

CHAPTER 9

Research results – questionnaires for preparers

9.1 Introduction

The preparers of CARs are important role players regarding the outcome of CARs. Other important role players are the users and the designers of CARs. Three questionnaires were compiled and distributed to the preparers, the users and the designers of CARs. The questionnaires contained certain statements about CARs as the information products of accounting practices in transition and the respondents had to indicate whether they strongly disagreed, disagreed, agreed, strongly agreed or were unsure about the statements made.

The purpose of the statements in the questionnaires was to determine the extent to which CARs are the information products of accounting practices in transition and to research the contributions of all relevant role players. This chapter covers the responses from the preparers of CARs.

The layout of this chapter consists of the introduction, research results of preparers of CARs and a summary and conclusion.

9.2 Questionnaire for the preparers of CARs

9.2.1 Introduction

The total population of groups of companies listed on the Johannesburg Securities Exchange amounted to 357 on 23 November 2006. Using this database of groups of companies, e-mails containing the questionnaire were sent to the financial directors/managers of all the companies listed. Convenience, nonprobability sampling was used in that all questionnaires returned by companies became part of the sample. The

response rate for this survey was 16.5 percent (see chapter 7). The low response rate may not guarantee representativeness. Not all companies were prepared to participate in the survey; reasons included the following (refer to appendix D for detail):

- Policy not to complete surveys
- Shortage of staff
- Time constraints
- Executives on road shows

The responses of companies that could participate in the survey are presented in the following section.

9.2.2 Research results

The results of the questionnaires will be set out in the following order: a display of the statement, a short motivation, the results set out in a table and a conclusion.

The growth of CARs

Statement 1: *Business reporting evolved over centuries and was typified by slow, random and reactive growth* (Garbutt, 1981:10 -11; Edwards, 1989:14; Mattesich, 2000:13 -14; Belkaoui, 2004:2-30; Vorster, 2007:32). Over the centuries it was shown that external incidents like the stock market crash of 1929 in the US (Zeff, 2005:1) influenced the random and reactive growth of business reporting. Table 9.1 shows that respondents agreed with this statement.

Table 9.1: Statement 1

Rating scale	%
Strongly disagree	0.0
Disagree	22.3
Unsure	13.3
Agree	51.1
Strongly agree	13.3
Total	100.0

51.1 percent of the respondents agreed with statement 1 and 13.3 percent strongly agreed. 64.4 percent of the respondents are therefore in agreement with this statement. The accounting practices that generate statutory disclosures in CARs have shown reactive growth. On the other hand, discretionary accounting practices responsible for discretionary disclosures in CARs have shown proactive growth (refer to the research results of chapter 8). The research result above confirms the fact that accounting practices, which drive business reporting, are in transition. An opportunity exists to improve accounting practices, if proper feedback systems are in place (e.g. in the form of questionnaires included in CARs to be completed and returned by users). Standard setters and preparers could use this feedback for the further improvement of GAAP and discretionary accounting practices.

Statement 2: *Business reporting is in an expansionary phase.* The introduction of IFRSs has resulted in expanded mandatory disclosures and companies disclose ever-increasing discretionary information (see chapter 8). Table 9.2 reflects that the majority of respondents agree with this statement.

Table 9.2: Statement 2

Rating scale	%
Strongly disagree	0.0
Disagree	6.7
Unsure	4.4
Agree	68.9
Strongly agree	20.0
Total	100.0

Only 6.7 percent of the respondents disagreed with this statement, while 4.4 percent were unsure. The opinions of the respondents therefore confirm that business reporting is in an expansionary phase as a result of the fact that accounting practices, which drive business reporting, are in transition. The standard-setting bodies are the major role player in the development of accounting practices to create disclosures in CARs. They carry out their own research and develop and refine the IFRSs and IASs that generate the mandatory

disclosures in CARs. The standard-setting bodies could also take note of the evolving discretionary accounting practices used by the DIS to generate discretionary disclosures in their research, as some of these discretionary accounting practices might have the potential to become GAAP.

Statement 3: *Current and emerging business practices will influence the evolution of accounting practices in the future.* In chapter 8 it was shown that discretionary accounting practices, if found useful, have the potential to become generally accepted accounting practices or IFRSs, for example segment reporting initially was a discretionary reporting practice, however it is currently required to be disclosed as mandatory information in terms of IFRSs. Table 9.3 indicates that a vast majority of the respondents agree with statement 3.

Table 9.3: Statement 3

Rating scale	%
Strongly disagree	2.3
Disagree	4.5
Unsure	4.4
Agree	64.4
Strongly agree	24.4
Total	100.0

A total of 88.8 (64.4 + 24.4) percent of the financial directors/managers agree with the statement that current and emerging business practices will influence the evolution of accounting practices in the future. This is a confirmation that accounting practices are in transition. The accounting practices used by the MFIS, that is GAAP, complemented by discretionary accounting practices used by the DIS, responsible for disclosures in CARs, will be able to meet the information requirements of emerging business practices.

Statement 4: *The information disclosed in CARs is continuously escalating and being presented in different formats.* Lee (1994:223) has shown that information disclosed in

CARs is escalating and being presented in different formats, for example the use of graphs and visual aids and colour. One of the research questions of this thesis was whether CARs can be visualised as a product of information-processing systems, representing an interaction between entities and stakeholders to generate and share information that is constantly escalating and being presented in different formats. From table 9.4, it may be seen that 57.8 percent of the respondents agreed and 33.3 percent strongly agreed with statement 4.

