Article

Assessment of the Financial Reporting Quality of South African and Indian Listed Companies

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Abstract

Purpose/objectives: The purpose of this paper is to investigate the quality of financial reporting in South Africa and India. The accounting profession has been placed in the spotlight as a result of the high number of public failures and corporate collapses. The importance of high-quality financial reporting has been demonstrated not only by past corporate failures, but also due to the scarce level of capital that is required to be allocated within capital markets.
Design/methodology/approach: The study employed a 21-index scorecard developed by Beest, Braam, and Boelens (2009) to score the application of the qualitative characteristics in the financial statements of 50 entities from the Johannesburg Stock Exchange (JSE) and Bombay Stock Exchange (BSE). The entities were selected based on the highest market capitalisation entities for the 2017 year-end.
Findings: The main finding of this study is that South African companies apply the qualitative characteristics of financial reporting to a higher degree than Indian companies. However, timeliness was a characteristic where India outperformed South Africa.
Originality/value: Studies have focused on the type of information presented in annual reports rather than on the quality of information. The need for high quality information is imperative, given the role played in capital allocation particularly in emerging economies. As such, the study contributes to the body of knowledge regarding the quality of financial information with a focus on emerging economies.

Southern African Business Review
https://upjournals.co.za/index.php/SABR
Volume 24 | 2020 | #7794 | 24 pages

https://doi.org/10.25159/1998-8125/7794
ISSN 1998-8125 (Online)

Keywords: decision usefulness; developing economies; financial reporting quality; India; South Africa

Introduction

An important determinant used by investors and shareholders when making financial decisions is the financial statements (Beest, Braam, and Boelens 2009). The efficient allocation of resources is important for the growth of emerging capital markets, as developing economies rely on external investors to unlock greater investment opportunities (Oberholster 1999; Omarjee, Joosub, and Coldwell 2016; Wong 2008). Qualitative financial reporting is critical as it enables capital providers, as well as other stakeholders, to allocate resources and make informed investment decisions (Beest et al. 2009; IASB 2015). This study assessed the financial reporting quality of Indian and South African listed companies by addressing the following research questions:

Question 1*:* To what extent are the qualitative characteristics of financial reporting being applied to South African listed companies?

Question 2*:* To what extent are the qualitative characteristics of financial reporting being applied to Indian listed companies?

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

The study relating to the quality of financial reporting is important because of corporate scandals which have been attributed to a lack of strong corporate governance (Bhasin 2013). The link between weak corporate governance and financial reporting fraud indicates that there is a requirement for high quality financial reporting. South African and Indian corporate environments face serious challenges, which include corruption (Hart and Silverman 2014; Klaus Schwab 2017–2018) and low investor confidence (Crotty 2017; Firth, Rui, and Wu 2012).

The remaining part of this article is structured as follows. The next section deals with the literature review, followed by the research methodology. The results of the study will be discussed, recommendations made for further research, and lastly, we present our conclusions on the study.

Literature review

The literature review begins with a brief overview of the South African and Indian financial environment, followed by a look at the purpose of high-quality information and the users of financial statements. The next section discusses agency theory, the conceptual framework (CF) and lastly the qualitative characteristics.

The South African and Indian Environments

From March 2012, South African entities had to use IFRS or IFRS for SMEs when preparing financial statements (Deloitte 2017a). Indian Accounting Standards were mandatorily adopted from 1 April 2016 for Indian companies that have a net worth of 500 Crore (approximately R1 billion) or more and are listed (Deloitte 2017b). The entities which have not transferred to Indian Accounting Standards are reporting using Indian Generally Accepted Accounting Principles (GAAP).

The comparison between South and India is performed as both countries are part of the Brazil, Russia, India, China and South Africa (BRICS) group, and share similarities. South Africa and India experience similar socio-economic environments. For example, they both suffer a similar burden in terms of diseases such as a high occurrence of HIV/AIDS (Holt, Yasseen, and Padia 2015; Padia and Yasseen 2011). They also operate in similar socio-economic environments, including the presence of affirmative action policies and economic empowerment (Holt et al. 2015). Both countries are faced with auditing scandals and criticism around the auditing profession. In addition, both countries have high corruption indexes (Cilliers 2017, countryeconomy.com 2016; Crotty 2017; Hart and Silverman 2014; Klaus Schwab 2017–2018).

Both South Africa and India have experienced a decline in the perceived strength of their auditing and accounting standards. South Africa was downgraded from number one in the world for auditing and accounting standards, a ranking it held for seven consecutive years, to number 33 in 2017–2018 (Cilliers 2017). India was also downgraded in 2017–2018 to number 69 in the world from its previous ranking of 64 (Klaus Schwab 2017–2018) (Klaus Schwab 2016–2017).

