

CHAPTER 10

Research results – questionnaires for users

10.1 Introduction

Users are important role players, who influence the outcome of CARs. As such, questionnaires were distributed to users to obtain their views on certain statements. Altogether three questionnaires were compiled and addressed to the preparers, the users and the designers of CARs. The questionnaires for users contained certain statements about CARs 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 contribution of all relevant role players. This chapter covers the responses from the users of CARs. Chapter 9 deals with the responses of preparers of CARs and chapter 11 deals with the responses of designers of CARs.

The layout of this chapter consists of an introduction, research results of users of CAR as well as a summary and conclusion.

10.2 Questionnaire for the users of CARs

10.2.1 Introduction

The questionnaire aimed at users was distributed electronically via e-mail. Not all user groups were prepared to allow the use of their electronic databases of members in the survey, as it was their policy not to do so (refer to appendix E for detail). Due to the fact that the traditional user of CARs is unknown, it has been decided to use auditors, investment analysts etc. as specified on the questionnaire for users (see appendix B) to

reflect the viewpoint of users. Convenience sampling (via returned e-mail responses) was used in respect of the user population (to be completed by users of CARs), as the total population of users of CARs is unknown. This statistical method was cleared with the statistician consulted for this thesis. The electronic mailing lists of the South African Institute of Chartered Accountants (SAICA) and the South African Institute of Professional Accountants (SAIPA), as well as the 2006 Southern African Accounting Association's (SAAA) list of conference attendants, were used to represent the user population.

Questionnaires were distributed by e-mail and the sample of 118 represents the total of completed replies that were actually received back from respondents. The response rate is not given for the total population of users as it is unknown (refer to paragraph 7.4.4).

10.2.2 Research results

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

The growth of CARs

Statement 1: *Information in CARs is constantly escalating and being presented in different formats* (Lee 1994:223-224). In chapter 8 of this thesis, with the aid of content analysis over various time periods, strong indications were found that information in the statutory and the discretionary section of CARs is constantly escalating and evolving as a result of new accounting practices and discretionary accounting practices being used to generate these disclosures. Indications were also found that information is evolving and being presented in different formats, for example illustrations and graphs. Table 10.1 shows that user respondents agreed with this statement.

Table 10.1: Statement 1

Rating scale	%
Strongly disagree	0.8
Disagree	5.1
Unsure	1.7
Agree	59.3
Strongly agree	33.1
Total	100.0

59.3 percent of the respondents agreed with statement 1 and 33.1 percent strongly agreed. 92.4 percent of the respondents are therefore in agreement with this statement. The introduction of IFRSs has resulted in expanded mandatory disclosures and companies disclose ever-increasing discretionary information (see chapter 8). The above research result also indicates the evolving/transitional nature of accounting practices that drive business reporting. Information is especially disclosed in different formats by the DIS that generates discretionary disclosures, as more use is made of graphs, visual aids and colour.

Information systems

Statement 2: *I mainly use the statutory information (e.g. the financial statements) presented in CARs because it is more reliable and standardised.* The objective of this statement was to confirm the perception that many users mainly use the statutory section of CARs for their decisions as opposed to the discretionary section. Table 10.2 reflects that the majority of respondents agree with this statement.

Table 10.2: Statement 2

Rating scale	%
Strongly disagree	0.8
Disagree	15.3
Unsure	8.5
Agree	62.7
Strongly agree	12.7
Total	100.0

62.7 percent of the respondents indicated that they agree and 12.7 percent indicated strong agreement with the statement that they mainly use the statutory section for their information needs. The statutory disclosures in CARs are generated by the MFIS, making use of generally accepted accounting practices.

Statement 3: *I mainly use the discretionary information presented in CARs because it is more flexible and relevant.* The objective of this statement was to determine the extent to which respondents mainly use the discretionary section of CARs for their information needs. The research results indicate that respondents do not mainly use the discretionary information disclosed in CARs.

Table 10.3: Statement 3

Rating scale	%
Strongly disagree	1.7
Disagree	40.8
Unsure	22.0
Agree	34.7
Strongly agree	0.8
Total	100.0

40.8 percent of the users as indicated by table 10.3 state that they do not mainly use discretionary information for its relevancy and flexibility in decision making. In conjunction with this, only a 35.5 percent agreement was reported, which indicates that user respondents regard the discretionary section of CARs as not being their main source of information in their decision-making processes. The 22 percent undecided responses should be noted. This could indicate an underlying effect not addressed by the comment. Respondents might use the discretionary section for other purposes, for instance as being generally informative, or as contextual information. Although statement 3 could not provide a clear-cut indication as to which aspect of decision-making information users obtain from the discretionary part of CARs, table 4 that follows indicates that users use the information in both the statutory section and discretionary section of CARs.

