THE USEFULNESS OF THE ANNUAL REPORTS FOR ACCOUNTABILITY AND DECISION-MAKING PURPOSES BY THE KWAZULU-NATAL MUNICIPALITIES.

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DECLARATION

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DEDICATION

This work is dedicated to my late parents Nonhlanhla Radebe and Bhekuyise Radebe.

ACKNOWLEDGEMENTS

I wish to thank:

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ABSTRACT

According to the IPSAS and ASB's Conceptual Frameworks for Financial Reporting, annual reports prepared using these frameworks present information that users can use for accountability and decision-making purposes. Such conceptual frameworks state that the annual reports' information must exhibit important and enhance qualitative characteristics to be helpful to the users. The study's purpose was to determine whether the annual reports prepared by the KwaZulu-Natal municipalities presented information that is useful for accountability and decision-making. The setting for this study is all the municipalities in KwaZulu-Natal. However, only 43 annual reports were included in the results of this study. The study analyses annual report contents using a content analysis methodology based on a 21-index research instrument developed by Beest, Braam, and Boelens (2009). The research instrument operationalises the qualitative characteristics of useful information into 21 measurable disclosure indicators. An exploratory factor analysis was used to ascertain the relationships between variables. The study results revealed that the quality of annual reports prepared by municipalities was satisfactory, notwithstanding that there is still room for improvement in the overall usefulness of the annual reports. Most annual reports omitted forward-looking statements and included technical jargon that was not clarified. The majority of municipalities used historical cost accounting for assets rather than fair value cost accounting in their annual reports. Municipalities need to limit technical jargon in the annual reports, and all technical terms should be explained in a glossary. Municipalities should also present forward-looking information that will enable users to make future expectations. The results of this study contradict previous research conducted in Europe and Asia that concluded that annual reports were inadequate for accountability and decision-making. However, the study lacks the interpretive analysis component necessary to provide an accurate qualitative view of annual report by users. Notwithstanding this limitation, the results of this study lay the groundwork for future research on this topic.

Key words: Usefulness, Accountability, Decision-Making, Relevance, Faithful Representation, Timeliness, Understandability, Comparability, Timeliness.

TABLE OF CONTENTS

DECLARATION ii

DEDICATION iii

ACKNOWLEDGEMENTS iv

ABSTRACT v

LIST OF TABLES x

LIST OF FIGURES xi

LIST OF ABBREVIATIONS USED xii

LIST OF TERMINOLOGY USED xiii

CHAPTER ONE: INTRODUCTION 1

1.1 Introduction and Background of the Study 1

1.2 Problem Statement 4

1.3 Rationale of the Study 5

1.4 The Purpose and Objectives of the Study 5

1.5 Research Questions 6

1.5 Delimitations (Scope) of the Study 6

1.7 Assumptions of the Study 7

1.8 Limitations of the Study 7

1.9 Structure of the Dissertation 7

1.10 Chapter Summary 8

CHAPTER TWO: LITERATURE REVIEW 9

2.1 Introduction 9

2.2 Theoretical Framework **9**

2.2.1 Defining Accountability 9

2.2.2 Defining Decision-making 11

2.3 Theories Underpinning the Annual Report Preparation Practice **13**

2.3.1 Agency Theory 13

2.3.2 Signalling Theory 14

2.3.3 Legitimacy Theory 15

2.3.4 Stakeholder Theory 16

2.3.5 Stewardship Theory 17

2.3.6 Institutional Theory 18

2.3.7 New Public Management Theory 19

2.4 The Annual Reporting Process for the South African Local Government **19**

2.5 The Usefulness of Annual Reports in the Public Sector **22**

2.6 Models used to measure quality and the usefulness of annual reporting **24**

2.6.1 The Accrual Model 24

2.6.2 The Value Relevance Model 24

2.6.3 The Qualitative Characteristics Model 25

2.7 The Qualitative Characteristics of Useful Information **25**

2.7.1 Relevance 26

2.7.2 Faithful Representation 27

2.7.3 Comparability 27

2.7.4 Verifiability 28

2.7.5 Timeliness 28

2.7.6 Understandability 28

2.8 Chapter Summary. **29**

CHAPTER THREE: RESEARCH METHODOLOGY **30**

3.1 Introduction **30**

3.2 Research Methodology and Design **30**

3.3 Research Paradigm **30**

3.4 Target Population **31**

3.5 Sampling Technique **31**

3.6 The Research Instrument 32

3.7 Data Collection Sources and Procedure 33

3.8 Data Analysis 34

3.9 Research Validity and Reliability 35

3.10 Ethical Consideration 36

3.11 Limitations of the Study 36

3.12 Chapter Summary 36

CHAPTER FOUR: PRESENTATION AND DISCUSSION OF RESEARCH FINDINGS 37

4.1 Introduction 37

4.2 Response Rate 37

4.3 Results – Research Objective One (Relevance) 38

4.4 Results – Research Objective Two (Faithful Representation) 39

4.5 Results – Research Objective Three (Understandability) 41

4.6 Results – Research Objective Four (Comparability) 42

4.7 Results – Research Objective Five (Timeliness) 43

4.8 Factor Analysis 44

4.9 Discussion of Results 52

4.10 Chapter Summary 55

CHAPTER FIVE: CONCLUSION OF THE STUDY 56

5.1 Introduction 56

5.2 Findings from the Literature Review 56

5.3 Findings from the Primary Research 57

5.4 Conclusions 58

5.5 Limitation of The Study 59

5.6 Suggestions for Future Research 59

REFERENCES **60**

APPENDICES **70**

Appendix A: Research Questions Operationalisation with Scores **70**

Appendix B: Research Instrument **75**

Appendix C: Editorial Letter **76**

Appendix D: Turnitin Report **77**

Appendix E: Ethical Clearance **78**

LIST OF TABLES

Table 4-1:Qualitative characteristic: Relevance 38

Table 4-2:Qualitative characteristic: Faithful Representation..... 39

Table 4-3: Qualitative characteristic: Understandability 41

Table 4-4: Qualitative characteristic: Comparability 42

Table 4-5: Qualitative characteristic: Timeliness..... 43

Table 4-6: KMO and Bartlett's Test 45

Table 4-7: Total Variance Explained 45

Table 4-8: Communalities..... 47

Table 4-9: Pattern Matrix 49

Table 4-10: Structure Matrix..... 50

Table 4-11: Component Correlation Matrix 51

Table 4-12:Reliability Analysis of Components..... 52

LIST OF FIGURES

Figure 2-1: Accountability in the public sector..... 10

Figure 2-2:The information Spectrum 12

Figure 2-3: The local government accountability cycle for municipalities..... 21

Figure 4-1: Percentage of municipalities per score for each measure of relevance 39

Figure 4-2: Percentage of municipalities per score for each measure of faithful representation 40

Figure 4-3: Percentage of municipalities per score for each measure of Understandability.. 42

Figure 4-4: Percentage of municipalities per score for each measure of comparability. 43

Figure 4-5:Percentage of municipalities per score for each measure of Timeliness..... 44

Figure 4-6: Scree Plot 46

LIST OF ABBREVIATIONS USED

AG	Auditor-General
AFS	Annual Financial Statement
ASB	Accounting Standards Board
CF	Conceptual Framework for Financial Reporting
CFO	Chief Financial Officer
FASB	Financial Accounting Standards Board
GRAP	Generally Recognised Accounting Practice
GPFRS	General Purpose Financial Reports
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standard
IPSAS	International Public Sector Accounting Standard
IPSASB	International Public Sector Accounting Standards Board
KZN	KwaZulu-Natal
KMO	Kaiser Meyer Olkin
LAR	Local Administration Report
MFMA	Municipal Finance Management Act 56 of 2003
NPM	New Public Management
PCA	Principal Component Analysis
PFMA	Public Finance Management Act 1 of 1999
SALGA	South Africa Local Government Association

LIST OF TERMINOLOGY USED

Accountability	It is the condition of being obligated to describe one's actions, to justify one's actions.
The annual report	Is prepared at the end of the financial year for external users to gain financial and non-financial information about the organization's inner workings and plan for the future.
Auditor-General	The institution responsible for the independent examination of the government's accounts.
Citizen	It is an inhabitant of a city or town or a resident within the municipality boundary.
Constitution	Supreme law of the land by which the country is governed.
Decision-making	It is the procedure of coming up with a decision.
Fair value	It is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.
Financial year	Twelve months' period which organisations budget and account. Municipalities' financial year runs from 1 July to 30 June.
GPFRs	General Purpose Financial Reports are financial reports designed to satisfy users' information needs who cannot afford to have financial reports tailored to their unique information needs.
Grants	Monetary transfer allocations from another governmental sphere to be used or expended for a specific purpose, activity, or facility.
Historical Cost	It is the cash or cash equivalents or the value of the other consideration provided to acquire or grow an asset at the time of its acquisition or growth.
Participation	It is the process whereby members attend meetings or submitting written or oral submissions on a specific topic.
Stakeholders	All those who have an interest in a municipality. They may be users of, or persons with a varying degree of interest in, a municipality's annual reports.

CHAPTER ONE: INTRODUCTION

1.1 Introduction and Background of the Study

South Africans gained the ability to participate entirely in their electoral systems following the election of a new democratic government in 1994. According to Mpehle (2012: 213), the newly elected democratic government was organized in such a way that it was "people-centered" and prioritized "service delivery." The 1996 South African Constitution, which was approved by referendum, established three distinct scopes of government: national, provincial, and local (Mpehle, 2012). Municipal councils were embedded in the local government.

The constitution vested the local government sphere with five basic mandates. It required an independent and responsible sphere in government for home-grown communities, to guarantee continuity of service provision to communities, to promote social and economic growth, to provide a harmless and dynamic environment, and to inspire civic and organization inclusion in local government issues (Republic of South Africa, 1996: Section 152(1)). Additionally, the constitution required municipal governments to include people in planning and budgeting processes to ensure accountability, openness, and transparency (Madumo, 2015: 156; Brand, 2016).

Subsequent to the adoption of the constitution, the new democratic government gave birth to Local Government White Paper (herein referred to as the "white paper") in 1998 to offer an insight into the political intentions and thinking on the conception of developing local government, which was envisaged by the constitution (SALGA, 2015). The White Paper pronounces the developmental local government as "a local government that is committed to working with citizens and groups within the community to find sustainable ways to meet their social, economic and material needs and improve the quality of their lives." The White Paper is a defined strategic paper for municipalities and requires them to establish policies and processes involving citizens, businesses, and community groups (Fourie, Opperman and Scott, 2007: SALGA, 2015).

The White Paper proposed four roles or opportunities for community participation in the municipality processes. Firstly, communities play a significant role by participating in the election of political representatives or councillors to represent their interests in the running of the municipality. Hence the elected councillors have political responsibility to citizens who

elected them (Fourie et al., 2007). Secondly, communities and citizens play a role as participants in the municipality policy-making processes. This role is supported by most of the local government legislation. It encouraged the participation of various stakeholders such as the community in general, the business community, organizations, and others, in the planning and budgetary process of the municipality (Fourie et al., 2007). Thirdly, communities and citizens are consumers and users of services. The constitution mandated municipalities to provide essential services such as electricity, refuse removal, water, and maintenance, among others, to the citizens (Fourie et al., 2007). Fourthly, communities and citizens sometimes play an important role as partners in resource mobilization (Fourie et al., 2007). Citizens including businesses and other organizations have a vital role in assisting municipalities with resources to enhance service delivery.

According to Mpehle (2012), South African local government law encouraged democratic principles such as fairness, community engagement, decision-making transparency, and treating people as consumers, and putting them first in-service delivery. Local government has been founded on accountability, transparency, and good governance (White Paper, 1998).

The Municipal Finance Management Act (MFMA) was enacted in 2003 to modernize municipal finance management. The MFMA's basic concept was to promote sound financial management in municipalities (Fourie et al., 2007). The MFMA clarified accountability and oversight functions and obligations while fostering transparency (Fourie et al., 2007). The MFMA established distinct positions for councillors and elected officials within the system of transparency. Councillors are primarily responsible for legislation and supervision, while city authorities are accountable for the municipality's operations (Fourie et al., 2007).

To increase transparency, the MFMA adopted the use of annual reports. Municipalities are required to file a report for each fiscal year under Section 121 of the MFMA. The MFMA outlined the following objectives for preparing an annual report: First, it serves as a record of the municipality's activities during the fiscal year covered by the report. Second, it is intended to report on the municipality's results against its budget for that fiscal year. Finally, it is considered a way to encourage transparency in the municipality's decisions taken during the year. According to the National Treasury's MFMA Circular 63, an annual report also intended to alleviate the burden of additional reporting requirements imposed by government departments, regulatory agencies, and financial institutions (National Treasury, 2012).

The annual report is used as the primary document that allows municipalities to demonstrate transparency to external users, allowing them to determine the quality of services rendered and the municipality's performance (Boyne and Law, 1991). According to Section 121 (3) of the MFMA, the annual report should contain, among other things, the municipality's audited annual financial statements, the Auditor General's reports, and the municipality's annual performance report.

Through MFMA Circular 63, dated September 2012, the National Treasury developed a standardized structure to present municipal annual reports. The primary goal of establishing a standardized structure for annual reports was to allow municipalities to combine financial and non-financial information into a sole document. The framework's second goal is to establish a uniform reporting structure that would facilitate rigorous monitoring, meaningful assessment, and a better understanding of service delivery output. The third goal was to direct the annual report's preparation to increase the report's accuracy.

The financial reporting role is largely governed by two main accounting bodies: The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB). These two accounting bodies are in charge of developing the conceptual frameworks for financial reporting and the accounting principles that must follow. These bodies' conceptual frameworks and accounting principles are however only applicable to private-sector financial statements.

In the public sector, the International Public Sector Accounting Standards Board (IPSASB) is the accounting body charged with developing the conceptual framework and relevant accounting standards. In South Africa, the constitution established the Accounting Standards Board (ASB), responsible for the conceptual structure for financial reporting and accounting standards for the South African public sector.

In 2017, the ASB established and released a conceptual framework for General Purpose Financial Reporting (CF) for South African public entities, based on the IASB and IPSASB conceptual frameworks. The CF framework's primary purpose is to serve as a theoretical foundation for the creation of Generally Recognized Accounting Practice (GRAP) principles that govern the preparation and presentation of General-Purpose Financial Reports (GPFRs) that include both financial and non-financial information (ASB, 2017). The CF's other role is to advance financial reporting by ensuring that GPFRs were prepared and presented in a structured, coherent, and consistent manner with the principles upon which they were based (ASB, 2017).

National Treasury's annual reporting process and the CF allow municipalities to provide high-quality user information accountability and decision-making (National Treasury, 2012; ASB, 2017). Municipalities have a diverse range of financial and non-financial information useful to consumers, taxpayers, sponsors, lenders, people, government agencies, legislatures, and local councils, each of whom has a unique information need (ASB, 2017; IPSASB, 2014). Both conceptual frameworks issued by global and regional accounting bodies agree that published information meets consumer needs when it demonstrates the qualitative features of useful information such as significance, truthful representation, understandability, comparability, and timeliness (IPSASB, 2014, ASB, 2017; IASB, 2018).

1.2 Problem Statement

The local government environment has become increasingly uncertain and insecure. As a result, the users of financial information, including the resource providers, are demanding more information from municipalities as a means to estimate the financial capacity and financial stability of the municipalities (Fourie et al., 2007, Palbos, Carcaba and Lopez, 2002). This demand for information underscores the need for financial reports that different users can understand. These reports need to be standardized, concise, explanatory and prepared using sound accounting standards (Fourie et al., 2007:415). The Conceptual Frameworks for financial reporting developed by the IPSAS and the ASB state that the financial reports prepared using these frameworks to provide useful information that users use for accountability and decision-making purposes (IPSAS, 2014; ASB, 2017).

Both IPSAS (2014) and ASB (2017) Conceptual Frameworks state that the information is useful to the users if both enhanced and fundamental qualitative features. These qualitative characteristics include understandability, truthful representation, relevance, timeliness, and comparability. The literature reveals that there are limited studies that evaluate the usefulness of non-financial and financial reporting at municipalities or public sector in general (Afiah & Rahmatika, 2014; Adi, Martani, Pamungkas & Simanjuntak, 2016; Demirbaş & Eroğlu, 2016; Hassan, Hassan & Nor, 2018; Rudzioniene & Juozapaviciute, 2013; Steccolini, 2004; Wisdom, Damilola & Inemesit, 2017). Furthermore, only a few of these studies assessed the usefulness of municipal reports using the qualitative characteristics of useful information.

The current study assesses the municipal annual reports to determine if they are useful for accountability and decision-making. The study focuses exclusively on the province of KwaZulu Natal, which has the most municipalities in South Africa than other provinces.

1.3 Rationale of the Study

According to agency theory, the chief goal of financial reporting is to eliminate information asymmetries between managers and owners of an organization by establishing a system of checks and balances (Watts and Zimmerman, 1983). Additionally, the management of an organization is obligated to report to and provide information to owners since they have been entrusted with the stewardship duty of managing the organization's resources on behalf of the owners (Ravenscroft and Williams, 2009; Watts and Zimmerman, 1978). Similarly, in the case of a municipality, annual reports should meet the information needs of primary users, as these users depend on this information for transparency, monitoring, and decision-making (ASB, 2017).