The Purpose of High-quality Financial Reporting

The academic literature encompassing financial reporting quality provides various definitions for the concept of quality financial reporting (Gajevszky 2015). One of the most internationally accepted definitions is provided by Jonas and Blanchet (2000), who define financial reporting quality as financial information which is complete and transparent and does not mislead the decisions of the users of financial reports.

The importance of good quality financial reporting is demonstrated by its role in enabling both current and potential stakeholders to allocate resources efficiently and make sound investment and credit decisions (Beest et al. 2009; IASB 2015). Users are able to use financial statements as a means to review a company's past activities with a view to predicting the future operations of a company (Osadchy et al. 2018). It is important that useful and high-quality information, which is relevant and reliable, is provided (Embong and Rad 2018) as it facilitates rational economic decision making (Barth 2007; IASB 2015).

Dandago and Hassan (2013) describe "decision-usefulness" based on the meaning provided by Scott (1997) as the approach to the preparation of financial accounting information, where the emphasis is on the decision-making capability of investors (Dandago and Hassan 2013). Information which allows users to analyse a company, verify and correct current and past events, is considered to be information which is useful (Herath and Albarqi 2017). The users of audited financial statements are potential investors, buyers, suppliers, customers, government and employees (Gandziuk 2016). They use a company's financial statements to make investment decisions; evaluate the performance of management; identify the strategies of the entity; and assess the financial performance of the entity (Gandziuk 2016).

In a study conducted by Dimi, Padia, and Maroun (2014) it was found that there are sections of South African companies' corporate reports which provide useful information. There are, however, areas which require improvement, such as the disclosure of non-financial information and the integration of information with the financial performance and the strategy of the organisation.

Agency Theory

Agency theory refers to the information asymmetries existing between the manager and the shareholders of an entity (Jensen and Meckling 1976). This relationship involves risk sharing by the two parties and may lead to a conflict of interests on the part of the agent (Adewale 2013). Agency theory demonstrates that owners do not always manage the entity (Jensen and Meckling 1976). Problems may arise in these principal-agent relationships when there is no congruence of goals (Adewale 2013).

Financial reporting is a mechanism designed to ensure that discrepancies in information among managers and shareholders are kept to a minimum (Jensen and Meckling 1976). Financial statements are important, as they indicate to the owners of the entity how effectively management have executed their roles and responsibilities (Dharwadkar, George, and Brandes 2000). The board of directors of an entity is also seen as a measure to reduce agency costs, as the board assists the shareholders in assessing management's performance (Dharwadkar et al. 2000). The board of directors of an entity can assist shareholders and other stakeholders by providing high quality financial statements (Dharwadkar et al. 2000). The evolving nature of financial reporting is discussed next.

The Conceptual Framework (CF) with a Link to IFRS

The International Accounting Standards Board (IASB) released its new CF in March 2018, which became effective from 1 January 2020. One aspect of the CF which has been criticised is the focus on the "decision-usefulness" of information. Lennard (2007) suggests stewardship is a significant element of financial reporting and it must be integrated into the reporting process. This research followed an accountability perspective, which is concerned with the relationships between the accountor and accountee (Murphy, O'Connell, and Ó hÓgartaigh 2013). Accountability is an important concept because of the loss of trust in the accounting profession, and to restore this trust emphasis must be placed on this concept (Murphy et al. 2013).

Within the CF there are qualitative characteristics which form the focus of this research and of the enhancing characteristics. The qualitative characteristics aid in meeting the objective of financial reporting (Barth 2013).

The qualitative characteristics will be examined in the next section, including the measurement basis of the qualitative characteristic based on the study conducted by Beest et al. (2009).

The Qualitative Characteristics

The Fundamental Qualitative Characteristics

Qualitative characteristics are the features which ensure that information provided to users allows users to evaluate the financial position and performance of the entity (Rahmani and Jabari 2015). There are two fundamental qualitative characteristics: relevance and faithful representation (IASB 2015). Information, which has the ability to influence users in their economic decisions, is considered relevant information (Herath and Albarqi 2017). According to Beest et al. (2009), relevance can be assessed through forward-looking information provided, such as business risks and opportunities, fair value measurement of assets, and the description of significant events affecting the entity.

The characteristic of faithful representation builds on the principle of relevance as the information must be relevant and must faithfully represent the phenomena (IASB 2015). Faithful representation implies that the real economic position of information is presented in financial statements because there is agreement between the description and the economic phenomena (Al-dmour, Abbod, and Al-dmour 2017; Herath and Albarqi 2017). According to Beest et al. (2009), faithful representation can be measured according to the arguments provided to support estimations, assumptions and accounting policies, the description of the balance of positive and negative events which have affected the entity, the audit report issued, and the level of disclosure on corporate governance.

