

**Perceptions of South African Chartered Accountants' and Registered Auditors'
value in investment decision making**

by

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DECLARATION

I, Edson Chawaremera (UFS student number 2018643433) declare that the field study, *perceptions of South African Chartered Accountants' and Registered Auditors' value in investment decision making'*, hereby handed in for the qualification Master's in Business Administration at the University of Free State Business School at the University of the Free State is my own independent work and that I have not previously submitted the same work, either as a whole or in part, for a qualification at or in another university or faculty.

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ABSTRACT

The purpose of this study is to establish if asset management firms, as a select group of investors, perceive the work of Chartered Accountants (CAs) and Registered Auditors (RAs) to be valuable in the investment decision making process. The study conceptualised value through literature review. The study further seeks to gather recommendations for improving or maintaining the investors' perceptions of South African Chartered Accountants' and Registered Auditors' value in the investment decision-making process.

A qualitative research approach that allowed multiple individuals or participants, who experience similar events to tell their stories without any distortions or persecutions, was followed. Data collection was done using a semi-structured interview approach. The open-ended questions embedded in interview questions allowed responses that gave breadth and representative coverage. A semi-structured interview was the most appropriate research approach to complement the qualitative research design. The method allows the researcher to collect open-ended data, to explore participant thoughts, feelings and beliefs about the research topic and to delve deeply into personal and sometimes sensitive issues.

A total of 11 out of 23 participants that were considered for the study were interviewed. The analysis of the data gathered during the interview indicated that investors considered qualified CAs or RAs to be competent professionals. The investors considered that it is through the qualification and competencies of CAs and RAs that the CAs and RAs provide the services that provide value for investment decision making. The information relevant for investment decision making includes audited financial information. Where necessary, it was considered that CAs and RAs need to make use of specialists when executing their roles to ensure adequate value is realised.

In terms of investor expectations and value, it was noted that investors consider CAs and RAs to be generally ethical professionals. The investors expect RAs to be independent when conducting audit responsibilities. To ensure independence, the investors advocate for Mandatory Audit Firm Rotation (MAFR). As a result, CAs and

RAs are not considered to be generally corrupt or professionals who engage in acts of misconduct.

The participants recommend action, which includes harsher penalties and sanctions against CAs or RAs who are found guilty of misconduct. The study recommended further studies to be done to: 1) determine if there are professionals with qualifications other than those of CAs and RAs who can provide value equivalent to that which is being provided by CAs and RAs in investment decision making; 2) determine if the transparency of audit approaches followed by auditors adds value to the investment decision-making process; and to 3) deduce quantitative and qualitative materiality from an investor perspective when it comes to investment decision making.

The results of this study add to the existing body of knowledge about the work of CAs and RAs, including its relevance to the investment decision-making process. The results of this study could also assist the Independent Regulatory Board on Auditors (IRBA) and the South African Institute of Chartered Accountants (SAICA) in identifying ways to sustain or enhance the professional reputation of the accounting and auditing profession. The SAICA can use the findings of the study to make informed decisions on training, products and services for the development of SAICA members, specifically in the Investment industry.

Keywords: Financial information, investment, securities, auditing, accounting, preparers, users, Chartered Accountants, Auditors, investors, fraud, misconduct and perception

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LIST OF ABBREVIATIONS

ACCA – Association of Chartered Certified Accountants
ADP - Audit Development Programme
AGSA – Auditor-General of South Africa
APC – Assessment of Professional Competence
ASISA - Association for Savings and Investment South Africa
CA – Chartered Accountant
CA (SA) - Chartered Accountant (South Africa)
CEO – Chief Executive Officer
CFO – Chief Financial Officer
CIMA - Chartered Institute of Management Accountants
CISCA - and the Collective Investment Schemes Control Act
CPC – SAICA and IRBA Code of Professional Conduct
CTA – Certificate of Theory of Accounting
FASB – Financial Accounting Standards Board
FSB - Financial Services Board
IAASB - International Auditing and Assurance Standards Board
IAS – International Accounting Standard
IASB – International Accounting Standards Board
IFRS – International Financial Reporting standards
IRBA – Independent Regulatory Board of Auditors
ISA – International Standard on Auditing
ISQC - International Standards on Quality Control
ITC – Initial Test of Competence
JSE - Johannesburg Stock Exchange
KAM – Key Audit Matters
MAFR - Mandatory Firm Rotation
MBA – Master in Business Administration
PGDA – Post Graduate Diploma in Accounting
PwC – PricewaterhouseCoopers
RA – Registered Auditor
RSA - Republic of South Africa
SAA – South African Airways
SAICA – South African Institute of Chartered Accountants

SARS- South African Revenue Services

VBS - Venda Building Society

WEF – World Economic Forum

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CHAPTER 1 – INTRODUCTION AND BACKGROUND

1.1 INTRODUCTION AND BACKGROUND

Investors consider, among other things, prospective investee's entrepreneurial characteristics, product or services, market characteristics, management skills, financial consideration, economic environment and the institutional and regulatory environment when making investment decisions (Dhochak & Sharma, 2016:964). When investors consider the financial aspects during the investment decision-making process, they make use of financial information (International Financial Reporting Standards (IFRS) Conceptual Framework, 2018:5). To add credibility to financial information, usually, the investors prefer the financial information to be audited before use (Johannesburg Stock Exchange (JSE) Service Issue 24, 2018:section 3.19; Okere et al., 2017:181). However, the information below suggests that there might be a problem in trusting the services of certain Chartered Accountants (CAs) who compile financial information and Registered Auditors (RAs) who audit the financial statements.

1.1.1 Concerns with services of Chartered Accountants and Registered Auditors

The World Economic Forum (WEF) ranked South African auditing standards 30th out of 137 countries during the 2017-2018 review (Engelbrecht & Botha, 2018:par 1). South Africa had held the first position for seven consecutive years before dropping to the 30th position (Engelbrecht & Botha, 2018:par 1). The drop of South Africa's position in the ranking was caused by audit firms and RAs who violated the Independent Regulatory Board for Auditors' (IRBA) Code of Professional Conduct (Engelbrecht & Botha, 2018:par 4). According to Agulhas (2017a:par 3), the drop in the ranking contributed to South Africa being perceived as a bad investment destination. The perception resulted in a decline in investments into the South African economy (Agulhas, 2017a:par 3). The facts of the matter above imply that RAs play a crucial role in South Africa's capital and financial markets (Agulhas, 2017a:par 2).

Several corporate scandals have been reported in South Africa during the past number of years where CAs and RAs have been involved. The scandals involved the Venda Building Society (VBS) Bank, Steinhoff, Trillian, the South African Revenue Services

(SARS), Linkway Trading, Eskom, Tongaat, African Bank, South African Airways (SAA) and several audit firms. The involvement of CAs and RAs is briefly discussed below.

One of the four big global audit firms, KPMG, was accused of audit malpractices in what is termed the “VBS Mutual Bank scandal” or “VBS looting” (Mahlaka, 2019:par 5). The then KPMG audit engagement partner is believed to have signed audit reports that misrepresented the financial affairs of VBS Mutual Bank (Mahlaka, 2019:Par 6). The audit partner knew that the 2017 annual financial statements of VBS Mutual Bank contained elements of fraud, but did not report such information in the audit report (Mahlaka, 2019:par 6). The actions of the RA contributed to the VBS Mutual Bank’s investors and depositors losing their investments and deposits, respectively, amounting to an estimated R2 billion (Mahlaka, 2019:par 1). The loss of funds by depositors and investors came as a result of KPMG RA colluding with VBS Mutual Bank executives and non-executive directors to defraud or loot the bank (Mahlaka, 2019:par 5-6). The incident was an example of failure by some CAs and RAs at KPMG to provide investors with an assurance that they can be relied on as assurance providers (Mahlaka, 2019:par 5).

