



The Usefulness of Local Government Annual Reports for Decision-Making and Accountability Purposes in South Africa

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Abstract

Purpose: To analyze the usefulness or quality of annual reports formulated by the municipalities in the context of decision-making and accountability in the KwaZulu-Natal province in South Africa.

Methodology: In this study, we employ a 21-index research tool designed by Beest, Braam, and Boelens (2009).

Findings: The results of the study indicate that the quality of the KwaZulu-Natal municipalities' annual reports is quite satisfactory. However, there is scope for enhancement as far as the quality of the annual reports is concerned

Originality/Value: This study contributes to the current body of knowledge and further contributes to the enhancement in the usefulness and quality of financial reporting in public sector and beyond. This study has also provided a very robust plan for future researchers.

Introduction

Globally, central governments have been attempting to revolutionize their accounting systems of late. Against the backdrop of the recent 2007–2009 universal financial and economic crisis, the appeals for enhancement in the usefulness and quality of financial reporting (FR) have increased. It is widely agreed and documented that the main aim of FR is to make sure that financial records reveal, to users, valuable information. Recently, the accounting schemes in the local government and in the public sector accounting, in general, have become more revealing.

Literature Review

Even though a myriad of studies have analyzed the usefulness of FR and non-financial reporting (NFR) in the private sector nationally and globally, literature that examines the value of FR and NFR at local government, i.e., municipalities or, in general, the public sector, is scanty (see, for instance, Adi et al., 2016; Demirbaş and Erolu, 2016; Afiah and Rahmatika, 2014; Dimi, Padia and Maroun, 2014; Rudzioniene and Juozapaviciute, 2014; Hassan, Hassan, and Nor, 2008; Steccolini, 2004). Interestingly, most of the studies that investigate the quality and value of the disclosures of municipalities' annual reports were conducted in Europe and Asia (see, for example, Demirbaş and Erolu, 2016; Steccolini, 2004). In Africa, literature dedicated to assessing the quality and value of the disclosures of municipalities' annual reports is very restricted.

In this study, we analyze the usefulness, in the context of decision-making and accountability, of the annual reports designed by the municipalities in the KwaZulu-Natal province, South Africa. Accountability refers to a condition of being answerable for activities undertaken, and the responsibility to be asked to account for or respond to questions concerning such activities (see Nogueira and Jorge, 2016; Fourie, Opperman, and Scott, 2007; Demirbaş and Eroglu, 2016; Klivers and Pillay, 2009). Brand (2016) and Randa and Tangke (2015) indicated that accountability is crucial in FR and NFR for local government, and it promotes good governance.

Further, accountability prevents corruption and augments the confidence of the public in the operations of local governments (see, for instance, Ferry, Eckersley and Zakaria, 2015). The annual reporting by municipalities allows them to prove their accountability to stakeholders, thereby allowing stakeholders to examine the performances of municipalities (see Demirbaş and Eroğlu, 2016 and Boyne and Law, 2006). Further, Ngah et al. (2015) postulated that making decisions is concerned with choice-making amongst obtainable alternatives to achieve a certain objective.

Like several other governments in the world, the South African government has been conducting substantial modifications of its accounting systems. In South Africa, the Municipal Finance Management Act (MFMA) was ratified in 2003 to revolutionize municipal finance management. The MFMA encourages robust financial management in municipalities and elucidates overseeing and accountability responsibilities and functions whilst promoting transparency (Fourie, Opperman and Scott, 2007). To increase transparency, the MFMA promotes the design of annual reports by municipalities. Fundamentally, under Section 121 of the MFMA, every fiscal year, municipalities are obligated to file a report. An annual report comprises the municipality's audited annual financial statements, the Auditor General's reports, and the municipality's yearly performance report, among other things (Section 121 (3) of the MFMA). These annual reports permit municipalities to merge non-financial information and financial information into a single document.

