	.508**	.011	.139
	Sig. (2-tailed)	.625	.487	.611	.144	.553	.079	.049	.724	.449	.017	.527	.119	.279	.177		.001	.946	.392
	N	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40
U2 to what extent are supporting notes to the financial statements useful for understanding the financial performance of organisations?	Pearson Correlation	.357*	-.093	.188	.144	-.121	-.125	-.414**	-.219	.130	-.310	.147	.017	-.118	.310	.508**	1	.063	-.074
	Sig. (2-tailed)	.024	.567	.245	.376	.458	.443	.008	.174	.425	.052	.366	.917	.467	.051	.001		.699	.648
	N	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40
U3 does supplementary information such as glossary of terms, group structures and cross-referenced electronic media add to the clarity of the annual report?	Pearson Correlation	.274	.074	-.264	-.153	.299	-.297	.204	.025	.269	.073	.201	-.225	-.234	-.039	.011	.063	1	.589**
	Sig. (2-tailed)	.087	.652	.100	.345	.061	.063	.207	.878	.094	.655	.213	.162	.145	.810	.946	.699		.000
	N	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40
T1 To what extent do you feel that the time lag between the end of the reporting period and the issue of the annual financial report to stakeholders is appropriate?	Pearson Correlation	.187	.134	-.371*	-.069	.298	-.009	.441**	-.276	.143	.176	.211	-.147	.076	-.352*	.139	-.074	.589**	1
	Sig. (2-tailed)	.248	.409	.018	.672	.062	.954	.004	.085	.379	.278	.191	.365	.642	.026	.392	.648	.000	
	N	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40

*. Correlation is significant at the 0.05 level (2-tailed).

**. Correlation is significant at the 0.01 level (2-tailed).

Appendix C: the Spearman's correlation table

Correlations

			R 1	R 2	R 3	R 4	R 5	F1	F2	F3	F4	F5	C1	C2	C3	C4	U1	U2	U3	T1
ear n's	R1 To what extent does the presence of forward-looking information (e.g. financial reviews, budgets, forecasts) help users form expectations and predictions concerning the future of the company?	Correlation Coefficient	1.000	.356*	-.265	-.191	.157	-.055	.076	-.250	.191	-.047	.243	.063	-.341*	.081	-.080	.369*	.244	.149
		Sig. (2-tailed)		.024	.098	.237	.334	.735	.643	.119	.238	.774	.131	.698	.031	.621	.625	.019	.130	.358
		N	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40
	R2 To what extent does the presence of non-financial information (NFI) - in terms of the overview of the organisation, its objectives, business opportunities and risks - complement the financial information that you have reviewed?	Correlation Coefficient	.356*	1.000	-.025	-.154	.147	-.115	.291	-.346*	-.045	.015	.225	-.193	-.332*	-.243	-.112	-.110	.072	.160
		Sig. (2-tailed)	.024		.876	.342	.364	.478	.069	.029	.781	.926	.163	.232	.036	.131	.493	.499	.659	.324
		N	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40
	R3 To what extent does corporate governance-related disclosure - in terms of social, health, environmental and compliance issues – in annual reports useful for different stakeholders?	Correlation Coefficient	-.265	-.025	1.000	-.125	-.495**	-.087	-.403**	-.024	.085	-.137	.065	.066	-.022	.437**	-.048	.208	-.328*	-.399*
		Sig. (2-tailed)	.098	.876		.443	.001	.594	.010	.885	.603	.399	.689	.688	.891	.005	.768	.199	.039	.011
		N	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40
	R4 To what extent do financial reports communicate strategic objectives informed by risk, opportunities, macro-economic and social issues and sustainability concerns?	Correlation Coefficient	-.191	-.154	-.125	1.000	.075	.101	-.341*	-.079	.091	-.065	.054	.135	.018	.141	.238	.133	-.148	-.065
		Sig. (2-tailed)	.237	.342	.443		.648	.535	.031	.630	.577	.689	.741	.406	.910	.385	.139	.412	.361	.690
		N	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40
	R5 Overall, to what extent does the annual report allow stakeholders to evaluate the organization's long and short term performance as well as its sustainability?	Correlation Coefficient	.157	.147	-.495**	.075	1.000	.107	.430**	-.072	.098	.101	.324*	.133	-.133	-.148	-.104	-.131	.305	.320*
		Sig. (2-tailed)	.334	.364	.001	.648		.511	.006	.658	.547	.536	.042	.415	.413	.364	.521	.419	.055	.044
		N	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40