KPMG also conducted a forensic investigation into the establishment of the so-called illegal South African Revenue Service (SARS) spy unit (Nicolaides, 2017:par 1). The forensic investigation report suggested that the then SARS commissioner knew about its establishment at the time the illegal spy unit was formed (Nicolaides, 2017:par 5). The KPMG report needed to be accurate, as it impacted on the reputation and career of the then SARS commissioner who was a Minister of Finance at the time of its publication (Nicolaides, 2017:par 2). However, it turned out that KPMG did not conduct the forensic investigation with diligence and care (Nicolaides, 2017:par 1). The forensic investigation report’s contents had already affected the career of the Minister of Finance by the time it became clear that the investigation was not done with diligence and care (Nicolaides, 2017:par 1). This is attested by the fact that KPMG had to withdraw the report with its findings and recommendations after it had admitted to not having conducted the investigation properly (Nicolaides, 2017:par 1). The firm also admitted to having drafted the forensic investigation report improperly - leading to its misinterpretation (Nicolaides, 2017:par 1). As a result, KPMG offered to pay back

R23 million to SARS for the work it did (Nicolaidis, 2017: par 9). The KPMG Chief Executive Officer (CEO) had to resign as a result of the improper conduct of the firm (Nicolaidis, 2017:par 3).

The IRBA found a former KPMG RA guilty of violating 31 auditing standards (Buthelezi, 2019:par 3). The allegations against the RA included turning a blind eye to the fact that a company called Linkway Trading, of which he was an RA, classified private wedding expenses as tax-deductible expenses (Buthelezi, 2019:par 2). The RA was also found to have been dishonest during the conduct of his duties (Buthelezi, 2019:par 1-3). The charges against the RA are linked to the Estina dairy project and its government funding (Buthelezi, 2019:par 2). The government of South Africa funded the Estina dairy project in the Free State province to assist and empower disadvantaged Free State farmers (Buthelezi, 2019:par 2). Buthelezi (2019:par 2) suggested that the government funding was diverted to a Gupta-owned company called Linkway Trading, where it was used to pay for private wedding expenses. The IRBA investigation found that the RA did not report the accounting irregularities by Linkway Trading and the fraud related to the Estina dairy project funding. The RA was found to have perpetuated the crime by assisting Linkway Trading to restate R6.9 million in hotel and accommodation expenses as the cost of sales thereby defrauding SARS of R2 million in tax revenue (Buthelezi, 2019:par 2). The KPMG RA was fully aware of the illegality of his actions having been advised against such actions by a tax specialist at the firm (Buthelezi, 2019:par 2). The charges against the RA were severe, since he ended up being deregistered as an RA and had to contribute R3.13 million towards what IRBA spent during the investigation (Buthelezi, 2019:par 4).

The accounting irregularities at Steinhoff International led to its shares losing close to 99% value since 2016 (Wasserman, 2019:par 1). Steinhoff's share price plummeted from R93.23 per share in January 2016 to R0.84 in January 2020 (Marketwatch.com:n.d.). The CEO and Chief Financial Officer (CFO) were alleged to have been involved in the fraudulent accounting practices, which led to Steinhoff International losing R250 billion share value (Wasserman, 2019:par 2). The CEO and CFO were involved in fraud, corruption, bribes and kickbacks that led to the company paying inflated prices for leases and products it ordered for resell (Rose, 2018:par 12

-14). The accounting irregularities at Steinhoff were hidden in sophisticated accounting transactions that included related parties (Rose, 2018:Par 49). The alleged involvement of the CFO and CEO, both of whom were members of the South African Institute of Chartered Accountants (SAICA), in the accounting irregularity at the company raised concerns regarding reliability, professional behaviour and integrity of the CAs (Cameron, 2018a:par 1; Niselow, 2018:par 2-3). As a CA and RA, the CEO failed to comply with SAICA and IRBA Codes of Professional Conduct (CPC) and was subsequently subjected to a disciplinary hearing (Niselow, 2018:par 2-3).

In 2018, Nkonki Incorporated voluntarily liquidated its operations after the Auditor-General South Africa (AGSA) decided to cancel contracts with the firm (Cowan, 2018:par 1). This was after the then Nkonki Incorporated's CEO was alleged to have received R107 million from a Gupta-linked Salim Essa through a controversial consulting firm called Trillian to buy out Nkonki Incorporated (Cowan, 2018:par 8). Nkonki Incorporated is believed to have been awarded contracts at Eskom that run into hundreds of millions of Rands through irregular procurement processes soon after linking up with Trillian (Cowan, 2018:par 8). The alleged linkage of Nkonki Incorporated's CEO, who was an RA and a CA, to the Gupta family and Trillian raised concerns over his integrity and objectivity (Cowan, 2018:par 1). The Gupta family is believed to be at the heart of South Africa's state capture; hence, the association of the Nkonki CEO and Gupta family was a cause for concern (Sharife & Anderson, 2019:par 2). The articles implied that Nkonki CEO's involvement with the Gupta family meant that he was involved in some of the allegations labelled against the Gupta family, including the alleged state capture (Sharife & Anderson, 2019:par 2). Therefore, the CEO could not be regarded as an ethical RA (Sharife & Anderson, 2019:par 2).

Another firm of CAs and RAs, Deloitte, is alleged to have been improperly awarded contracts by the South African power provider, Eskom (Toyana 2019:par 1). A statement by the former acting CEO of Eskom as quoted by Toyana (2019:par 6) reads as follows, *"Information before us shows that Deloitte engaged in activities that were unfair, inequitable, non-transparent and uncompetitive using off-the-record briefings with Eskom officials to submit proposals, and were granted contracts even though their pricing was way above their competitors"*. News reported that Eskom is seeking to

recover R207 million in connection with contracts alleged to have been improperly awarded to Deloitte (Toyana 2019:par 4). Eskom wanted the batch of tenders or contracts awarded to Deloitte to be declared unlawful and unconstitutional (Toyana 2019:par 5). The allegations against Deloitte suggest that the firm was engaged in corrupt activities that led them to be awarded contracts at inflated prices (Comrie, 2020:par 11-15). Any forms of corruption and illegal activities are against the duties of CAs and RAs to maintain professional behaviour (IRBA Code of Professional Conduct, 2009:20-30; SAICA Code of Professional Conduct, 2018:7 and 35-36).

Another corporate scandal involved Tongaat Hulett. The scandal highlighted several corporate governance failures and misconduct by senior executives of Tongaat Hulett (Lowman, 2019:par 13 - 27). PricewaterhouseCoopers (PwC) was tasked to investigate the alleged accounting irregularities at Tongaat Hulett. The investigations uncovered, among others, creative accounting - which included overstatement of revenue, inappropriate capitalisation of assets, financial reporting misstatements and overstatement of assets (Lowman, 2019:par 13- 27). The allegations of accounting irregularities implicated the CFO and finance executives of Tongaat Hulett (Lowman, 2019:par 30). The then auditor of Tongaat Hulett, Deloitte, admitted that the firm might need to restate its 2018 Annual financial statement (Thakur, 2019:par 12). However, Deloitte, as the assurance provider and auditor of Tongaat Hulett, did not raise any red flags until the irregularities were reported by a whistleblower and confirmed by PwC's investigation (Cameron, 2019:par 7-8). The matter raised concerns over the quality of assurance being provided by RAs in public practice (Cameron, 2019:par 7-8).