FR is mainly regulated by the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB). Nevertheless, these accounting bodies' accounting principles and conceptual frameworks (CFs) are only pertinent to private-sector financial statements. On the other hand, the International Public Sector Accounting Standards Board (IPSASB) designs the CF and appropriate accounting principles in the public sector. Interestingly, the Accounting Standards Board (ASB) was introduced in South Africa and mandated to develop the CF for FR and accounting principles for the public sector. Premised on the IPSASB and IASB CFs, the ASB created and introduced, in 2017, a Conceptual Framework for General Purpose Financial Reporting for South African public institutions. The Conceptual

Framework for General Purpose Financial Reporting functions as a theoretical basis for the formation of Generally Recognized Accounting Practice (GRAP) standards that regulate the formulation and arrangement of General-Purpose Financial Reports (GPFRs) that embrace both non-financial information and financial information (ASB, 2017). ASB (2017) further postulated that the Conceptual Framework for General Purpose Financial Reporting strives to augment FR by guaranteeing that GPFRs are designed and arranged in an organized, lucid, and reliable way with the principles they were premised.

The IPSAS and ASB CFs propound that the main aim of FR in the public sector is to offer valuable information concerning the institution that users can employ for decision-making and accountability determinations. It is important to note that the CFs introduced by universal and local accounting bodies are in accord with that information published accomplishes client desires when it echoes the qualitative characteristics of valuable information like truthful representation, significance, comparability, timeliness, and understandability (IASB, 2018; ASB, 2017; IPSASB, 2014). Despite the economic significance of municipalities in South Africa, a restricted number of studies, especially studies devoted to South Africa, implement qualitative features of useful information to examine the usefulness of reports on municipalities. Moreover, the operations of municipalities in South Africa are ambiguous and doubtful. Hence, to determine the financial position and viability of the municipalities, financial information users (e.g., suppliers and creditors) are asking for additional information from the municipalities. These requests for more details by users indicate a dire need for financial reports that diverse clients can comprehend.

In this study, we employ a 21-index research tool designed by Beest, Braam, and Boelens (2009) to analyze the usefulness or quality of annual reports formulated by the municipalities in the context of decision-making and accountability the KwaZulu-Natal province in South Africa. The 21-index measurement instrument was created to operationalize the qualitative features of the International Financial Reporting

Standards Conceptual Framework. We adopt a real-life dataset of 43 2017/2018 annual reports pooled from the websites of the 43 KwaZulu-Natal municipalities. The results of the study indicate that the quality of the KwaZulu-Natal municipalities' annual reports is quite satisfactory. However, there is scope for enhancement as far as the quality of the annual reports is concerned. According to the author's knowledge, this study is the first piece of research work conducted in such a study.

The rest of the study is organized into these sections. Section 2 provides a synopsis of the methodology employed in this study. Section 3 analyses the sample and data, and Section 4 describes the experimental results. Lastly, Section 5 concludes the article and provides directions for future research.

Research Methodology

The Research Tool

We adopt a 21-index research tool designed by Beest, Braam, and Boelens (2009) to analyze the usefulness or quality of annual reports formulated by the municipalities in decision-making and accountability in KwaZulu-Natal province in South Africa (See Appendix A). Beest, Braam, and Boelens (2009) developed this research instrument as an answer to the entreat of IASB and FASB to allow the qualitative features of financial reports to be measurable. The 21-index research instrument assesses the financial reports' usefulness or quality by appraising the degree to which every financial report achieves each of the qualitative features. These qualitative characteristics are classified into two, i.e., fundamental qualitative features (i.e., relevance and faithful representation) and enhancing qualitative characteristics (i.e., comparability, understandability, and timeliness) (see Mboobo and Ekpo, 2016; Beest, Braam and Boelens, 2009). To evaluate the quality of financial statements, each question on the research instrument is examined by implementing a five-point Likert scale (see Beest, Braam, and Boelens, 2009). The respondents classify on the Likert scale from '1 – the poor quality or poor compliance' to '5 - the high quality or high compliance'. This methodology is associated with several advantages.

Available literature indicated that the 21-index research tool is a robust, valid, and reliable measurement instrument and is comparable to other quality assessment tools (see Beest, Braam, and Boelens, 2009).

The Sample Population

This study assesses the usefulness or quality of the annual reports designed by municipalities in the KwaZulu-Natal province (South Africa) in promoting accountability and decision-making. The yearly reports of interest are pooled from the websites of the municipalities. Annual reports for the financial year 2017/18 are utilized. Our initial sample has 54 KwaZulu-Natal province municipalities. We exclude municipalities that have not published their annual reports on their websites from our analysis. To guarantee the validity of the research findings, only audited annual reports are included in this experiment. After data cleaning, our final sample has 43 municipalities.