Statement 4: *As the statutory and discretionary information in CARs complement each other, I make use of both these sources of information.* The objective of this statement was to establish the degree to which respondents use both sections of CARs, that is, the statutory and the discretionary disclosures. Table 10.4 confirms the fact that the majority of users use both sections of CARs for their information needs.

Table 10.4: Statement 4

Rating scale	%
Strongly disagree	0.8
Disagree	11.9
Unsure	9.3
Agree	60.2
Strongly agree	17.8
Total	100.0

An analyst focusing on companies' sustainability and credit strength remarked, "I use CARs as only a small portion of my analysis process". Of the users that use CARs the vast majority, 78.0 percent (60.2+17.8), use both sections of CARs. The reason why they use both sections is because the statutory and discretionary information in CARs complement each other.

Statement 5: *Narrative disclosures in CARs are more understandable than numbers and ratios.* The aim of this statement was to establish the degree to which users are in agreement with the statement that narrative disclosures (e.g. a description of events) are more understandable than just the output of events (in the form of numbers and ratios). Table 10.5 shows a varied response.

Table 10.5: Statement 5

Rating scale	%
Strongly disagree	6.8
Disagree	39.8
Unsure	21.2
Agree	28.8
Strongly agree	3.4
Total	100.0

A total of 46.6 percent (6.8+39.8) of the respondents disagreed with the statement while 32.2 percent (28.8+3.4) agreed. 21.2 percent of the respondents were unsure. Although the results indicate a tendency to the belief that numbers and ratios are more meaningful than narrative disclosures, balanced disclosure making use of both narrative disclosures and the disclosure of numbers and ratios is perhaps the desired outcome. (This aspect could be further investigated in future research.)

Statement 6a: *It is my view that CARs provide credible statutory information.* The aim of this statement was to establish the degree to which users perceive statutory information to be credible. Table 10.6a, along with table 10.6b, indicate that the sampled users perceive statutory information as being more credible than discretionary information.

Table 10.6a: Statement 6a

Rating scale	%
Strongly disagree	0.0
Disagree	1.7
Unsure	6.8
Agree	70.3
Strongly agree	21.2
Total	100.0

The majority of respondents, 91.5 percent, agree or strongly agree that statutory information disclosed in CARs is credible. These disclosures are subject to external auditing, which contributes to their credibility. However, a respondent remarked,

“[s]ometimes management do not agree that compliance with GAAP/IFRS is ‘fair presentation’, but have to comply anyway (or be qualified and annotated on the JSE). CARs should have separate managements view on the financial position in the CARs with their own presentation (and a reconciliation between the two)”. 91.5 percent of respondents agreed with statement 6a that the MFIS that discloses statutory information in CARs provides credible information in CARs.

Statement 6b: *It is my view that CARs provide credible discretionary information.* The objective of this question was to establish the degree to which users perceive the discretionary disclosures as being credible. Table 6b indicates that 22.9 percent of users are unsure about whether discretionary disclosures are credible.

Table 10.6b: Statement 6b

Rating scale	%
Strongly disagree	0.0
Disagree	9.3
Unsure	22.9
Agree	61.0
Strongly agree	6.8
Total	100.0

Users are more confident about the credibility of the statutory disclosures in CARs than the discretionary disclosures. Table 10.6a shows that 91.5 percent of users felt that statutory information is credible. Table 10.6b reflects that 67.8 percent of the respondents agreed with statement 6b. The reason why respondents give the credibility of discretionary disclosures a lower rating is probably because the discretionary disclosures are not audited to the same extent as statutory disclosures. Some of the discretionary disclosures are only subject to limited assurance. The level of assurance for discretionary disclosures is however high, bearing in mind that they are not audited (67.8 percent of respondents agreed).

Quality features

Statement 7: *The information in CARs is difficult to understand.* The objective of this statement was to determine the degree to which user respondents perceived information in CARs to be difficult to understand. Table 10.7 reflects that users had different viewpoints on this issue.


Table 10.7: Statement 7

Rating scale	%
Strongly disagree	5.9
Disagree	53.4
Unsure	8.5
Agree	26.3
Strongly agree	5.9
Total	100.0

32.2 percent of respondents feel that the information in CARs is difficult to understand, while 8.5 percent were unsure. A respondent remarked, “[c]omparability between companies is not adequately addressed – there are too many ‘options’ and alternatives available in IFRS – which management ‘optimise’ to put the best foot forward for the company (their job!), but that reduce comparability between companies”. Standard setters and preparers of CARs should strive to make the disclosures in CARs more meaningful and lower these perception levels regarding the difficulty of CARs. The statutory disclosures in CARs generated by the MFIS may be more difficult for users to understand than the discretionary disclosures in CARs generated by the DIS, as IFRSs have become very technical.