The Enhancing Qualitative Characteristics

The enhancing qualitative characteristics include understandability, comparability, timeliness and verifiability (IASB 2015). Understandability is defined as presenting, classifying and characterising information in a manner which is clear to the users (IASB 2015). The measurement bases used by Beest et al. (2009) are the presentation of the annual report, the number of tables and graphs provided which clarify relationships, clarity of the notes, the amount of industry-specific jargon used, and the size of the glossary. Comparability allows users of financial statements to identify similarities and differences between items (IASB 2015). Comparability also allows stakeholders to compare companies' financial reports and allocate their capital most efficiently (Barth 2013). According to Beest et al. (2009), comparability is measured by the clarity of the notes if there are changes in accounting policies, assumptions or estimates, the number of years that financial statements have been benchmarked against, and the extent of financial ratios and indices.

Timeliness refers to financial information being available to the users in time to make decisions (IASB 2015). The longer it takes to distribute information, the more the usefulness of information will reduce (Achim and Chiş 2014; Agienohuwa and Ilaboya 2018). Beest et al. (2009) measured timeliness by the number of days the audit report was issued after the companies' financial year-end.

Verifiability is linked to faithful representation, as it ensures that information represents the economic phenomena it purports to present (IASB 2015). There was no measurement basis for verifiability provided by Beest et al. (2009), but verifiability can be measured by the audit report given to an entity. This is appropriate, as the role of the auditors is to give an opinion of the representation of financial statements to assess if they faithfully present the state of the entity (Francis 2011).

Methodology

This study is framed within a positivist research paradigm which uses a quantitative research method. The method used is a replication of the scorecard originally created by Beest et al. (2009) as a measurement tool to assess the quality of financial reports. This method was adapted by Dimi et al. (2014). The measurement tool is a rating scale which allows the researcher to rank a certain element of the financial report, using a score from 1 to 5 (Beest et al. 2009) (Appendix A). Appendix A has been adapted from the original study, as a rating scale was added for U1 and C5.

The sample comprised 50 companies from the JSE and 50 companies from the BSE based on the highest market capitalisation on each exchange. The data used were the audited annual reports/integrated reports of the listed entities. South African entities issue an integrated report which comprises summarised financial statements, as well as qualitative information and disclosures, while Indian entities only issue annual reports. The reports are publicly available on the official websites of the companies selected and contain all the information required for the completion of the scorecard.

Compliance with the qualitative characteristics in the CF was ranked using a five-point ranking arrangement in accordance with Appendix A. A ranking of five signifies a high level of compliance with the qualitative characteristic. A ranking of one signifies a poor level of execution (Beest et al. 2009). The analysis was performed using the 21-item index according to the study by Beest et al. (2009).

The following hypotheses were used to compare the quality of financial reporting between South Africa and India:

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

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

In order to compare the quality of financial reporting, data were graphed and compared. The data were tested to assess if it is normally distributed using the Shapiro-Wilk test. Since the data were non-parametric, a Mann-Whitney U test was performed to test the hypotheses (Leedy and Omrad 2015; Shier 2004). The following scale indicates the level of confidence and acceptance or rejection of the null hypothesis:

$p<0.05$	Reject **Ho** with 95% confidence
$p>0.05$	Fail to reject **Ho**
$p<0.01$	Reject the **Ho** with 99% confidence

Validity and Reliability

Cronbach's alpha was used to test the internal validity of the measurement tool. An alpha of 0.785 was calculated, indicating that the results of the study are acceptable. External validity was maintained as the sample size selected was sufficient, based on similar studies such as the study performed by Holt et al. (2015).

Data Analysis

RQ1: To what extent are the qualitative characteristics of financial reporting applied to South African listed companies?

Table 1: Results of South Africa

Relevance	**Mean**	**Faithful representatio**	**Mean**	**Understand-ability**	**Mean**	**Compar-ability**	**Mean**
R 1	3.67	F1	2.31	U1	4.27	C1	4.86
R 2	4.39	F2	4.80	U2	3.41	C2	2.82
R 3	1.44	F3	3.47	U3	4.43	C3	3.37
R 4	3.80	F4	4.14	U4	2.90	C4	3.06
		F5	4.82	U5	2.94	C5	4.22
						C6	4.53

Fundamental Qualitative Characteristics

Relevance

R1 measured the extent forward-looking statements help form expectations regarding the future of the company. The mean score was 3.67. The current score indicates that there are separate sub-sections for forward-looking information. **R2** assessed the presence of non-financial information in terms of business opportunities and risks. The mean was 4.39, indicating there is significant non-financial information disclosure. **R3** considered whether a company uses fair value or historical cost. The results indicate that most entities use historical cost as a measurement basis as the mean score was 1.44. **R4** measured how companies disclose events which impact the company. The mean was 3.8, indicating that feedback is provided. The results for relevance are consistent with the strong accounting and auditing reputation which South Africa has, except for **R3.** The overall mean score for relevance was 3.325.