Although numerous studies have examined the value of financial and non-financial reporting in the private sector on a national and international scale, comparable studies in local government and the public sector are scarce (Afiah & Rahmatika, 2014; Rudzioniene & Juozapaviciute, 2013). Additionally, few current frameworks for evaluating the effectiveness and accuracy of financial reporting have been produced specifically for the private sector. Additionally, research examining the effectiveness of annual reports in terms of financial and non-financial metrics is relatively scarce (Dimi, 2014). Thus, the current study is essential to decide if the information in municipalities' annual reports is valuable for accountability and decision-making purposes by evaluating both the fundamental and enhancing qualitative characteristics required by the CF. The study aimed to determine if the information in municipalities' annual reports for the 2017/18 fiscal year is useful for user accountability and decision-making.

While the research focused on municipalities in KwaZulu-Natal province, can apply it to other municipalities in South Africa since they are subject to similar legislative and reporting conditions. The study adds to the existing empirical literature for a growing body of knowledge about local governments' financial administration and management. Additionally, this research identifies opportunities for developing new financial reporting quality evaluation frameworks tailored to the needs of local governments.

1.4 The Purpose and Objectives of the Study

The study's primary objective is to determine if the 2017/18 annual reports prepared by municipalities in KwaZulu-Natal contain information that is useful for accountability and decision-making purposes. To accomplish the study's overall objective, the following specific objectives have been established:

1.4.1 To assess the annual reports' relevance for decision-making.

1.4.2 To investigate if the details contained in annual reports accurately reflect economic phenomena.

1.4.3 To ascertain if the details contained in annual reports facilitate the understandability of economic phenomena.

1.4.4 To determine if the information contained in annual reports is interpreted in such a way that it facilitates comparability of two distinct sets of economic phenomena.

1.4.5 To decide if the annual reports provide information delivered promptly for accountability and decision-making.

1.5 Research Questions

The following research questions will be used to find answers in the research study:

1.5.1 Is the information obtainable from the annual reports relevant for accountability and decision-making?

1.5.2 Does annual reports' information faithfully represent the economic phenomena?

1.5.3 Is the information in annual reports presented in a manner that enables the understandability of the economic phenomena?

1.5.4 Does the information in annual reports presented in a manner that enables comparability between two sets of phenomena?

1.5.5 Is the information in the annual reports presented timely to enable decision-making and accountability?

1.5 Delimitations (Scope) of the Study

This study was directed on examining the effectiveness of information by evaluating annual reports for the qualitative characteristics of beneficial information described by the Conceptual Framework for Financial Reporting. The objective of this study was to compare the quality of annual reports to the qualitative characteristics of useful information. As a result, the analysis disregards users' expectations, attitudes, and viewpoints about the value of annual reports, as they are immaterial to the research.

1.7 Assumptions of the Study

This study makes the assumptions below:

1.7.1 The relevant stakeholders use the annual reports prepared by municipalities for accountability and decision-making.

1.7.2 The information presented in the published annual reports is accurate and credible.

1.8 Limitations of the Study

1.8.1 The research used information from the annual reports published by municipalities on their websites.

1.8.2 The reliability and truthfulness of the annual reports' information cannot be ascertained.

1.8.3 The study utilised annual reports for the 2017/18 financial year which were the most recent annual reports available at the start of this project.

1.8.4 The study did not consider the general views of relevant stakeholders using the annual reports for accountability and decision-making.

1.8.5 The study only determined the usefulness of annual reports within the parameters of the CF definition of decision-useful information.

1.8.6 The study only included 43 municipalities in the KwaZulu Natal province; hence the results cannot be generalized.

Furthermore, the accessibility to the research data was subject to each municipality publishing their annual report on the website. As a result, municipalities that do not publish their annual reports on websites were excluded from this study.

1.9 Structure of the Dissertation

Chapters in this study are outlined below.

The first chapter offers an outline of the research and the context in which it was conducted. Additionally, the chapter addressed the research problem, the study's objectives, significance, scope, and limitations.

Chapter two presented the theories that underpin the annual reporting process in municipalities. Additionally, the chapter discusses South Africa's annual reporting process for municipalities. Also, the chapter conducts a literature review of the evaluation models used to assess the usefulness and quality of annual report information.

The third chapter discusses the current study design, philosophy, population, data collection methods, data validity, result reliability, sampling procedure, and ethical concerns.

Chapter four contains the quantitative findings, their interpretation, and a summary of the findings.

Chapter five presented the research results and conclusions concerning the study's objectives. Additionally, chapter five discusses the research recommendations and future research opportunities.

1.10 Chapter Summary

This chapter established the background for the study. It also presented the study's problem statement, objectives, and questions and its significance and limitations. The following chapter discussed the existing theories that underpin municipalities' annual reporting mechanism. Additionally, chapter two delves into the literature regarding models used to evaluate the usefulness of annual report data.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The purpose of this research is to determine if the annual reports prepared by municipalities in the KwaZulu-Natal province for the 2017/18 fiscal year provided information that is useful for accountability and decision-making. This chapter assesses the literature review to provide a foundation for the study's theoretical and empirical aspects.

The chapter defines the principles of accountability and decision-making about annual reports using literature. This chapter also discusses academic theories that underpin the annual reporting practice, such as the agency theory, signalling theory, legitimacy theory, stakeholder theory, stewardship theory, institutional theory, and the new public management (NPM) theory. Finally, the chapter provides an overview of the qualitative characteristics of useful information described by the Conceptual Framework and the evaluation models used by researchers to evaluate the quality and usefulness of annual reports.

2.2 Theoretical Framework

2.2.1 Defining Accountability

The constitution of the Republic of South Africa emphasizes accountability and openness as underlying concepts of good governance in the local government sphere (Brand, 2016). According to Randa and Tangke (2015: 671), accountability is defined as a person's or an organization's capacity and willingness to explain and account for the use of resources received from stakeholders. Authors (Nogueira and Jorge, 2016; Fourie et al., 2007:414; Demirbaş & Eroğlu, 2016:577; Kluvers & Pillay, 2009) further simplify the definition of accountability as a state of being responsible for actions taken, and the obligation to be called upon to account for or answer questions regarding such actions. However, Bovens, Schillemans & Hart (2008) argue that the term "accountability" has various meanings, and it depends on the context in which it is used. Kluvers (2003) supports this argument by stating that while accountability from the auditors' perspective is limited to financial disclosure, it also means realizing service delivery outcomes for the general public.

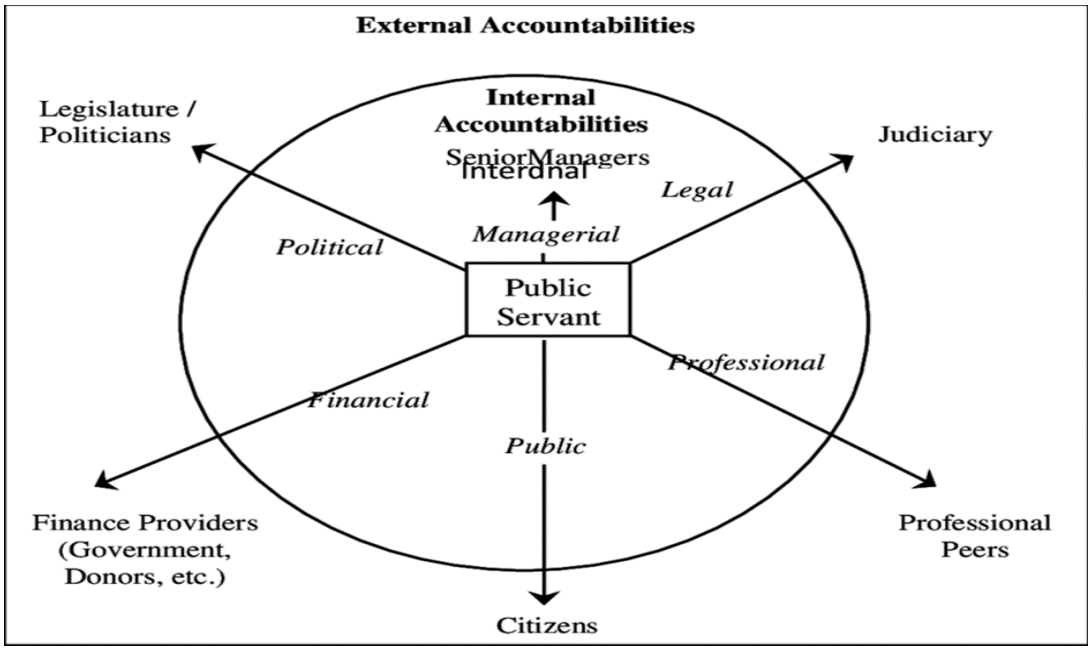
According to Randa and Tangke (2015), accountability is key in local government non-financial and financial reporting, and it is a very imperative requirement for good governance. There is a need for public accountability (Ferry, Eckersley & Zakaria, and

2015:347). Public accountability is necessitated by the need to ensure democratic participation, averting corruption and improve the public's confidence in the local government institution (Ferry et al., 2015:348). According to Demirbaş et al. (2016), communities and other stakeholders demand public accountability by exercising their right to know specifics elements regarding municipality's performance. Some of the tools used by municipalities to report these facts are the annual financial statements and annual reports (Demirbaş et al., 2016).

However, Ferry et al. (2015:348) caution that the cost of generating information for accountability can outweigh the potential benefits of the reported information. Therefore, the information reported for accountability purposes ought to be suitable to the users of such information to avoid unnecessary costs (Ferry et al., 2015).

Figure 2.1 below illustrates how accountability in the public sector is not only limited to political accountability (Demirbaş et al., 2016:579). The public servants at a municipal level also face other forms of accountability such as political, managerial, legal, professional, public, and financial accountability (Bovens et al.,2008; Demirbaş et al., 2016:579; Sinclair, 1995).

Figure 2-1: Accountability in the public sector



Source: Demirbaş et al., (2016:579).

Hood (2010), as cited by Ferry et al. (2015:351), states that there is a link between transparency and accountability and highlights that these concepts are not distinguishable from each other. Brand (2016) states that transparency is a vital characteristic of sound financial management in South African local government. This assertion is supported by various legislative reporting requirements that municipalities have to fulfil.

Hood (2010: 989), as cited by Ferry et al. (2015), defines transparency within the public sector framework as an act of a public institution to ensure that the way it bears its business is visible to the public, and this includes information on decisions, policies, and performance. On the other hand, Barth & Schipper (2008:174) defines transparency in the context of financial reporting as "the extent to which financial reports reveal an entity's underlying economics in a way that is readily understandable by those using the financial reports." In light of the above definitions, transparency can be defined as a process of allowing a free flow of information from the organization to the external stakeholders (Brand, 2016).

According to Brand (2016), transparency is achieved if an organization provides the information in a simple, clear, and understandable manner to external stakeholders. Therefore, the formats used to report the finance and non-finance information should be simplified and not limited to the reported information's transparency. However, Prat (2005), as cited by Ferry et al. (2015), warns that transparency can be misleading if it is not done objectively. The omission of important information and the reporting of biased and incorrect information can result in incorrect decisions (Ferry et al., 2015).

Cárcaba-García, López-Díaz & Pablos-Rodríguez (2002) state that the information on planning, activities, and performance should be easily accessible to the public. Electronic media, such as websites, can be utilized by municipalities to enhance transparency and openness. Transparency is also supported by Section 75 of the MFMA, which requires municipalities to publish several reports on their websites. Some of the reports published on websites include the integrated development plan, annual budgets, service delivery agreements, borrowing obligation agreements, policies, and annual reports.

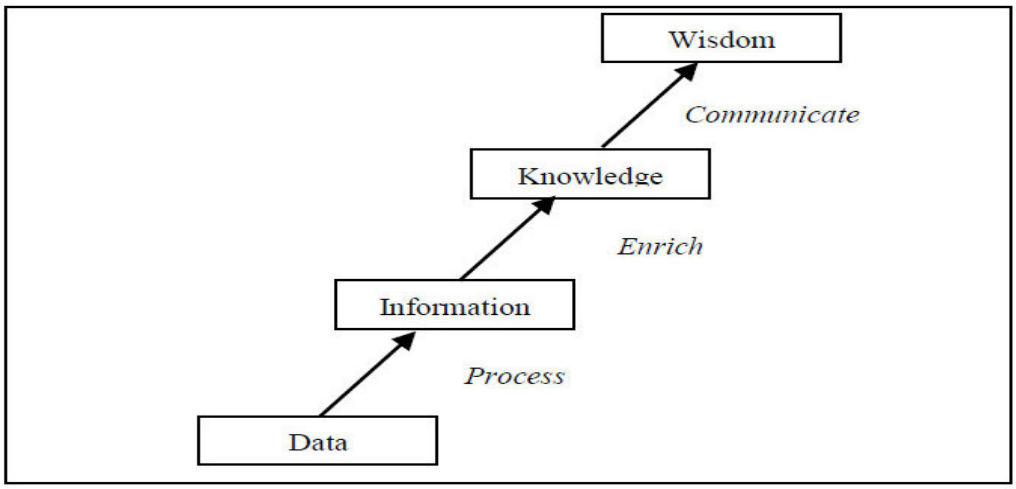
2.2.2 Defining Decision-making

Ngah, Zakaria, Noordin & Mustaffa (2015:3) state that decision-making is about making choices among available options to meet a particular objective. Furthermore, the authors note that decisions are also prejudiced by a wide range of factors, for example, politics, environment, legislation, societal values, technology, and economic conditions, and by the values of the

people involved in decision-making (Ngah et al. 2015:3; Nogueira et al. 2016). As such, procedure for decision-making is complex and requires consideration of various inputs such that to synchronize all these inputs involves some level of wisdom.

In the local government context, the relevant decision-makers such as the municipal council, internal managers, national and provincial government need to be adequately informed when making decisions that will benefit the citizens. Sawal & Ngah (2016) highlight that in local government, the right decisions hang on the quality of the information supplied to the decision-maker. As such, a decision-maker at the municipal level must be provided with accurate and useful information to understand community needs and the level of service delivery provided. Furthermore, a decision-maker at the national and provincial government level requires accurate and useful information to make decisions about the grant funding allocations to municipalities. Sawal et al. (2016) highlight the importance of useful information in decision-making using the following diagram (Figure 2-2).

Figure 2-2:The information Spectrum



Source: Sawal & Ngah (2016).

According to Ngah et al. (2015), decision-making is about selecting the best accessible alternative, which necessitates some amount of wisdom (Sawal et al., 2016). Figure 2.2 shows that wisdom necessitates some level of knowledge. Acquiring information broadens one's knowledge. Raw data that has been processed is what makes up information. As a result, the information spectrum depicted in Figure 2.2 shows that useful information is required to supplement the knowledge and wisdom required for rational decision-making.

In the context of this study, the information presented in annual reports should be at the level where it can influence the decisions of stakeholders such as legislatures, councillors, citizens, lenders, and suppliers (ASB, 2017).

2.3 Theories Underpinning the Annual Report Preparation Practice

It is critical to describe the theoretical framework that underpins this study to understand its main purpose and results better. According to Boyne and Law (1991), the annual reporting process enables municipalities to demonstrate accountability to both internal and external users, allowing these users to assess the municipality's performance. Municipal public servants face various forms of accountability, as previously discussed (Bovens et al., 2008; Demirbaş et al., 2016:579; Sinclair, 1995), including political accountability (to councillors), managerial accountability (to senior management), legal accountability (to the judiciary), professional accountability (to professional peers and auditors), public accountability (to citizens), and financial accountability (to auditors, banks, donors and other spheres of government). In turn, all of the stakeholders mentioned earlier must make judgments based on information provided by municipal public servants.

As a result, reporting useful information for accountability and decision-making is critical in meeting the five accountability tasks imposed on municipal public servants. Research studies on the topic of annual reporting in the private sector have used several theories. This study identifies seven theories critical to the annual reporting process in the public sector, including agency theory, signalling theory, legitimacy theory, stakeholder theory, stewardship theory, institutional theory, and new public management theory. The following sections provide a high-level overview of various theories.

2.3.1 Agency Theory

Agency theory is generally applied to clarify and describe issues arising from the relationship sandwiched between the business principals (owners) and their agents (management). Furthermore, the agency theory provides a framework that is relevantly formal for agency relationships studying in academic research and has often been used as a research paradigm to explain and describe the contractual relationship between a principal and agent (Chariri, 2008). Authors Jensen & Meckling (1976) and Ross (1973), as cited in Panda and Leepsa (2017), stated that the agency theory focuses on the agency problem and its solution. The agency problem arises when there is a conflict between managers' objectives and the owners' objectives (Forsyth, 2016). According to the agency theory, the conflict in objectives can manifest in

several ways. For example, a manager's approach to maximizing shareholders' value could be different from the approach preferred by owners of the business (Forsyth, 2016). Another agency problem can arise when managers engage in self-serving activities by making decisions that compromise shareholders' interests (Forsyth, 2016).

According to Panda & Leepsa (2017), Adam Smith was the first author to identify the possibility of an agency problem in principal-agent relationships. Smith pointed out that there is a possibility that managers who are not owners of the business may not always work in line with business owners' interests, thus creating conflict between the principals and agents (Panda et al., 2017).

Chariri (2008) highlighted that in agency theory, the agent is often seen as the self-serving character interested in maximizing its economic interest instead of the principal's interest. Chariri (2008) suggests that the principal needs to ensure the agent constantly acts in the principal's interest. Some of these controls include a system of regular reporting. Consequently, certain costs may arise during the implementation of these controls, and these costs are referred to as agency costs (Chariri, 2008; Forsyth, 2016, Panda et al., 2017). Authors Jensen and Meckling (1976) recognized three significant categories of agency costs that arise from the principal-agent relationship, and these costs are;

1. The monitoring expenses sustained by the principal,
2. The bonding costs endured by the representative (agent) and
3. The great loss (Castellini & Riso, 2016).