We assess the quality of the municipal financial reports by appraising the degree to which every financial report achieves fundamental qualitative features (i.e., faithful representation and relevance) and enhancing qualitative characteristics (i.e., comparability, understandability, and timeliness) qualitative features. Fundamental elements mould the substance of FR information, whereas enhancing qualitative features augments decision-usefulness once the fundamental features are instituted. Relevance is the ability "to make a difference in the decisions made by users in their capacity as capital providers" (IASB, 2008). Also, IASB (2015) indicated that relevance is when information can impact the decisions of users of financial reports. Annual reports should be neutral, free from substantial error, and all-embracing to epitomize the economic phenomena faithfully that information claims to represent (IASB, 2015, 2008). IASB (2006) opined those economic phenomena embodied in the annual reports are "economic resources and obligations and the transactions and other events and circumstances that change them." Understandability is when the quality of the information is characterized, categorized, and portrayed distinctly and succinctly to permit users to grasp its meaning (IASB, 2015, 2008; Beest, Braam, and

Boelens, 2009). Comparability "is the quality of information that enables users to identify similarities in and differences between two sets of economic phenomena" (IASB, 2008). Beest, Braam, and Boelens (2009) propounded that comparability implies that identical things must be portrayed in the same manner, whereas diverse conditions must be portrayed in a different way and IASB (2015) postulated that comparability involves consistency when it comes to the implementation of accounting standards across time and institutions. Lastly, IASB (2015, 2008) proposed that "timeliness means having information available to decision-makers before it loses its capacity to influence decisions." Further, Mbobo and Ekpo (2016), Beest, Braam, and Boelens (2009), and IASB (2008) suggested that timeliness denotes the number of days or weeks, or months, from the institution's year-end, it takes for the institution to divulge its audited reports.

Data Analysis

The 21-index measurement instrument was created in order to operationalize the qualitative features of the International Financial Reporting Standards Conceptual Framework. We adopt a real-life dataset of 43 annual reports from the 2017/2018 period selected from the websites of the 43 KwaZulu-Natal municipalities in South Africa.

We use Krippendorff's alpha to test the inter-rater reliability and Cronbach's alpha to test the internal consistency reliability of the instrument. Krippendorff's alpha assumes a value of 0.79. This value shows that the results generated by the instrument are reliable. On the other hand, Cronbach's alpha assumes a value of 0.74. This value implies that the implemented instrument is reliable and valid when it comes to the examination of the financial reports' quality.

Research Limitations

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.

Findings and Discussion

In this section, we examine the findings of this. We present our result according to fundamental and enhancing qualitative features, i.e., faithful representation, relevance, understandability, timeliness, and comparability.

Relevance

Table 1 below indicates the descriptive statistics for Relevance qualitative characteristics. It denotes the mean, median, mode, and standard deviation values for the Relevance qualitative characteristic based on the adopted sample.

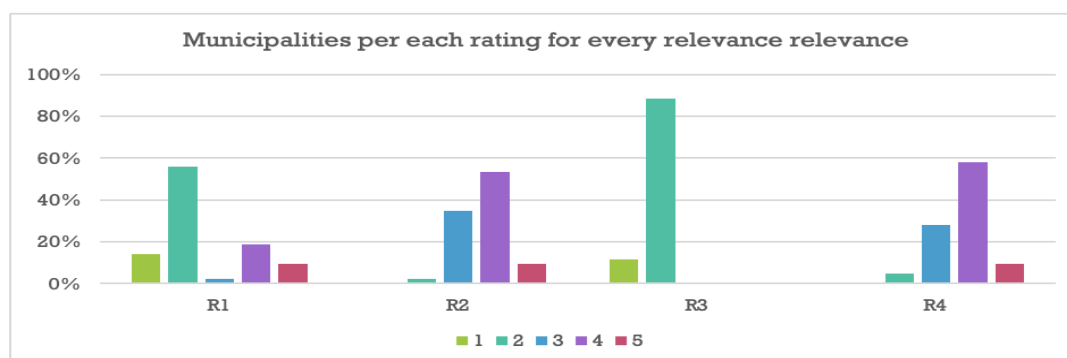
Table 1 Relevance qualitative characteristic descriptive statistics

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: Researchers' computation (2022) using SPSS version 27.