Faithful Representation

F1 measured the extent to which estimates and assumptions are supported in the report. The mean score was 2.31, indicating that general explanations are provided but there is a lack of detailed explanations. **F2** considered whether accounting principles are based on valid arguments. The mean score was 4.80 as the majority of entities have not changed their accounting policies based on the data analysed. **F3** measured the extent to which a company highlights the positive events, as well as the negative events when results are discussed. The mean score for **F3** was 3.47. Entities mentioned both positive and negative events, but the emphasis is still placed on positive events. **F4** was concerned with the type of audit opinion the entity was given and had a mean of 4.14. All entities on the JSE had an unqualified audit opinion. The mean for **F5** was 4.83 and it analysed the corporate governance disclosures provided. The results for faithful representation were average, with the overall mean calculated as 3.95.

Enhancing Qualitative Characteristics

Understandability

U1 considered whether annual reports are presented in an organised manner. The mean score was 4.27, indicating reports are well presented. For **U2**, the mean score was 3.4; notes which contain explanations that describe what happens are disclosed. **U3** assessed the presence of graphs and tables in the reports. The mean score was 4.43, indicating that entities usually have more than six graphs or tables in their reports to clarify financial information. **U4** assessed the extent to which industry-specific jargon was present. The results indicate that for most entities the jargon was briefly explained in a text or a glossary as the mean score was 2.90. For the final criterion, **U5**, the mean score was 2.94, indicating that the glossary was not more than one page in length. In conclusion, the understandability of JSE listed entities is satisfactory, as the overall mean score was 3.9.

Comparability

C1 assessed the extent to which changes in accounting policies explain the implications of these changes. C1 was similar to F2 with a mean of 4.86, as both assessed changes in the accounting policies of the entities. **C2** evaluated the extent which notes explained the revisions in accounting estimates and judgements. The mean score of 2.82 indicates a revision in accounting estimates was accompanied by clear notes explaining the revision. **C3** assessed the extent to which entities restated prior period figures for changes in accounting policies or revision in estimates. The mean of 3.37 indicates that entities usually restate only the prior year. **C4** reviewed the entities' comparisons with previous years. The average was 3.06, indicating that a five-year review was completed. **C5** assessed how comparable the financial reports are. The mean score was 4.22, indicating that the reports are comparable. **C6** assessed the number of financial ratios in the annual report. Most companies scored 5 for this criterion, indicating that they had more than 10 ratios in the annual report. The overall mean was 3.81, demonstrating that information usefulness is high in South Africa.

Timeliness

In order to assess timeliness, the numbers of days between the audit report and the end of the financial year were recorded. JSE-listed entities on average issued the audit report 118 days after the end of the financial period.

Verifiability

There was no measurement tool to assess verifiability in the rating scale. **F4** was used as a proxy for verifiability which considered the type of audit report issued. The most common score was 4, indicating that the annual reports were verifiable as all entities received an unqualified opinion.

RQ2: To what extent are the qualitative characteristics of financial reporting applied to Indian listed companies?

Table 2: Results of India

Relevance	**Mean**	**Faithful represent-ation**	**Mean**	**Understand-ability**	**Mean**	**Compar-ability**	**Mean**
R 1	3.24	F1	2.26	U1	3.18	C1	4.82
R 2	2.86	F2	4.82	U2	2.44	C2	2.60
R 3	1.00	F3	2.46	U3	4.35	C3	3.36
R 4	3.44	F4	4.00	U4	2.14	C4	2.84
		F5	3.86	U5	1.28	C5	3.16
						C6	4.18

Fundamental Qualitative Characteristics

Relevance

For **R1**, entities on the BSE received a mean score of 3.24, demonstrating that entities had some subsections regarding predictions and forward-looking information. Regarding **R2**, the mean score was 2.86, indicating that entities did provide information on business risks and opportunities, but that it was not useful. For **R3**, most entities scored an average of one, suggesting that only historical cost is used. The mean score for **R4** was 3.44, indicating that there is moderate disclosure regarding information on events which affected the entity during the year. The overall average was 2.6, which indicates that, although Indian companies disclose forward-looking information, there is a lack of disclosure relating to non-financial information.