Table 9.4: Statement 4

Rating scale	%
Strongly disagree	0.0
Disagree	4.5
Unsure	4.4
Agree	57.8
Strongly agree	33.3
Total	100.0

The research results in table 9.4 indicate that the information disclosed in CARs is continuously escalating and being presented in different formats. This statement is also confirmed by the research results of the content analysis in chapter 8. The information disclosed in CARs is continuously escalating as it is driven by evolving accounting practices. Information is disclosed in different formats by the DIS in particular, which creates discretionary disclosures as more use is made of graphs, visual aids and colour.

Information systems

Statement 5: *Accounting practices that capture and screen information, generate the statutory and discretionary disclosures in CARs.* One of the research questions formulated in chapter 1 was: “Do CARs generated by the information-processing systems reflect the disclosure of information, captured and screened by accounting practices?” The aim of the question was to establish whether accounting practices, amongst other things, are the drivers of information disclosed in CARs. Table 9.5 shows a variation in the responses.

Table 9.5: Statement 5

Rating scale	%
Strongly disagree	6.7
Disagree	20.0
Unsure	17.8
Agree	48.8
Strongly agree	6.7
Total	100.0

A total of 26.7 (6.7 + 20.0) percent of the respondents disagreed with the statement while 55.5 (48.8 + 6.7) percent agreed. It is unclear why 26.7 percent of the respondents disagreed. The conclusion is that accounting practices that capture and screen information play an important role in the generation of statutory and discretionary disclosures in CARs.

Statement 6: *CARs are normally divided into two sections, that is, the statutorily required financial information and the discretionary disclosures.* This statement was made in 2002 and in 2004 (Stanton & Stanton, 2002:479; Stanton *et al*, 2004:57). This was an important statement to test, as there are people who believe that this is not the case. Table 9.6 illustrates that 13.4 percent of respondents disagreed with the statement, while 2.2 percent was unsure.

Table 9.6: Statement 6

Rating scale	%
Strongly disagree	0.0
Disagree	13.4
Unsure	2.2
Agree	62.2
Strongly agree	22.2
Total	100.0

The majority of respondents agree and strongly agree that the statement is valid and that CARs indeed consist of two sections, that is, the statutorily required financial information as well as the discretionary disclosures.

Statement 7: *CARs can be visualised as the product of information systems, representing an interaction between the entity and stakeholders to generate and share information.* One of the research questions in chapter 1 was: “Can CARs be visualised as a product of information-processing systems, representing an interaction between entities and stakeholders to generate and share information that is constantly escalating and being presented in different formats?” According to Bekaoui (2000:63), “the choice of accounting information and/or accounting technique may have an impact on the welfare of various groups in society”. A business does not exist in isolation, because there is constant interaction between the business and its environment. The perceptions of financial directors/managers set out in table 9.7 confirm this statement.

Table 9.7: Statement 7

Rating scale	%
Strongly disagree	0.0
Disagree	11.1
Unsure	13.3
Agree	68.9
Strongly agree	6.7
Total	100.0

As per table 9.7, 68.9 percent of respondents agree with the statement, while 6.7 percent strongly agree. The research results indicate that CARs can be visualised as the product of information systems representing an interaction between the entity and stakeholders to generate and share information. This product is driven by accounting practices, which are again driven by the needs of users to reduce uncertainty and risks.

Statement 8: *The interdependency of interrelated systems, that is, the system that generates statutory disclosures and the system that generates discretionary disclosures in CARs, results in the disclosure of balanced information in CARs.* This statement links with one of the research questions in chapter 1: “Is there a relationship between the processing information system that generates the statutory disclosures in CARs and the processing information system that generates the discretionary disclosures in CARs, which also form the context of CARs?” Table 9.8 reveals that the perceptions of respondents match the statement.

Table 9.8: Statement 8

Rating scale	%
Strongly disagree	2.2
Disagree	15.6
Unsure	13.3
Agree	62.2
Strongly agree	6.7
Total	100.0

As illustrated in table 9.8, only 2.2 percent strongly disagreed with the statement, while 15.6 percent disagreed and 13.3 percent were unsure. The majority of respondents go along with the statement that interrelated systems generate balanced information in CARs. The DIS discloses contextual information in CARs and fills the gap that the statutory disclosures of the MFIS cannot, for reasons such as problems with measurement. For example, until acceptable ways of measuring intellectual capital are found it will be disclosed as contextual information. The two systems complement each other and the disclosures of both systems give an understanding of the big picture.

Statement 9: *CARs that are driven by user needs represent inter alia a system responsible for generating statutory disclosures governed by generally accepted accounting practices (GAAP) and a system responsible for generating discretionary disclosures.* The purpose of this statement was to establish with certainty that two systems generate disclosures in CARs. Table 9.9 confirms this viewpoint.

Table 9.9: Statement 9

Rating scale	%
Strongly disagree	0.0
Disagree	8.9
Unsure	11.1
Agree	71.1
Strongly agree	8.9
Total	100.0

Eighty percent (71.1 + 8.9) of the respondents agree with the viewpoint that two systems are responsible for the disclosures in CARs and that user needs drive the disclosures in CARs. User needs are driven by uncertainty.