Deloitte has been subjected to a disciplinary inquiry by IRBA over its role in the demise of the African Bank (Thakur, 2019:par 12). African Bank was placed under curatorship by the Reserve Bank of South Africa in 2014 (Thakur, 2019:par 12). The charges against Deloitte was for overlooking its own report that raised concerns about the Bank's overestimation of forecasted cash flows (Thakur, 2019:par 12). Despite the red flags, Deloitte signed off on the audit report of the Bank without highlighting the issues in the audit report (Thakur, 2019:par 12).

PwC is alleged to have overlooked failures in procurement processes at the SAA (Thakur, 2019:par 13). This resulted in the firm being ordered to pay R200 000 in fines, though R50 000 was suspended (Thakur, 2019:par 13). In 2018, the SAICA disciplinary committee found the former director of PwC, in his capacity as Internal Auditor of South African Airways (SAA), guilty of failing to declare a conflict of interest when he chaired the disciplinary hearing at SAA (Slabbert, 2018:par 2). It is alleged that there was an undisclosed conflict of interest between the PwC director and the accused (Slabbert, 2018:par 2). SAICA alleged that the director breached the CPC's provisions relating to conflicts of interest, the requirement to act in the public interest and to act with integrity, objectivity and professionally (Crotty, 2018:par 1). The accused, who is also a CA, was alleged to have acted improperly in the process of awarding a tender during the time he was a consultant of SAA's subsidiary, Air Chefs (Slabbert, 2018:par 7).

In 2019, SAICA suspended the membership of former Eskom CFO, who was a CA (Quintal, 2019:par 1). Several charges were laid against the CFO, which led to the suspension (Quintal, 2019:par 4-5). The CFO was accused of not disclosing to the Eskom board the true reason why the Gupta-owned Tegeta Exploration and Resources requested R600 million from Eskom (Quintal, 2019:par 4). Quintal (2019:par 4) suggested that there were no justifiable reasons to grant Tegeta Exploration and Resources a R600 million loan, since it was denied a similar loan by South Africa's major banks. Eskom granted the loan to Tegeta Exploration and Resources anyway. As a result, SAICA charged the CFO for failure to comply with laws and regulations (Quintal, 2019:par 4). Also, the CFO is alleged to have played a pivotal role in the looting of Eskom by the Gupta family and their associates (Quintal, 2019:par 3). SAICA suggests that as a member of SAICA, the CFO should have known better - not to be an accomplice in the illegal activities at Eskom (Quintal, 2019: par4). As a result, the CFO was charged for not avoiding conduct that had the possibility of discrediting the Chartered Accountancy profession and SAICA (Quintal, 2019:par 4).

In response to the involvement of CAs and RAs in corporate scandals, accounting and auditing standards had to either be changed or introduced (Cameron, 2018b:par 5-19). Revisions were made to the International Accounting Standard 24 (IAS 24: Related Party Disclosures) that deals with related party transactions and disclosure

and International Standards on Auditing 550 (ISA 550: Related Parties) that deals with the audit of related party balances and transactions (Cameron, 2018b:par 5-19). IFRS 9: Financial Instruments, IFRS 15: Revenue from Contracts with Customers and IFRS 16: Leases, were introduced after the Enron scandal (Cameron, 2018b:par 5-19). The Enron scandal was similar to the scandals noted above, because it involved related parties, accounting irregularities and accounting firms with Certified Public Accountants who are equivalent to CAs in South Africa (Cameron, 2018b:par 5-19).

Cameron (2018b:par 5-19) highlighted some concerns that arose in the industry when CAs and RAs were in a position of trust. These concerns include overstatement of revenue for reasons motivated by bonus payments (Cameron, 2018b:par 6). The main concerns relate to transactions with related parties (Cameron, 2018b:par 7-19). Executives were noted to have engaged in related party transactions that do not have an economic rationale to the entity and its shareholders (Cameron, 2018b:par 5-19). ISA 550 further complicates the concerns regarding related party transactions (Cameron, 2018b:par 17-19). This is because ISA 550 leaves room for the RA to use professional judgement in determining which related party transactions are significant, hence requiring more audit attention (Cameron, 2018b:par 17-19). Therefore, certain RAs abuse this discretion by overlooking significant related party transactions (Cameron, 2018b:par 17-19).

In 2017, the Government Gazette published the new prescription that Auditors of public interest entities have to apply Mandatory Audit Firm Rotation (MAFR) with effect from 1 April 2023 (Agulhas, 2017b:par 1). The MAFR rule was issued in response to partly a lack of auditor independence, a decline in audit quality and to protect the investing public (Agulhas, 2017b:par 1-5). It is important to note that these changes were brought about at a time South Africa was ripe with scandals in the audit industry - which involved KPMG, Deloitte, PwC and Nkonki Incorporated (see above).

The scandals identified above raise concerns over the integrity, objectivity, professional behaviour, professional competence and due care of RAs and CAs when providing professional services. The concerns have the potential to alter investors' confidence in the work of CAs and RAs. Most of the corporate scandals involving CAs identified above violate the SAICA CPC and those involving RAs violate both the IRBA

CPC and SAICA CPC (Agulhas 2017a:par 3). The identified corporate scandals influence the investors' decision-making process if the work of CAs and RAs influence the investment decision-making process (Agulhas 2017a:par 3). As a result, investment in the South African economy can be negatively affected by the trends noted above. It is therefore important that a study is done to understand the investor's perception of the value the CAs and RAs add to the investment decision-making process.

1.1.2 Roles and responsibilities of Chartered Accountants and Registered Auditors

This study took into consideration the roles and responsibilities of CAs and RAs during the financial consideration aspect of the investment decision-making process (IFRS Conceptual Framework, 2018:5). The importance of financial information, CAs as the preparers and compilers of financial information and RAs as the assurance providers of financial information are briefly discussed below. This study shall refer to financial information as information that comes from financial statements, financial reports and other sources (Lev, 2018:465; Rousseau, 2016:698). Financial reports referred to reports that can include financial statements and other financial information in report format (IFRS Conceptual Framework, 2018:A92). Financial statements shall refer to a report comprising the statement of financial position, statement of comprehensive income, statement of changes in equity, statement of cash flow and explanatory notes (IAS 1, 2018:A941). Both financial reports and financial statements carry some of the financial information (Lev, 2018:465).

Standard-setting bodies have developed standards and interpretations to aid in the compilation and reporting of financial information (International Accounting Standards Board (IASB), 2020:par 2; Botzem, Quack & Zori., 2017:555). The initiatives by the standard-setting bodies indicated the importance of financial information and the professional involved in compiling such information in the investment decision-making process (IFRS Conceptual Framework, 2018:5; Botzem et al., 2017:555). One such standard-setting board is the International Accounting Standards Board (IASB), which developed the IFRS standards (IASB, 2020:par 2; Botzem et al., 2017:554).

The IFRS accounting standards are important for the communication of financial information from investees to investors (IFRS Conceptual Framework, 2018:5; Efretuei, Usoro & Koutra, 2019:1). Figure 1.1 below indicates that the main objective of the IFRS Conceptual Framework is to ensure the communication of financial information that is decision-useful (Efretuei et al., 2019:1; Botzem et al., 2017:555). The IFRS Conceptual Framework ensures consistency in the process of communicating financial information (Barker & Teixeira, 2018:153). The Framework ensures consistency by being a guide to preparers of financial information, like CAs, to develop consistent accounting policies that are based on consistent accounting standards (Barker & Teixeira, 2018:153).