Faithful Representation

F1 measured how valid the arguments were for certain assumptions and estimates provided. The mean score was 2.26, indicating that only general explanations were provided. **F2** measured the validity behind the accounting policies chosen. The mean score was 4.8, as there were not many changes in accounting policies during the year. The mean score for **F3** was 2.46, indicating that on average the entities focused mainly on the positive events which influenced the entity. **F4** assessed the audit opinion entities received. All entities received a 4, as all entities received an unqualified opinion. The last criterion, **F5** assessed the strength of corporate governance within the entity. The mean score was 3.86, indicating that entities did pay extra attention to corporate governance. The overall mean was 3.48, indicating that there is overall, faithful representation by Indian companies.

Enhancing Qualitative Characteristics

Understandability

U1 measured the extent to which the annual report was presented in a well organised manner. Entities scored an average of 3.18, indicating an average score regarding the way the annual report is presented. **U2** measured how comprehensive the notes to the financial statements are. Most of the entities scored 2, indicating that short explanations which were difficult to understand were provided. **U3** reviewed the number of graphs and tables which supported the financial information given. The mean score was 4.35, indicating that entities provided more than 10 graphs and tables. **U4** assessed the amount of industry-specific jargon used in the annual report. The mean score for U4 was 2.14; there was a high volume of industry-specific jargon. The mean score for **U5** was 1.28, as most entities did not have a glossary.

Comparability

C1 assessed the extent to which changes in accounting policies explain the implications of these changes. The mean score for C1 was 4.82, which correlated with the score of F2. **C2** assessed the effectiveness of the notes to any changes in assumptions or estimates. The mean score of 2.6 indicates that entities usually have a revision with clear notes. **C3** reviewed the restatement of prior period figures when there was a change in accounting estimates or in accounting policies. Entities usually obtained a rating of 3, indicating that only the prior year's figures were restated. **C4** indicated that most entities completed a five-year comparison, as the mean was 2.84 with no description of implications. The mean for **C5** was 3.16, indicating that comparability of annual reports is average. **C6** measured the number of financial ratios which were presented. The mean was 4.18, as most entities presented more than 10 financial ratios.

Timeliness

The average time it took entities to issue the audit report from the end of the financial year was 110 days.

Verifiability

This score will correlate to the score for **F4**, where the mean was four, as all entities on the BSE received unqualified audit opinions.

RQ3: How does the financial reporting quality between South Africa and India compare?

Fundamental Qualitative Characteristics

Relevance and Faithful Representation

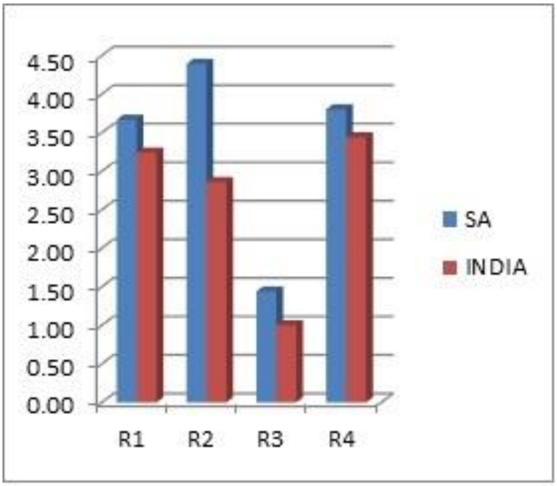

Figure 1: Comparison between South Africa and India in terms of relevance

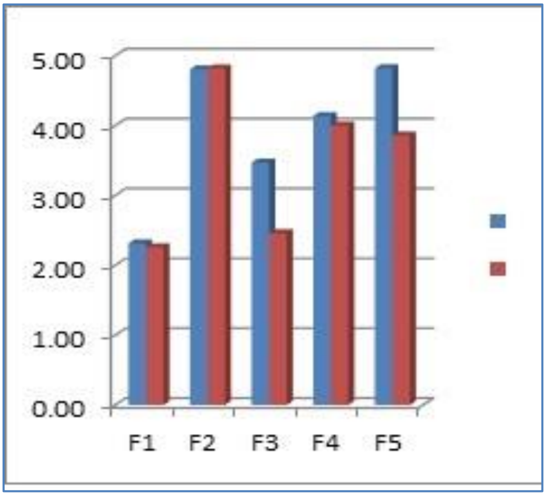

Figure 2: Comparison between South Africa and India in terms of faithful representation

By referring to Figure 1, it is evident that South Africa outperforms India in every criterion for relevance. The biggest discrepancy between South Africa and India is **R2,** which relates to the presence of non-financial information. With reference to Figure 2, regarding faithful representation, South Africa outperformed India in terms of all criteria except **F2,** where the result was similar. The biggest discrepancy was with respect to **F5**. The results of the fundamental qualitative characteristics indicate that South Africa's quality of financial reporting exceeds that of India.