Statement 10: *There is an interrelationship between these systems (refer 9).* One of the research questions in chapter 1 was: “Is there a relationship between the processing information system that generates the statutory disclosures in CARs and the processing information system that generates the discretionary disclosures in CARs, which also form the context of CARs?” The aim of this statement was to confirm the viewpoint that the two systems should not be seen in isolation. The subtle difference between statements 8 and 10 should be noted: statement 8 probes whether the acknowledged interrelationship results in balanced information disclosure, whereas statement 10 probes the existence of such an interrelationship. Table 9.10 indicates that the MFIS that generates statutory disclosures and the DIS that generates discretionary disclosures should not be seen in isolation, but should be interpreted in an interrelated context.

Table 9.10: Statement 10

Rating scale	%
Strongly disagree	2.2
Disagree	6.7
Unsure	17.8
Agree	71.1
Strongly agree	2.2
Total	100.0

Table 9.10 reflects that the vast majority of respondents, 73.3 (71.1 + 2.2) percent, confirm the interrelationship between the system responsible for statutory disclosures and the system responsible for discretionary disclosures. The two systems should not be viewed in isolation as the discretionary disclosures form the context of the statutory disclosures.

Statement 11: *Business information created by accounting practices has the potential to become discretionary or statutory information in CARs.* One of the research questions in chapter 1 was: “Has the business information created by accounting practices the potential to become discretionary or statutory information in CARs?” Accounting practices as per this statement should be seen in a broad sense and would include generally accepted accounting practices as well as discretionary accounting practices. Business information formed by all-embracing accounting practices will be further screened by either generally accepted accounting practices or discretionary accounting practices to become statutory or discretionary disclosures respectively. Although the statement was difficult to comprehend fully without the contextual explanation as above, owing to the fact that statements in the questionnaire had to be structured as concisely as possible, the majority of respondents (see table 9.11) agreed with this statement.

Table 9.11: Statement 11

Rating scale	%
Strongly disagree	2.2
Disagree	11.1
Unsure	17.8
Agree	62.2
Strongly agree	6.7
Total	100.0

Table 9.11 show that 68.9 (62.2 + 6.7) percent of the respondents agreed with the statement. This gives a strong indication that business information created by all-embracing accounting practices has the potential to become discretionary or statutory

information in CARs. All events to be transformed into business information will be captured either by the MFIS (using generally accepted accounting practices) and disclosed as statutory information or by the DIS (using discretionary accounting practices) and disclosed as discretionary information in CARs.

Statement 12: *The discretionary information reported in CARs, if proven useful over time, has the potential of being accepted and disclosed as statutory information.* The aim of this statement was to seek confirmation for one of the research questions in chapter 1: “Does the discretionary financial information reported in CARs, if proven useful over time, have the potential of being accepted as statutory information governed by generally accepted accounting principles?” Table 9.12 reflects that the majority of respondents are in agreement with this statement.

Table 9.12: Statement 12

Rating scale	%
Strongly disagree	6.7
Disagree	13.3
Unsure	15.6
Agree	60.0
Strongly agree	4.4
Total	100.0

Table 9.12 reflects that 64.4 (60.0 + 4.4) percent agree that discretionary information can become statutory information. For this to happen new IFRSs will have to be developed. One example is segment reporting, which was initially disclosed as discretionary information in CARs, but is now disclosed as statutory information as part of the notes to the financial statements. This confirms the findings in chapter 8 of this thesis that discretionary information if proven useful over time has the potential of being reported as statutory information.

Statement 13: *GAAP should be rule based as opposed to principles based.* This statement differs from the other statements as it contains two statements in one. The purpose of the statement was to determine which of the two confusing alternatives were seen in practice as the dominant one and to get confirmation that GAAP should not be recipe or rulebook orientated, but rather be based on general principles or criteria. Table 9.13 indicates that 75.6 (20.0 + 55.6) percent disagreed with the statement and therefore are not in favour of GAAP being rule based.

Table 9.13: Statement 13

Rating scale	%
Strongly disagree	20.0
Disagree	55.6
Unsure	8.9
Agree	11.1
Strongly agree	4.4
Total	100.0

The IASB is currently committed to a principle-based approach in standard setting as opposed to a rule-based US approach. The primary benefit of principles-based accounting rests in its broad guidelines that can be applied to numerous situations. Principles-based accounting standards may provide accounting statements that more accurately reflect an entity's actual performance, as an increase in principles-based accounting standards would reduce manipulations of the rules (Shortridge & Myring, 2004:36). On the other hand, a lack of precise guidelines could create inconsistencies and reduce comparability in the application of standards across entities (ibid, 2004:36). A convergence process is currently underway and is laid down in the memorandum of understanding signed in February 2006 by the IASB and the FASB and approved by the US Securities and Exchange Commission and the European Commission. This convergence process will influence accounting practices described in the IFRS of the MFIS responsible for statutory disclosures in CARs.

Statement 14: *It would be useful if financial reporting could also be done in digital form making use of “eXtensible Business Reporting Language” (XBRL).* In the US companies are faced with extensive costs to *inter alia* comply with the requirements of the Sarbanes-Oxley Act (SOX) regarding corporate governance and transparency. These companies could in future focus on XBRL and the common platform it provides for business information. XBRL provides real-time business reporting *inter alia* through the internet that is instantly available for analysis. It consists in tagging each individual item of data instead of treating information as a block of text. XBRL is set to become the standard way of recording, storing and transmitting business financial and discretionary information (OECD, 2006:18). Table 9.14 discloses that there is currently still great uncertainty about the usefulness of XBRL.