The agency theory model describes the link between residents and municipalities in the context of this study. The Municipal Finance Management Act requires all municipalities to prepare and publish an annual report at the expiration of each financial period. The annual report aims to inform the public about the municipality's activities during the fiscal year (for example, governance, service delivery, efficiency, and financial activities).

2.3.2 Signalling Theory

According to Spence (2002), the main aim of signaling theory is to lessen information asymmetry of information between the preparers of information and the users. This theory makes the signaling theory closely related to the agency theory because both theories aim to address information asymmetries between the users and the preparers of information.

More so, Verrecchia (1983) states that organizations voluntarily choose to make available evidence to the market to make signals to the users of information such as resource providers that they are in a better position than other organizations. As a result, information users' disclosure of certain information impacts decision-making (Colleny, Certo, Ireland & Reutzel, 2011). Furthermore, according to Spence's research, it was established that high-quality prospective employees could distinguish themselves by voluntarily sharing more information about their education levels from the low-quality perspective employees.

Colleny et al. (2011) states that there are four key concepts of the signaling theory: the signaller, signal, receiver, and feedback. The signaller is the managers who have the information that the people outside the organization do not have. The signal is effectively the information that the managers within the organization have. The signal could be either be positive or negative. The receiver is the people who do not have the information. The receivers only receive the information or signal once the signallers decide to decrease the asymmetry of information. The feedback relates to the reaction of the receiver upon receiving the information or signal.

In the context of this study, managers could prepare annual reports in a manner that agrees with the dictates of the signaling theory. Managers can choose to present all the positive news and highlight all the positive events to impress the users of the annual report. In turn, the annual report users could be influenced by the signals contained in the annual reports. Furthermore, negative news such a bankruptcy could also negatively influence the decisions of the resource providers.

2.3.3 Legitimacy Theory

As highlighted by Guthrie & Parker (1989), the legitimacy theory outlines how organizations use their voluntary social and environmental knowledge disclosure to satisfy their social obligation with their stakeholders. As a result, this reporting behavior assists organizations in realizing their objectives and their survival in competitive environments (Guthrie & Parker, 1989).

Organizations need to have the legitimacy to survive in a highly competitive environment. Organizations that lack legitimacy and credibility are associated with poor service quality and failure. Suchman (1995: 574) defined legitimacy as "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions." To earn legitimacy, the organizations will conduct their operations within the commonly accepted norms and behavior (Suchman, 1995:

574). Furthermore, a link exists between the accepted norms and behavior of the organization and the reaction of the stakeholders of the organization (Suchman, 1995). The accepted norms and behavior of the organization are intertwined with the social beliefs of the stakeholders as such organization should behave in such a way that is out of the ordinary but manage to retain its legitimacy if its actions are within the social beliefs of the stakeholders (Suchman, 1995).

Suchman (1995) cited three kinds of legitimacy, i.e., Cognitive, pragmatic, and moral. Organizations embrace cognitive legitimacy when they demonstrate an ability to arrange complex information into understandable accounts and align it with the stakeholders' beliefs (Georgiou, 2011; Suchman, 1995). Organizations adopt a pragmatic legitimacy when their actions depend on the benefits of choosing a practice outweighing the costs (Georgiou, 2011; Suchman, 1995). Organizations adopt moral legitimacy when their actions are considered the right thing to do in line with the belief and expectations of stakeholders (Suchman, 1995).

In this study's framework, municipalities are expected to behave and perform in a way that aligns with stakeholders' acceptable beliefs and norms. Stakeholders perform different roles during the running of the affairs of the municipalities, and these roles include the provision of resources, receiving of services, and oversight. Stakeholders expect municipalities to disclose information about the state of their affairs through the publishing of annual reports. As a result, municipalities prepare an annual report in connection with the legitimacy theory.

2.3.4 Stakeholder Theory

Stakeholder theory is used to describe the relationship between stakeholders by using managerial perceptions of an organization's strength, resources, and risks (Yuesti, Suryandari & Saitri, 2017). Stakeholder theories consider interpersonal relationships among people and relationships of people and the environment (Yuesti et al., 2017).

According to Freeman and Phillips (2002), an organization's effectiveness is determined by how well it handles its relationships with key groups like customers, staff, sellers, societies, investors, and others. Thus, the organization bears the burden of retaining the support of all stakeholder groups by providing an environment in which interested parties' interests can be exploited as time progresses (Freeman et al., 2002). Furthermore, authors Ruf, Muralidhar, Brown, Janney, and Paul (2001) note that an organization's performance is determined by how well it meets the demands of its stakeholders. According to stakeholder theory, organizations are expected to meet stakeholder demands to prevent unpleasant confrontations with non-shareholder individuals that may reduce the owners' value (Ruf et al., 2001). According to Ruf

et al. (2001), organizations view the need to meet stakeholder demands as a necessary cost of doing business.

Municipalities must provide detailed information in this research study's framework to satisfy the information demand from stakeholders. As a result, municipalities prepare annual reports following the stakeholder theory to contain stakeholders' information requirements.

2.3.5 Stewardship Theory

The stewardship theory hinges on a simple assumption that owners of organizations cannot personally manage or conduct the affairs of their organizations and have to employ managers. Stewardship can be described as holding assets on behalf of somebody else (Fourie et al., 2007). In organizations, stewardship activities involve financing, acquisition, utilization, and maintenance of assets owned by the organization (Fourie et al., 2007: 414). The stewardship theory requires owners of organizations to monitor management activities to ensure that: the conduct of management is aligned to the owners' objectives; the strategies implemented are strategies creating value for the organization, and there is no misappropriation of the organization's assets (Lennard, 2007).

Various authors concur that the stewardship theory is inherently linked to agency theory (Lennard, 2007; Forsyth, 2016). Forsyth (2016) argues that stewardship theory, unlike the agency theory, assumes that managers always serve the organization's interest. Therefore, it is assumed that managers make honest disclosures about the "true" affairs of the organization.

In the context of this study, municipalities must prepare annual reports in line with the stewardship theory. Municipalities are constituted by three key stakeholders, which are the political structure (municipal council led by the executive mayor), the administrative structure (led by the accounting officer or municipal manager), and the community (Fourie et al., 2007). Municipalities have a mandate to provide basic services and also deliver infrastructure to the community. In line with the South African legislative provisions, the community has the right to elect councillors that will serve their interests and play oversight in running the municipality's affairs. Councillors, in turn, appoint managers to take the day-to-day operations of the municipality. Therefore, both councillors and municipal officials are responsible for providing information to the community because they are entrusted with stewardship responsibility to manage the municipality's resources on behalf of the community (Ravenscroft and Williams, 2009; Watts and Zimmerman, 1978).

2.3.6 Institutional Theory

Institutional Theory assumes that organizations are multifaceted and durable social structures driven by procedures and social practices (Nagendrakumar, 2019). The institutional theory also assumes that organizational policies and practices can be influenced and shaped by external factors such as the state, profession, and public opinion (Pricope, 2015:3772; Nogueira et al., 2016). Furthermore, Nogueira et al. (2016) noted that organizations tend to adopt certain practices to earn legitimacy from society, while benefits for adopting those practices are often not considered.

The institutional theory was utilized in several studies to understand how organizations respond to the pressures from the environment in which they operate (Pricope, 2015; Nogueira et al., 2016; Nagendrakumar, 2019). The following studies conducted in the public sector concluded that the institutional theory drives the information reported for the drive of decision-making as a result of the demand for information coming from the internal and external environments (Grossi & Reichard, 2009; Cohen et al., 2007; Nogueira et al., 2016; Nagendrakumar, 2019; Mack & Ryan, 2006).

DiMaggio & Powell (1991) stated that organizations tend to adopt similar actions whenever pressures from internal and external environments face them. The authors termed this behavior "isomorphism." They identified three types of isomorphism. The first type is "coercive isomorphism change," which results from "formal and informal pressure exerted on organizations by other organizations and society's expectations, in a shared legal, economic and political context, as well as formal and informal pressure exerted by the State, which leads organizations to decide to adopt a certain practice" (Nogueira et al., 2016:218; DiMaggio et al., 1991). Organizations prepare annual reports and make certain disclosures due to pressures from various stakeholders who have authoritative power over them (Pricope, 2015).

The second type is the normative isomorphism change which arises from "the professionalization of organizational practices, and it occurs due to the shared values and ideas about suitable behavior within a particular field and industry" (Nogueira et al., 2016:218; DiMaggio et al., 1991). Accordingly, organizations prepare annual reports and make certain disclosures to observe industry standards and norms (Pricope, 2015).

The third type is the imitative isomorphism change, which occurs "when organizations adopt similar practices to those that other organizations adopted when faced with conditions of uncertainty and diminished stability" (Nogueira et al., 2016:218; DiMaggio et al., 1991).

Accordingly, organizations prepare annual reports and make certain disclosures to imitate similar organizations (Pricope, 2015).

In the context of this study, municipalities formulate yearly reports in line with the pressures explained in institutional theory. Municipalities are obliged to prepare annual reports so as submit them to the Municipal Finance Management Act provisions. Furthermore, the nationwide and provincial government spheres have an oversight role in monitoring how municipalities prepare annual reports.

2.3.7 New Public Management Theory

According to Hood (1995), the introduction of the new public management (NPM) theory in the 1980s accelerated the necessity for public accountability and transparency in the public sector. The motivation for the shift towards the NPM was motivated by the public sector's desire and needed to demonstrate democratic accountability and the need to increase transparency (Hood, 1995).

The NPM encourages the public sector and municipalities to adopt processes that are traditionally used by the private sector, for example, processes such as strategic planning, regular reporting, performance-based contracts, and accrual accounting (Demirbaş et al., 2016). The NPM introduced a new concept of "letting managers manage" in the public sector, thereby allowing managers to use public resources effectively and efficiently (Demirbaş et al., 2016:576). Furthermore, the NPM reinforces the agency theory and the stewardship theory ideologies, which require managers to account for their actions and decisions (Demirbaş et al., 2016:576).

2.4 The Annual Reporting Process for the South African Local Government

According to Section 121 (1) of the MFMA, "every municipality and the municipal entity shall prepare an annual report following Chapter [12] for each fiscal year." Within nine months of the end of a fiscal year, a municipality's council must meet to discuss the municipality's annual report and any local body under the municipality's sole or joint control under Section 129."

According to Section 121(3) of the MFMA, a municipality's annual report must include the following information:

• The audited consolidated financial statements for the fiscal year covered by the annual report;

• If a municipality has a controlled municipal body, the audited consolidated annual financial statements;

• A report from the Auditor-General including an audit opinion on the year's financial statements;

• Any explanations required to resolve discrepancies in the financial statements;

• An evaluation by an accounting officer of any municipal taxes and provision charges that are past due;

• Specifics of any remedial steps considered or to be considered in reaction to the Auditor-audit General's reports' findings;

• Any other details that the municipality deems necessary;

• Some audit committee recommendations, and

• Any additional details that may be needed.

Municipal managers are in authority to prepare an annual report under Section 60 of the MFMA. Section 127 of the MFMA mandates an annual report presentation by the mayor of the municipality to the municipal council within seven months of the financial year's end. Section 127 also mandates that the city manager make the annual report available to the public as soon as it is tabled in the municipal council and that the community be permitted to submit submissions, comments, and inputs.

According to Section 130 of the MFMA, all council meetings devoted to the annual report must be open to the public and other stakeholders, such as other state organs. Additionally, Section 129 (2) of the MFMA allows the municipal manager to attend all annual report-related meetings and answer all annual report-related queries.

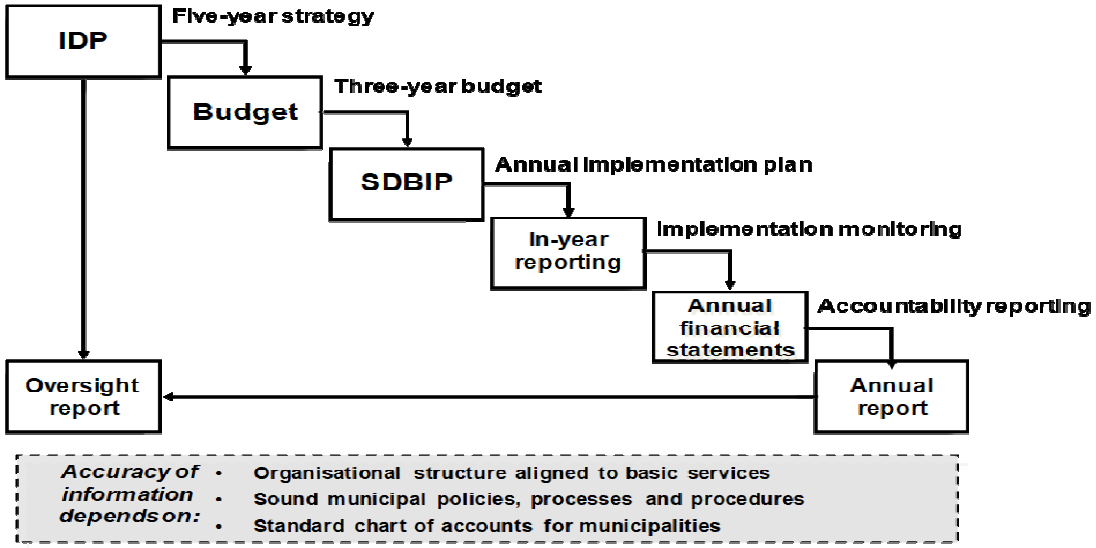
National Treasury published MFMA Circular 63 in September 2012, standardizing the format for municipal annual reports. The standardized system aims to allow municipalities to provide financial and non-financial information in a solitary document. The framework's second goal is to increase rigorous oversight, meaningful assessment, and comprehension of service delivery output. The framework's third goal is to enrich the quality of annual reporting. Additionally, the circular recommended that municipalities use annual reports as a decision-making tool (National Treasury, 2012).

According to National Treasury (2012), the annual report's standardized material is intended to provide information and progress on service delivery to local councillors, communities, municipal authorities, citizens, monitoring institutions, and other consumers of annual reports. An annual report's regular format contains the following chapters:

- Chapter One: Foreword by the Mayor and Executive Summary;
- Chapter Two: Governance;
- Chapter Three: Service Delivery Performance;
- Chapter Four: Performance in Organizational Development;
- Chapter Five: Financial performance;
- Chapter Six: Findings of the Auditor General;
- Annexes
- Audited Financial Statements

Every municipality is required by Section 127 of the MFMA to table its annual report and make it accessed by the public on or before 31 January each year, seven months after the fiscal year ends. However, National Treasury (2012:11) asserts that filing an annual report seven months later diminishes the report's worth and relevance. Consequently, this result in a delay in service delivery and a negative effect on accountability (National Treasury, 2012:11). As such, municipalities must file their unaudited annual reports on or before 31 August and their audited annual reports on or before 31 January each year to ensure the annual reports are relevant (National Treasury, 2012:11). Figure 2.3 below, illustrates the local government cycle for municipalities highlighting how the annual report features in the cycle.

Figure 2-3: The local government accountability cycle for municipalities



Source: National Treasury.

2.5 The Usefulness of Annual Reports in the Public Sector

The IPSAS and the ASB conceptual frameworks for public entities state that the objective of financial reporting in the public sector is to deliver useful information about the entity that users can use for accountability and decision-making purposes (ASB, 2018: par 2.1; IPSAS, 2014: par 2.1).

The term “useful information” is broad and can result in several interpretations depending on the context it is used (Rudzioniene et al., 2013). In the context of financial reporting, this term is similar to the term “quality of reporting” used in many research studies in financial reporting. Various researchers have defined quality of reporting as follows: Tasios & Bekiaris (2012:59) define it as "the precision with which financial reports convey information about the firm's operations, in particular, its cash flows, to inform equity investors"; Tang, Chen & Zhijun (2008:1) define it as "the extent to which the financial statements provide true and fair information about the underlying performance and financial position"; Jonas & Blanchet (2000:358) define it as " the full and transparent financial information that is not designed to obfuscate or mislead users"; Rudzioniene et al. (2013:18) defines it as "the characteristic of information in financial reporting, which corresponds to company's accounting policy, existing accounting regulation to satisfy the needs of the users of accounting information." Other studies (Beest et al., 2009. Jonas & Blanchet, 2000, Mc Daniel et al., 2002) have defined the usefulness of the information in terms of the conceptual framework's qualitative features (Comparability, relevance, understandability, faithful representation, verifiability, and timeliness).

According to IASB (2018), the reported information is perceived as decision-useful when users can place value and reliance on it. Therefore, in the context of this study, the information confined in annual reports is only useful if it can be employed for decision-making by the projected users (Nogueira and Jorge, 2016; Susanto and Djuminah, 2015: 76).