Statement 8: *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.* The five areas for improving corporate reporting (Topazio, 2007:1), that is, value creation, forward-looking orientation, business environment, strategy and key performance indicators, could be included in the OFR as part of the disclosures generated by the DIS.

Table 10.8: Statement 8



UNIVERSITEIT VAN PRETORIA
UNIVERSITY OF PRETORIA
YUNIBESITHI YA PRETORIA

Rating scale	%
Strongly disagree	2.6
Disagree	5.9
Unsure	13.6
Agree	52.5
Strongly agree	25.4
Total	100.0

77.9 percent (52.5+25.4) of user respondents agree that an OFR should be incorporated in CARs. Table 9.17 in chapter 9 also indicates that 97.8 percent of the company respondents listed on the JSE are in favour of an OFR. The OFR structures certain discretionary information and therefore makes a comparison of discretionary information between companies easier.

Statement 9a: *The directors' report should include an Enhanced Business Review (EBR) covering, inter alia, a discussion of operating results.* The purpose of this statement was to establish whether the directors' report should be expanded to include an enhanced discussion of operating results. Information disclosed in the directors' report is subject to audit.

Table 10.9a: Statement 9a

Rating scale	%
Strongly disagree	0.8
Disagree	3.5
Unsure	4.2
Agree	59.3
Strongly agree	32.2
Total	100.0

91.5 percent of users are in favour of such an enhanced discussion of operating results in the directors' report. This is in line with the 95.6 percent agreement of the company respondents listed on the JSE (see table 9.18a). This discussion of operating results will thus form part of the statutory disclosures of the MFIS.

Statement 9b: *The directors' report should include an Enhanced Business Review (EBR) covering, inter alia, a discussion of the financial position.* Again a majority of respondents were in favour of an enhanced discussion of the financial position in the directors' report, as reflected in the following table.

Table 10.9b: Statement 9b

Rating scale	%
Strongly disagree	0.8
Disagree	2.5
Unsure	3.4
Agree	63.6
Strongly agree	29.7
Total	100.0

Table 10.9b reflects that the vast majority of users, 93.3 percent (63.6+29.7), confirm the need for an enhanced discussion of the financial position in the directors' report. User and JSE-listed company reaction (95.60 percent) to this issue corresponds (see table 9.18b). Both indicated that they favour an enhanced discussion of the financial position. This would form part of the mandatory disclosures in CARs generated by the MFIS, as the directors' report is part of the financial statements.

Statement 9c: *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 that is very important to stakeholders (Saenger, 1993:84-91). Forward-looking information deals with information about a company's expectations of

future performance and what will drive it (Topazio, 2007:2). If forward-looking information were disclosed in the directors' report it would have to be audited. Directors' liability in this regard will have to be reconsidered, as predicting future events is difficult. The majority of users were in favour of an enhanced discussion of forward-looking/forecasting information in the directors' report.

Table 10.9c: Statement 9c

Rating scale	%
Strongly disagree	0.0
Disagree	3.4
Unsure	5.1
Agree	51.3
Strongly agree	40.2
Total	100.0

According to table 10.9c, a total of 91.5 percent (51.3+40.2) of the users agreed in comparison to 86.7 percent (table 9.18c) of company respondents listed on the JSE. This is an indication that forecasting/predicting forward-looking information is vital for enhancing the information covered in directors' reports. This discussion of forward-looking information will be subject to audit and will form part of the statutory disclosures of the MFIS.

Statement 9d: *The directors' report should include an Enhanced Business Review (EBR) covering, inter alia, a discussion of business risks.* The research results in chapter 8 indicate that business risks are discussed by the majority of companies as part of their discretionary information in the corporate governance section (King, 2002b:87-89). The disclosure of this discretionary information (the business risks) could now as a result of its usefulness become part of statutory information in CARs, as the directors' report is a statutorily required report and as such forms part of the statutorily required financial statements. A discussion of business risks in the directors' report could ensure increased credibility. Table 10.9d indicates that most respondents are in favour of a discussion of business risks as part of the directors' report.