Table 9.14: Statement 14

Rating scale	%
Strongly disagree	2.2
Disagree	11.1
Unsure	40.0
Agree	40.0
Strongly agree	6.7
Total	100.0

Table 9.14 shows that 40 percent of respondents are uncertain about the usefulness of XBRL, while 46.7 percent is of the opinion that it is indeed useful. Forty percent of the respondents indicated that they are not sure whether XBRL would be useful. Is this a reflection of the fact that they are not aware of XBRL, or a belief that the cost of implementation outweighs its benefits? As financial and other business information needs to be available sooner and faster if companies want to compete for capital and investor attention, the benefits of adopting XBRL should become clear. The discretionary disclosures created by the DIS and the statutory disclosures generated by the MFIS could, if XBRL is adopted, be available in XBRL format.

Quality features

Statement 15a: *Although the ultimate responsibility for the preparation of CARs lies with the directors (represented by the Chief Executive) of publicly listed companies, the following department(s) is/are entrusted with the preparation of the following sections of CARs: The **financial department** is entrusted with the accumulation and preparation of the mandatory information section (e.g. the statutorily required financial statements and notes) of CARs.*

The aim of statements 15a to 15e is to research the contribution of all relevant role players. Table 9.15a indicates that the financial department is the one entrusted with mandatory disclosures.

Table 9.15a: Statement 15a

Rating scale	%
Strongly disagree	0.0
Disagree	2.2
Unsure	0.0
Agree	42.2
Strongly agree	55.6
Total	100.0

Almost all the respondents agreed/strongly agreed with the statement that the financial department is the main role player in preparing mandatory disclosures in CARs. One respondent remarked that the company secretary is also involved with statutory disclosures governed by GAAP and the JSE regulations. The above research results indicate that the financial department is the main role player using the MFIS to generate statutory disclosures in CARs.

Statement 15b: *The **finance department** is entrusted with the accumulation and preparation of the discretionary (voluntary) information section (e.g. including integrated*

sustainability reporting, corporate governance matters and other discretionary [voluntary reporting.] of CARs.

The majority of respondents agree that the financial department is the main role player in the accumulation and preparation of the discretionary information section of CARs, however, 35.6 percent disagree.

Table 9.15b: Statement 15b

Rating scale	%
Strongly disagree	0.0
Disagree	35.6
Unsure	0.0
Agree	42.2
Strongly agree	22.2
Total	100.0

Table 9.15b indicates that 64.4% of the respondents agree that the financial department is the main role player using the DIS to generate discretionary disclosures in CARs.

Statement 15c: *The investor relations department has the opportunity to advise on the types of information that should be disclosed in CARs.* The vast majority of financial directors/managers agreed that this is the case (see table 9.15c)

Table 9.15c: Statement 15c

Rating scale	%
Strongly disagree	2.2
Disagree	11.2
Unsure	8.9
Agree	64.4
Strongly agree	13.3
Total	100.0

It may be concluded that the investor relations departments of companies have the opportunity to give advice on certain types of information that should be disclosed in CARs. They can therefore give advice regarding statutory disclosures in CARs generated by the MFIS as well as discretionary disclosures generated by the DIS.

Statement 15d: *The finance department is entrusted with the final preparation of CARs using the mandatory information as in a) and the discretionary information as in b) and the information as in c).* The financial department is the main role player in the final preparation of CARs (see table 9.15d).

Table 9.15d: Statement 15d

Rating scale	%
Strongly disagree	0.0
Disagree	13.3
Unsure	2.2
Agree	57.8
Strongly agree	26.7
Total	100.0

A large majority (84.5%) of respondents agree (57.8%) and strongly agree (26.7%) that the financial department, after having accumulated all relevant information, is the main role player as far as the final preparation of CARs is concerned. The research results indicate that the financial department is the main role player using the MFIS and the DIS to generate statutory and discretionary disclosures in CARs respectively.

Statement 15e: *The corporate communications department is entrusted with the final preparation of CARs using the mandatory information as in a) and the discretionary information as in b) and the information as in c).* A variety of possible outcomes are offered in table 9.15e.

Table 9.15e: Statement 15e

Rating scale	%
Strongly disagree	13.3
Disagree	35.6
Unsure	4.4
Agree	37.8
Strongly agree	8.9
Total	100.0

The percentage of respondents in disagreement with this statement adds up to 48.9 percent, while 46.7 percent of the respondents entrust their corporate communications departments with the final preparation of CARs. A possible reason in this regard may be that some companies prefer the corporate communications department, while others prefer the traditional financial section of the company.

Statement 16: *The CARs preparation process involves a team effort, where several departments work together.* The overwhelming majority of respondents confirmed this to be the case (refer to table 9.16).

Table 9.16: Statement 16

Rating scale	%
Strongly disagree	0.0
Disagree	6.7
Unsure	2.2
Agree	46.7
Strongly agree	44.4
Total	100.0

While the financial department still has the ultimate responsibility for the final preparation of CARs in most companies (although this is not always the case), the CARs preparation process (using the MFIS for statutory disclosures and the DIS for discretionary disclo-

tures) involves a team effort with several departments working together. 91.1 percent of the respondents confirmed this to be the case. This team effort represents the *sinergos* in the preparation of CARs.