Nogueira and Jorge (2016: 219) discovered that the usage of financial information is often prejudiced by organizational influences such as a lack of adequate accounting and reporting system expertise and training. The value of municipal annual report information is determined by analyzing how its users use financial information (Jorge et al., 2008; Lee & Fisher, 2007). According to Beest et al. (2009), measuring the usefulness of financial information is difficult since different user groups may have different expectations. Users in a user group can interpret the helpfulness of the same information inversely. People, as both

voters and ratepayers, are the main consumers of annual reports, according to the ASB (2017), since they provide support and receive services from municipalities. This claim is backed by a study conducted by Brusca and Montesinos (2006: 209), which discovered that residents are the primary consumers of municipal information published in annual reports. However, the reports are not prepared with them in mind. Municipal councils, governments, parliaments, and other related bodies are all considered primary consumers of annual reports as they serve as resource providers and service recipients (ASB, 2017; Blanco, Lennard, and Lamontagne, 2011).

There is very little literature on studies that evaluated the disclosure quality and usefulness of annual reports prepared by municipalities worldwide. Adi, Martani, Pamungkas, and Simanjuntak (2016) investigated the accuracy of disclosures in Indonesian municipalities' local administration reports (LAR). The study employed content analysis to assess the presence of the regulated information and the comprehensibility format of the research. According to the report's findings, LARs only disclosed a small portion of the needed information. Furthermore, the structure of the LARs was a description with a very long narration, and the material was difficult to interpret.

Wisdom, Damilola, Inemesit, and Opeyemi (2017) investigated whether the implementation of International Public Sector Accounting Standards (IPSAS) would boost the efficiency, credibility, and honesty of financial reporting Nigerian public sector. The study discovered an increase in the reliability, credibility, and integrity of financial reporting following the introduction of IPSAS, increasing the utility of the reports in the public sector.

Hassan, Hassan, and Nor (2008) evaluated the quality of disclosure in Peninsular Malaysia municipal financial reports. The study discovered that most Peninsular Malaysia municipalities' quality disclosures were insufficient and unhelpful to users. Furthermore, the study found that the size and resources of the local authority and the qualification of a financial officer have a substantial impact on the quality of disclosure in a financial report.

Demirbaş and Erolu (2016) investigated the usefulness of annual reports equipped by 50 Turkish municipalities for transparency purposes. The annual reports were assessed based on the following accountability dimensions: accessibility, understandability, timeliness, full exposé, exactitude, and a neutral stance. The study's verdicts revealed that Turkish municipalities' annual reports lacked accessibility, understandability, timeliness, full disclosure, accuracy, and neutrality, and therefore were ineffective for accountability purposes. The study related the findings to a lack of annual report regulations.

Steccolini (2004) examined the role of municipal annual reports in discharging transparency to users in Italy. According to the study's findings, annual reports are best suited to providing accountability to internal users rather than external users. Municipalities chose to use other resources to report to their stakeholders for their results.

2.6 Models used to measure quality and the usefulness of annual reporting

According to the literature, there are primarily three models for quantifying the quality of financial reporting. The accrual model was used in studies such as Jones (1999), Healy et al. (1999), and Dechow et al. (1995) to assess the quality or usefulness of financial reporting. Barth, Landsman, and Lang (2001), Choi et al. (1997), Nichols & Wahlen (2004), Nelson (1996), and Nichita & Gajevszky (1996) all used the value relevance model in their research (2015). Schipper and Vincent (2002), Van der Meulen et al. (2007), Barth, Beaver, and Landsman (2006), Beest et al. (2009), Mbobo et al. (2016), Yasseen (2018) and Haarburger, Yasseen, Omarjee & Varachia (2020) all used the qualitative characteristics model to assess the consistency of financial reporting. These are explained in detail in the next sections.

2.6.1 The Accrual Model

Several scholars have used the accrual model to evaluate the quality or usefulness of financial statements in the private sector (Jones, 1999; Healy et al., 1999; Dechow et al., 1995). The accrual model investigates the degree of earnings management as a proxy for earnings quality (Beest et al., 2009). Earnings administration is prevalent in published figures, indicating inadequate financial reporting. The benefit of using this model is that data for measuring earnings management is reasonably easy to obtain (Dimi, 2014). The drawbacks in using this model include the fact that it only focuses on earnings quality and is an indirect indicator of financial reporting quality and the difficulty in estimating discretionary accruals (Beest et al., 2009). Since public sector organizations are not for profit and do not disclose profits, the accrual model is inapplicable to assessing the usefulness of annual reports prepared by municipalities.

2.6.2 The Value Relevance Model

The Value relevance model explores the relationship between share returns and accounting balances to assess the relevance and reliability of financial reporting information (Beest et al., 2009). The model was used in the research by (Barth, Landsman & Lang, 2001; Choi et al., 1997; Nichols & Wahlen, 2004; Nelson, 1996; Nichita & Gajevszky, 2015). According

to Beest et al. (2009), the model's benefits include its easiness of usage and the capacity to provide insight into the economic importance of earnings estimates. However, the model has drawbacks, including reliance on earnings quality, being an indirect indicator of financial reporting quality, and failing to understand the trade-offs between importance and dependability (Beest et al., 2009). Since municipalities do not issue shares and are not for profit, the value relevance model is inapplicable for determining the usefulness of annual reports.

2.6.3 The Qualitative Characteristics Model

Schipper and Vincent (2002), Van der Meulen et al. (2007), Barth, Beaver, and Landsman (2006), Beest et al. (2009), Mbobo et al. (2016), Yasseen (2018) and Haarburger et al. (2020) used the operationalization of the qualitative characteristics model to assess the consistency of financial reporting. By operationalizing the qualitative characteristics, this model investigates the degree of choice usefulness of financial reporting information (Beest et al., 2009). It has the advantage of focusing on qualitative characteristics described by the conceptual framework as a direct measure of financial reporting quality (Beest et al., 2009). The downside of this model is that some of the qualitative features are difficult to operationalize, leading to calculation difficulties (Beest et al., 2009). This model can be used to evaluate the consistency of financial reporting in the government or municipalities.

2.7 The Qualitative Characteristics of Useful Information

The Accounting Standards Board published a conceptual framework for General Purpose Financial Reporting (Conceptual Framework) for public sector organizations in 2017. The conceptual framework is used to establish the Generally Recognized Accounting Practice (GRAP) standards. GRAP standards serve as guiding principles for presenting General-Purpose Financial Reports (GPFRs) in the public sector (ASB, 2017). Furthermore, the conceptual framework's guidance guarantees that the disclosures needed to be included in the GPFRs are cohesive, detailed, and consistent (ASB, 2017).

According to the conceptual structure, the objective of preparing GPFRs is to report both financial and non-financial details to represent the organization's economic activities and the implications of those activities. Financial statements and notes are among the financial details found in the GPFRs. Non-financial information provides information on the entity's governance and budgetary operations, service delivery accomplishments and events during the reporting period, and a future outlook on service delivery expectations. In addition to

reporting on activities completed during the reporting period, GPFRs must provide information on future decisions and their potential implications (IPSASB, 2014: 17).

Because of the above, the information contained in the GPFRs is comparable to that contained in municipal annual reports. Both reports aim to provide financial and non-financial information that can be used for economic, social, and political decision-making and information that can be used to assess management performance (Atrill and McLaney, 2011; Susanto and Djuminah, 2015).

According to the conceptual paradigm, annual reports are useful to consumers if they include information that demonstrates fundamental qualitative characteristics (relevance and faithful representation) as well as enhancing qualitative characteristics (verifiability, comparability, timeliness, and understandability) (ASB, 2017; IPSASB, 2014). According to the International Accounting Standards Board (2008), qualitative characteristics are "the qualities that make financial information valuable and are distinguished as fundamental or enhancing depending on how they impact the usefulness of the information." As a result, annual reports provide valuable information if they present specific information and faithfully reflect economic phenomena (ASB, 2017; IPSASB, 2014; Kythreotis, 2013). Furthermore, annual reports are more valuable if they include verifiable, equivalent, timely, and understandable (ASB, 2017; IPSASB, 2014; Kythreotis, 2013). According to ASB (2017), both qualitative characteristics refer to financial and non-financial details, including descriptive, prospective, and historical data. Each qualitative characteristic is discussed in more detail next.

2.7.1 Relevance

The first fundamental qualitative feature of information used in general-purpose financial reports is relevance (ASB, 2017). Relevance is closely related to concepts like materiality and usefulness (Herath et al., 2017). Municipalities' financial and non-financial information is considered appropriate as it can impact users' decisions by supporting them in evaluating past or current events, predicting the future, and confirming or changing the outcomes of their past evaluations (ASB, 2017, IASB, 2008). As a result, information is relevant when it has predictive and confirmatory value (Beest et al., 2009; IASB, 2015; ASB, 2017).

Municipal annual reports, for example, can provide information about municipal resources and the number of resources to be committed to delivering services in the future, as well as goals and expenses and anticipated future service delivery activities. As a result, this type of

knowledge would be useful for forecasting, accountability, and decision-making (ASB, 2017). According to ASB (2008), "information about economic phenomena has predictive value if it has value as an input to predictive processes used by [information users] to shape their future expectations." Beest et al. (2009) operationalized predictive value by specifying that it can be calculated as follows: 1 the degree to which financial reports reveal forward-looking information; 2 the extent to which financial reports disclose information about market prospects and risks; and three the extent to which fair value metrics are used.

Finally, the information has an assenting value if it can help users endorse or correct their former assumptions and projections (Beest et al., 2009) about the municipality's ability to react to specific changes (ASB 2017). Confirmatory value can be calculated by determining how much feedback was given for previous performance and events and whether it confirmed and corrected users' expectations (Jonas and Blanchet, 2000).

2.7.2 Faithful Representation

Faithful representation is considered an additional qualitative characteristic of the general financial purpose reports (ASB, 2017). Faithful representation of information means that the reported information presents a factual image of the economic phenomena, i.e., neutral, complete, and free from error (IASB, 2017). This characteristic is tested in studies (Cohen, 2004; Jonas, 2000; Maines, 2006). Furthermore, annual reports that omit some important information can misrepresent the economic phenomena as false and misleading and thus not useful to the users (ASB, 2017). Beest et al. (2009) has operationalized the faithful representation to be measured as follows: 1 The extent of valid argumentation and substantiation of estimates and assumptions used in financial reports; 2 The extent of good and well-grounded accounting policy choices adopted by the entity; 3 The extent of mixed and neutral information; 4 The extent of an unqualified audit opinion; and 5 The existence of good cooperative governance.

2.7.3 Comparability

The qualitative feature of comparability allows users to recognize likenesses and discrepancies amid two sets of occurrences (IASB, 2017). Comparability is a relationship between two or more sets of data (IASB, 2017). According to ASB (2017), consistency is related to comparability. Comparability aims to improve the usefulness of financial information, and consistency is the means to that end (ASB, 2017). As a result, the straightforward implementation of accounting policies and standards improves the usefulness

of knowledge (ASB, 2017). Beest et al. (2009) operationalized the qualitative attribute of comparability as follows: To what magnitude do notes to variations in accounting policies describe the inferences of the variation? To what scope do notes to amendments in accounting approximations and rulings explain the effects of the amendment? To what degree did the entity regulate the earlier accounting period's records for the influence of implementing a modification in accounting policy or revisions in accounting evaluations and judgments?

2.7.4 Verifiability

Verifiability qualitative characteristic helps guarantee users that information and explanations in the annual reports accurately depict the economic and other variables that the information sets to present. Verifiability further depicts the methodology adopted during compiling such information, the assumptions that underlie the information disclosed, and factors or circumstances that support any opinions disclosed or expressed (ASB, 2017; IASB, 2015). There is a link between verifiability and the faithful representation qualitative characteristic. Therefore, verifiability is inter-changeably used with the faithful presentation (Yasseen, 2018: 30; Haarburger et al., 2020:6).

2.7.5 Timeliness

Timeliness qualitative characteristic relates to having the information accessible to users and all relevant stakeholders on time while it still has its capacity for decision-making and accountability (ASB, 2017). Consequently, an annual report that is provided later than the relevant time frame is not useful (Haarburger et al., 2020). The operationalization of timeliness is the number of days from the entity's year-end to the date the audit report has been signed (Beest et al., 2009; Mbobo et al., 2016; Haarburger et al., 2020).

2.7.6 Understandability

The qualitative understandability trait refers to the grade to which information is categorized, characterized, and presented in a way that responds to users' needs and knowledge base for them to comprehend their meaning (ASB, 2017, IASB, 2015). This qualitative feature allows the user to understand the information that is published. Beest et al. (2009), Iu and Clows (2004), and Jonas and Blanchet (2000) have operationalized the qualitative understandability attribute to be calculated in the following way: 1. What is the glossary's size? 2. To what degree is the annual report's use of vocabulary and technical terms simple to understand? 3. To what degree does the existence of graphs and tables explain the details presented? 4. To what degree are the balance sheet and income statement notes reasonably clear? 5. To what degree is the annual report delivered in an orderly fashion?

2.8 Chapter Summary.

The literature review revealed that very few studies had been conducted, which mirrors the objective of this study in the public sector. The existing private-sector models used to assess the usefulness of reporting were discussed. The literature assisted in determining the relevance and suitability of each model to the public sector. Lastly, the review of literature enabled a discussion of each qualitative characteristic. The following chapter deliberates on the research methodology employed to conduct the study.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

When a scientific evaluation method is applied to a specific phenomenon, the procedure is referred to as research methodology (Creswell 2013). The researcher discusses the literature relevant to the study in the preceding chapter, while the current chapter discuss the methods used in the study. In other words, this chapter aims to delve deep into the proposed systemic methodology. As such, this study describes the analysis techniques used to accomplish the study's objectives. The methodology section discussed the research design, philosophy, target population, research instrument, data collection methods, data validity and reliability, ethical considerations, study limitations, and conclusion.

3.2 Research Methodology and Design

Creswell (2013:107) states that research methodology and design are a "set of guidelines and instructions" followed by the researcher to achieve the study's objective. This study aims to investigate how useful annual reports in accountability and decision-making. The study achieves the research objective by evaluating the annual reports' information to establish whether they meet the fundamental and enhancing qualitative characteristics on helpful reports as per the Conceptual Framework for Financial Reporting. In this study, the research data was obtained by analysing numerical and text information in municipalities' annual reports (Berelson, 1952). The researcher analysed data quantitatively to produce the mean, median, and standard deviation to answer the research question (Bryman, 2012; Hanekom & Brynard, 2014; Babbie & Mouton, 2012:88).

3.3 Research Paradigm

According to Creswell (2013), a research paradigm is a system of thinking and research traditions. Researchers Collis & Hussey (2009) and Lukka (2010) define a research paradigm as a shared world view which encapsulates the discipline's principles and values when solving research problems. In other words, a research paradigm is a belief regarding the approach in which information or data on a phenomenon ought to be assembled, analyzed, and used. In simple terms, the Research paradigm leads to the development of research philosophy. A research philosophy means a set of assumptions or beliefs in coming up with knowledge about a research phenomenon. Positivism is used in this study. Positivism is based on the notion that science is the only way to learn the truth. Positivism is concerned with presenting or uncovering

the truth and presenting it in an objective way (Creswell, 2013). Meaning, as a positivist, the researcher has confidence that inquiry must be restricted to what can be measured or observed objectively. Therefore, in the current research, the positivism paradigm leads to quantifiable interpretations that result in statistical analysis. Thus, a quantitative study was selected as opposed to a qualitative approach.

3.4 Target Population

Sekaran and Bougie (2010:196) refer to the research population as the entire group of events, people, or things that the researcher is interested in during an inquiry. The current research evaluated the usefulness of the annual reports for all 54 municipalities in the province of KwaZulu-Natal prepared for the 2017/18 financial year. Thus, the study aimed to include the entire population of 54 municipalities in the KwaZulu-Natal province.

3.5 Sampling Technique

According to Brynad and Hanekom (2006), sampling is a procedure where a small group is chosen to determine or investigate characteristics of a larger group. Therefore, the sampling technique includes any method in which a small number of objects or parts of the total population can conclude the total population. A sample is a subgroup or subset of the population that will be easy and practical to work with (Sekaran & Bougie, 2010:263; Etikan, Musa, & Alkassim, 2016). The sample, therefore, allows for a general description of the population, predicts or draws conclusions.

Probability sampling and non-probability (judgemental) sampling are the two types of sampling that researchers can use. The probability sampling technique is where every population element has an equal chance of being selected to be part of the sample (Etikan, Musa, & Alkassim, 2016). It is the most elementary random sampling technique. In this study, non-probability or non-random sampling was used. This technique was chosen because the research sought to answer the research questions conveniently (Babbie, 2013; Latham, 2007). Therefore, since the study is focused on municipalities with the KZN province, the researcher intended to include all the findings of all the 54 municipalities in the province. Researchers recommended two nonprobability sampling methods: purposive and convenient sampling when conducting a non-probability sampling technique (Babbie, 2013; Latham, 2007; Etikan et al., 2016). Purposive sampling is a type of judgmental sampling used when there is a particular objective in a research project that necessitates information from specific informants (Etikan et al., 2016). On the other hand, according to Babbie (2013), convenient sampling is used when participants are chosen of

reasonable proximity to the researcher combined with willingness and accessibility to participate in the study.

Accordingly, the researcher used the purposive sampling method when selecting the sample of this study since the research participants were known (Babbie, 2013). Furthermore, the purposive sampling methodology can be undertaken by following at least seven approaches: the Maximum Variation Sampling, Typical Case Sampling, Extreme/Deviant Case Sampling, Homogeneous Sampling, Total Population Sampling, Critical Case Sampling, and Expert Sampling (Etikan et al., 2016:3). The researcher followed a Total Population Sampling approach for this study since the entire population of 54 municipalities in the KwaZulu-Natal province was selected. Etikan et al. (2016:3) state that the Total Population Sampling approach was applied where "the entire population that meets the criteria (e.g., specific skill set, experience, etc.) are included in the research being conducted." Lastly, the researcher followed a Total Population Sampling approach since the number of municipalities was relatively manageable to be studied. This approach is similar to a census sampling methodology where information about every individual in a population is obtained.