Figure 1 shows municipalities' proportion per rating for every relevant measure.

Figure 1 Municipalities per each rating for every relevant measure



Source: Researchers' analysis output.

Table 1 shows that the average for the mean is 2.96, which designates that, as per the relevance qualitative feature, the annual reports' usefulness is acceptable. The mean rating for R1 is 2.53, indicating that most organizations provide forward-looking material in their yearly reports. Nevertheless, the given material does not permit widespread forecasts essential for generating anticipations. Fig. 1 shows that, for R1, 70% of the municipalities have a score of at least 2. For R2, the mean rating is 3.70, and 64% of the organization attain ratings of 2 and 3, as indicated in Fig. 1. This implies that a good number of annual reports offer non-financial information in the context of business opportunities and risks. We posit that 64% of the provided annual reports provide scarce non-financial information without valuable prospects. R3 is associated with a mean score of 1.88, with most municipalities obtaining a score of 2 (see Fig. 1). Fig 1 shows that 98% of the organizations implement historical costs when generating financial statements, adversely affecting the forecasting values.

On the other hand, 2% of the organizations employ fair values. The mean rating for R4 is 3.72, and 86% of the organizations are associated with ratings between 3 and 4 (see Fig. 1). This mean rating of 3.72 indicates that a good number of the organizations' annual reports provide feedback to users that assist them in comprehending how several market incidents and substantial transactions impact the organizations' performance.

Faithful Representation

Table 2 below shows the descriptive statistics for the faithful representation of qualitative characteristics. It presents the mean, median, mode, and standard deviation values for the faithful representation of qualitative features based on the employed sample.

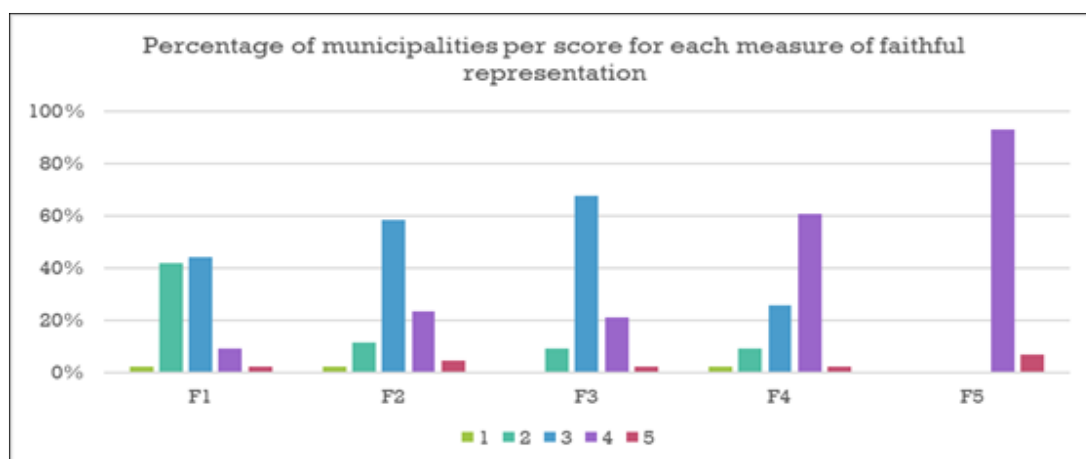
Table 2 Faithful representation qualitative characteristic descriptive statistics

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: Researchers' computation (2022) using SPSS version 27.

Figure 2 shows the fraction of organizations per rating for every faithful representation measure.

Figure 2 Municipalities per rating for each faithful representation measure



Source: Researchers' analysis output.

Table 2 indicates that the average mean is 3.31, meaning that the municipalities' annual reports are robust in a faithful representation of information. For F1, the mean rating is 2.67, and most organizations are related to the rating of 3 (see Fig. 2). The mean rating of 2.67 indicates that the organizations offer average valid opinions to back up the decisions for specific estimates or assumptions in the annual reports.