Statement 17: *An operating and financial review (OFR), which captures the whole story of entities' performance and prospects seen through the eyes of management, should be incorporated in CARs.* In the UK, during 2005, a mandatory OFR was required from companies effectively for the March 2006 year end onwards. This requirement has since been withdrawn. However, the disclosure of an OFR that captures the whole story of entities' performance and prospects seen through the eyes of management as part of the discretionary information disclosed in CARs of companies listed on the JSE should be incorporated, as can be seen from the research results of table 9.17. This information will be useful to users in their decision-making process.

Table 9.17: Statement 17

Rating scale	%
Strongly disagree	0.0
Disagree	0.0
Unsure	2.2
Agree	51.1
Strongly agree	46.7
Total	100.0

Table 9.17 gives a clear indication that most respondents are in favour of the OFR. This could be introduced as part of the discretionary disclosures of the DIS as a separate section to be identified as the OFR.

Statement 18a: *The directors' report should include an Enhanced Business Review (EBR) covering, inter alia, a discussion of the operating results.* A discussion includes narrative information, which means *inter alia* a written account of events in the form of a "story" that

explains and complements the annual financial statements (Gouws & Cronjé, 2001:163). Respondents were in favour of a discussion of operating results as can be seen from table 9.18a.

Table 9.18a: Statement 18a

Rating scale	%
Strongly disagree	0.0
Disagree	2.2
Unsure	2.2
Agree	60.0
Strongly agree	35.6
Total	100.0

95.6 percent of the respondents were in favour of a discussion of the operating results being included as part of the directors' report. It will thus form part of the statutory disclosures of the MFIS.

Statement 18b: *The directors' report should include an Enhanced Business Review (EBR) covering, inter alia, a discussion of the financial situation.* Again the majority of respondents were in favour of a discussion of the financial situation.

Table 9.18b: Statement 18b

Rating scale	%
Strongly disagree	0.0
Disagree	2.2
Unsure	2.2
Agree	57.8
Strongly agree	37.8
Total	100.0

The research results in table 9.18b give a strong indication that a discussion of the financial situation should form part of the directors' report (95.60% of the respondents

were in favour of such a discussion). This will form part of the mandatory disclosures of the MFIS, as the directors' report is part of financial statements.

Statement 18c: *The directors' report should include an Enhanced Business Review (EBR) covering, inter alia, a discussion of forward-looking information.* Forward-looking information is an aspect very important to stakeholders (Saenger, 1993:84-91). A minority of respondents was not in favour with a discussion of forward-looking information (see table 18c).

Table 9.18c: Statement 18c

Rating scale	%
Strongly disagree	2.2
Disagree	8.9
Unsure	2.2
Agree	57.8
Strongly agree	28.9
Total	100.0

The majority of respondents (86.7%) agreed that a discussion of forward-looking information in the directors' report would be useful. This discussion of forward-looking information will be subject to audit and will form part of the statutory disclosures of the MFIS.

Statement 18d: *The directors' report should include an Enhanced Business Review (EBR) covering, inter alia, a discussion of business risks.* The research results in chapter 8 have shown that companies are including a discussion on business risks as part of discretionary information. In most of cases this forms part of the corporate governance section (King, 2002b:87-89). The inclusion of a discussion on business risks in the directors' report could result in increased credibility. The disclosure of discretionary information (if proven useful over time) could now become the disclosure of statutory

information, as the directors' report is a statutorily required report and forms part of the statutorily required financial statements. Table 9.18d indicates that most respondents are in favour of a discussion on business risks being included in the directors' report.

Table 9.18d: Statement 18d

Rating scale	%
Strongly disagree	0.0
Disagree	4.5
Unsure	2.2
Agree	64.4
Strongly agree	28.9
Total	100.0

Table 18d reflects an acceptance of the idea that business risks should be covered in the directors' report. This will then form part of the statutory disclosures of the MFIS.

Statement 19: *Interim financial reports covering the same financial period as CARs are/should be included in CARs.* The majority of respondents are not in favour of the inclusion of the interim financial reports covering the same financial period as CARs.

Table 9.19: Statement 19

Rating scale	%
Strongly disagree	15.6
Disagree	48.9
Unsure	22.2
Agree	11.1
Strongly agree	2.2
Total	100.0

64.5 percent of the respondents were not in favour of such an inclusion. One possible reason for this is that a reconciliation of the interim reports and the final CARs would have

to be performed. Interim reports are useful as they indicate the direction and sustainability of companies' performance and position. As interim financial statements are mandatory for listed companies (IAS 34), they are products of the MFIS.

Statement 20: *An independent analyst's report should be part of CARs.* One of the research questions in chapter 1 was: "Should CARs also provide other competitive financial information (e.g. an analyst's report)?" Table 9.20 reveals that most companies are not in favour of such a report.

Table 9.20: Statement 20

Rating scale	%
Strongly disagree	33.4
Disagree	51.1
Unsure	8.9
Agree	4.4
Strongly agree	2.2
Total	100.0

Table 9.20 indicates that 84.4 percent of the respondents are not in favour of such a report. Reasons for this high percentage of disagreement can be the following; disclosures in CARs are audited in the case of statutorily required information and limited assurance is given in the case of discretionary disclosures, and therefore the information is credible. It could also be seen as competition. Independent analysts' reports may however add comprehensibility and could form part of the discretionary disclosures of the DIS.