3.6 The Research Instrument

Chapter 2 discussed various methods for evaluating the usefulness and financial information quality, including the accrual model, relevance model, and qualitative characteristics model. The researcher identified the 21-Index research instrument from similar studies as the most suitable instrument for this study (see Appendix B). Academics Beest Geert Braam, and Boelens from Radboud University Nijmegen developed the instrument in 2009 in response to the IASB and FASB's request to enable the qualitative characteristics to be measurable (Beest et al., 2009). This research instrument's function was to evaluate the quality or usefulness of financial reports by evaluating the extent to which each financial report meets each of the qualitative characteristics, which are considered fundamental and enhancing (Beest et al., 2009). The research instrument operationalises the important and enhancing qualitative features of helpful information as per the Conceptual Framework for Financial Reporting (Beest et al., 2009; Mbobo et al., 2016 and Yasseen, 2018).

Beest et al. (2009) operationalised the enhancing and fundamental qualitative characteristics by developing 21 questions that should evaluate the extent of financial reports' quality and usefulness. The instrument contains a five-point Likert scale assigned to each question based on the disclosed information as assessed by the researcher (Beest et al., 2009). According to the Likert scale, a disclosure that is rated the lowest score of "1" is regarded as "the poor quality or

poor compliance," while a disclosure rated at the highest score of "5" is regarded as "the high quality or high compliance" (Beest et al., 2009).

Beest et al. (2009) constructed the instrument by using the prior literature results that identified factors that influenced the financial reporting quality. The instrument was tested for internal validity, inter-rater validity, and internal consistency and produced reliable and valid research results. The results were compared with the prior literature results and were found to be consistent. The instrument's reliability was tested by calculating Krippendorff's alpha value of 0.79, which indicated that the instrument results are reliable. The internal consistency was tested by calculating Cronbach's alpha value of 0.74, which indicated that the instrument utilised in the current study was a reliable and valid model to evaluate the quality of the financial reports.

The instrument has been used in the key studies. Beest et al. (2009) measured the quality of financial reporting utilising 231 annual reports based on listed companies at the UK, US, and Dutch stock markets. Dimi et al. (2014) explored the perceived usefulness of South African annual reports for listed companies, and Yasseen (2018) studied the quality of financial reporting of Top 40 JSE listed companies based on Integrated Reports.

3.7 Data Collection Sources and Procedure

The researcher downloaded the annual reports used in the study from the websites of municipalities. These annual reports are publicly available since section 75 of the Municipal Financial Management Act requires all municipalities to publish annual reports to ensure accountability and transparency to the public. The researcher accessed websites for all the 54 municipalities to download annual reports. However, the researcher found only 43 municipalities to have published their annual reports for 2017/18 on their websites. As a result, only 43 annual reports are considered in the study. Therefore, such reports were a research instrument to analyse the information in the annual reports to establish how it meets the qualitative characteristics of useful information. The disclosed information from the annual reports included text, numbers, and graphs. This study's data collection procedure is similar to the content analysis technique (Berelson, 1952; Stemler, 2001). This technique involves analyzing the text elements and identified trends to ascertain their underlying meanings and potential relationships between the data. Krippendorff (1980:51) states that the utilization of content analysis in any research is driven by the need to make the symbolic data that "would be either too costly, no longer possible, or too obtrusive by using other techniques" understandable. The 21 indicators guided the content analysis of this study's information in the research instrument (Beest et al., 2009). The scores were allocated as per the Likert scale of 1-5

contained in the instrument. All scores were captured in the Microsoft Excel software program. The data for each research question was collected as per the guidance of the research instruments (*Full details is in Appendix A*).

3.8 Data Analysis

Marshall and Rossman (1990) described data analysis as the process of putting order, structure, and meaning into a large amount of acquired data. Additionally, the researchers emphasize that data analysis is a messy, complex, time-consuming, innovative, and fascinating non-linear process. Only through data analysis can conclusions, trends, frequency, percentages, numbers, and relationships between collected data be drawn and discovered. Additionally, Leedy and Omrod (2010:253) observe that "numbers are meaningless unless they are analyzed and interpreted to reveal the truth underneath them."

The research's primary objective was to determine if the annual reports prepared by municipalities in KwaZulu-Natal for the 2017/18 fiscal year included helpful information for accountability and decision-making. Five sub-objectives guided the analysis: determining how well the information in annual reports reflected the qualitative characteristics of relevance, faithful representation, understandability, comparability, and timeliness. All five study sub-objectives were analyzed using the same data analysis method described in the following paragraphs.

The researcher conducted a statistical study of the collected data using the Statistical Package for Social Sciences (SPSS, version 26). The statistical analysis yielded descriptive statistics such as mean, median, mode, and standard deviation. Additionally, factor analysis and reliability analysis were performed on the observed results. Factor analysis is a statistical technique for explaining the variability of observed, correlated variables in terms of a lower proportion of unobserved variables referred to as factors. In contrast, reliability analysis is a statistical technique for determining the degree of internal consistency among a set of variables. It enables the determination of the degree to which a collection of items (observed variables) match together to form a single scale (Beest et al., 2009; Leedy & Ormrod, 2010; Creswell, 2013).

The Kaiser–Meyer–Olkin (KMO) Measure of Sampling Adequacy and Bartlett's Test of Sphericity were used to determine the suitability of the observed data for factor analysis. A KMO value greater than 0.5 was deemed appropriate, and a $p<0.05$ significance level was considered to be necessary for Bartlett's Test of Sphericity result. The number of components to be extracted for factor analysis was determined using Kaiser's criterion of greater than one, and

the result was checked using a scree plot. Oblimin and the Kaiser Normalization method were used to rotate the factor loadings, and objects with loadings of 0.4 or greater were deemed good loadings. After that, reliability analysis was used to evaluate the degree of internal consistency among items within each component. Cronbach's Alpha values of 0.6 or greater were considered adequate.

3.9 Research Validity and Reliability

The research report's objectivity and integrity are crucial to the research findings' reliability. According to Mouton (2015), the quality of a study can be determined by evaluating the instrument's validity and reliability of the measurement instruments.

According to Heale and Twycross (2015), study validity refers to the degree to which a term is accurately measured. Additionally, Heale and Twycross (2015) differentiate three types of validity: 1. Content validity which refers to how accurately a research instrument measures all aspects of a construct; 2. Construct validity which refers to how accurately a research instrument (or tool) measures the intended construct; and 3. Criterion validity which refers to how closely a research instrument is related to other instruments that measure the same variables.

Only audited Annual Reports were incorporated during the analysis to ensure the validity of the test findings. Also, the analysis instrument used in the study to analyze information from annual reports was structured with consistent disclosure calculation metrics, which improves the quality and reliability of the findings. Beest et al. (2009) discovered that the empirical results of the research instrument were compatible with prior research empirical findings used other quality evaluation instruments. According to Heale and Twycross (2015), reliability refers to a measure's accuracy.

The study instrument was found to be reliable, as Beest et al. (2009) found the reliability to be sufficiently high. The inter-rater reliability was tested on the instrument, and the Krippendorff's alpha was 0.79 above 0.70, and for internal reliability, Cronbach's alpha was high, i.e., between 0.74 and 0.75 for each index.

In this study, validity and reliability were also improved because the researcher has vast experience analysing municipal annual reports. Furthermore, a second reviewer was utilised to check the accuracy of the scores and eliminate any errors.

3.10 Ethical Consideration

Sternberg (2004) notes that the moral values or guidelines that shape one person or community constitute an ethical consideration. Sternberg also mentioned that ethical considerations are generally recognised, suggests behavioural expectations, guidelines on the proper behavior of respondents, and provisional issues. Ethical principles demand that the researchers consider the standards and values related to the field of analysis. As a result, the information from annual reports released on websites for public access was used in this analysis. This study's literature and scholarly materials are appropriately cited and referenced. Before beginning the report, ethical approval was obtained from the UKZN research office.

3.11 Limitations of the Study

This study aims to determine the usefulness of municipal annual reports in terms of accountability and decision-making. However, the researcher did not consider users' actual perspectives and opinions in annual reports, such as residents, ratepayers, service users, and other governmental spheres. As a consequence, the thesis falls short of its goal. It was limited to comparing the data in municipalities' annual reports to the qualitative characteristics of financial statements. Finally, since other municipalities did not publish annual reports, the study covers only 43 of the 54 municipalities in KwaZulu-Natal.

3.12 Chapter Summary

This chapter discussed the analysis techniques used to accomplish the study's objectives. The methodology section discussed the research design, theory, target population, research instrument, data collection methods, data validity and reliability, ethical concerns, and limitations of the analysis.

CHAPTER FOUR: PRESENTATION AND DISCUSSION OF RESEARCH FINDINGS

4.1 Introduction

The previous chapter established the research methodology. This current chapter presents the study results obtained after the assessment of 43 municipal annual reports in KwaZulu-Natal province. As such the chapter presents and discusses the research study's findings of whether the KwaZulu-Natal municipalities' annual reports for 2017/18 presented useful information for accountability and decision-making. Thus, this chapter will enable us to answer the research questions. A 21-index research instrument advanced by Beest et al. (2009) was used in evaluating the usefulness of annual reports by assessing the extent to which each annual report meets each of the enhancing and fundamental qualitative features. Disclosure scores were generated and statistically analysed to produce the mean, median, mode, and standard deviation. The results are presented under each qualitative characteristic or research objective: relevance, representation, understandability, faithful comparability, and timeliness. The chapter further presents the factor analysis results to provide additional insights.

4.2 Response Rate

The target population was all 54 municipalities of the KwaZulu-Natal province. The researcher accessed 54 websites of the municipalities and was only able to download 43 annual reports. Accordingly, this amount to an 80% response rate. Fincham (2008) and Mouton (2015) argue that quantitative research studies should aim for a response rate that exceeds 60 percent of the identified sample to have meaningful results. Therefore, a response rate of 80 % achieved by this study can be accepted.

4.3 Results – Research Objective One (Relevance)

Table 4-1:Qualitative characteristic: Relevance

Item	Question	Mean	Median	Mode	Std Dev
R 1	To what extent does the presence of the forward-looking statement help forming expectations and predictions concerning the future of the municipality?	2.53	2.00	2	1.222
R 2	To what extent does the presence of non-financial information in terms of business opportunities and risks complement the financial information?	3.70	4.00	4	.674
R 3	To what extent does the municipality use fair value instead of historical cost?	1.88	2.00	2	.324
R 4	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 municipality?	3.72	4.00	4	.701
Average		**2.96**	**3.00**	**3**	**0.730**

Source: Author's construction from data collected.

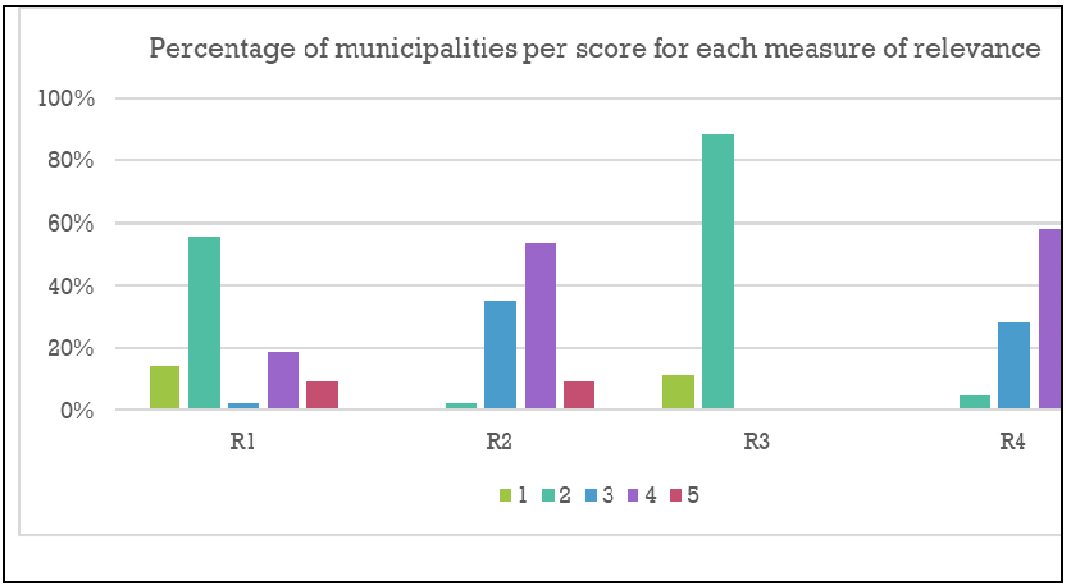
Table 4.1 above, displays the mean, median, mode and the standard deviation scores achieved by municipalities on the qualitative characteristic of relevance. The average for the total mean statistics achieved for relevance was 2.96, as shown in table 4.1. This score denotes that the usefulness of annual reports as per the qualitative characteristic of relevance was satisfactory. Relevance (R1) achieved a mean score of 2.53, as shown in table 4.1. However, 70% of the total municipalities achieved a score of at least 2 in R1 (Figure 4.1). This value of 2.53 denotes that most municipalities provided forward-looking information in their annual reports; however, the information provided does not allow extensive predictions necessary for making expectations.

The mean score obtained in R2 was 3.70, with 64% of municipalities achieving 2 and 3 (Figure 4.1). Most annual reports presented information that is non-financial regarding business opportunities and risks. This value was clearly shown by the normal distribution curve obtained, which was bell-shaped, which means that 64% of the presented annual reports offer little non-financial information with no useful expectations. R3 obtained a mean score of 1.88, with most municipalities obtaining a score of 2, as shown in Figure 4.1 below. The results denote that 98% of the municipalities use historical cost to prepare their financial statements, negatively affecting the predictive values. However, only 2% of the municipalities were found to use fair value.

The mean value of R4 obtained from the SPSS output was 3.72, while a total of 86% of municipalities got a score between 3 and 4, as shown in Figure 4.1. This score denotes that the majority of the municipalities' annual reports provided feedback that helps understand how

events and transactions influenced the performance of municipalities. Figure 4.1 below, presents the percentage of municipalities per score for each measure of relevance.

Figure 4-1: Percentage of municipalities per score for each measure of relevance



Source: Author's construction from data collected.

4.4 Results – Research Objective Two (Faithful Representation)

Table 4-2:Qualitative characteristic: Faithful Representation

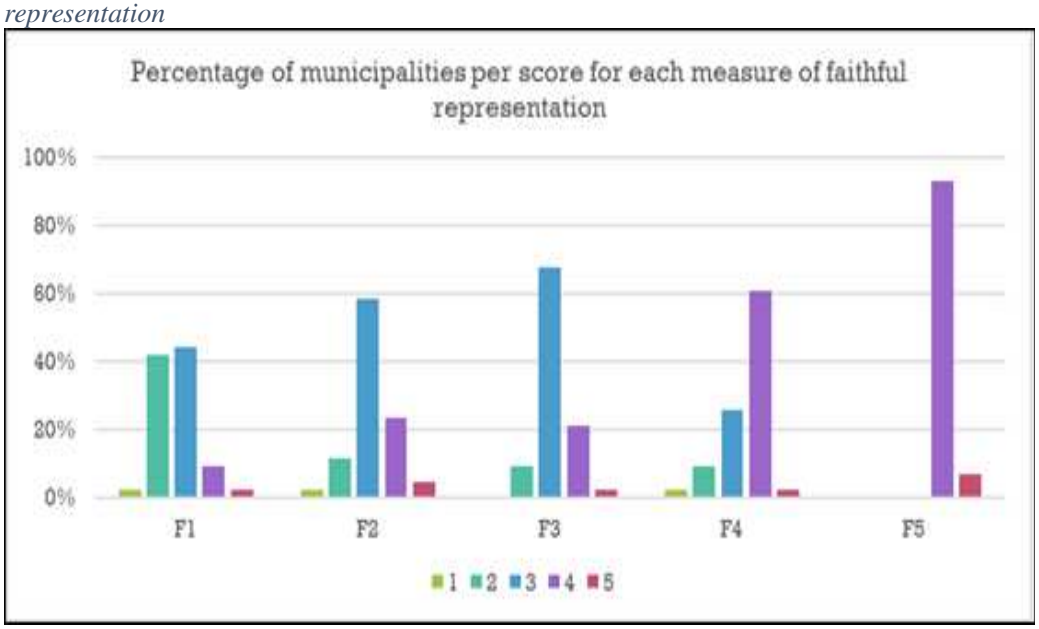
Item	Question	Mean	Median	Mode	Std Dev
F1	To what extent are valid arguments provided to support the decision for certain assumptions and estimates in the annual report?	2.67	3.00	3	.778
F2	To what extent does the municipality base its choice for certain accounting principles on valid arguments?	3.16	3.00	3	.785
F3	To what extent does the municipality, in the discussion of the annual results, highlight the positive events as well as the negative events?	3.16	3.00	3	.615
F4	Which type of auditors' report is included in the annual report?	3.51	4.00	4	.798
F5	To what extent does the municipality provide information on corporate governance?	4.07	4.00	4	.258
Average		**3.31**	**3.40**	**3.4**	**0.647**

Source: Author's construction from data collected.