F2 is associated with a mean rating of 3.16, with most organizations getting a rating of 3 (see Fig 2). This shows that municipalities establish their selections for accounting tenets on binding opinions. Similar to the mean score for F2, the mean score for F3 is

3.16. This designates that a good number of organizations underscore both negative and positive episodes in the deliberations of the annual results. For F4, the mean score is 3.51, and a good number of the organizations have ratings between 3 and 4 (see Fig. 2). As a result, we conclude that many reports from auditors incorporated into the yearly reports contain adverse to unqualified audit opinions. For F5, the mean rating is 4.07, 93% of the organizations have a rating of 4, and 7% are associated with a rating of 5, with little to no organizations getting values of 1, 2, and 3, respectively. These ratings designate that, to a larger extent, many municipalities offer information pertaining to corporate governance in their yearly reports.

Understandability

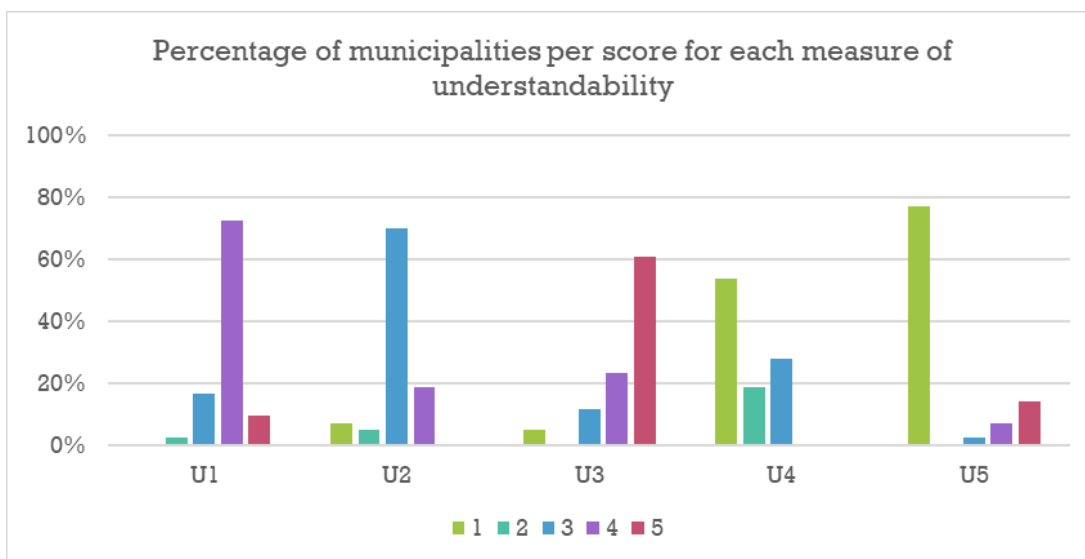
Table 3 below presents the descriptive statistics for the qualitative understandability feature. It portrays the mean, median, mode, and standard deviation values for the qualitative understandability characteristic based on the adopted sample.

Table 3 Understandability of qualitative characteristic descriptive statistics

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: Researchers’ computation (2022) using SPSS version 27.

Figure 3 below shows the proportion of the organizations per each rating for each understandability measure.

Figure 3 Municipalities per each rating for each understandability measure

Source: Researchers' analysis output.

Table 3 shows that the average mean rating for understandability is 2.96. This implies that the annual reports' understandability is satisfactory. U1 is associated with a mean rating of 3.88. For U1, 72% of the municipalities have a score of 4 (see Fig. 3). This shows that these organizations present well-organized yearly reports, with systematic conclusion sections and summaries articulated at every subsection's end. U2 has a mean score of 3, implying that the notes to the financial statements, i.e., the income statement and the balance sheet, are adequately clear and understandable. Various terms are elucidated. For U3, the mean rating is 4.35, and 84% of these organizations are associated with a rating that is greater than 3 (see Fig. 3). This signifies that many municipalities effectively and efficiently implement tables and graphs to illuminate the displayed information. For U4, the mean rating is 1.74, and 72% of these organizations are linked to a rating of between 1 and 2 (see Fig. 3). The conclusion here is that most municipalities employ technical jargon and language that is not easy to comprehend. Only 18% of the yearly reports incorporate exceptional clarifications with a small amount of jargon that is well elucidated. U5 is associated with a mean rating of 1.81, with 77% of these organizations having a rating of 1 (see Fig. 3). This shows that 77% of these organizations do not offer a glossary to assist users in comprehending the terms employed in the yearly reports.