Appendix C: the Spearman's correlation table

F1 to what extent are significant assumptions and estimates used in preparing the annual reports explained	Correlation Coefficient	-.055	-.115	-.087	.101	.107	1.000	.219	-.088	-.275	.582**	-.119	.413**	.085	-.001	-.292	-.146	-.292	.035
	Sig. (2-tailed)	.735	.478	.594	.535	.511		.175	.590	.086	.000	.465	.008	.604	.995	.068	.367	.067	.828
	N	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40
F2 Do companies explain their accounting policy choices?	Correlation Coefficient	.076	.291	-.403**	-.341*	.430**	.219	1.000	.079	.040	.395*	-.068	-.108	.063	-.398*	-.268	-.415**	.198	.435**
	Sig. (2-tailed)	.643	.069	.010	.031	.006	.175		.626	.806	.012	.675	.508	.700	.011	.095	.008	.220	.005
	N	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40
F3 To what extent do companies, highlight the negative events as well as the positive events?	Correlation Coefficient	-.250	-.346*	-.024	-.079	-.072	-.088	.079	1.000	.261	-.024	-.130	-.005	.109	.247	.025	-.206	.044	-.284
	Sig. (2-tailed)	.119	.029	.885	.630	.658	.590	.626		.104	.883	.424	.975	.504	.125	.880	.202	.786	.076
	N	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40
F4 To what extent is the disclosed strategy, values, risks, risk management policies, social/health/environmental issues, and financial performance of the firm a faithful representation of the true state of affairs?	Correlation Coefficient	.191	-.045	.085	.091	.098	-.275	.040	.261	1.000	-.059	.121	-.169	-.361*	.145	.129	.133	.291	.147
	Sig. (2-tailed)	.238	.781	.603	.577	.547	.086	.806	.104		.720	.457	.296	.022	.371	.429	.413	.068	.366
	N	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40
F5 To what extent is non-financial information integrated with the financial reporting contained in annual reports?	Correlation Coefficient	-.047	.015	-.137	-.065	.101	.582**	.395*	-.024	-.059	1.000	-.310	-.042	-.135	-.234	-.374*	-.316*	.073	.187
	Sig. (2-tailed)	.774	.926	.399	.689	.536	.000	.012	.883	.720		.052	.797	.406	.147	.017	.047	.656	.247
	N	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40
C1 how frequently do companies restate previous	Correlation Coefficient	.243	.225	.065	.054	.324*	-.119	-.068	-.130	.121	-.310	1.000	.407**	-.056	.259	.118	.194	.246	.250