Enhancing Qualitative Characteristics

Understandability and Comparability

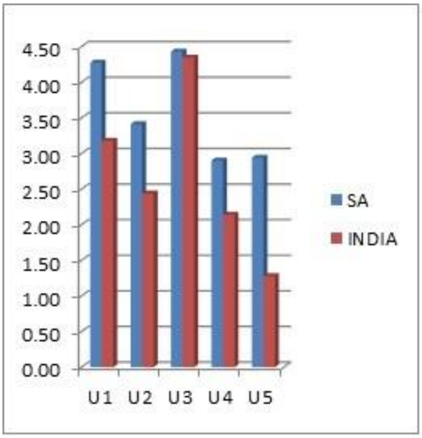

Figure 3: Comparison of South Africa and India in terms of understandability

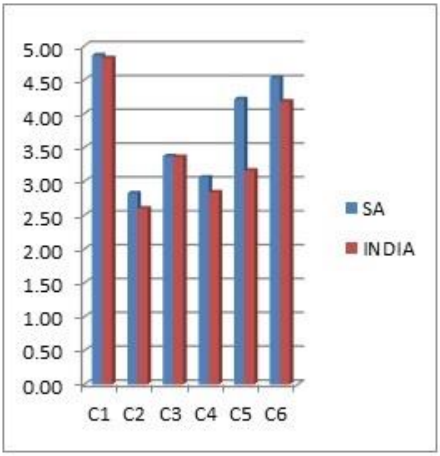

Figure 4: Comparison of South Africa and India in terms of comparability

The qualitative characteristic of understandability is applied to a greater extent in South African listed entities than in BSE listed entities (Figure 3). The characteristic which differs between South Africa and India is **U5**, which looked at the size of the entity's glossary.

South Africa outperformed India in terms of the characteristic of comparability (Figure 4). The most significant difference arose in **C5**, where it was assessed that BSE listed entities were not comparable with one another, as their layout differed from one company to the next.

Timeliness

Indian listed entities are more prompt in the presentation of the financial statements than South African entities, as Indian companies issue reports in 110 days, while South African companies issue reports in 118 days. The longest period taken by Indian companies is 74 days, but South African companies may take up to 122 days to issue financial statements. This results in relevant information being disclosed for Indian companies, as older information may be less useful (IASB 2015).

Results from Hypothesis Testing

The testing was based on the hypotheses mentioned above.

Fundamental Qualitative Characteristics

Relevance

Regarding relevance, there is a significant difference between the financial information provided, with South African companies providing more relevant information. The p-value for **R1** was 0.043, indicating that there is a significant difference concerning the quality of forward-looking statements, as South African entities provide more future-looking information than do Indian entities. The p-value for **R2** was 0.000, which is also a significant difference regarding non-financial information and may be because South African listed companies produce an integrated report which has a greater degree of non-financial disclosure. **R4** has a p-value of 0.018, demonstrating that there is a significant difference regarding the disclosure of events affecting the reports of South African and Indian entities.

Faithful Representation

The p-value for **F1** was 0.547, resulting in the null hypothesis being accepted. South African and Indian companies both provide brief descriptions of assumptions and estimates. The p-value for **F2** was 0.797, resulting in the acceptance of the null hypothesis as both entities did not change their accounting policies on a regular basis. The p-score for **F3** was 0.000, indicating that there is a significant difference between the balance of positive and negative events, with Indian entities focusing mainly on positive events. For **F4**, there was no significant difference as all opinions issued were unqualified. The p-value for **F5** was 0.00, indicating that there is a significant difference regarding corporate governance disclosure. The corporate governance disclosure is significantly greater in South African entities and this may be as a result of the King Code, as well as the high level of auditing and accounting standards in South Africa.

Regarding the fundamental qualitative characteristics there was a significant difference between the quality of financial reporting in South Africa and India in terms of faithful representation.

Enhancing Qualitative Characteristics

Understandability

U1 resulted in a p-score of 0.000, representing a significant difference in the presentation of the financial statements of South African and Indian listed entities. This could be attributed to South African entities presenting an integrated report, while the Indian entities present annual reports. **U2** also resulted in a p-score of 0.000, resulting in a significant difference regarding the quality of the notes supporting the financial figures, with Indian entities providing short descriptions and South African entities providing more detailed explanations. The p-score for **U3** was 0.815, indicating that there is no significant difference between the financial reporting quality of South Africa and that of India when considering the presence of graphs and tables. The p-score for **U4** and **U5** was 0.000, indicating there is a significant difference between the financial reporting quality of South Africa and India. Jargon was explained through the glossary in South African listed entities, whereas Indian listed entities did not contain a glossary or detailed explanations. It can be concluded that there is a significant difference between the understandability of financial statements in South Africa and that of India, except for **U3.**