Statement 21: *The business information in CARs that is not useful or comprehensible must be discarded or replaced.* This statement was formulated in order to confirm one of the research questions in chapter 1, which was the following: "Should the business information contained in CARs that is not useful or comprehensible be discarded or

replaced?” Capra (2002:202) contends that the goal of optimising instead of maximising information is a fundamental requirement for the proper functioning of systems. Therefore if information is no longer useful or comprehensible it should be discarded or replaced. Complexity should be removed and understandability increased as far as the disclosure of information in CARs is concerned. Table 9.21 reflects that most of the respondents are in favour of this statement.

Table 9.21: Statement 21

Rating scale	%
Strongly disagree	2.2
Disagree	8.9
Unsure	15.6
Agree	51.1
Strongly agree	22.2
Total	100.0

Table 9.21 shows that 73.3 percent of respondents agree that business information in CARs that is not useful or comprehensible should be discarded or replaced. Is this an indication of the continually evolving nature of CARs? Unfortunately, if an IFRS requires certain information (although not useful or comprehensible) to be disclosed in the financial statements, companies will have to comply with its requirements until the IFRS is amended in order to remove the complexity and increase understandability. Proper feedback systems (e.g. in the form of questionnaires included in CARs to be completed and returned by users) could be used to identify the statutory disclosures of the MFIS and the discretionary disclosures of the DIS in CARs that are no longer useful or comprehensible. Standard setters could take note of this feedback to remove complexity and increase the understandability of the statutory disclosures of the MFIS.

Statement 22: *Images and colour improve the meaningfulness of the information in CARs and create a playful and relaxed atmosphere.* The creation of a playful and relaxed atmosphere was a bit too much for one of the respondents. It was recommended that the

above phrase be changed as follows: “A colour presentation plays an important role in increasing the usefulness of graphical, tabular or columnar comparisons and displays.” Table 9.22 shows that 20 percent disagreed with statement 22.

Table 9.22: Statement 22

Rating scale	%
Strongly disagree	4.4
Disagree	15.6
Unsure	17.8
Agree	48.9
Strongly agree	13.3
Total	100.0

The majority of respondents are comfortable with the statement that images and colour improve the meaningfulness of information in CARs. Images and colour are primarily found in the discretionary disclosures of the DIS.

Statement 23: *External professionals are used to prepare the photographs, tables and graphs in CARs.* Lee (1994:223-224) came to this conclusion in his research in the UK. Table 9.23 shows that the majority of companies listed on the JSE also make use of external professionals for the photographs, tables and graphs.

Table 9.23: Statement 23

Rating scale	%
Strongly disagree	0.0
Disagree	17.8
Unsure	4.4
Agree	51.1
Strongly agree	26.7
Total	100.0

Although 17.8 percent of respondents disagree and 4.4 percent are unsure, the majority (77.8%) confirm that use is made of external professionals to prepare the photos and graphics in CARs. Photos of directors could be included as part of the directors' report. Graphs may also add value to the disclosures of the directors' report. The majority of photos and graphics appear as part of the discretionary disclosures of the DIS.

Statement 24: *In CARs “good news” is written and presented in such a way that it is easier to read.* This view was expressed in the research performed by Clatworthy & Jones (2001). The results in table 9.24 confirm that the majority of respondents do present good news in such a way that it is easier to read.

Table 9.24: Statement 24

Rating scale	%
Strongly disagree	6.7
Disagree	20.0
Unsure	4.4
Agree	51.1
Strongly agree	17.8
Total	100.0

26.7 percent of the respondents do not agree with the statement that good news is presented in such a way (e.g. in the chairman's letter as part of the discretionary disclosures generated by the DIS) that it is easier to read. However the majority of respondents confirm that this is the case. A possible reason for the agreement is the natural tendency of humans to overplay good news (Cronje, 1998:9) and underplay bad news.

Statement 25: *In CARs “bad news” is written using long sentences with complex grammatical structures in order to mask and deflect the readers' attention.* This statement differs from the other statements as it contains two statements in one. Bad news can often be hidden within the structures of CARs. The user of CARs will be elucidated by high-

lighting the ways in which bad news can be identified. Clatworthy & Jones (2001) found in their research that this was indeed the case. The results from table 9.25 tell a different story.

Table 9.25: Statement 25

Rating scale	%
Strongly disagree	8.9
Disagree	60.0
Unsure	4.4
Agree	22.2
Strongly agree	4.4
Total	100.0

The majority of respondents disagree with statement 25. However, what is frightening is that 26.6 percent agree that bad news is written using long sentences with complex grammatical structures to mask the information and deflect the readers' attention. The presentation of bad news will form part of the discretionary disclosures of the DIS.

Statement 26a: *It is my view that CARs provide credible statutory information.* Table 9.26a illustrates that the majority of respondents agree with this statement.

Table 9.26a: Statement 26a

Rating scale	%
Strongly disagree	0.0
Disagree	4.5
Unsure	0.0
Agree	73.3
Strongly agree	22.2
Total	100.0

Table 26a shows that 73.3 percent of the respondents agree (while 22.2% strongly agree) that CARs provide credible statutory information. It can therefore be concluded that the MFIS that discloses statutory information in CARs provides credible information in CARs.

Statement 26b: *It is my view that CARs provide credible discretionary information.* The level of assurance from the research results (table 9.26b) is lower than in the case of statutory information (see table 9.26a).