Appendix C: the Spearman's correlation table

accounting periods' figures, for the effect of the implementation of a change in accounting policy or a material prior period error?	Sig. (2-tailed)	.131	.163	.689	.741	.042	.465	.675	.424	.457	.052		.009	.729	.107	.467	.231	.125	.119
	N	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40
C2 to what extent do the notes on changes in accounting policies or revisions explain the implications of the respective changes?	Correlation Coefficient	.063	-.193	.066	.135	.133	.413**	-.108	-.005	-.169	-.042	.407**	1.000	.115	.443**	-.293	.038	-.269	-.184
	Sig. (2-tailed)	.698	.232	.688	.406	.415	.008	.508	.975	.296	.797	.009		.480	.004	.066	.814	.093	.255
	N	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40
C3 To what extent is the financial, social, economic and environmental performance of the organization comparable from period to period?	Correlation Coefficient	-.341*	-.332*	-.022	.018	-.133	.085	.063	.109	-.361*	-.135	-.056	.115	1.000	-.020	.221	-.177	-.284	.070
	Sig. (2-tailed)	.031	.036	.891	.910	.413	.604	.700	.504	.022	.406	.729	.480		.901	.170	.274	.076	.668
	N	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40
C4 to what extent is the information in the financial reports comparable to information provided by other organisations?	Correlation Coefficient	.081	-.243	.437**	.141	-.148	-.001	-.398*	.247	.145	-.234	.259	.443**	-.020	1.000	-.225	.315*	-.060	-.354*
	Sig. (2-tailed)	.621	.131	.005	.385	.364	.995	.011	.125	.371	.147	.107	.004	.901		.163	.048	.715	.025
	N	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40
U1 to what extent are the financial reports that you have reviewed presented in a well organised manner? (E.g. Table of contents, heading, order of components in the financial reporting, etc.)	Correlation Coefficient	-.080	-.112	-.048	.238	-.104	-.292	-.268	.025	.129	-.374*	.118	-.293	.221	-.225	1.000	.494**	.008	.115
	Sig. (2-tailed)	.625	.493	.768	.139	.521	.068	.095	.880	.429	.017	.467	.066	.170	.163		.001	.960	.481
	N	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40
U2 to what extent are supporting notes to the financial statements useful for understanding the financial performance of organisations?	Correlation Coefficient	.369*	-.110	.208	.133	-.131	-.146	-.415**	-.206	.133	-.316*	.194	.038	-.177	.315*	.494**	1.000	.063	-.086
	Sig. (2-tailed)	.019	.499	.199	.412	.419	.367	.008	.202	.413	.047	.231	.814	.274	.048	.001		.700	.596

Appendix C: the Spearman's correlation table

	N	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40
U3 does supplementary information such as glossary of terms, group structures and cross-referenced electronic media add to the clarity of the annual report?	Correlation Coefficient	.244	.072	-.328*	-.148	.305	-.292	.198	.044	.291	.073	.246	-.269	-.284	-.060	.008	.063	1.000	.582**
	Sig. (2-tailed)	.130	.659	.039	.361	.055	.067	.220	.786	.068	.656	.125	.093	.076	.715	.960	.700		.000
	N	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40
T1 To what extent do you feel that the time lag between the end of the reporting period and the issue of the annual financial report to stakeholders is appropriate?	Correlation Coefficient	.149	.160	-.399*	-.065	.320*	.035	.435**	-.284	.147	.187	.250	-.184	.070	-.354*	.115	-.086	.582**	1.000
	Sig. (2-tailed)	.358	.324	.011	.690	.044	.828	.005	.076	.366	.247	.119	.255	.668	.025	.481	.596	.000	
	N	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40

orrelation is significant at the 0.05 level (2-tailed).

Correlation is significant at the 0.01 level (2-tailed).

Appendix D: Eigenvalues and variances per factor

Total Variance Explained

Factor	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.237	19.043	19.043	2.832	16.660	16.660	2.420	14.237	14.237
2	2.531	14.889	33.932	2.214	13.021	29.681	1.920	11.297	25.534
3	2.221	13.066	46.997	1.920	11.293	40.974	1.594	9.378	34.913
4	1.709	10.056	57.053	1.260	7.414	48.388	1.477	8.690	43.603
5	1.630	9.590	66.643	1.168	6.873	55.261	1.395	8.207	51.810
6	1.102	6.483	73.126	.777	4.568	60	1.363	8.018	60
7	.948	5.574	78.700						
8	.824	4.844	83.544						
9	.698	4.105	87.649						
10	.501	2.947	90.597						
11	.417	2.454	93.051						
12	.328	1.928	94.978						
13	.318	1.869	96.847						
14	.184	1.080	97.927						
15	.151	.887	98.815						
16	.119	.701	99.516						
17	.082	.484	100.000						