Table 10.9d: Statement 9d

Rating scale	%
Strongly disagree	0.0
Disagree	3.4
Unsure	3.4
Agree	53.4
Strongly agree	39.8
Total	100.0

Table 10.9d reflects that 93.2 percent (53.4+39.8) of users compared to 93.3 percent of company respondents listed on the JSE (see table 9.18d in chapter 9) agree that an enhanced discussion of business risks be incorporated in the directors' report. The current disclosure of business risks as part of discretionary information in CARs, because of its usefulness, could now be disclosed as statutory information of the MFIS.

Statement 10: *An independent financial analyst's report should form part of CARs.* One of the research questions in chapter 1 was: "Should CARs also provide other competitive financial information (e.g. an analyst report)?" Table 10.10 reveals that the ratings amongst users varied to a great extent.

Table 10.10: Statement 10

Rating scale	%
Strongly disagree	13.6
Disagree	27.1
Unsure	21.2
Agree	23.7
Strongly agree	14.4
Total	100,0

38.1 percent of users were in favour of such a report, with 40.7 percent against. 21.2 percent of the users were uncertain about whether such a report could be useful. There is a marked contrast when the research results of users are compared to the research results of the preparers of CARs. In chapter 9, table 9.20 reveals that no company was in

favour of such a report. However, as 38.1 percent of users indicated a need for a financial analyst's report, preparers and users could negotiate the introduction of such a report. Independent analysts' reports may add comprehensibility and could form part of the discretionary disclosures of the DIS.

Statement 11: *Interim financial reports covering the same financial period as CARs should be included in CARs.* Interim reports are useful as they indicate the direction and sustainability of companies' performance and position. A minority of respondents is in favour of the inclusion of the interim financial reports covering the same financial period as CARs.


Table 10.11: Statement 11

Rating scale	%
Strongly disagree	9.3
Disagree	42.4
Unsure	26.3
Agree	18.6
Strongly agree	3.4
Total	100.0

Both the preparers (see table 9.19) and users of CARs are against the inclusion of such interim financial reports. Preparers and users of CARs could probably negotiate the usefulness and feasibility of providing reconciliations in summary form instead for the interim reports and the final figures as disclosed in CARs. The question to be raised is whether interim reports are useful for decision making if they are not included in CARs. As interim financial reports are mandatory for listed companies (IAS 34), they are products of the MFIS.

Statement 12: *Monthly averages of working capital should be included in CARs.* The aim of this statement was to determine whether the users of CARs were interested in trends in working capital on a monthly basis throughout the financial year (forward-looking information) in order to monitor cash flow risk. Table 10.12 shows that there was a mixed response from users.

Table 10.12: Statement 12



UNIVERSITEIT VAN PRETORIA
UNIVERSITY OF PRETORIA
YUNIBESITHI YA PRETORIA

Rating scale	%
Strongly disagree	7.6
Disagree	29.7
Unsure	22.0
Agree	33.9
Strongly agree	6.8
Total	100,0

37.3 percent of the users indicated that they were not in favour of such information, while 40.7 percent indicated that such information would be useful. Twenty-two percent indicated that they are uncertain, which might imply that they have not given much thought to its usefulness. A user remarked, “[t]ime-weighted monthly averages, not simple averages – especially for cash, inventory and receivables, but also for trade and similar short-term payables”. As accounting practices are in transition and evolve all the time, it might be an indication of a transition that might require the inclusion of this type of information as part of the discretionary disclosures of the DIS in the future.

Statement 13: *In CARs photographs add value to the company profile.* Table 10.13 reflects that respondents had different views regarding the statement that photographs add value to the company profile.

Table 10.13: Statement 13

Rating scale	%
Strongly disagree	8.5
Disagree	20.3
Unsure	22.9
Agree	40.7
Strongly agree	7.6
Total	100.0

48.3 percent of the users indicated that photographs add value (more information is given, and in different formats, and the monotony of numbers is broken) to a company’s profile, while 22.9 percent were unsure. The research findings in chapter 8 show that the use of

photographs in the annual reports of companies has escalated over time. Photos of directors could be included as part of the directors' report. The majority of photos appear as part of the discretionary disclosures of the DIS.

Statement 14: *In CARs graphs enhance the interpretation of numbers.* Visual aids like graphs enhance the meaning and interpretation of numbers in CARs. This statement was confirmed by the research results displayed in table 10.14.

Table 10.14: Statement 14

Rating scale	%
Strongly disagree	1.7
Disagree	5.1
Unsure	9.3
Agree	57.6
Strongly agree	26.3
Total	100.0

A majority of users (83.9%) favours the use of graphs in CARs. This finding is in line with the research results in chapter 8, which show that the use of graphs escalated over time. Users and preparers of CARs are in agreement as far as the use of graphs in CARs is concerned. Graphs may add value to the disclosures of the directors' report. The majority of graphs appear as part of the discretionary disclosures of the DIS.