Figure 1.1: Conceptual Framework for Financial Reporting



(IFRS Conceptual Framework, 2018:5)

Figure 1.1 above provides a link between the work of CAs as the preparers of financial information and the needs of the investors. As indicated, the investors need financial information to decide whether to buy, hold, or sell equity and debt instruments (Smentek & Mahler, 2018:1). The figure illustrates that the investors require financial information to make cash flow projections, judge management's stewardship of investees' resources, make financing decisions and influence management actions (Smentek & Mahler, 2018:1; Botzem et al., 2017:555).

Investors require professionals who can provide financial information that is useful for decision making (IFRS Conceptual Framework, 2018:6; Isiyawe et al., 2017:1). In South Africa, CAs are professionals that are considered to be skilled, competent and ethical in providing financial information that is relevant for decision making (SAICA Code of Professional Conduct, 2018:7 and 35-36; Keevy & Mare, 2018:1). Thus, the information produced by CAs must be relevant and must provide a faithful representation of what it purports to represent (IFRS Conceptual Framework, 2018:6; Azar, Zakaria & Sulaiman, 2019:4). Financial information will be considered relevant if it can make a difference in decision making by having a predictive or confirmatory value (IFRS Conceptual Framework, 2018:6; Mbobo & Ekpo, 2016:186). Faithfully presented financial information must be complete, neutral and free from error (IFRS Conceptual Framework, 2018:6; Azar et al. 2019:5). To enhance these qualitative characteristics, financial information must be comparable, verifiable, produced timeously for the appropriate time and must be understandable (IFRS Conceptual Framework, 2018:6).

Investees usually engage the services of an independent RA to provide assurance on among other things the qualitative characteristics of decision-useful financial information noted from the IFRS Conceptual Framework as stated above (ISA 200, 2009:par 11-12; Todorovic, 2018:135). In South Africa, the decision to have an independent audit done is guided by the Companies Act (Companies Act 71, 2008: section 30).

In terms of the Companies Act, 71 (Republic of South Africa (RSA), 2008: section 30) financial information of public companies need to be audited before publication. Since all listed companies are public companies, all JSE-listed companies are required to publish audited annual financial statements (JSE Service Issue 24, 2018: section 3.19). In the above instances, the objective of an RA is to provide reasonable assurance and independent opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting Framework (ISA 200, 2009:par 4-12; Laura-Alexandra, 2017:539). During the audit, the RA is expected to maintain principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour (IRBA Code of Professional Conduct, 2009:20-30; Kunz, 2017:27). These principles are important to

the investor when considering the contents of the audit report on the financial information of the investee during the investment decision-making process (ISA 200, 2009:P 11-12).

The above is an overall highlight of the duties and responsibilities of the RAs and CAs that affect financial information that is used for investment decision making. More importantly, the above highlights what is expected from RAs and CAs in terms of applicable standards and legislations.

1.2 PROBLEM STATEMENT

The CAs and RAs who are not adhering to standards and regulations, which are designed to inspire the confidence of the investing public, create a perception that their work cannot be relied on for financial decision making. The implication is that the investing public will perceive the work of CAs and RAs as not valuable for the investment decision-making process. If the problem is not addressed, less value will be placed on the work of CAs and RAs, making the two professions redundant. Also, the problems can result in reduced investor confidence in the economy - which will result in low investment in South Africa. Both a redundant profession and low investment in the economy perpetuate problems of unemployment.

1.3 PRIMARY AND SECONDARY OBJECTIVES

1.3.1 Primary objective

The primary objective is to establish if asset management firms, as a select group of investors, perceive the work of CAs and RAs to be valuable in the investment decision-making process.

1.3.2 Secondary objectives

The secondary objectives of this research are:

- a) To conceptualise value in the investment decision-making process through a literature review;
- b) To identify the value attached to the services of CAs and RAs in the investment decision-making process through a literature review;
- c) To establish the asset management firms' perception of the value that South African CAs and RAs add to the investment decision-making process;

- d) To provide recommendations for improving or maintaining the investors' perceptions of South African CAs' and RAs' value in the investment decision-making process.

1.4 PRELIMINARY LITERATURE REVIEW

The categories CAs and RAs have been in the spotlight in recent years due to involvement in corporate scandals (refer to section 1.1.1). The identified scandals suggest that there might be problems in the accounting and auditing professions, which might influence the way investors perceive the value of CAs and RAs in the investment decision-making process. The preliminary literature review below was conducted to understand the importance of CAs and RAs to investors during the investment decision-making process.

RAs and CAs must prioritise public interest and take responsibility for protecting such interest in their respective fields of expertise (Todorovic, 2018:135). It is in the best interest of the investing public to be provided with high-quality financial information to base investment decisions on (Todorovic, 2018:135). Ensuring high-quality financial information entails compliance with high ethical requirements (Todorovic, 2018:135). The CPC was designed to ensure that CAs and RAs adhere to high ethical standards, thereby ensuring high quality in the work output.

The duties of CAs that are valuable for the investment decision-making process are those that are summarised by the IFRS Conceptual Framework (IFRS Conceptual Framework, 2018:6; Azar et al., 2019:16). Financial information is considered decision-useful if it can make a difference in decision-making by having a predictive or confirmatory value (IFRS Conceptual Framework, 2018: 6). Financial information will have predictive value if it contains information that helps in measuring investment opportunities and investment risk (Mbobo & Ekpo, 2016:186). Financial information has confirmatory value if it confirms the past or present expectations based on previous evaluations (Mbobo & Ekpo, 2016:186).

A CA must faithfully present financial information in financial statements and financial reports (IFRS Conceptual Framework, 2018:6). That is, financial information must be

complete, neutral and free from error (IFRS Conceptual Framework, 2018:6). The key prerequisite for achieving quality financial reporting is the adherence to the objectives and the qualitative characteristics of financial reporting information, as stated in the IFRS Conceptual Framework (Mbobo & Ekpo, 2016:184). Azar et al. (2019:9) concluded that financial statements should be prepared in a simplified language to avoid misunderstanding by users who are not accountants and financial analysts. The IFRS Conceptual Framework provides guidance in the recognition and measurement of transactions. Such recognition and measurement of transactions might require the exercise of judgement, making estimates and the use of assumptions.

The need for the involvement of CAs increases when judgement is required during the recognition of transactions. The duty of measurement and estimation is entrusted to CAs due to the sophistication of the process and degree of judgement required (Emett, Libby & Nelson, 2018:1; Cannon & Bedard, 2017:81-83). The reasonableness of assumptions to be used is important, since management judgement and estimates often affect amounts that influence the decisions of users of financial information (Dennis, Griffin & Johnstone, 2019:1). The assumptions and estimates made by CAs should be audited by RAs to provide assurance to the users of financial information that the account balances and transactions made can be relied on for the investment decision-making process. Thus, the RAs play a crucial role in assuring the capital market on the accuracy of the estimation and uncertainties surrounding the fair value measurement, among other things (Cannon & Bedard, 2017:83).

Okere et al. (2017:181) suggested that audit reports enhance the investment decision-making process, specifically for investors in emerging market economies. The findings of the study by Okere et al. (2017:192) implied the importance of an audit as they suggested that investor confidence can be enhanced by high-quality audits. Audit reporting works as a means of communication between the RA and investors (Okere et al., 2017:181; Köhler, Ratzinger-Sakel & Theis, 2020:1.). The RA must ensure that the audit report properly communicates the audit outcome to the users of both financial information and the audit report (Okere et al., 2017:182).

RAs are also expected to provide supplementary information in the audit report if management did not provide comprehensive information in the financial statements

(Dennis et al., 2019:1). Additional disclosure in terms of International Auditing Standard 706 (ISA 706) can be done in the Key Audit Matters (KAM) or emphasis of matter audit report section (Dennis et al., 2019:1). RAs should play a crucial role as auditors by assuring the relevance and reliability of financial information to the users in the financial and capital markets (Cannon & Bedard, 2017:83).