Table 4.2 above, displays the mean, median, mode and standard deviation scores achieved by municipalities on the qualitative characteristic of faithful representation. The average for the total mean statistic achieved for faithful representation was 3.31, indicating that the annual reports performed strongly in providing faithfully represented information. Faithful

representation 1 (F1) achieved a mean score of 2.67, with most municipalities obtaining a score of 3, as shown in Figure 4.2. This value denotes that municipalities did provide average binding opinions to decide to use specific estimates or assumptions in the annual reports. The mean score obtained in F2 was 3.16, with most municipalities obtaining a score of 3, as shown in Figure 4.2 below. This score explains the extent to which the municipality base its options on the specific principle of accounting. This value of the score, close to 3, shows that the basis of certain accounting principles was clearly explained in the annual reports. The mean score obtained in F3 of 3.16 was similar to the score obtained in F2. It also shows that 67% have a modal frequency of 29 from 43 municipalities that receive a score of 3. This score indicates that most municipalities emphasize positive events and negative events when discussing their annual results. The mean score for F4 was 3.51, and the majority of the municipalities obtained scores between 3 and 4 as per figure 4.2. This score denotes that most audit reports in the annual reports contained adverse to unqualified audit opinion. F5 obtained a mean score of 4.07, with 93% of the municipalities obtaining a score of 4, while 7% obtained a score of 5 with little to no municipalities obtaining a value of 1, 2, and 3, respectively. These values indicate that most municipalities paid extra attention to information concerning governance, also taking into account their comprehensive provision of information in the annual reports. Figure 4.2 below, presents the percentage of municipalities per score for each measure of faithful representation.

Figure 4-2: Percentage of municipalities per score for each measure of faithful representation



Source: Author's construction from data collected.

4.5 Results – Research Objective Three (Understandability)

Table 4-3: Qualitative characteristic: Understandability

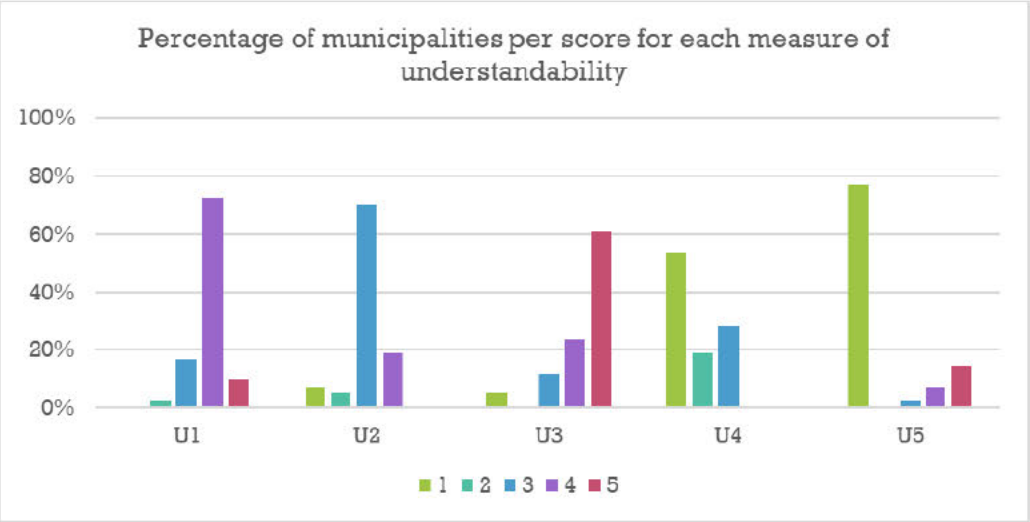
Item	Question	Mean	Median	Mode	Std Dev
U1	To what extent is the annual report presented in a well-organized manner?	3.88	4.00	4	.586
U2	To what extent are the notes to the balance sheet and the income statement sufficiently clear?	3.00	3.00	3	.724
U3	To what extent does the presence of graphs and tables clarify the presented information?	4.35	5.00	5	1.021
U4	To what extent is the use of language and technical jargon in the annual report easy to follow?	1.74	1.00	1	.875
U5	What is the size of the glossary?	1.81	1.00	1	1.532
Average		**2.96**	**2.80**	**2.8**	**.948**

Source: Author's construction from data collected.

Table 4.3 above, displays the mean, median, mode and the standard deviation scores achieved by municipalities on the qualitative characteristic of understandability. The average for the total mean statistics achieved for understandability was 2.96, indicating that the understandability of annual reports was satisfactory. The U1 achieved a mean score of 3.88, with the modal of municipalities being 4 as per table 4.3. The results values denote that 72% of the municipalities obtained a score of 4 as shown in Figure 4.3 below. This value indicates that municipalities presented annual reports well-organized using a well-structured conclusion and summary presented at the end of each subsection. U2 obtained a mean score of 3.00, with all municipalities obtaining a 3 as per figure 4.3. This value indicates that the financial statement notes were clear and understandable, with different terms being explained. The mean score obtained in U3 was 4.35, with 84% of municipalities obtaining a score of above 3 as per figure 4.3 below. This value denotes that most municipalities performed very well in clarifying information by presenting information in tables and graphs.

The mean score in U4 was 1.74, with 72% of the municipalities obtaining a score of between 1 and 2 as per figure 4.3. This value denotes that most municipalities use much jargon, making it hard for the users to understand. 18% of the annual reports presented show an extraordinary explanation with little jargon that was clearly explained. U5 obtained a mean score of 1.81 as per table 4.3, with 77% of the municipalities obtaining a score of 1 as per figure 4.3 below. This score denotes that 77% of the municipalities did not provide a glossary to help users understand the terms used in the annual reports. Figure 4.3 below, presents the percentage of municipalities per score for each measure of understandability.

Figure 4-3: Percentage of municipalities per score for each measure of Understandability.



Source: Author's construction from data collected.

4.6 Results – Research Objective Four (Comparability)

Table 4-4: Qualitative characteristic: Comparability

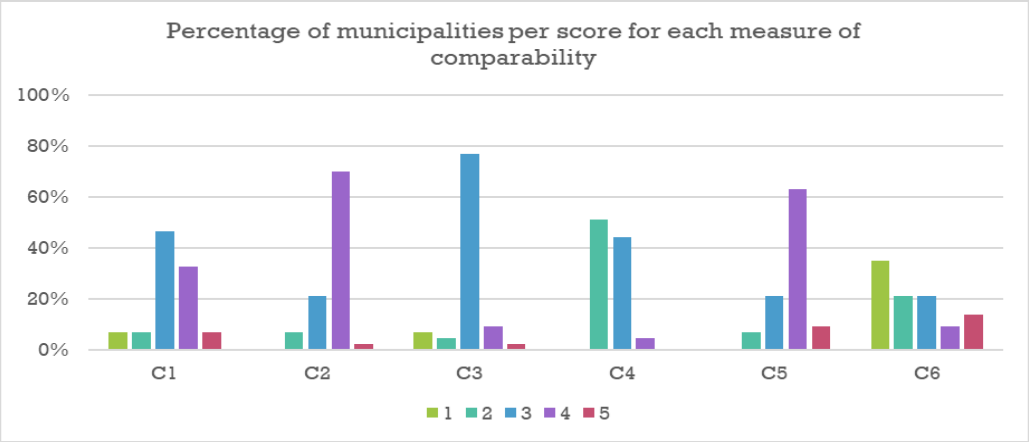
Item	Question	Mean	Median	Mode	Std Dev
C1	To what extent do the notes to changes in accounting policies explain the implications of the change?	3.26	3.00	3	.954
C2	To what extent do the notes to revisions in accounting estimates and judgements explain the implications of the revision?	3.67	4.00	4	.644
C3	To what extent did the municipality adjust previous accounting period's figures, for the effect of the implementation of a change in accounting policy or revisions in accounting estimates?	2.95	3.00	3	.722
C4	To what extent does the municipality provide a comparison of the results of current accounting period with previous accounting periods?	2.53	2.00	2	.592
C5	To what extent is the information in the annual report comparable to information provided by other municipalities?	3.74	4.00	4	.727
C6	To what extent does the municipality present financial index numbers and ratios in the annual report?	2.47	2.00	1	1.420
Average		**3.10**	**3.00**	**3**	**0.843**

Source: Author's construction from data collected.

Table 4.4 above, displays the mean, median, mode and the standard deviation scores achieved by municipalities on the qualitative characteristic of comparability. There was a 3.10 average mean score achieved for comparability, which denotes that the annual reports performed satisfactorily in terms of being comparable. The mean score achieved in C1 was 3.26, which denotes that 79% of the annual reports achieved 3 and 4 combined scores. Furthermore, results

show that most municipalities explained the reasons for and consequences of the accounting policies' changes. The mean score obtained in C2 was 3.67, with most municipalities achieving a score of 4 as per graph 4.4 below. This score denotes that most municipalities presented clear financial records, as shown in the notes of revision judgment and accounting estimates. The mean score obtained in C3 for the extent to which municipalities adjusted previous accounting periods was 2.95, which means that most of the score was 3. Figure 4.4 shows that 77% of the municipalities obtained a score of 3 for C3, which suggests that most municipalities restated their previous figures for only one year. C4 achieved a mean score of 2.53, with 95.3% for scores at least 3 as per figure 4.4 below, meaning that most of the municipalities did not provide a comparison with other financial reports from at least 2 years.C5 achieved a mean score of 3.74 as per table 4.5, with 61% obtained a score of 4. This score indicates that most municipalities provide a clear explanation of events. However, C6 achieved an average score of 2.47 per table 4.5, with 76.7% achieved at most 3. Also, research results indicate that 34.9% achieved a score of 1, which denotes that a total of 15 municipalities did not present financial ratios, and 20.9% presented annual reports with at most 2 financial ratios. Figure 4.4 below, presents the percentage of municipalities per score for each measure of comparability.

Figure 4-4: Percentage of municipalities per score for each measure of comparability.



Source: Author's construction from data collected.

4.7 Results – Research Objective Five (Timeliness)

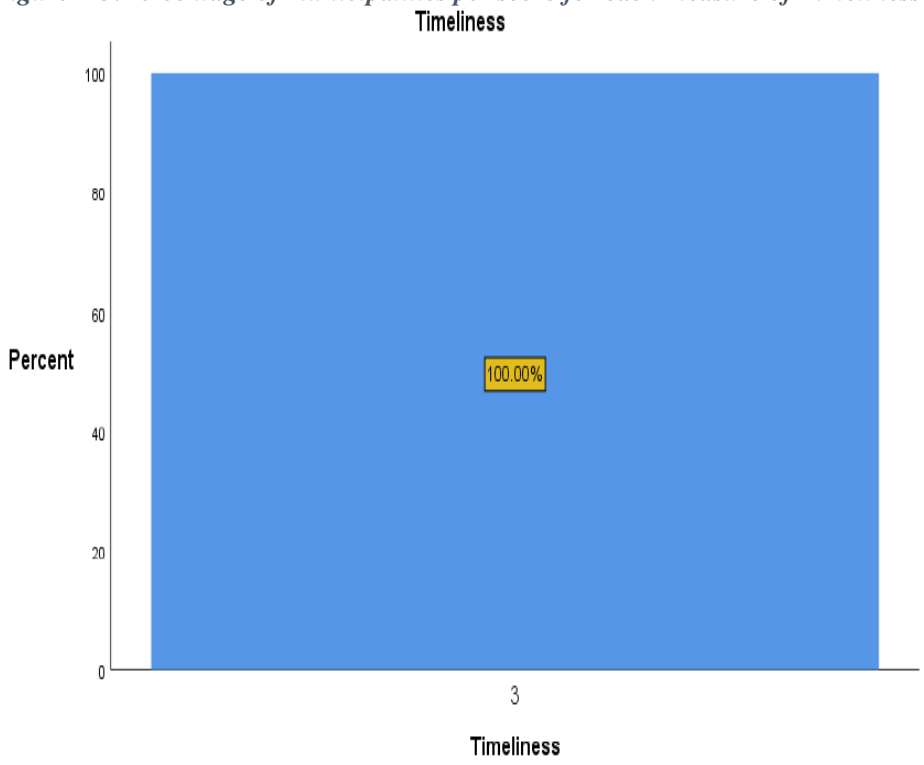
Table 4-5: Qualitative characteristic: Timeliness

Item	Question	Mean	Median	Mode	Std Dev
T1	How many months after the end of the financial year was the annual report published?	3.00	3.00	3	.000

Source: Author's construction from data collected.

Table 4.5 above, displays the mean, median, mode and the standard deviation scores achieved by municipalities on the qualitative characteristic of timeliness. The results reveal that all municipalities complied with the 7 months' timeframe, which was equal to a mean score of 3. These results indicate that municipalities published their annual reports within the prescribed time-based dictates of Municipal Finance Management Act 56 of 2003 (MFMA). Figure 4.5 below, presents the percentage of municipalities per score for each measure of timeliness.

Figure 4-5:Percentage of municipalities per score for each measure of Timeliness



Source: Author's construction from data collected.

This value implies that all the 43 municipalities in KwaZulu-Natal province presented annual reports within a specified time period of 7 months. There was a uniform distribution of the annual reports on their timelines which was denoted by a standard deviation of 0 and skewness of 0.

4.8 Factor Analysis

The researcher conducted a factor analysis to understand the relationship between the identified factors in this study. Factor Analysis refers to a statistical method used to describe variability amongst observed, correlated variables while considering the potentially few unobserved variables referred to as factors. The Principal Component Analysis (PCA) was conducted on all

the items, excluding T1. T1 was excluded from the factor analysis because all entries (cases) for the item are constant, making it impossible to compute the correlation coefficient for every pair of items.

In carrying out the factor analysis, Kaiser–Meyer–Olkin (KMO) measure of sampling adequacy and Bartlett's Sphericity test were carried out to determine the appropriateness of the observed data for factor analysis. A KMO value greater than 0.5 was considered acceptable, while the result of Bartlett's Test of Sphericity was considered to be significant if $p<0.05$.

The Kaiser–Meyer–Olkin measure verifies the sampling adequacy for the analysis, KMO = 0.678 (Table 4.6: KMO and Bartlett's Test). Bartlett's test of sphericity Chi-Square (df = 190) = 491.970, $p < 0.001$, indicates that the correlations amongst items are sufficiently large for PCA.

Table 4-6: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.678
Bartlett's Test of Sphericity	Approx. Chi-Square	491.970
	df	190
	Sig.	.000

Source: Author's construction from data collected.

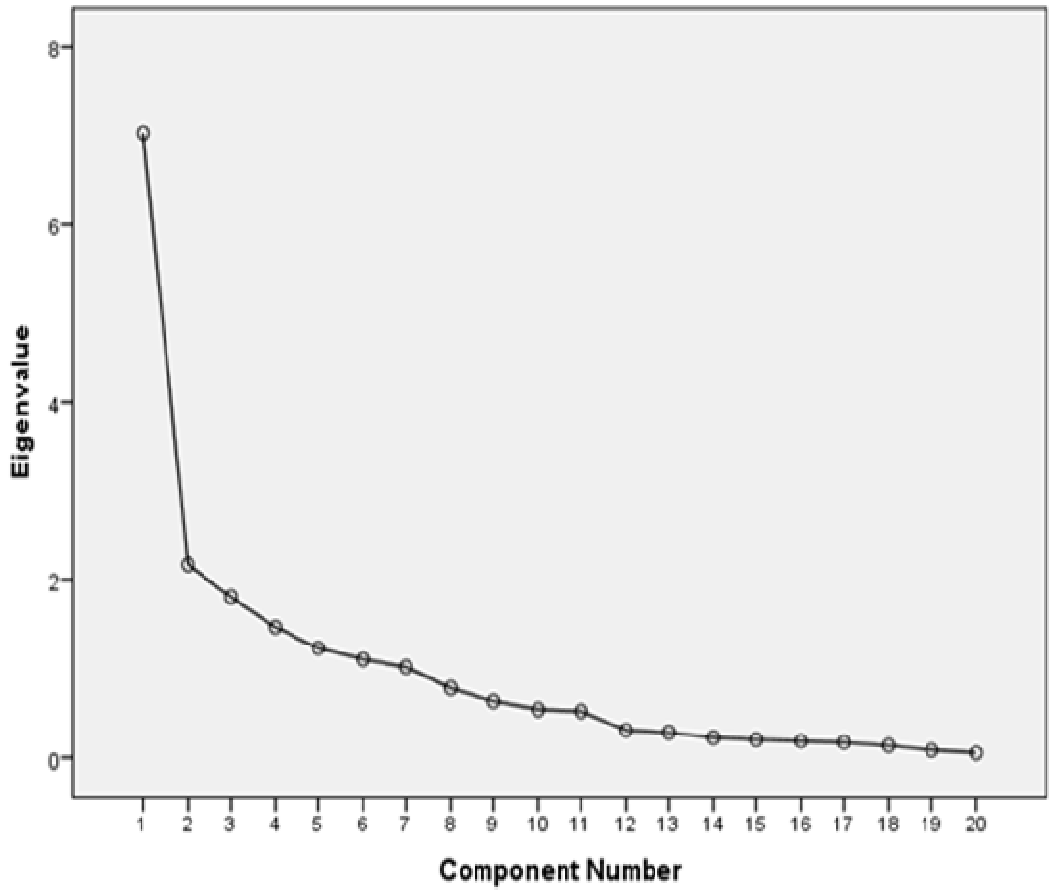
Table 4.6 above, presents the results of the KMO and Bartlett's tests. Kaiser's criterion of eigenvalue over 1 was utilised to determine the number of components extracted for the factor analysis, and the result was verified using a scree plot. The factor loadings were rotated using Oblimin with the Kaiser Normalization method, and items with loadings of the absolute value of 0.4 and above were considered good loadings. Table 4.7 below, presents the total variance explained.