Statement 15: *The disclosure of bad news regarding environmental and social issues is often avoided in CARs* (Cronje, 1998:9-10; Beattie & Jones, 1999:46; Stanton *et al.* 2004:59). The perception of users is that this is indeed the case (see table 10.15).

Table 10.15: Statement 15

Rating scale	%
Strongly disagree	0.8
Disagree	3.4
Unsure	12.7
Agree	65.3
Strongly agree	17.8
Total	100.0

One user replied: “‘Avoided’ is in my view too strong a word: downplayed would be more accurate.” Research studies on environmental disclosure by companies in Australia, as well as research on corporate annual reports in the US, reveal that, in the absence of compelling measures such as legislation, companies tend to disclose only information on environmental matters that signals a favourable message to stakeholders, that is, self-congratulatory publicity material (Cronje, 1998:9). This is further confirmed by 83.1 percent of users who feel that the disclosure of bad news regarding environmental and social issues is often avoided in CARs. There is a perception by the majority of users that companies downplay the disclosure of bad news. This means that the preparers of CARs should take special care. The presentation of bad news will form part of the discretionary disclosures of the DIS.

Statement 16: *I would like to see more disclosure on intellectual capital.* The problem with the disclosure of intellectual capital (and other intangible assets) in CARs lies in its difficulty of measurement (Clark, 2006:17). OECD (2006:7) contends that the most important factors of production are invisible. “These intangible assets, also referred to as intellectual assets or intangibles – brand, reputation, trademarks, software, research and development, patents, staff skills, strategy, process quality, supplier and customer relationships, etc. – are delivering a fast-growing contribution to corporate competitiveness” (OECD, 2006:7). Users need this information in their decision making as evidenced by the research results of table 10.16. Topazio (2007:1) contends that

[a]round 25 years ago, it was estimated that 80% of the market value of the S&P 500 was reflected on the balance sheet. The remaining 20% covered intangibles and future growth opportunities. Today the ratio is roughly reversed. It therefore falls to

narrative reporting for directors to set out and explain the remaining contextual information. This includes the business environment, strategy, forward-looking information and key performance indicators (KPIs) (PWC, 2006a:1).

As intellectual capital is difficult to measure it could form part of the discretionary disclosures of CARs.

Table 10.16: Statement 16

Rating scale	%
Strongly disagree	0.0
Disagree	5.1
Unsure	18.6
Agree	61.9
Strongly agree	14.4
Total	100.0

76.3 percent of users indicated that they need information on intangible assets such as intellectual capital in order to attach a ‘true’ value to an entity. Standard setters and all related interested parties could call for further research in this regard. Although there are suggestions how to measure intellectual capital (e.g. market capitalisation minus total shareholder equity), a generally accepted measure has not been agreed upon. Intellectual capital cannot be disclosed, as part of the statutory disclosures of the MFIS, until more acceptable ways of measurement is found. Therefore it should then be disclosed as part of the discretionary disclosures of the DIS so that users can attach a “true” value to an entity.

Statement 17: *I perceive that corporate executives use CARs to boost the image of the company* (Stanton *et al.*, 2004: 57-69). Respondents unanimously confirmed this to be the case (refer to table 10.17).

Table 10.17: Statement 17

Rating scale	%
Strongly disagree	0.0
Disagree	5.2
Unsure	2.5
Agree	68.6
Strongly agree	23.7
Total	100.0

92.3 percent of the users perceive corporate executives as using CARs to boost the image of the company. A respondent replied: “CARs should not be a sales document compiled by the directors, but an independently verifiable document, providing the reader with both historical and future information. This information should be relevant and concise and future information/predictions should err on the conservative side.” Stanton *et al.* (2004:57) are of the view that the design of CARs could be viewed as an exercise in obfuscation, that is, a method to present the company in as favourable a light as possible. Image boosting forms part of the discretionary disclosures of the DIS. Preparers of CARs could take note of this indication of the importance of CARs. CARs should not be used as artificial marketing tools.

Statement 18: *Positive messages in CARs are highlighted, whereas negatively valued messages are avoided* (Beattie & Jones, 1999:46; Stanton *et al.*, 2004:59). Table 10.18 reflects that users tend to agree with statement 18.