Users of financial information mainly utilise the services of CAs and RAs to interpret financial information during decision making purposes. Based on the Conceptual Accounting Framework, the users of financial information comprise existing and potential investors, lenders and other creditors (IFRS Conceptual Framework, 2018: 6; Tang et al., 2016:3). In the capital market, financial information is needed by short-sellers, equity analysts, credit-rating agencies, media and RAs (Desai, Rajgopal & Yu, 2016:6) as well as those that base their decisions on cash flows, income statements and earnings per share when making financing decisions; that is, investors (Tucker, Misirlioglu, Gonis & Yukselturk, 2020:6).

Investors come in different forms, which can be characterised into groups of debt or equity investors and public or private investors (Christensen, Eilifsen, Glover & Messier, 2018:1). The focus of this study is asset management firms. These firms work with both private and public investors in both debt and equity financing or investment (Christensen et al., 2018:1). According to Chen (2019: par 1-7), an asset management firm or company is a firm that invests pooled funds from clients. The asset management firms are mostly regulated for fair treatment of investors (Chance & Beck, 2016:346). Asset management firms are usually compensated for their services based on a base fee of around two percent of the value of the client's assets under management and top-up fee¹ based on asset performance (Chen, 2019:par 1-7; Kashyap et al., 2019:1).

Investors realise value from CAs and RAs through some of the ways described below. Financial information is valuable to investors if it provides the correct signals needed

¹ The 2% management fees are paid to the asset management firm on an annual basis as a percentage of committed capital. The 2% fee can be based on net asset value at year end or paid-in-capital. The top-up fee is usually referred to as carried interest or performance fees. The top-up fee which is usually 20% of profits after management fee is the asset management firm's share of profit made on investment.

for investment decision making (Xu, 2018:87). Signals available in financial information include information about earnings of the company, cash flow, rate of return on investment, debt, liquidity and management stewardship (Navas et al., 2018:50). Financial information that provides relevant signals that are useful for investment decision making must be compiled by professionals with relevant skills and competences. CAs can create value to relevant stakeholders if they possess the right skills and competences to perform the duties of an accountant (Nor et al., 2017:1). An investor will realise value from the services of a CA who apply relevant skills and competences when exercising professional judgment during valuation (Emett et al., 2018:1; Cannon & Bedard, 2017:81-83).

To ensure financial information provides correct signals, there is a need for investors to use analytical tools to identify and prevent misstatements in the financial statements before they are used for decision making (Osadchy et al., 2018:347). The analysis of financial information by the investor is over and above the audit done by the RAs. The investor sometimes considers the audit report to be inappropriate for investment decision making due to improper audit done (Lakis & Masiulevičius, 2017:117). As investors make use of audit reports, it was noted that investors need to take cognisance of the possible lack of independence between the RA and the auditee (Kareem et al., 2018:102). Lack of independence leads to an increased risk of lack of objectivity of the RA during the audit (Kareem et al., 2018:102). RAs who are not objective are likely to issue inappropriate audit opinions, which the investors will not want to use for investment decision making. As a result, the lack of objectivity by RAs will result in the investors perceiving the work of auditors to be irrelevant for investment decision making.

Perception of investors is influenced by:

- a) the quality of input information for decision making;
 - b) the effort invested in making decision-making data available and usable;
 - c) the efficiency of decision-making systems or processes; and
 - d) the orientation of the one providing the financial information
- (Glaum, Schmidt & Schnuerer, 2016:26).

1.5 RESEARCH DESIGN AND METHODS

Below is a brief outline of the research design, sampling strategy, data collection methods and ethical considerations to be used for this field study. The research design provides a framework for data collection and analysis. The sampling strategy comprised the determination of the population, population size and the relevant sample for the study. The data collection method is elaborate on the data collection technique chosen for the study and how it was applied. Then the ethical consideration was done to ensure that the study does not violate the rights of others and is done in good faith.

1.5.1 Research Design

A research design that involved the collection of facts, opinions and analysis of qualitative data relevant and related to the topic of the study was used. Interview questions were compiled with both closed-ended and open-ended questions. The themes that emerged from the responses to the interview questions were analysed and considered for the representation of the population and in developing a conclusion. Follow-ups were to be done on questions designed to attract further discussions, mainly the open-ended questions.

1.5.2 Sampling strategy

The sample was selected from investors who are members of the Association for Savings and Investment South Africa (ASISA). Even though the study is on the perception of investors, only a specific group of investors who are members of ASISA was selected. ASISA attests to have a representation of the majority of South Africa's asset managers, collective investment scheme management companies, linked investment service providers, multi-managers and life insurance companies (www.asisa.org.za: n.d.). All the members of ASISA are largely referred to as asset management firms (www.asisa.org.za: n.d.). ASISA's representation of asset management firms in the economy makes it suitable to be used to derive the population and sample for the study. The members of ASISA were chosen to represent the population of investors because it was convenient to get the details of the asset management firms on their database. ASISA has a total of 119 members, all of which have been considered for sample selection.

Chapter 3 will provide the details of the population and the significance of the sample. The population of the 119 members of ASISA is distributed as follows:

Table 1.1: Investment and asset management firms registered with ASISA

QUALIFYING CRITERIA FOR VOTING MEMBERSHIP:	NUMBER OF MEMBERS
Companies duly established, registered and authorised in terms of the applicable laws, that offer savings and investment products and manage assets of R10 billion or more.	23
Companies duly established, registered and authorised in terms of the applicable laws, that offer savings and investment products and manage assets of less than R10 billion.	60
Foreign Collective Investment Schemes not controlled by a local organisation.	20
Any institution or individual involved in a business activity that is complementary to the business of ASISA members, such as actuarial and investment consultants, accountants, lawyers, information providers, industry service providers, industry switches and software firms.	16

Source: www.asisa.org.za

Because of the limitation on the time to conduct the study and the unavailability of resources, a convenient sampling strategy was used. Out of the 119 members of ASISA, only 23 members that offer savings and investment products and manage assets worth R10 billion or more formed part of the sample (www.asisa.org.za: n.d.). A review of the list of the 23 asset management firms sampled indicates that there are big, reputable, well-known and established companies. The value of assets under their management of R10 billion or more creates an expectation that they have systems, processes and resources in place that are relevant for the study. The target interviewees at each asset management firm are Chief Investment Officers followed by Senior Analysts then Analysts, depending on availability. It was convenient to use the 23 members as they were expected to have at least a Chief Investment Officer,

Senior Analyst or Analyst, considering the minimum value of the investment they manage, and these individuals would have the necessary experience and knowledge to answer the interview questions.

1.5.3 Data collection methods

Interview questions were developed based on the findings of the literature review to give direction to the semi-structured interviews to be conducted. Follow-up interviews were performed where clarity was needed and when more information was necessary to give meaning to the study and data collected. Due to the difficulty in getting physical access to the selected participants, telephonic, or Skype, or Microsoft Teams or Zoom interviews were conducted. Physical access to participants was limited due to government imposed restrictions meant to increase social distance in order to reduce the spread of the coronavirus. Due to the small size of the sample, semi-structured interviews were considered more suitable compared to other methods like questionnaires.