Comparability

Table 4 below presents the descriptive statistics for qualitative comparability characteristics. It shows the mean, median, mode, and standard deviation values for the qualitative comparability characteristic based on the employed sample.

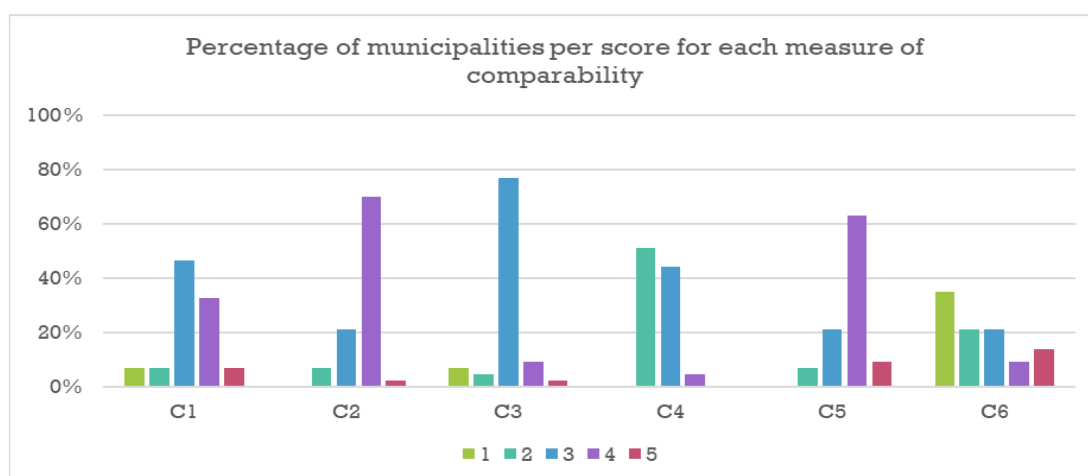
Table 3 Comparability qualitative characteristic descriptive statistics

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: Researchers' computation (2022) using SPSS version 27.

Figure 4 shows the organizations' fraction per rating for each comparability measure.

Figure 4 Municipalities per each rating for each comparability measure



Source: Researchers' analysis output.

Comparability is associated with an average mean score of 3.10. This implies that the yearly reports function satisfactorily as far as comparability is concerned. For C1, the mean rating is 3.26, and 79% of the annual reports are associated with the ratings of 3 and 4. The notes related to modifications in accounting policies well elucidate the inferences of the changes. For C2, the mean rating is 3.67, and most of the municipalities are associated with a rating of 4 (see Fig. 4). This finding indicates that many of these organisations provide remarks to amendments in accounting forecasts and judgments that expound the amendments' inferences. For C3, the mean rating is 3, and 77% of the organizations have a rating of 3 (see Fig 4). This means that most municipalities restate their preceding accounting figures for merely one year for the influence of the application of a modification in accounting policy or amendments in accounting forecasts. For C4, the mean rating is 2.53, and 95.30% of the municipalities are associated with ratings of 3 and below (see Fig. 4). This indicates that a large number of these organizations do not compare the results of the present accounting period with preceding financial reports from at least two years. For C5, the mean rating is 3.74, and 61% of the municipalities have a rating of 4. This finding shows that the information given in yearly reports by many of these organizations is comparable to the information given by other municipalities. For C6, the mean rating is 2.47, and 76.7% of the municipalities are associated with the ratings of 3 and below. This indicates that numerous municipalities present limited financial ratios and index numbers in their yearly reports.

Timeliness

Table 5 below presents the descriptive statistics for the qualitative timeliness characteristic. It portrays the mean, median, mode, and standard deviation values for the qualitative timeliness feature based on the adopted sample.