Table 10.18: Statement 18

Rating scale	%
Strongly disagree	0.0
Disagree	5.2
Unsure	9.3
Agree	68.6
Strongly agree	16.9
Total	100.0

From table 10.18 it can be deduced that 85.5 percent of users are of the opinion that positive messages in CARs are highlighted, whereas negatively valued messages are

avoided. This finding is in contrast with the research results reflected in table 9.25 where the preparers of CARs disagreed that, in CARs, “bad news” is written using long sentences with complex grammatical structures in order to mask and deflect the readers’ attention. However 26.6 percent of the preparers indicated this to be the case. These findings show that companies should take cognisance of this issue. The disclosure of information using accounting practices would only be relevant to users who are assessing their risks to make sound business decisions if the disclosure in CARs conveys both good and bad news – except if there is only good news or only bad news to report. Positive and negative messages form part of the discretionary disclosures of the DIS.

Statement 19: *The main objective of CARs is to represent in all material respects all the information that is necessary for users to make proper decisions.* Table 10.19 illustrates that the majority of users feel that the main objective of CARs is/should be to represent in all material respects all the information for decision-making purposes.

Table 10.19: Statement 19

Rating scale	%
Strongly disagree	0.0
Disagree	4.2
Unsure	5.1
Agree	57.6
Strongly agree	33.1
Total	100.0

A total of 90.7 percent of users agree with statement 19, which is in line with the results of table 9.31 in chapter 9 where company/preparer respondents listed on the JSE indicated an 88.9 percent agreement with the statement that all the information necessary for users to make proper decisions should be displayed in CARs.

A respondent remarked that, “[s]ubjectivity is always an issue that has to have a place to be tabled. Auditors cannot express an opinion on very subjective information. Directors do not want to put in negative subjective information – so users are denied this in all the reports issued on a company”. Preparers could strive to represent in all material respects all the information for decision-making purposes. CARs are then the facilitators of the decision-usefulness approach.

Statement 20: *The objective of business reporting in CARs has moved away from a narrow approach of accountability to a much wider portrayal by providing information to heterogeneous users for decision-making purposes.* Table 9.30 in chapter 9 shows that 84.4 percent of the company respondents listed on the JSE are aware 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. The research results depicted in table 10.20 show the same trend.

Table 10.20: Statement 20

Rating scale	%
Strongly disagree	0.8
Disagree	5.9
Unsure	15.3
Agree	62.7
Strongly agree	15.3
Total	100.0

A user replied, “[w]hile CARs should provide information useful to all users, the focus of CARs should no doubt centre on those who are making financial decisions (credit, investment, etc)”. However, users include the government, environmental pressure groups, the public (IASB 2005) and those with limited authority, ability and resources (Objective no. 2 in the Trueblood report [AICPA, 1973]). Table 10.20 indicates that users of CARs are of the opinion that the disclosure of information in CARs has moved away from an accountability paradigm to a paradigm where the decision-making needs of heterogeneous users are eminent (78% of the users agreed with the statement). The

statutory disclosures of the MFIS mostly contain attributes of the accountability paradigm, while the discretionary disclosures of the DIS mostly carry attributes of the decision usefulness paradigm.

Statement 21: *Various stakeholders make demands on the information in CARs, and these should be provided for on an equal basis.* The stakeholders include investors, employees, lenders, suppliers and other trade creditors, customers, governments and their agencies, and the public (IASB, 2005). The results in table 10.21 reflect the fact that most users agree with this statement. One user replied, “[t]he word ‘equal’ raises concern for me, since it is difficult to support or achieve, and definitely to measure. Acknowledge and meet, yes”.

Table 10.21: Statement 21

Rating scale	%
Strongly disagree	1.7
Disagree	15.3
Unsure	13.6
Agree	59.3
Strongly agree	10.1
Total	100.0

The majority of respondents (69.4%) agreed that the heterogeneous users of CARs should be provided with multipurpose information on an equal basis. The discretionary disclosures of the DIS must also complement the statutory disclosures of the MFIS.

Statement 22: *CARs as an information carrier should provide stakeholders with information that would help to minimise the risks (e.g. investment risks) they are faced with.* The board of a company is responsible for disclosures in relation to risk management (King, 2002b:89). Uncertainty and risks can be reduced with proper information. Table 10.22 shows the extent to which users are in need of information in CARs that reduces the uncertainty and risks they are faced with.

Table 10.22: Statement 22

Rating scale	%
Strongly disagree	0.0
Disagree	2.5
Unsure	1.7
Agree	58.5
Strongly agree	37.3
Total	100.0

Table 10.22 shows that 95.8 percent of user respondents indicated the need for risk-reducing information. Preparers of CARs could take this aspect into account in the CARs preparation process.

Statement 23: *CARs are knowledge-sharing documents into which stakeholders can tap into for investment risk-reducing information.* This statement complements statement 22 and table 10.23 reveals that users agree that CARs are knowledge-sharing documents.