1.5.4 Ethical considerations

The research was conducted without bias towards a specific theory or viewpoint. The researcher ensured that the outcome is not skewed towards any preconceived ideas or opinions. The research is free from deception as the participants were fully informed of the purpose of the research together with the primary and secondary objectives (Bryman et al., 2014:127). Participants were interviewed before they were formally informed in writing that they will be interviewed and that their responses will be part of the research (Bryman et al., 2014:124). The participants signed a consent form and were allowed to state their terms and conditions for participating in the study (Bryman et al., 2014:124). Adequate information was provided to participants to ensure that they provide informed consent to participate in the research (Bryman et al., 2014:124). Participants' inputs were disclosed in the research report in confidence; that is, no publication of names was done (Bryman et al., 2014:124). Participants were notified of their right to withdraw from participation in the study whenever they considered it necessary to do so (Bryman et al., 2014:126).

1.6 DEMARCATION OF THE STUDY

The study focuses on the relation between CAs and RAs and the investors who use audited financial information to make finance and investment decisions. Therefore, the field of study is finance and investment management.

1.7 CHAPTER LAYOUT

Chapter 1 provides an introduction to the study. It also includes the background, which is composed of brief details of the information that led to the study. The problem statement or the research problems are derived from the information in the background. The chapter briefly explains the primary objective of the study as well as the secondary objectives. The chapter also provides details of ethical considerations and approaches made to ensure that the study is not in violation of research ethics. The chapter ends with the demarcation of the study.

Chapter 2 comprises the literature review. Literature that deals with the process of becoming a CA or RA and their respective duties, contextualising financial information and asset management firms, the investment decision-making process and investors' perceptions. The chapter clarifies the definitions of terms and concepts used in the study.

Chapter 3 provides details of research design and methods. The research design is linked to the population and sample selection method. The chapter also details the appropriateness of the sample and the limitations of the study. The chapter ends with the details of the data collection methods and the data analysis approach followed.

Chapter 4 is a presentation of the results and an analysis of the outcome of the research. The data and information in the chapter were derived from the semi-structured interviews conducted. Consideration was given to information and data gathered from all sources identified above. The data obtained from all sources were analysed and interpreted to formulate a conclusion to the study.

Chapter 5 as the final part of the report of the field study will comprise the conclusion. Information and data documented in Chapter 4 will form the basis of Chapter 5. Data

from all sources was brought together for analysis, deducing the meaning and formulation of a conclusion. The chapter addresses the primary and secondary objectives of the study. That is, the conceptualisation of value, results of the test of perception and recommendations.

1.8 CONCLUSION

The chapter provides a brief understanding of the value expected by investors from CAs and RAs in the introduction - which further provides insights into elements that might destroy such value. Details in the background are evidence of concerns that led to the research problem, since they might destroy the value provided by CAs and RAs to investors. Information as per background provides strong evidence that a study needs to be done to deduce if indeed investors get value from CAs and RAs and to get an understanding of the investors' current perception of such value. The research design and methods provide the sampling strategy, data collection methods and data analysis approach that ensured the effectiveness of the study. The ethical considerations ensure that the study is compliant with the research ethics of the University of Free State.

CHAPTER 2 – LITERATURE REVIEW

2 INTRODUCTION

Chapter 1 provided an introduction and overview of the study. The concerns relating to the services of CAs and RAs were noted and highlighted in the background of Chapter 1. The background further provided an overview of the roles and responsibilities of CAs and RAs in South Africa. Chapter 1 went on to establish the research problem before the primary and secondary objectives of this study were discussed. Chapter 1 further provided an overview of the research design and methods applicable to this study, which are elaborated on in Chapter 3.

This chapter contains a discussion on the literature covering, first - the process and value in becoming a CA or an RA; second - compliance with IRBA and SAICA CPC; third – duties of CAs and RAs; fourth – understanding sources of financial information and users of financial information; fifth – an understanding of asset management firms as a select group of investors; sixth - the concept of value in investment decision making; seventh – an understanding of the investment decision-making process; and eight and lastly - the investors' perception of South African CAs' and RAs' value in the investment decision-making process.

2.1 BECOMING A CHARTERED ACCOUNTANT AND A REGISTERED AUDITOR IN SOUTH AFRICA

Aspiring CAs and RAs undergo rigorous training, normally referred to as *articles* (Keevy & Mare, 2018:1). During articles, the aspirants are assessed on their attainment of technical and professional competences, using the competence framework developed by SAICA, before they can qualify as CAs (Keevy & Mare, 2018:1). The competency framework was developed to ensure that the CA designation remains relevant to the changing business environment where investors rely on the work of accountants for decision making (Keevy & Mare, 2018:1). Investors require competent professionals to provide information that can be used as inputs into the investment decision-making process (Keevy & Mare, 2018:1). Siyah and Sari (2017:268) suggest that the SAICA technical skills and professional skills competency framework is designed to ensure CAs and RAs are competent in:

1. accounting and external reporting,
2. professional conduct,

3. management and leadership,
4. maintaining certain personal attributes,
5. information technology,
6. auditing and assurance,
7. financial management,
8. management decision making and control,
9. taxation, and
10. risk management and governance (SAICA Training Programme prescribed competences, 2015:1-19).

Since the study is about CAs and RAs, the steps outlined below provide an overview of how one qualifies to get either or both professional designations. The overview below paints a picture of how CAs and RAs are related to each other in terms of the process of obtaining the respective professional qualifications. The overview shows that the process of qualifying as a CA or an RA is designed to produce competent, skilled and always-up-to-date professionals. The steps below aid in the identification of a CA and an RA.

Step 1: A student in high school who aspires to be a CA or an RA must choose subjects that include pure Mathematics and English (www.irbalearning.co.za, n.d.). The students must pass with grades that will make them eligible to enroll for an accountancy degree at the University (www.irbalearning.co.za, n.d.).

Step 2: A student who aspires to be a CA or an RA and has completed high school with relevant grades and subjects will have to enroll for an accounting degree that is accredited by SAICA (www.irbalearning.co.za, n.d.). The undergraduate student must complete the accredited degree and meet the entry requirements for enrolment into the postgraduate qualification. The postgraduate qualification is referred to as the Certificate of Theory of Accounting (CTA) can be either a Postgraduate Diploma in Accounting (PGDA) or an honours degree at a university accredited by SAICA² (www.irbalearning.co.za, n.d.).

² PGDA and honours in accounting differ in that honours qualification includes a research element where the PGDA does not. As a result, honours qualification prepares the students for a research postgraduate study.

Step 3: Once the aspirant has completed the CTA at a SAICA-accredited university, he or she will be eligible to enroll for the Initial Test of Competence (ITC) (www.irbalearning.co.za, n.d.). The ITC is a standard-setting exam administered by SAICA (www.saica.co.za, n.d.(a)). The exam is used as an assessment of core technical competencies for aspiring CAs (www.saica.co.za, n.d. (a)).

Step 4. Immediately after completing an accredited accounting degree, an aspiring CA can register and commence SAICA articles (www.irbalearning.co.za, n.d.). Alternatively, the aspirant can elect to complete the CTA, after which they can register and commence their SAICA articles (www.irbalearning.co.za, n.d.). Articles should be done over a minimum period of three years based on SAICA training regulations (www.saica.co.za, n.d. (b)). During the period of articles, the aspirant can write the ITC exams. After completing ITC and having spent at least 20 months of articles gaining practical work experience, the aspiring CA will be eligible to write the Assessment of Professional Competence (APC) examination (www.saica.co.za, n.d. (c)). The APC exam focuses on the integration of technical skills within 'real life' circumstances, pervasive skills such as communication, understanding the 'big picture' (the business and the environment in which the business operates), strategic management, risk management and governance (www.apcprogramme.co.za, n.d.).

During articles, the aspirant CA is trained to be a competent CA and RA in terms of SAICA training regulations (www.irbalearning.co.za, n.d.). A competence assessment framework based on SAICA training regulations is used to assess the competence level of a candidate before being signed off as a CA (www.irbalearning.co.za, n.d.). The competence assessment is done by SAICA-accredited training officers³ in a working environment (www.saica.co.za, n.d. (b)).