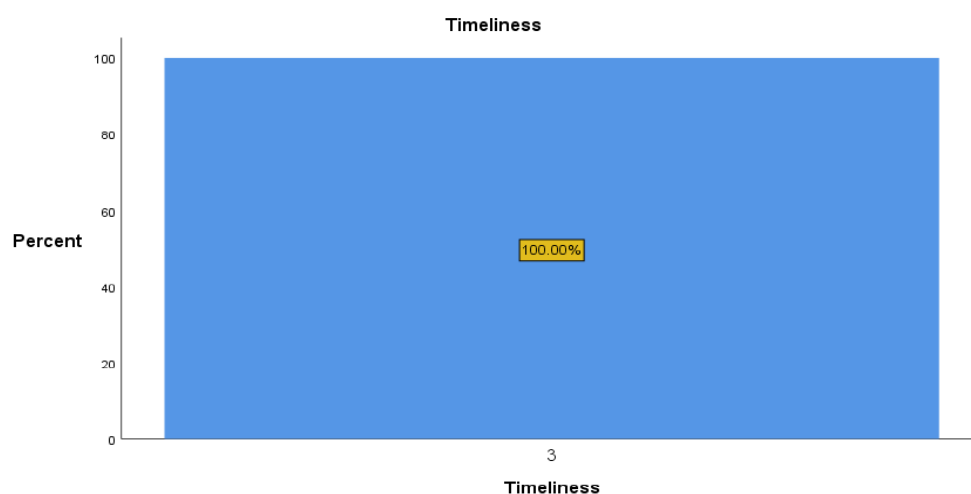
Table 4 Timeliness qualitative characteristic descriptive statistics

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: Researchers' computation (2022) using SPSS version 27.

Figure 5 indicates the fraction of organizations per each rating for timeliness.

Figure 5 Municipalities per each rating for the timeliness



Source: Researchers' analysis output.

For timeliness, the mean rating is 3. This indicates that all organizations, i.e., 43 municipalities, comply with the time horizon of 7 months. The municipalities are expected (see MFMA 56 of 2003) to publish their yearly reports within seven months from the end of the financial year.

Factor Analysis

This study conducts a principal component analysis (PCA) to comprehend the associations between the recognized factors. The PCA is performed on each index, not including T1 since its cases or entries are constant, Therefore, it is unfeasible to calculate the correlation coefficients related to T1. To establish how suited the experimental data is for factor analysis, we implement Bartlett's sphericity test and Kaiser–Meyer–Olkin (KMO) test (see Table 6).

Table 6 Kaiser–Meyer–Olkin test and Bartlett's sphericity test

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

Source: Researchers' computation (2022) using SPSS version 27

The KMO value is 0,678, and the p-value from Bartlett's test of sphericity is lower than our significance level of 0.01 (i.e., $p < 0.01$). This shows that our dataset is appropriate for a data reduction technique, i.e., PCA. The correlations between items are satisfactorily huge for PCA. To estimate the number of components, we use the Kaiser rule, i.e., to eliminate all components with eigenvalues under 1.0. We then verify the result by implementing a scree plot. Our factor rotation method for this PCA is Oblimin with Kaiser Normalization. We adopt a rotated factor loading of at least $|0.4|$ (i.e., $\geq +0.4$ or ≤ -0.4).

Table 7 below is the total variance explained table, and Fig. 6 is the scree plot.

Table 5 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: Researchers' computation (2022) using SPSS version 27.