Table 4-7: Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings[a]
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total
1	7.026	35.128	35.128	7.026	35.128	35.128	4.706
2	2.166	10.829	45.957	2.166	10.829	45.957	2.422
3	1.811	9.056	55.014	1.811	9.056	55.014	3.314
4	1.476	7.381	62.394	1.476	7.381	62.394	2.915
5	1.235	6.173	68.568	1.235	6.173	68.568	2.868
6	1.105	5.523	74.091	1.105	5.523	74.091	3.355
7	1.019	5.093	79.184	1.019	5.093	79.184	2.175
Extraction Method: Principal Component Analysis.							
a. When components are correlated, sums of squared loadings cannot be added to obtain a total variance.							

Source: Author's construction from data collected.

Figure 4-6: Scree Plot



Source: Author's construction from data collected.

Figure 4.6 above, presents the scree plot for components that have an eigenvalue greater than one. Only seven (7) components had eigenvalues greater than Kaiser's criterion of one, consistent with the scree plot result (Figure 4.6). These seven components account for 79.18 percent of the overall variance in the data collected. Component 1 accounts for 35.13 percent of the total variation. Component 2 for 10.83 percent of the total variation. Component 3 for 9.06 percent of the total variation. Component 4 for 7.38 percent of the total variation. Component 5 for 6.17 percent of the total variation. Component 6 for 5.52 percent of the total variation, and component 7 for 5.52 percent of the total variation (Table: 4.7). The results also show that the extracted seven (7) components account for more than half of the total variance in each object as measured by the communalities values (Table 4.8). Table 4.8 below, presents the communalities values per each factor.

Table 4-8: Communalities

No	Question	Initial	Extraction
R 1	To what extent does the presence of the forward-looking statement help forming expectations and predictions concerning the future of the municipality?	1.000	0.700
R 2	To what extent does the presence of non-financial information in terms of business opportunities and risks complement the financial information?	1.000	0.848
R 3	To what extent does the municipality use fair value instead of historical cost?	1.000	0.770
R 4	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 municipality?	1.000	0.774
F1	To what extent are valid arguments provided to support the decision for certain assumptions and estimates in the annual report?	1.000	0.771
F2	To what extent does the municipality base its choice for certain accounting principles on valid arguments?	1.000	0.844
F3	To what extent does the municipality, in the discussion of the annual results, highlight the positive events as well as the negative events?	1.000	0.798
F4	Which type of auditors' report is included in the annual report?	1.000	0.867
F5	To what extent does the municipality provide information on corporate governance?	1.000	0.823
U1	To what extent is the annual report presented in a well-organized manner?	1.000	0.786
U2	To what extent are the notes to the balance sheet and the income statement sufficiently clear?	1.000	0.762
U3	To what extent does the presence of graphs and tables clarifies the presented information?	1.000	0.876
U4	To what extent is the use of language and technical jargon in the annual report easy to follow?	1.000	0.882
U5	What is the size of the glossary?	1.000	0.880
C1	To what extent do the notes to changes in accounting policies explain the implications of the change?	1.000	0.858
C2	To what extent do the notes to revisions in accounting estimates and judgements explain the implications of the revision?	1.000	0.853
C3	To what extent did the municipality adjust previous accounting period's figures, for the effect of the implementation of a change in accounting policy or revisions in accounting estimates?	1.000	0.816
C4	To what extent does the municipality provide a comparison of the results of current accounting period with previous accounting periods?	1.000	0.723
C5	To what extent is the information in the annual report comparable to information provided by other municipalities?	1.000	0.628
C6	To what extent does the municipality present financial index numbers and ratios in the annual report?	1.000	0.577

Source: Author's construction from data collected.

Factor loadings result after rotation (using Oblimin with Kaiser Normalization Method) reveals that U1, R1, R4, C4, and C5 have high positive loadings on Component 1, U4 and U5 have high positive loadings on Component 2, U1, U2, C1, and F2 have high negative loadings on Component 3. In contrast, C3 has high positive loading on Component 3. Moreover, R3 and C2 have high positive loadings on Component 4, C2, F1, and F4 have high positive loadings on Component 5, U3, R2, C6, and F3 have high loadings, which was positive identified as component 6. At the same time, F5 is the only item with high loading (positive) on Component 7 (Table 4.9). Table 4.9 presents the pattern matrix of each factor.

Table 4-9: Pattern Matrix

Item	Question	Component						
		1	2	3	4	5	6	7
R 1	To what extent does the presence of the forward-looking statement help forming expectations and predictions concerning the future of the municipality?	.650	.185	.009	.172	-.072	-.085	.310
R 2	To what extent does the presence of non-financial information in terms of business opportunities and risks complement the financial information?	.374	.301	-.093	.174	-.259	.413	.357
R 3	To what extent does the municipality use fair value instead of historical cost?	.138	.062	-.157	.797	-.067	.021	-.111
R 4	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 municipality?	.802	-.038	-.144	.074	-.050	.053	.055
F1	To what extent are valid arguments provided to support the decision for certain assumptions and estimates in the annual report?	.082	.096	-.306	-.179	.577	.239	.266
F2	To what extent does the municipality base its choice for certain accounting principles on valid arguments?	.084	-.007	-.725	-.096	.335	.191	.086
F3	To what extent does the municipality, in the discussion of the annual results, highlight the + events as well as the (-) events?	.099	-.013	.171	-.233	.119	.764	.265
F4	Which type of auditors' report is included in the annual report?	.064	.096	-.078	.146	.869	-.133	-.141
F5	To what extent does the municipality provide information on corporate governance?	-.054	-.128	-.058	-.001	-.011	-.062	.901
U1	To what extent is the annual report presented in a well-organized manner?	.495	.114	-.401	.237	.081	-.011	.116
U2	To what extent are the notes to the balance sheet and the income statement sufficiently clear?	.291	-.012	-.655	.187	.160	-.044	-.015
U3	To what extent does the presence of graphs and tables clarifies the presented information?	-.083	.101	-.161	.117	-.060	.892	-.354
U4	To what extent is the use of language and technical jargon in the annual report easy to follow?	.072	.901	-.044	-.110	.045	.072	-.122
U5	What is the size of the glossary?	-.108	.940	.073	.086	.021	-.076	.016
C1	To what extent do the notes to changes in accounting policies explain the implications of the change?	.020	.060	-.818	.220	.027	.042	.065
C2	To what extent do the notes to revisions in accounting estimates and judgements explain the implications of the revision?	-.208	-.012	.045	.702	.424	.103	.223
C3	To what extent did the municipality adjust previous accounting period's figures, for the effect of the implementation of a change in accounting policy or revisions in accounting estimates?	.332	.052	.628	.293	.387	.174	.089
C4	To what extent does the municipality provide a comparison of the results of current accounting period with previous accounting periods?	.820	-.036	.075	-.164	.145	.064	-.290
C5	To what extent is the information in the annual report comparable to information provided by other municipalities?	.484	.010	-.142	.071	.228	.179	.141
C6	To what extent does the municipality present financial index numbers and ratios in the annual report?	.133	-.292	-.005	.251	-.040	.554	.086

Source: Author's construction from data collected.

Moreover, the result reveals that U1, U2, R1, R2, R4, C3, C4, C5, and F1 all have high and positive correlations at Component 1. U4 and U5 both have high positive correlations with Component 2. U1, U2, C1, F1, and F2 have high negative correlations with Component 3. In contrast, C3 has a high positive correlation with Component 3. Moreover, the result shows that U1, U2, R2, R3, C1, and C2 all have high positive correlations with Component 4, C2, C3, C5, F1, F2, and F4 have positive correlations that are high with Component 5, U3, R2, C5, C6, F1

and F3 have high correlations that are positive with Component 6. In contrast, R1, R2, and F5 all have high positive correlations with Component 7 (Table 4.10).

Table 4-10: Structure Matrix

Item	Question	Component						
		1	2	3	4	5	6	7
R 1	To what extent does the presence of the forward-looking statement help forming expectations and predictions concerning the future of the municipality?	.733	.304	-.185	.395	.183	.211	.426
R 2	To what extent does the presence of non-financial information in terms of business opportunities and risks complement the financial information?	.637	.362	-.289	.418	.055	.594	.476
R 3	To what extent does the municipality use fair value instead of historical cost?	.357	.214	-.331	.839	.136	.193	.073
R 4	To what extent do the reported results provide feedback to users of the annual report as to how various market events and signifcant transactions affected the municipality?	.859	.135	-.324	.313	.214	.369	.227
F1	To what extent are valid arguments provided to support the decision for certain assumptions and estimates in the annual report?	.408	.185	-.425	.112	.701	.437	.378
F2	To what extent does the municipality base its choice for certain accounting principles on valid arguments?	.384	.129	-.796	.173	.482	.380	.210
F3	To what extent does the municipality, in the discussion of the annual results, highlight the positive events as well as the negative events?	.355	-.039	.063	-.041	.270	.804	.359
F4	Which type of auditors' report is included in the annual report?	.300	.248	-.215	.302	.889	.080	-.002
F5	To what extent does the municipality provide information on corporate governance?	.069	-.183	-.085	.144	.077	.060	.891
U1	To what extent is the annual report presented in a well-organized manner?	.700	.296	-.581	.491	.338	.294	.284
U2	To what extent are the notes to the balance sheet and the income statement sufficiently clear?	.498	.174	-.763	.404	.346	.206	.137
U3	To what extent does the presence of graphs and tables clarifies the presented information?	.240	.146	-.262	.206	.103	.837	-.211
U4	To what extent is the use of language and technical jargon in the annual report easy to follow?	.241	.919	-.163	.034	.154	.087	-.160
U5	What is the size of the glossary?	.059	.922	-.039	.165	.067	-.092	-.053
C1	To what extent do the notes to changes in accounting policies explain the implications of the change?	.292	.201	-.885	.413	.202	.207	.177
C2	To what extent do the notes to revisions in accounting estimates and judgements explain the implications of the revision?	.153	.076	-.126	.778	.542	.258	.395
C3	To what extent did the municipalty adjust previous accounting period's figures, for the effect of the implementation of a change in accounting policy or revisions in accounting estimates?	.471	.115	.418	.385	.506	.353	.238
C4	To what extent does the municipality provide a comparison of the resuts of current accounting period with previous accounting periods?	.766	.123	-.065	.008	.297	.306	-.149
C5	To what extent is the information in the annual report comparable to information provided by other municipalities?	.685	.152	-.319	.324	.447	.450	.310
C6	To what extent does the municipality presents financial index numbers and ratios in the annual report?	.346	-.236	-.114	.348	.132	.646	.255

Source: Author's construction from data collected.

Table 4.11 below, presents the results of the component correlation amongst components. The Component Correlation Matrix shows moderate correlations among some of the extracted components.

Table 4-11: Component Correlation Matrix

Component	1	2	3	4	5	6	7
1	1.000	.191	-.208	.257	.272	.359	.179
2	.191	1.000	-.132	.134	.119	.012	-.056
3	-.208	-.132	1.000	-.189	-.127	-.129	-.072
4	.257	.134	-.189	1.000	.186	.165	.197
5	.272	.119	-.127	.186	1.000	.202	.137
6	.359	.012	-.129	.165	.202	1.000	.153
7	.179	-.056	-.072	.197	.137	.153	1.000
Extraction Method: Principal Component Analysis. Rotation Method: Oblimin with Kaiser Normalization.							

Source: Author's construction from data collected.

The reliability analysis results show that the Cronbach's Alpha value for all the Components attains the acceptable alpha value of 0.6 – 0.7 except Component 4 with an alpha value of α = 0.571. All the items under each component appear to be worthy of retention as none of the items would cause a significant increase in the alpha value if removed. The inter-item correlation matrix shows that most of the items under each component were highly correlated. Component 1 with an eigenvalue of 7.02 accounts for 35.1% of the total variation in the observed data, and with Cronbach's Alpha value of α = 0.808, Component 2 with an eigenvalue of 2.17 accounts for 10.8% of the total variation in the observed data, and with Cronbach's Alpha value of α = 0.782, Component 3 with eigenvalue of 1.81 accounts for 9.1% of the total variation in the observed data and with Cronbach's Alpha value of α = 0.772, Component 4 with eigenvalue of 1.48 accounts for 7.4% of the total variation in the observed data and with Cronbach's Alpha value of α = 0.571, Component 5 with eigenvalue of 1.24 accounts for 6.2% of the total variation in the observed data and with Cronbach's Alpha value of α = 0.716, Component 6 with eigenvalue of 1.11 accounts for 5.5% of the total variation in the observed data and with Cronbach's Alpha value of α = 0.688 while Component 7 with eigenvalue of 1.02 accounts for 5.1% of the total variation in the observed data. However, Reliability Analysis cannot be carried out on Component 7 as it has only 1 item. Table 4.12 below shows the list of extracted components together with the statistics for each of the components.

Table 4-12:Reliability Analysis of Components

Component	Eigen-value	% variance Explained	Cronbach's Alpha	Scale Statistics			
				Mean	Variance	Standard Deviation	No. of Items
1	7.02	35.1	0.808	16.42	9.059	3.010	5
2	2.17	10.8	0.782	3.56	5.110	2.260	2
3	1.81	9.1	0.772	16.26	7.623	2.761	5
4	1.48	7.4	.571	5.56	.729	.854	2
5	1.24	6.2	.716	9.86	3.171	1.781	3
6	1.11	5.5	.688	13.67	8.034	2.834	4
7	1.02	5.1	-	-	-	-	1

Source: Author's construction from data collected.

4.9 Discussion of Results

The research results revealed that overall, the quality of annual reports prepared by municipalities was satisfactory as they scored an average mean of 2.96 - Relevance, 3.31 - Faithful representation, 2.96 - Understandability, 3.10 - Comparability, and 3 - Timeliness. These results show that there was room for improvement in the overall usefulness of the annual reports.

Municipalities achieved the highest scores in U3, F5, and U1. In item U3, which relates to the extent to which graphs and tables clarify the presented information, municipalities achieved an average mean score of 4.35, with 84% of the municipalities scoring above 4. In item F5, which relates to the extent municipalities provide information on corporate governance, municipalities achieved an average mean score of 4.07, with 93% of the municipalities scoring above 4. In item U1, which relates to the extent to which municipalities presented the annual reports in a well-organized manner, municipalities achieved an average mean score of 3.88, with 72% of the municipalities scoring above 4.

Municipalities achieved the least scores in the items U5, U4, and R3. In item U5, which relates to the extent to which municipalities presented a glossary in their annual reports, municipalities achieved an average mean score of 1.81, with 77% of the municipalities scoring 1 as they failed to present a glossary in the annual reports. In item U4, which relates to the extent to which municipalities use jargon and technical language in the annual reports that can be easily followed, municipalities achieved an average mean score of 1.74, with 72% of the municipalities scoring between 1 and 2. In item R3, which relates to the extent to which municipalities use fair value accounting instead of historical cost accounting in the annual reports, municipalities achieved an average mean score of 1.88, with 98% of the municipalities scoring 2 only use historical cost accounting to present their assets. However, it should be noted

that the usage of fair values is costly and could affect the reliability of information due to the complexity of this measurement basis (Barth & Landsman, 1995).

An investigative factor analysis was undertaken to identify the relationship between the factors assessed by this study. The factor analysis results identified seven (7) components with eigenvalues over Kaiser's criterion of 1, and these seven components altogether account for 79.18% of the total variation in the collected data. Component 1 was found to have high positive loadings on U1, R1, R4, C4, and C5. All these items with high loadings in Component 1 focus on the comparability and the presentation of the annual reports. Therefore, the structure and the presentation of the annual report influence the annual report's usefulness (Demirbaş et al.: Adi et al., 2016).

Items U4 and U5 were found to have high positive loadings on Component 2. Both items deal with explaining the presence of a glossary technical jargon within the annual report. Both these items deal with how the annual report was easy to read. An annual report must be written so that it is easy to read and understandable to the users of the information (Beest et al., 2009; Demirbaş et al.: Adi et al., 2016). Although industry technical words cannot be avoided, a glossary simplifying those words should be included (Demirbaş et al., 2016).

Item C3 was found to have a high positive loading on Component 3. Item C3 relates to the extent to which the municipality adjusted the previous period's accounting figures to implement accounting policy revisions or changes in accounting. Therefore, this component relates to the consistency in the presentation of information. According to ASB (2017), the usefulness of information is enhanced by consistent accounting policies or procedure application (ASB, 2017).

Items R3 and C2 were found to have high positive loadings on Component 4. Item R3 relates to the extent to which municipalities used an accounting value fair instead of history to measure their assets. Item C2 relates to the extent municipalities provided notes to revisions in accounting judgments and estimates to explain the implications of the revisions. IASB (2018: paras 2.19; 5.19) states that using reasonable estimates is allowed to measure assets such that it won't undermine information usefulness if the estimates are clearly and accurately described and explained. Fair Value accounting is often referred to as the amount that would be exchanged when the asset is sold, and this amount is based on the prevailing current market prices.