Step 5: After completing articles with a certification of being competent based on SAICA training regulation, the successful completion of both the ITC and APC, an

³ A SAICA-accredited training officers are individuals who are qualified CAs and who are responsible for performing the functions and duties ascribed to a training officer in terms of the SAICA training regulations. The duties include assessing the competences of trainees who will be on experiential training or articles to qualify as CAs.

aspirant CA qualifies to register as a Chartered Accountant (CA) in South Africa. A Qualified CA is eligible to work in many industries as an Accountant, or Financial Manager, or Financial Director (www.irbalearning.co.za, n.d.). The CA can elect to work in audit practice, but not as a RA (www.irbalearning.co.za, n.d.).

Step 6: Should the CA elect to qualify as a RA, he or she must complete an Audit Development Programme (ADP) (www.irbalearning.co.za, n.d.). The ADP runs over a minimum period of 18 months from the date of registration as a Registered Candidate Auditor (www.irbalearning.co.za, n.d.). Only CAs are eligible to register as Registered Candidate Auditors in the ADP (www.irbalearning.co.za, n.d.). During the period of the ADP, a CA is exposed to different scenarios and work that is ordinarily done by an RA (www.irbalearning.co.za, n.d.). The work experience enables the CA to develop professional audit-related competencies in the workplace (www.irbalearning.co.za, n.d.). The aspirant RA is provided with an opportunity to demonstrate, through a portfolio of evidence, the achievement of professional competencies expected from an RA (www.irbalearning.co.za, n.d.). The aspiring RA will be eligible to register as an RA after submitting a portfolio of evidence to the IRBA which demonstrates that he or she is competent to perform the duties of an RA (www.irbalearning.co.za, n.d.).

Step 7: The IRBA will be able to register an individual as an RA once the minimum 18 months of ADP are completed and the RA has been signed off by IRBA to be competent to perform duties of an RA based on a submitted portfolio of evidence (www.irbalearning.co.za, n.d.). Only after registration as an RA can a CA be eligible to be an audit partner or director in an auditing firm. Only RAs are eligible to issue audit opinions in an assurance audit engagement for companies that are required to be audited in terms of the Companies Act 71 of 2008 (www.irbalearning.co.za, n.d.).

Part of the technical competencies that CAs and RAs need to master is knowledge and experience in dealing with ethical situations. Both SAICA and the IRBA have CPCs that assist CAs and RAs in acting ethically in their dealings with companies, clients and society.

2.1.1 SAICA and IRBA Code of Professional Conduct

CAs and RAs who successfully meet the competence requirements above are expected to comply with both IRBA and SAICA CPC (Independent Regulatory Board of Auditors (IRBA) Code of Professional Conduct, 2009:20-30; South African Institute of Chartered Accountants (SAICA) Code of Professional Conduct, 2018:7 and 35-36). The provisions of the CPC are some of the hallmarks of the Chartered Accountancy and Auditing professions in that they are meant to uphold and enhance the reputations of the two professions (Agulhas 2017a:par 3).

The IRBA and SAICA CPC contain the following summarised fundamental principles (IRBA Code of Professional Conduct, 2009:20-30):

- a. Integrity – to be straightforward and honest in all professional and business relationships;
- b. Objectivity – to not allow bias, conflict of interest or undue influence of others to override professional or business judgments;
- c. Professional Competence and Due Care – to maintain professional knowledge and skill at the level required to ensure that a client receives competent professional services based on current developments in practice, legislation and techniques and act diligently and following the applicable technical and professional standards;
- d. Confidentiality – to respect the confidentiality of information acquired as a result of professional and business relationships and, therefore, not disclose any such information to third parties without proper and specific authority, unless there is a legal or professional right or duty to disclose, nor use the information for the personal advantage of the RA or third parties; and
- e. Professional Behaviour – to comply with relevant laws and regulations and avoid any action that discredits the profession.

CAs and RAs who fail to comply with the CPC will be doing a disservice to investors who realise value by making use of information provided by CAs and RA who abide by the CPC (Agulhas 2017a:par 3). Compliance with the CPC ensures that the CAs and RAs maintain professional behaviour (IRBA Code of Professional Conduct, 2009:20-30). By upholding professional behaviour, the professionals are also

complying with all the laws and regulations applicable in the economic and social environment in which they operate (IRBA Code of Professional Conduct, 2009:20-30). Compliance with the CPC can thus reduce costs to investors - who will not need to spend more money verifying the credibility of information provided by CAs and RAs (Kunz, 2017:27; SAICA Code of Professional Conduct, 2018:45). Compliance with CPC ensures adherence to ethical standards set by SAICA and IRBA. As a result, compliance with CPC ensures that CAs and RAs provide high-quality financial information.

It is in the investing public interest to be provided with high-quality financial information to base investment decisions on (Todorovic, 2018:135). Ensuring the provision of high-quality financial information entails compliance with high ethical requirements (Todorovic, 2018:135). RAs and CAs, therefore, should prioritise public interest and take responsibility for protecting such interest in their respective fields of expertise (Todorovic, 2018:135). The accomplishment of guarding public interest requires a system that promotes transparency, minimises financial risk and promotes confidentiality (Todorovic, 2018:135) contained in the CPC elements such as integrity, confidentiality and professional behaviour promote such a mission (IRBA Code of Professional Conduct, 2009:20-30). The CPC was thus designed to ensure that CAs and RAs adhere to high ethical standards, thereby ensuring high quality in the work output.

2.1.2 Duties of Chartered Accountants

The work of a CA, as far as financial information is concerned, is to a greater extent summarised by the IFRS Conceptual Framework (IFRS Conceptual Framework, 2018:6; Azar et al., 2019:16). Figure 1.1 in Chapter 1 (page 10) summarises the IFRS Conceptual Framework. Below is, among other things, a detailed analysis of the role of CAs in compliance with the IFRS Conceptual Framework. The attributes of the Framework as defined by the Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB) are substantive and should be taken into consideration by users of financial information to make the best investment decisions in the capital markets (Azar et al., 2019:16). In terms of the Framework and based on the expected competencies of a CA discussed above, a CA is expected to

participate in the availing of financial information that is decision-useful to investors (IFRS Conceptual framework, 2018:6).

Financial information is considered decision-useful if it can make a difference in decision making by having a predictive or confirmatory value (IFRS Conceptual Framework, 2018:6). Predictive value is realised if the financial information is used to forecast the future performance of the investee in terms of measures like revenue, earnings and cash flows (Ehalaiye, Tippett & van Zijl, 2017:111). Also, financial information will have predictive value if it contains information that helps in measuring investment opportunities and investment risk (Mbobo & Ekpo, 2016:186). Putting it differently, financial information will have value if it can be used as an input in the predictive processes used by investors to formulate expectations about the future (Mbobo & Ekpo, 2016:186). The implication is that predictive value is an important indicator of relevance in terms of decision-usefulness (Mbobo & Ekpo, 2016:186). Financial information has confirmatory value if it confirms the past or present expectations based on previous evaluations (Mbobo & Ekpo, 2016:186). If financial information provides feedback about previous transactions or events, it will help investors confirm or change their expectations (Mbobo & Ekpo, 2016:186). Financial information that is compiled in adherence to IFRS Conceptual Framework has qualitative characteristics that ensure predictive and confirmatory value in the investment decision-making process.