Comparability

The p-score for **C1** was calculated as 0.932, indicating that there is no significant difference in terms of the explanation provided for changes in accounting policies. This is because most South African and Indian companies did not change their accounting policies. The p-score for **C2** was 0.131, also indicating there is no significant difference between the clarity of the notes which explain any changes in accounting policies and estimates. The p-score for **C3** was 0.894, indicating there is no significant difference regarding the restatement of prior period financials for changes in accounting policies and accounting estimates. Most entities only present the previous year's financials. The p-score for **C4** was 0.146, meaning there is no significant difference regarding the comparison of the current year's financial results with the prior year's results. Both South African and Indian entities provided a 5-year comparison of the results. The p-score for **C5** was 0.00, indicating that there is a significant difference in terms of the comparability of information with other organisations. The p-score for **C6** was 0.058, indicating that there is no significant difference between JSE and BSE entities, with both countries providing financial ratios.

Timeliness

There was no p-score for timeliness, but from the mean above, it was determined that there is a difference between the timeliness for South African and Indian listed entities

Verifiability

The p-score for verifiability is the same as the p-score for **F4,** with the same results being applicable.

In conclusion, the null value of the hypothesis test can be rejected, and the alternate hypothesis can be accepted. There is a significant difference between the quality of financial reporting in South Africa and India.

Recommendations for further research

The study has contributed to the existing body of knowledge, as there is a shift in focus from quantitative to qualitative information and from financial to non-financial information (Flöstrand and Ström 2006). This research focuses on financial reporting quality, which extends beyond pure financial information (Beest et al. 2009). The data-capturing process revealed that entities listed on the JSE are required to prepare an integrated report on an annual basis. There is more information provided in an integrated report, therefore, it would be interesting to understand the reasoning behind the BSE requiring an annual report only to be presented. Further research may look at this issue.

Conclusion

The purpose of the CF is to aid the IASB when developing or changing any standards to ensure developments will be based on consistent concepts. Within the CF of the IFRS, there are qualitative characteristics in addition to the enhancing characteristics. The fundamental characteristics are faithful representation as well as relevance. The enhancing qualitative characteristics are understandability, comparability, timeliness and verifiability (IASB 2015). The qualitative characteristics and enhancing qualitative characteristics were used to assess the quality of financial information presented.

The research assessed the financial reporting quality between South Africa and India, given the similarities in terms of the countries' economic and socio-economic environments. In terms of relevance, South African listed companies provide more relevant information than do Indian listed companies. Regarding faithful representation, the results are similar, but Indian companies tend to focus more on positive events. However, there were similar results for certain characteristics in this category. The qualitative characteristic of understandability is applied to a greater extent in South African listed entities, as opposed to BSE listed entities. In terms of comparability, the results were similar but Indian entities' reports are not comparable to information provided by other entities. Although Indian companies submit their financial statements on average more timeously than South African companies, the difference is not significant. The results of the hypothesis test indicated that there is a significant difference in the quality of financial reporting in South Africa and in India. The results also indicated that, overall, the quality of financial reporting is higher in South Africa than in India.

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<table>
<tr><th colspan="3">APPENDIX A</th></tr>
<tr><th>Question no.</th><th>Question</th><th>Operationalisation</th></tr>
<tr><td colspan="3">Relevance</td></tr>
<tr><td>R1</td><td>To what extent does the presence of the forward-looking statement help informing expectations and predictions concerning the future of the company?</td><td>1 = No forward-looking information
2 = Forward-looking information not an apart subsection
3 = Apart subsection
4 = Extensive predictions
5 = Extensive predictions useful for making expectation</td></tr>
<tr><td>R2</td><td>To what extent does the presence of non-financial information in terms of business opportunities and risks complement the financial information?</td><td>1 = No non-financial information
2 = Little non-financial information, no useful for forming expectations
3 = Useful non-financial information
4 = Useful non-financial information, helpful for developing expectations
5 = Non-financial information presents additional information which helps developing expectations</td></tr>
<tr><td>R3</td><td>To what extent does the company use fair value instead of historical cost?</td><td>1 = Only HC
2 = Most HC
3 = Balance FV/HC
4 = Most FV
5 = Only FV</td></tr>
<tr><td>R4</td><td>To what extent do the reported results provide feedback to users of the annual report as to how various market events and significant transactions affected the company?</td><td>1 = No feedback
2 = Little feedback on the past
3 = Feedback is present
4 = Feedback helps to understand how events and transactions influenced the company
5 = Comprehensive feedback</td></tr>
<tr><td colspan="3">Faithful representation</td></tr>
<tr><td>F1</td><td>To what extent are valid arguments provided to support the decision for certain assumptions and estimates in the annual report?</td><td>1 = Only described estimations
2 = General explanation
3 = Specific explanation of estimations
4 = Specific explanation, formulas explained
5 = Comprehensive argumentation</td></tr>
</table>