On the other hand, Historical cost accounting is often referred to as a method of valuing an asset-based price paid in the past. Fair Value cost accounting of assets allows municipalities to

provide relevant and realistic monetary values for assets in their annual reports (ASB, 2017). This information will be valuable for prediction purposes and suitable for accountability and decision-making (ASB, 2017). Therefore, component 4 relates to the future orientation of the presented information, allowing users to form their expectations about the future (ASB, 2017).

Items C2, F1, and F4 were found to have high positive loadings on Component 5; Item C2 relates to the extent to which municipalities presented notes on revisions in accounting judgment, estimates, and the explanation of the implication of the revisions. Item F1 relates to the extent municipalities presents arguments that are valid to support the decision for specific estimates or assumptions in the annual report. Item F4 relates to the form of auditors' report included in the municipality yearly report. The three items relate to valid explanations for adopting certain assumptions and estimates that the auditors could verify. Annual reports should not contain information that misrepresents the municipality's actual economic state of affairs as this information will render the yearly report not valuable for the users (Cohen, 2004; Jonas, 2000; Maines, 2006; ASB, 2017). Therefore, component 5 relates to the verifiability of the reported information. According to ASB (2017) and IASB (2015), the term verifiability encompasses the methodology adopted in compiling the reported information, the underlying assumptions, and issues or situations that support any expressed opinions or disclosures made.

Items U3, R2, C6, and F3, were found to have high positive loadings on Component 6. Item U3 relates to the extent to which municipalities included tables and graphs to clarify the information given in the annual reports. Item R2 relates to the extent municipalities included information that is non-financial relating to business opportunities and risks complementing the financial information. Item C6 relates to the extent municipalities presented financial index ratios and numbers in the annual reports. Item F3 relates to how municipalities highlighted the negative events and the positive events in their annual reports. Items U3 and C6 relate to providing additional information to support the reported data, while items R2 and F3 relate to the provision of information by highlighting both positive and negative events.

ASB (2017) states that annual reports provide useful information when they contain comprehensive and neutral information. Therefore, component 6 relates to the neutrality of the reported information. F5 is the only item that was found to have a high positive loading on Component 7. Item 5 relates to the extent to which municipalities included information regarding corporate governance in the annual reports. Corporate governance is a system that is how municipalities conduct their affairs. This system includes the existing governance structures such as the municipal council and its portfolio committees and the record of meetings

and decisions approved by the relevant governance structures. The sharing the information on corporate governance promotes openness and transparency. Hood (2010: 989), as cited by Ferry et al. (2015), defines transparency as an act of ensuring that municipalities conduct their business, such as the information on decisions, policies, and performance in a visible manner public. Therefore, component 7 relates to the transparency of the reported information.

4.10 Chapter Summary

This chapter offered the study results after the assessment of 43 municipal annual reports in KwaZulu-Natal province. The study results revealed that overall, the quality of annual reports prepared by municipalities was satisfactory. As such, there is still room for improvement in the overall usefulness of the annual reports.

CHAPTER FIVE: CONCLUSION OF THE STUDY

5.1 Introduction

This concluding chapter summarizes the significant findings from the review of the literature and empirical research. The study reviewed the existing studies in chapter 2. Chapter 4 presented the research results of this study. Furthermore, this chapter draws conclusions based on the findings from both aspects of the study. Lastly, recommendations, as well as future research opportunities, are presented.

This primary study aims to determine whether annual reports of KwaZulu-Natal municipalities for 2017/18 presented helpful information for accountability and decision-making. In supporting the primary objective, the study developed five research objectives to achieve the study's primary aim. The first objective was to establish whether the data in municipalities' annual reports are relevant for accountability and decision-making purposes. The second objective was to investigate whether the information presented in the annual reports faithfully represents the economic phenomena. The third objective was to establish whether the information presented in the annual reports enables the understandability of the economic phenomena. The fourth objective was to investigate whether the information within annual reports allows comparability between two sets of economic phenomena. The fifth objective was to evaluate the extent to which annual reports are presented timely for accountability and decision-making purposes.

5.2 Findings from the Literature Review

This section summarises the findings from the literature review discussed in chapter two of the study. The study revealed that municipalities as entities entrusted with public funds are responsible for providing useful information about the state of their affairs that users can use to make decision-making while remaining accountable to the public. Furthermore, the literature highlighted that the information is useful; only when users can rely on it for decision-making.

Also, the few international studies conducted on this topic revealed that annual reports prepared by municipalities were weak in terms of understanding, accessibility, timeliness, accuracy, full disclosure, and neutrality; thus, they were not useful for accountability or decision-making purposes (Hassan et al., 2008; Demirbaş et al., 2016; Adi et al., 2016). Furthermore, Steccolini (2004) found that municipalities' annual reports were only suitable to provide accountability to internal users instead of external users. Most studies attributed the findings to the lack of regulations on annual reports in their respective countries.

5.3 Findings from the Primary Research

This section covers the empirical findings that are specific to the current research. The study focused on the five research objectives to realize the study's primary aim: to assess the usefulness of the annual reports of municipalities. The usefulness of information was attained when the reported information was relevant and faithfully represented. Furthermore, the reported information's usefulness is enhanced when the information was understandable, comparable, and timely prepared.

A total of 43 annual reports were evaluated and scored using a 21 Index tool of measurement developed by Beest et al. (2009). The 21 Index Measurement tool contained 21 questions with five-point indicators used to assign scores to each municipality's disclosure level in the annual report. Using the Likert scale, a disclosure that was rated the lowest score of "1" was regarded as "the poor quality or poor compliance," while a disclosure rated at the highest score of "5" was regarded as "the high quality or high compliance."

The study results for the first research objective revealed that municipalities presented satisfactorily relevant information to make accountable decision-making. The study results suggest that most municipalities included non-financial information relating to risks and business opportunities to supplement financial information in their annual reports. The research results pointed out that most municipalities included feedback on how the various market events and significant transactions affected the municipality in their annual reports. However, the research results revealed that most municipalities failed to include forward-looking statements to form expectations and predictions concerning the municipality's future in their annual reports. The research also found that most municipalities used historical cost accounting instead of fair value cost accounting when presenting their assets in the annual report.

The second research objective's study results revealed that municipalities' satisfactorily and faithfully represented information for accountability or decision-making. However, the research results suggest that most municipalities received the unqualified or clean audit opinion from the auditors. The research results also found that most municipalities provided extensive information on corporate governance in their annual reports.

The third research objective's study results revealed that municipalities presented satisfactorily understandable information for accountability or decision-making in their annual reports. The research results suggest that most municipalities extensively included graphs and tables to clarify the annual reports' information. The research results also reveal that most municipalities

presented their annual reports in a well-organized manner. However, the research results suggest that most municipalities used technical language that was not explained in a glossary in their annual reports.

The fourth research objective's study results revealed that municipalities satisfactorily presented annual report information that was comparable. The research results suggest that most municipalities provided explanations to the amendments in accounting judgment and estimates by explaining the implications of any changes. Furthermore, the research results suggest that most municipalities used a format similar to the format used by other municipalities. However, the research results revealed that most municipalities failed to compare the results of previous accounting periods and the current accounting period for a period exceeding two years. Lastly, about 55.8% did not include financial ratios in their annual reports.

The fifth research objective's study results revealed that all municipalities covered in the study published their annual reports seven months after the financial year-end, which is in line with Section 127 of the MFMA, which requires each municipality to table its annual report and make it available to the public on or before 31 January each year.

An exploratory factor analysis was conducted to gain insights into the research objectives' factors. The objective of the factor analysis was to identify underlying factors that influenced the results and identify relationships amongst such factors. The factor analysis results identified seven (7) components that affected the results of this study. These components accounted for 79.18% of the total variation in the collected data. The applicable components were termed as follows; well presentation, understandability, consistency, future orientation, verifiability, neutrality, and transparency of the reported information.

5.4 Conclusions

The research findings suggest that the overall usefulness of annual reports prepared for the 2016/17 financial year for accountability and decision-making was satisfactory. The findings indicate that there are still opportunities for improvement. Thus, the finding of this study does not support the findings observed in the studies cited in the literature review. These studies were mainly conducted in Europe and Asia. One of the recommendations from these studies is regulating the annual reporting process for municipalities in their respective countries.

The satisfactory study findings could be attributed to the following factors that have improved the annual reporting for South Africa’s municipalities:

- The Municipal Finance Management Act regulates annual report preparation and prescribes the minimum disclosure requirements for annual reports.
- The National Treasury guides the annual reporting process by issuing circulars and a yearly reporting template.
- The adoption of General Recognised Accounting practices (GRAP) by all municipalities.

Municipalities need to improve the technical jargon's use in the annual reports, and all technical terms should be explained in a glossary. Municipalities should also improve on presenting forward-looking information that will enable users to make future expectations.

5.5 Limitation of The Study

The current research has its limitations. It only assesses the annual report's usefulness by verifying qualitative characteristics identified by the financial reporting conceptual framework. The study lacks the interpretive research aspect to present the actual qualitative view of annual reports' users. The study's findings rely on the statistics generated from a reduced number of municipalities in the province thus cannot be generalised. Lastly, although the assessment tool provides safeguards for ensuring the validity of results, it is impossible to eliminate researcher bias when allocating the scores.

5.6 Suggestions for Future Research

This research assessed the usefulness of the annual reports of KwaZulu-Natal municipalities for 2017/18 presented information for accountability and decision-making. This study assists as a foundation for future research to be conducted on this topic.

Future research could expand the sample and the financial periods to improve the validity of the results. Furthermore, the research methodology could be expanded to include qualitative interpretive research that will involve identifying the users and assessing the actual views of the users of the annual reports.

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APPENDICES

Appendix A: Research Questions Operationalisation with Scores

Research Question One- Is the information presented in the annual reports relevant for accountability and decision-making?

No	Question	Operationalisation with Scores
R 1	To what extent does the presence of the forward-looking statement help forming expectations and predictions concerning the future of the municipality?	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
R 2	To what extent does the presence of non-financial information in terms of business opportunities and risks complement the financial information?	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
R 3	To what extent does the municipality use fair value instead of historical cost?	1 = Only Historical Costs 2 = Most Historical Costs 3 = Balance Fair Vaue/ Historical Costs 4 = Most Fair Value 5 = Only Fair Value
R 4	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 municipality?	1 = No feedback 2 = Little feedback on the past 3 = Feedback is present 4 = Feedback helps understanding how events and transactions influenced the company 5 = Comprehensive feedback

Research Question Two-Does the information in the annual reports faithfully represents the economic phenomena?

No	Question	Operationalisation with Scores
F1	To what extent are valid arguments provided to support the decision for certain assumptions and estimates in the annual report?	1=Only-described estimations 2=General explanation 3=Specific explanation of estimations 4=Specific explanation, formulas explained etc. 5 = Comprehensive argumentation
F2	To what extent does the municipality 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 municipality, in the discussion of the annual results, highlight the positive events as well as the negative events?	1=Negative events only mentioned in footnotes 2=Emphasize on positive events 3 = Emphasize on positive events, but negative events a mentioned; no-negative events occurred 4=Balance pos/neg-events 5 = Impact of pos/neg 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 matters 5 = Unqualified opinion clean
F5	To what extent does the municipality 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

Research Question Three-Is the information in the annual reports presented in a manner that enables understandability?

No	Question	Operationalisation with Scores
U1	To what extent is the annual report presented in a well organized manner?	(Scale 1 - 5) Judgment based on: - complete table of contents - headings - order of components - summary/ conclusion at the end of each subsection.
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 clarifies 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
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

Research Question Four-Does the information in the annual reports presented in a manner that enables comparability between two sets of phenomena?

No	Question	Operationalisation with Scores
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 + implications (past) 5 = Comprehensive notes
C3	To what extent did the municipality 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=2years 5 = > 2 years + notes
C4	To what extent does the municipality 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
C5	To what extent is the information in the annual report comparable to information provided by other municipalities?	Judgment based on: - accounting policies - structure - explanation of events In other words: an overall conclusion of comparability compared to annual reports of other organizations.
C6	To what extent does the municipality presents 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

Research Question Five- Is the information presented in the annual reports presented timely to enable accountability and decision-making?

No	Question	Operationalisation with Scores
T1	How many months after the end of the financial year was annual report published?	Natural logarithm of number of months 1 = 9 Months March 2 = 8 Months February 3 = 7 Months January 4 = Less than 7 months more than 2 5 = 2 Months August

Appendix B: Research Instrument

The 21-item index quality assessment (Beest et al., 2009)

Number	Question	Operationalization	Concept
Factor (1): Understandability			
U1	To what extent is the annual report presented in a well organized manner?	(Scale 1 - 5) Judgment based on: - complete table of contents - headings - order of components - summary/ conclusion at the end of each subsection.	Understandability
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	Understandability
U3	To what extent does the presence of graphs and tables clarifies the presented information?	1 = no graphs 2 = 1-2 graphs 3 = 3-5 graphs 4 = 6-10 graphs 5 = > 10 graphs	Understandability
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	Understandability
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	Understandability
Factor (2): Relevance			
R 1	To what extent does the presence of the forwardlooking statement help forming expectations and predictions concerning the future of the municipality?	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	Predictive Value
R 2	To what extent does the presence of non-financial information in terms of business opportunities and risks complement the financial information?	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	Predictive Value
R 3	To what extent does the municipality use fair value instead of historical cost?	1 = Only Historical Costs 2 = Most Historical Costs 3 = Balance Fair Vaue/ Historical Costs 4 = Most Fair Value 5 = Only Fair Value	Predictive Value
R 4	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 municipality?	1 = No feedback 2 = Little feedback on the past 3 = Feedback is present 4 = Feedback helps understanding how events and transactions influenced the company 5 = Comprehensive feedback	Confirmatory Value

Appendix C: Editorial Letter

GEAR
GENIUS EMPIRICAL & APPLIED RESEARCHERS

Genius Empirical and Applied Researchers (Pty, Ltd)

For Evidence Based Decision Making.
512 Willie Theron Building, Corner Bossman and Jeff Masemola St, Pretoria
Contact: +27 677 702 154 / +27 651 170 627
Email: gearresearchers@gmail.com **Website:** www.gearresearchers.com

21 April 2021

To whom it may Concern

I, the undersigned on behalf of and representing ***Genius Empirical and Applied Researchers (GEAR),*** in my capacity as Research Associate hereby confirm editing the thesis entitles "The Usefulness Of The Annual Reports Of Kwazulu-Natal Municipalities for Accountability and Decision-Making Purposes." The Author of the research is Mr. Nkosinathi Emmanuel Radebe. Edits done to the dissertations includes but not limited to the following:

Checking and correcting grammar, phrases and spelling;

Formatting (margins, line spacing etc.);

Consistency of Tables/Figure and Table of contents;

Flow of narratives;

Similarity flagging;

En Dash or unnecessary spacing and

Capitalisation of phrases and Headings

Yours Sincerely

Mr.G.G. Musvovi

[redacted]

Research Associate

Genius Empirical and Applied Researchers

Appendix D: Turnitin Report

THE USEFULNESS OF THE ANNUAL REPORTS OF KWAZULU-NATAL MUNICIPALITIES FOR ACCOUNTABILITY AND DECISION-MAKING PURPOSES.

ORIGINALITY REPORT

7%	4%	4%	3%
SIMILARITY INDEX	INTERNET SOURCES	PUBLICATIONS	STUDENT PAPERS

PRIMARY SOURCES

1	dare.ubn.kun.nl Internet Source	1%
2	www.asb.co.za Internet Source	1%
3	ir.canterbury.ac.nz Internet Source	<1%
4	Submitted to University of Johannsburg Student Paper	<1%
5	Submitted to Mancosa Student Paper	<1%
6	Submitted to National American University Student Paper	<1%
7	Quinlan Richert, Adriana Trajtman, Luisa Arroyave, Julia Toews et al. "Systemic inflammation before and after antiretroviral therapy initiation as a predictor of immune response among HIV-infected individuals in Manitoba", Cytokine, 2017	<1%

Appendix E: Ethical Clearance

UNIVERSITY OF KWAZULU-NATAL
INYUVESI YAKWAZULU-NATALI

Mr Nkosinathi Emmanuel Radebe (991210519)
School Of Acc Economics&Fin
Westville

Dear Mr Nkosinathi Emmanuel Radebe,

Protocol reference number: 00004130
Project title: THE USEFULNESS OF THE ANNUAL REPORTS FOR ACCOUNTABILITY AND DECISION-MAKING PURPOSES BY THE KWAZULU NATAL MUNICIPALITIES.

Exemption from Ethics Review

In response to your application received on 26 September 2019, your school has indicated that the protocol has been granted **EXEMPTION FROM ETHICS REVIEW.**

Any alteration/s to the exempted research protocol, e.g., Title of the Project, Location of the Study, Research Approach and Methods must be reviewed and approved through an amendment/modification prior to its implementation. The original exemption number must be cited.

For any changes that could result in potential risk, an ethics application including the proposed amendments must be submitted to the relevant UKZN Research Ethics Committee. The original exemption number must be cited.

In case you have further queries, please quote the above reference number.

PLEASE NOTE:
Research data should be securely stored in the discipline/department for a period of 5 years.

I take this opportunity of wishing you everything of the best with your study.

Yours sincerely,

[redacted] 23 April 2020
_____

Prof Josue Mbonigaba
Academic Leader Research
School Of Acc Economics&Fin

UKZN Research Ethics Office
Westville Campus, Govan Mbeki Building
Postal Address: Private Bag X54001, Durban 4000
Website: http://research.ukzn.ac.za/Research-Ethics/

Founding Campuses: Edgewood Howard College Medical School Pietermaritzburg Westville

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