Table 10.23: Statement 23

Rating scale	%
Strongly disagree	1.7
Disagree	7.7
Unsure	9.4
Agree	59.8
Strongly agree	21.4
Total	100.0

81.2 percent of the user respondents agree that CARs are knowledge-sharing documents into which stakeholders can tap for investment risk-reducing information.

Statement 24: *CARs are not the only means of obtaining information on listed entities for decision-making purposes. There are other sources of information that can be used.* The other sources include information on the internet, press conferences, shareholders

meetings, information in XBRL format (see statement 28), press releases and so on. Table 10.24 confirms that most users are aware of this.

Table 10.24: Statement 24

Rating scale	%
Strongly disagree	0.0
Disagree	6.0
Unsure	12.0
Agree	55.6
Strongly agree	26.4
Total	100.0

Table 10.24 reflects an awareness level of 82 percent amongst user respondents that CARs are not the only means of obtaining information on listed entities for decision-making purposes.

Statement 25: *Users of CARs are not able to understand what is being communicated, as they are technically incapable of creating meaning from the detail in such documents* (Courtis, 1998:460). According to Table 10.25, 42.7 percent of respondents agreed with this statement.

Table 10.25: Statement 25

Rating scale	%
Strongly disagree	5.1
Disagree	30.8
Unsure	21.4
Agree	33.3
Strongly agree	9.4
Total	100.0

Table 10.25 shows that 42.7 percent of the users agree that there is a problem with comprehending some of the disclosures of CARs. A user commented: "I have serious concerns about the information that is required in terms of the new IASs and IFRS. All the

adjustments required make the information in CARs difficult to interpret for the normal user of CARs.” As such the users’ interpretation process is distorted. Table 9.29 indicates that 68.9 percent of the company respondents/preparer respondents listed on the JSE are aware that the communication of accounting concepts is a difficult task.

Another user commented:

Statutory information has become highly technical and is not useful for non-financially educated users. The cost of preparing and auditing additional information should, however, be taken into consideration when deciding on whether or not to include additional information. A good suggestion might be for the preparers to include discretionary information based on their knowledge of the users of the CAR (feedback). The financial burden on companies might be too heavy if additional information becomes a requirement.

Another respondent remarked: “Difficult to see what is meant here. AFS or CARs are not for uninitiated persons, nor is investing in companies.” This research however calls for full disclosure which is defined as the disclosures in CARs generated by the MFIS, that is, the statutory disclosures, as well as those generated by the DIS, that is, the discretionary/contextual disclosures, as well as disclosures to enable/empower users with “limited authority, ability, or resources” (Objective no. 2 in Trueblood, [AICPA, 1973]; Wolk *et al.*, 2000:184). The disclosures in CARs are also for the benefit of users with limited authority, ability and resources.

Statement 26: *CARs should provide an observable feedback section for 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 their annual report, which users could make use of to provide feedback.

Table 10.26: Statement 26

Rating scale	%
Strongly disagree	5.1
Disagree	17.9
Unsure	34.2
Agree	36.8
Strongly agree	6.0
Total	100.0

Table 10.26 reveals that 42.8 percent of users agree that feedback should be provided, while 23.0 percent believe that it is not necessary. The high response rate of the unsure category indicates uncertainty about feedback. This can be the result of not understanding what feedback entails or in what format feedback could voluntarily be provided. As in the case with disclosures in CARs the emphasis is rather to comply with what is compulsory than with what is voluntary. Because it is optional it is not regarded as necessary. Feedback accounting is necessary for communication.

Statement 27: *Information in CARs that is not useful or comprehensible should be adapted or replaced.* This statement was formulated in order to evaluate one of the research questions in chapter 1, namely: “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 is should be discarded or replaced. Complexity should be removed and understanding/comprehensibility increased as far as the disclosure of information in CARs is concerned. Table 10.27 reflects that most of the respondents are in favour of this statement.

Table 10.27: Statement 27

Rating scale	%
Strongly disagree	1.0
Disagree	8.5
Unsure	8.5
Agree	63.2
Strongly agree	18.8
Total	100.0

Eighty-two percent of users are in agreement with statement 27 and table 9.21 (in chapter 9) shows that 73.3 percent of preparers of CARs agree that business information in CARs which is not useful or comprehensible should be discarded or replaced. Unfortunately, as has already been stated in chapter 9, 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 to remove complexity and increase comprehensibility/understanding. 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 no longer useful or comprehensible. Standard setters could take note of this feedback to remove complexity and increase understandability of the statutory disclosures of the MFIS.