APPENDIX A		
Question no.	**Question**	**Operationalisation**
F2	To what extent does the company base its choice for certain accounting principles on valid arguments?	1 = Changes not explained 2 = Minimum explanation 3 = Explained why 4 = Explained why + consequences 5 = No changes or comprehensive explanation
F3	To what extent does the company, in the discussion of the annual results, highlight the positive events and negative events?	1 = Negative events only mentioned in footnotes 2 = Emphasis on positive events 3 = Emphasis on positive events, but negative events are mentioned; no negative events occurred 4 = Balance positive/negative events 5 = Impact of positive/negative events is also explained
F4	Which type of auditors' report is included in the annual report?	1 = Adverse opinion 2 = Disclaimer of opinion 3 = Qualified opinion 4 = Unqualified opinion: Financial figures 5 = Unqualified opinion: Financial figures + non-financial information in IR
F5	To what extent does the company provide information on corporate governance?	1 = No description CG 2 = Information on CG limited, not in apart subsection 3 = Apart subsection 4 = Extra attention paid to information concerning CG 5 = Comprehensive description of CG

APPENDIX A		
Question no.	**Question**	**Operationalisation**
Understandability		
U1	To what extent is the annual report presented in a well organised manner?	Judgement based on: • complete table of contents • headings • order of components • conclusion at the end of each subsection 1 = None of the above headings included 2 = 1 of the above headings included 3 = 2 of the above headings included 4 = 3 of the above headings included 5 = All the above headings included
U2	To what extent are the notes to the balance sheet and the income statement sufficiently clear?	1 = No explanation 2 = Very short description, difficult to understand 3 = Explanation that describes what happens 4 = Terms are explained (which assumptions etc.) 5 = Everything that might be difficult to understand is explained
U3	To what extent does the presence of graphs and tables clarify the presented information?	1 = no graphs 2 = 1–2 graphs 3 = 3–5 graphs 4 = 6–10 graphs 5 = > 10 graphs
U4	To what extent is the use of language and technical jargon in the annual report easy to follow?	1 = Much jargon (industry), not explained 2 = Much jargon, minimal explanation 3 = Jargon is explained in text/ glossary 4 = Not much jargon, or well explained 5 = No jargon, or extraordinary explanation

APPENDIX A		
Question no.	**Question**	**Operationalisation**
U5	What is the size of the glossary?	1 = No glossary 2 = Less than 1 page 3 = Approximately one page 4 = 1–2 pages 5 = > 2 pages
Comparability		
C1	To what extent do the notes to changes in accounting policies explain the implications of the change?	1 = Changes not explained 2 = Minimum explanation 3 = Explained why 4 = Explained why + consequences 5 = No changes or comprehensive explanation
C2	To what extent do the notes to revisions in accounting estimates and judgements explain the implications of the revision?	1 = Revision without notes 2 = Revision with few notes 3 = No revision/ clear notes 4 = Clear notes and implications 5 = Comprehensive notes
C3	To what extent did the company adjust previous accounting period's figures, for the effect of the implementation of a change in accounting policy or revisions in accounting estimates?	1 = No adjustments 2 = Described adjustments 3 = Actual adjustments (one year) 4 = 2 years 5 = > 2 years + notes
C4	To what extent does the company provide a comparison of the results of current accounting period with previous accounting periods?	1 = No comparison 2 = Only with previous year 3 = With 5 years 4 = 5 years + description of implications 5 = 10 years + description of implications

APPENDIX A		
Question no.	**Question**	**Operationalisation**
C5	To what extent is the information in the annual report comparable to information provided by other organisations?	Judgement based on: • accounting policies • structure • explanation of events In other words: an overall conclusion of comparability compared to annual reports of other organisations 1= No comparison can be made 2= Comparison can be made on one section within the industry 3= Comparison can be made on two sections within the industry 4 = Comparison can be made on all sections within the industry 5= Comparison can be made based on all sections outside the industry
C6	To what extent does the company present financial index numbers and ratios in the annual report?	1 = No ratios 2 = 1–2 ratios 3 = 3–5 ratios 4 = 6–10 ratios 5 = > 10 ratios
Timeliness		
T1	How many days did it take for the auditor to sign the auditors' report after book year end?	1 = 5–5.99 2 =4–4.99 3 = 3–3.99 4 = 2–2.99 5 = 1–1.99

Source: (Beest et al. 2009)