The figure 6 below shows the scree plot

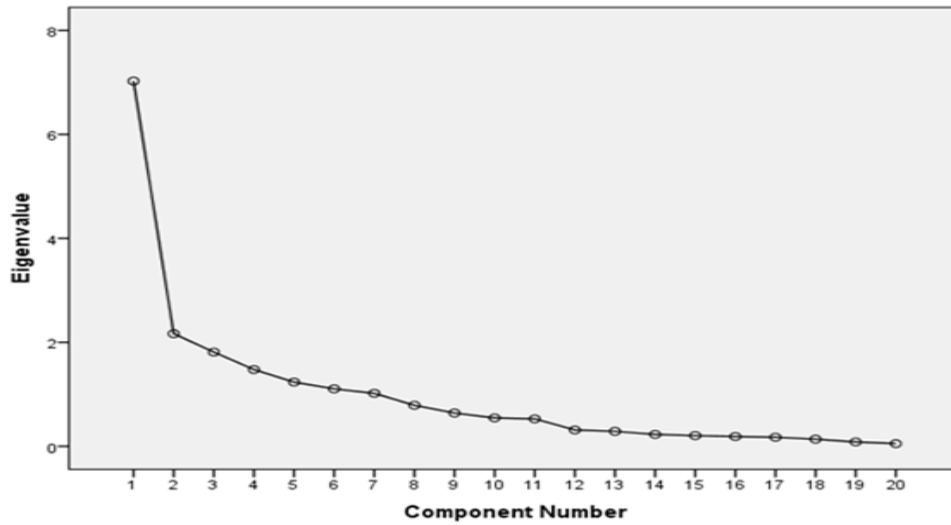


Figure 1 Scree plot

Source: Researchers' analysis output.

Table 7 and Fig. 6 indicate that only seven components are associated with eigenvalues that are higher than 1.0 and these components are responsible for 79.18% of the aggregate variance in the gathered data. The percentages of variances attributed to each component range from 5.09% (component 7) to 35.13% (component 1).

Table 8 shows that these seven components are responsible for more than half of the total variance in every index, as indicated by the communality's values.

Table 6 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: Researchers' computation (2022) using SPSS version 27.

Table 9 indicates the pattern matrix that holds the loadings. Factor loadings suggest that components 1, R1, R4, U1, C4, and C5 are associated with high positive loadings; on Component 2, U4 and U5 are related to high positive loadings; and on component

3, U1, U2, C1, and F2 are characterized by high negative loadings. On the other hand, on component 3, C3 is associated with high positive loading. Further, in component 4, C2 and R3 are characterized by high positive loadings; in component 5; C2, F1, and F4 are related to high positive loadings; and in component 6, R2, U3, C6, and F3 are associated with high loadings. Lastly, on component 7, F5 is the only index characterized by a high positive loading.

Table 7 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: Researchers' computation (2022) using SPSS version 27.

Table 10 indicates the structure matrix that holds the correlations between the factors and the indexes.

Table 8 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 significant 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 clarify 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	.097	-.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 municipality 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 results 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: Researchers' computation (2022) using SPSS version 27.

The component correlation matrix below (see Table 11) displays middling correlations between the components.

Table 9 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: Researchers’ computation (2022) using SPSS version 27.

Table 12 displays a list of the components and their eigenvalues, percentages of variance explained, Cronbach's alpha values, and scale statistics.

Table12 Reliability analysis of the 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: Researchers’ computation (2022) using SPSS version 27.

Table 12 displays the Cronbach's Alpha values associated with each of the seven components. The Cronbach's alpha values for the components are satisfactory. They range from 0.69 to 0.81, except for component 4, which is associated with a Cronbach's Alpha value of 0.57. These values imply that all items under every component are worthy of being retained.

Discussion of the 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 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 one 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 two only using 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 of 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 consistency in the presentation of information. According to ASB (2017), the usefulness of information is enhanced by consistent accounting policies or procedure applications (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 present 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's 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 helpful 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.

Conclusions

In this study, we employed a 21-index research tool designed by Beest, Braam, and Boelens (2009) to analyze the usefulness or quality of annual reports formulated by the municipalities in the context of decision-making and accountability in KwaZulu-Natal province in South Africa. The 21-index measurement instrument was created to operationalize the qualitative features of the International Financial Reporting Standards Conceptual Framework. We adopted a real-life dataset of 43 2017/2018 annual reports pooled from the websites of 43 KwaZulu-Natal municipalities. The results of the study indicated that the quality of the KwaZulu-Natal municipalities' annual reports is quite satisfactory. However, there is scope for enhancement as far as the quality of the annual reports is concerned.

Although this current experiment has produced some interesting results, it can be extended in different ways. The study was restricted to municipalities located in the

KwaZulu-Natal province (South Africa). As a result, the study could be expanded by adopting a huge dataset of South African municipalities pooled over a long period of time. The study may also be extended by including the assessments of other imperative interested parties, such as suppliers, creditors, and employees of the municipalities that are actively implicated in the processes of decision-making.

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Appendix A 21-index quality assessment instrument

Characteristic one: Relevance (R)

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

Characteristic two: Faithful representation (F)

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

Characteristic three: Understandability (U)

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

Characteristic four: Comparability (C)

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

Characteristic five: Timeliness (T)

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