Statement 28: *It would be useful if financial reporting were also to be done in digital form making use of “eXtensible Business Reporting Language” (XBRL).* As was mentioned in chapter 9, in the US companies are faced with extensive costs in *inter alia* complying with the requirements of the Sarbanes-Oxley Act (SOX) for 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.

One respondent was concerned about the timeliness of CARs and remarked: “In our continuing efforts to get more information out of companies (in the CARs) we miss the

point that they take longer to get out and 100% disclosure too late is almost as useless as incorrect information.” Could XBRL solve the problem of timeliness? Table 10.28 discloses that the majority of users consider XBRL useful.

Table 10.28: Statement 28

Rating scale	%
Strongly disagree	2.6
Disagree	6.0
Unsure	39.3
Agree	30.8
Strongly agree	21.3
Total	100.0

According to table 10.28 a total of 52.1 percent of users expressed the view that it would be useful if financial reporting were also done electronically making use of XBRL. Financial analysts, for example, could then extract comparable information from companies to calculate ratios and so on. 39.3 percent of users were uncertain as to whether it would be useful to them. Is this an indication that they are not aware of the existence of XBRL, or whether the cost of implementation outweighs its benefits? Table 9.14 (in chapter 9) shows that 40 percent of company respondents listed on the JSE is uncertain as to the usefulness of XBRL, while 46.7 percent is of the opinion that it is indeed useful. 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 will become clear. If XBRL is adopted, the statutory disclosures generated by the MFIS and the discretionary disclosures created by the DIS could be available in XBRL format.

Statement 29a: *The curriculum for accounting students makes adequate provision for the study of and research into corporate annual reports in respect of the statutory section.* This statement was directed only at academics. Academics agree that the curriculum for accounting students is on par as far as the study of and research into the statutory section of CARs is concerned. Table 10.29a shows the degree to which academics as users of CARs agree.

Table 10.29a: Statement 29a

Rating scale	%
Strongly disagree	0.0
Disagree	11.2
Unsure	18.5
Agree	40.7
Strongly agree	29.6
Total	100.0

A total of 70.3 percent of academics is of the opinion that the curriculum for accounting students makes adequate provision for the study of the statutory section in CARs. However, based on the disagreement of 11.2 percent and the uncertainty of 18.5 percent, there is indeed room for further improvement in the curriculum for accounting students regarding the study of and research into the statutory section of CARs, generated by the MFIS.

Statement 29b: *The curriculum for accounting students makes adequate provision for the study of and research into corporate annual reports in respect of the discretionary/voluntary section.* This statement was directed at academics only. The research results shown in table 10.29b are distressing.

Table 10.29b: Statement 29b

Rating scale	%
Strongly disagree	7.4
Disagree	55.6
Unsure	18.5
Agree	14.8
Strongly agree	3.7
Total	100.0

Only 18.5 percent of academics as user respondents agree with statement 29b. While they are content with the curriculum regarding the statutory section of CARs, it is certainly not the case for the discretionary/contextual section of CARs. If financial directors claim

that CARs are still their domain, then academics need to expand the accounting curriculum for students to include the study of and research into CARs in respect of the discretionary/voluntary section created by the DIS.

10.3 Summary and conclusion

A questionnaire with 29 statements, formulated making use of the literature review in chapters 1 to 6, were distributed to users of CARs. The significant issues flowing from the questionnaires distributed to users of CARs were firstly that an operating and financial review (OFR) should be incorporated in CARs (statement 8). Secondly, the directors' report should include an enhanced business review (EBR) covering, *inter alia*, a discussion of operating results (statement 9a), the financial position (statement 9b), forward-looking/forecasting/predictive information (statement 9c) and business risks (statement 9d). Thirdly, users prefer the use of graphs (statement 14). Fourthly, users would like to see more disclosure on intellectual capital (statement 16). Finally, CARs potential in the education of accountants has been recognised and academics – as represented by a proportion of the CARs user respondents – pointed out that, although the curriculum for accounting students makes adequate provision for the study and research of corporate annual reports in respect of the statutory section (statement 29a), this was not the case for the discretionary/contextual section (statement 29b).

An issue that should be noted is that 52.1 percent of users expressed the view that it would be useful if financial reporting were also to be done in digital format making use of XBRL (statement 28). Financial analysts, for example, could then extract comparable information from companies for analytical purposes in real time (implying immediately).

The above research results confirm many of the presuppositions expressed in chapters 1 to 6 and will be of value to entities for future research and for use in the CARs preparation processes. Overall, the research results support the hypothesis of this study that CARs are the information products of accounting practices in transition.

In chapter 11 the research results of the questionnaires distributed to the designers of CARs are analysed.