Table 9.26b: Statement 26b

Rating scale	%
Strongly disagree	0.0
Disagree	8.9
Unsure	6.7
Agree	77.8
Strongly agree	6.6
Total	100.0

Table 9.26b shows that 8.9 percent of the respondents feel that the discretionary information of CARs is not at all credible compared to 4.5 percent of the respondents as per table 9.26a who states that the statutory information in CARs is not credible. Furthermore, only 6.6 percent of respondents strongly agree that discretionary information is credible compared to 22.2 percent (see table 9.26a) who strongly agree that statutory information is credible. The level of assurance in respect of discretionary disclosures is therefore lower than that for statutory disclosures. A respondent remarked "... the external auditors need to play a role in the verification of the discretionary information and need to play a bigger role by sitting in on management and board meetings ...". The level of assurance for discretionary disclosures is however high (84.4% of respondents agreed and strongly agreed) and therefore it can be concluded that the discretionary disclosures of the DIS are credible.

Statement 27: *The quality of disclosures in CARs results in lower risk premiums (Wolk et al., 2000:314).* The aim of this statement was to establish whether quality disclosures in CARs could influence risk premiums favourably, for example, if companies need finance, whether quality disclosures could lower the interest rate used to calculate repayments of debt. Table 27 reflects great disparity among respondents.

Table 9.27: Statement 27

Rating scale	%
Strongly disagree	6.7
Disagree	17.8
Unsure	28.9
Agree	35.6
Strongly agree	11.0
Total	100.0

Respondents who agreed with the statement totalled $35.6 + 11.0 = 46.6$ percent. In disagreement was $6.7 + 17.8 = 24.5$ percent, while 28.9 percent was unsure. The results of the research (Sengupta, 1998 in Wolk *et al.*, 2000:314) confirm that there is a relationship between quality disclosures and lower risk premiums. A reason for the inconclusiveness of the research results of table 9.27 is that the knowledge of the statement that quality disclosures in CARs result in lower risk premiums is not widely known by preparers of CARs.

Business communication

Statement 28: *The corporate annual report is the primary communication channel of a company.* The annual report is considered to be an entity's most important communications document (Pratt, 1996:13; Stanton *et al.*, 2004:57). The aim of this statement was to establish whether this is still the case in 2007. Table 9.28 confirms this fact.

Table 9.28: Statement 28

Rating scale	%
Strongly disagree	4.4
Disagree	26.7
Unsure	2.2
Agree	48.9
Strongly agree	17.8
Total	100.0

A total of 66.7 percent of the respondents agree that CARs is the primary communication channel. It should be noted that CARs can be made available in hard copy, as well as soft copy through the internet, and can be supplemented with secondary reports and information. CARs, the information product of two interrelated systems, that is, the MFIS that generates statutory disclosures and the DIS that generates discretionary disclosures, is still the primary communication channel of companies in 2007.

Statement 29: *To communicate accounting concepts is a difficult task.* Chapter 5 of this thesis dwells on the problems of communication (Belkaoui, 1995:41; Evans, 2004:210). Table 9.29 shows that the majority of respondents are aware of this difficulty. One of the respondents made the following remark: "... especially with the introduction of IFRS ..."

Table 9.29: Statement 29


Rating scale	%
Strongly disagree	0.0
Disagree	24.4
Unsure	6.7
Agree	53.3
Strongly agree	15.6
Total	100.0

Table 9.29 indicates that 68.9 percent of the respondents is aware that the communication of accounting concepts is a difficult task. The communication of accounting concepts and numbers to users with different understanding levels of accounting phenomena and different objectives will remain a difficult task.

Decision usefulness

Statement 30: *The objective of business reporting in CARs has moved away from a narrow approach to accountability to a much wider portrayal by providing information to heterogeneous users for decision-making purposes.* Table 9.30 confirms that the information disclosed in CARs must now address the needs of heterogeneous users.

Table 9.30: Statement 30



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Rating scale	%
Strongly disagree	2.2
Disagree	4.5
Unsure	8.9
Agree	64.4
Strongly agree	20.0
Total	100.0

84.4 percent of the respondents agreed that the disclosure of information in CARs has moved away from an accountability paradigm to a paradigm where the needs of heterogeneous users for decision-making purposes are eminent. It strives to balance a desire for comprehensive accountability while allowing CARs to be understood by a wide range of stakeholders. The statutory disclosures of the MFIS contain mostly attributes of the accountability paradigm, while the discretionary disclosures of the DIS carry mostly attributes of the decision usefulness paradigm.

Statement 31: *The main objective of CARs is to represent in all material respects all the information that is necessary for users to make proper decisions. A vast majority of respondents indicated that they agree with statement 31.*

Table 9.31: Statement 31

Rating scale	%
Strongly disagree	2.3
Disagree	4.4
Unsure	4.4
Agree	68.9
Strongly agree	20.0
Total	100.0

Table 9.31 shows that 88.9 percent of the respondents agree that CARs need to reflect all the information for decision-making purposes.

Decision-useful information must conform to certain characteristics (FASB, 1980 in Belkaoui, 2004:185-186). The characteristics and the systems that drive reporting in CARs to which they are most applicable are: (i) materiality (MFIS and DIS), (ii) comparability

(MFIS and DIS), (iii) predictive value (DIS), (iv) feedback value (MFIS and DIS), (v) neutrality (MFIS), (vi) timeliness (DIS), (vii) verifiability (MFIS), (viii) representational faithfulness (MFIS), (ix) relevance (DIS), and (x) reliability (MFIS). For a detailed discussion of the characteristics for decision-useful information and their applicability to the two information systems (the MFIS and the DIS) that drive reporting in CARs, refer to paragraph 6.2 of chapter 6. If the accounting practices that generate the disclosures of the DIS and the MFIS conform to the above characteristics, they will possess the primary decision specific qualities. CARs are then the facilitators of the decision-usefulness approach.

Statement 32: *CARs provide users with enough information about future benefits for their decision making. A question still unanswered is whether CARs provide decision-useful information that could enable the users of information to estimate future prospects (Saenger, 1993:84; Catrakilis, 1994:1; Belkaoui, 2004:195)).* According to table 9.32, the respondents indicate a variety of opinions.

Table 9.32: Statement 32

Rating scale	%
Strongly disagree	11.1
Disagree	26.7
Unsure	26.7
Agree	26.7
Strongly agree	8.8
Total	100.0

The variety of opinions does not give a clear-cut indication as to whether CARs provide users with enough information on future benefits for their decision making. Forward-looking information relating to future benefits remains an important issue. The discretionary disclosures generated by the DIS particularly can include forward-looking information relating to future benefits, for example as part of the operating and financial review (OFR).

Statement 33: *The CARs objective is to enable users to predict the future prospects of the entity.* The prediction of future prospects by users is one of the main issues emphasised by the Trueblood report (AICPA, 1973). The results as per table 9.33 are disappointing, as the majority of respondents shy away from the forward-looking objective/predictive objective.

Table 9.33: Statement 33

Rating scale	%
Strongly disagree	11.2
Disagree	44.4
Unsure	13.3
Agree	24.4
Strongly agree	6.7
Total	100.0

55.5 percent of the respondents replied that they are not in agreement with the statement that the CARs objective is to enable users to predict the future prospects of the entity. According to Wolk, *et al* (2000:175) reports such as CARs do not make predictions: rather, users must make predictions employing inputs from reports such as CARs as data in their decision models. This information could form part of the discretionary disclosures, for example the OFR in CARs, generated by the DIS.

Statement 34: *CARs are not intended for the average layman.* Users must play an active role in extracting the information they need. Therefore CARs are not intended for the average layman. The majority of respondents as per table 9.34 agreed with this statement.

Table 9.34: Statement 34

Rating scale	%
Strongly disagree	2.2
Disagree	40.0
Unsure	2.2
Agree	35.6
Strongly agree	20.0
Total	100.0

As per table 9.34, a majority of respondents, that is 55.6 percent, confirms that CARs are not intended for the average layman. Although CARs are knowledge-sharing documents, users need to develop some skill in extracting the information they want. It is difficult to understand why respondents believe CARs are not intended for the average layman and then refuse to endorse an analyst's report (see statement 20), which could decode information and add to comprehensibility.

Statement 35: *CARs must also provide for feedback from users.* For entities to provide decision-useful information, it would be necessary to obtain feedback from users via proper feedback systems, or users should negotiate with entities (AICPA, 1994:9) to give an indication of what types of information they need to be disclosed in CARs. While carrying out the content analysis of companies listed on the JSE (see chapter 8), it was found that one company includes a questionnaire with a prepaid envelope in its annual report, which the user can make use of to provide feedback. Table 9.35 shows that the majority of respondents are in favour of this idea.

Table 9.35: Statement 35

Rating scale	%
Strongly disagree	11.1
Disagree	28.9
Unsure	6.7
Agree	48.9
Strongly agree	4.4
Total	100.0

Table 9.35 reflects that 53.3 percent of respondents are in favour of the idea that CARs must also provide for feedback from users. Currently there are virtually no processes in place to take care of feedback from users. The feedback regarding the statutory disclosures of the MFIS needs to be channelled back to the preparers of CARs, and ultimately to standard setters. The feedback regarding the discretionary disclosures of the DIS needs to be channelled back to the preparers of CARs and ultimately to bodies such as the Global Reporting Initiative (GRI) and SAICA.

9.3 Summary and conclusion

A questionnaire with 35 statements which was formulated in terms of information gleaned from the literature review in chapters 1 to 6 were distributed to preparers of CARs. The significant issues flowing from the questionnaires distributed to the preparers of CARs were firstly that the financial departments of entities, in the majority of cases, claim responsibility for CARs preparation (statement 15d), but admit that the CARs preparation process involves a team effort, that is a *sinergos*, where several departments work together (statement 16). Secondly, with regard to the format and content aspect of CARs, respondents were in agreement that CARs are usually divided into two sections, that is, the statutorily required financial information and the discretionary disclosures, and that the two sections are interrelated (statements 6, 8 & 10). Thirdly, respondents were uncertain about the usefulness of XBRL (statement 14). If financial and other business information needs to be available sooner and faster and if companies want to compete for capital and investor attention, the benefits of adopting XBRL will become clear. Fourthly, 97.8 percent of respondents (statement 17) were in favour of an operating and financial review (OFR), which captures the whole story of entities' performance and prospects seen through the eyes of management. Fifthly, a majority of 86.7 percent was in favour of a discussion of forward-looking information as part of the directors' report (statement 18d). Sixthly, preparers objected to the introduction of an independent analyst report to form part of CARs (statement 20). Finally, preparers agreed that the communication of accounting concepts is a difficult task (statement 29).

The above research results are in accordance with all of the presuppositions expressed in chapters 1 to 6 and will be of value to entities for future CARs content and compilation research and use in their CARs preparation process. Overall, the research results give validity to the hypothesis of this study that CARs are the information products of accounting practices in transition.

In chapter 10 the research results of the questionnaires distributed to users of CARs are analysed.