Every CA must faithfully present financial information in compliance with the IFRS Conceptual Framework (IFRS Conceptual Framework, 2018:6). That is, financial information must be complete, neutral, and free from error (IFRS Conceptual Framework, 2018:6). To enhance these qualitative characteristics, financial information must be comparable, verifiable, produced timeously for the appropriate time and must be understandable (IFRS Conceptual Framework, 2018:6). The key prerequisite for producing quality financial information is adherence to the objectives and the qualitative characteristics of financial reporting as stated in the IFRS Conceptual Framework (Mbobo & Ekpo, 2016:184). A financial report is one of many available sources of financial information (see 2.2.1 below for details of financial reports).

The IFRS Conceptual Framework and its attributes are there to ensure that there is proper communication to users of financial information. Azar et al. (2019:9) concluded that financial statements should be prepared in a simplified language to avoid misunderstanding by users who are not accountants and financial analysts. Financial statements are some of the many sources of financial information (see 2.2.1 below for details of financial statements). CAs must ensure that financial information given to investors and other stakeholders properly communicates the financial affairs of the investee or potential investee.

The duty of measurement and estimation is entrusted to CAs due to the sophistication of the process and degree of judgement required (Emett et al., 2018: 1; Cannon & Bedard, 2017:81-83). One area of accounting that requires a degree of care, skill and competence of a CA is in the fair valuing of financial instruments (Emett et al., 2018:1; Cannon & Bedard, 2017:81-83). The fair value measurement process of financial instruments incorporates judgement and estimation uncertainty (Cannon & Bedard, 2017:82). Other aspects of financial reporting that are complex due to requiring estimates and judgements are collateralised debt obligations, derivatives, interest rate swaps, funds of funds, depreciation and amortisation, impairment and other financial instruments (Cannon & Bedard, 2017:83). Thus, the RAs play a crucial role in assuring the capital market of the accuracy of the estimation and uncertainties surrounding the fair value measurement, among other things (Cannon & Bedard, 2017:83).

Measurement of accounting estimates has been identified as one of the critical tasks of an accountant (Dennis et al., 2019:1). This process allows discretion since the accountant is given room to make judgement and assumptions (Dennis et al., 2019:1). The estimates made by an accountant will have to be supported by reasonable assumptions that need to be motivated for the sake of satisfying the auditors, investors and other users of financial information (Dennis et al., 2019:1). The reasonableness of assumptions is important, since they form the basis of accounting judgement and estimates (Dennis et al., 2019:1). Judgements and estimates often affect transactions and account balances that are considered by users of financial information in investment decision making (Dennis et al., 2019:1). Hence, International Accounting Standard 1 (ISA 1) requires disclosure of assumptions and sources of estimation

uncertainty that have a significant risk of materially affecting transactions and account balances in financial statements (Dennis et al., 2019:1).

Todorovic (2018:135) believes that the duties of CAs are to collect, arrange and present financial information to the interested parties in the form of accounting reports. Financial information which is mainly presented in annual reports must disclose management goals, strategies and plans (Xu, 2018:88). The RA provides security to investors as users of financial information by providing them with a credible assurance that the financial information was compiled in terms of applicable rules and accounting standards (Todorovic, 2018:135). Other than the duty to compile financial information, CAs can perform various duties in the South African economy.

Some roles that CAs can assume are not directly linked to the compilation of financial information or reporting on financial information. An example is the identified and appreciated work of CAs as academics (de Jager, Lubbe & Papageorgiou, 2018:263). The SAICA technical skills and professional skills competence framework gives an idea of the roles and duties that CAs can perform (SAICA Training Programme prescribed competences, 2015:1-19). The expectation that CAs should be competent in a certain line of duty means they can perform duties or roles related to their competencies. The SAICA competence framework implies that CAs can work as an investment and financial analysts, financial reporting experts, senior executive managers such as CEOs, information technology specialist dealing with systems that are related to accounting, RAs, financial managers, taxation practitioners and risk management and governance practitioners - just to mention a few (SAICA Training Programme prescribed competences, 2015:1-19). There are many other positions CAs can assume after considering specialisation and after adding another qualification. The focus of this study will be more on the work CAs as preparers and compilers of financial reports, financial statements and financial information used for investment decision making.

2.1.3 Duties of Registered Auditors

An auditor is “the person or persons conducting the audit” (ISA 200, 2009:par 11-12). The auditors are grouped into members of the audit team, which includes members

doing articles, members who have completed articles but not completed ADP, and those who have completed ADP (ISA 200, 2009:par 11-12; www.irbalearning.co.za, n d.). For the purpose of this study, the term auditor shall be replaced by RA, because it is the RA who carries the ultimate responsibility of the audit engagement.

The duties of an RA are spelt out in the ISAs (ISA 200, 2009:par 11-12). ISA 210 has specific reference to the duties of an RA in an assurance engagement (ISA 200, 2009:par 11-12). Todorovic (2018:135) concludes that the duties of an RA in an assurance engagement are to collect, arrange, and present information to the interested parties in the form of audit reports. Reporting is ordinarily done using an audit report (ISA 200, 2009:par 11-12). In terms of ISA 700, an RA in an assurance engagement can only report on one source of financial information, namely financial statements (refer to section 2.2.1 below for detail).

ISA 200 (2009:par 11-12) states that during an audit, an RA must provide reasonable assurance that financial statements as a whole are free from material misstatements due to either fraud or error. Because of the limitations during the audit, it is not possible to provide absolute assurance; hence, only reasonable assurance can be provided (Laura-Alexandra, 2017:539). Limitations include human error or mistakes, management override of controls, collusion and fraud (Hamid, 2018: 4; ISA 200, 2009:par 11-12). Some of the limitations are intentional misconducts that prevent the system from operating effectively, regardless of how well it was designed (Hamid, 2018:4).

If the RA can provide reasonable assurance, he or she will be able to express an opinion on whether the financial statements are prepared according to the applicable financial reporting Framework (ISA 200, 2009:par 11-12). If a reasonable assurance cannot be obtained and issuing of a modified audit opinion or qualified opinion is not appropriate, the RA can disclaim an opinion or withdraw from the engagement where possible (ISA 200, 2009: par 11-12). In either case, an RA must report on the financial statements and communicate audit findings in terms of ISAs (ISA 200, 2009:par 11-12). The communication by the RA in compliance with ISA 200 should meet the expectations of users of financial information, particularly the investors who make decisions based on audited financial information (Okere et al., 2017:181).

The RA may fail to meet the expectations of users of audited financial information if there is an expectation gap, which may arise if the RA and users of audited financial information differ in the understanding of what role the RAs should assume during the audit (Colley & Gaye, 2020:60-61). A study by Al-Dhubaibi (2020:279) suggested that an expectation gap arises when the user of audited financial information expects the RA to provide an absolute assurance when only a limited or reasonable assurance can be provided in terms of International Standards on Auditing (ISAs). An example of absolute assurance is when the user of audited financial information expects the RA to express an opinion that financial statements are free from material misstatements, including fraud (Al-Dhubaibi, 2020:279).

As indicated by Laura-Alexandra (2017:539), an RA can provide only reasonable, but not absolute assurance. As a result, the ISAs do not put the requirement on the RAs to detect each and every fraud, error, or illegal act (Alawi, Wadi & Kukreja, 2018:54). RAs provide limited assurance because the RAs assess, using audit procedures, the possibility of fraud or error occurring (Alawi et al., 2018:54). Because the RAs assesses the possibility, the outcome of the assessment cannot be an absolute assurance. As a result, the user of audited financial information should understand the nature and meaning of the information found on the audit report when using the audit report to make investment decisions (Al-Dhubaibi, 2020:281).

When users of financial information understand the information on the audit report, it becomes easy for the user to link the audit report and audited financial information for investment decision making. A study was conducted in Nigeria on the link between RA reports and investment decision making (Okere et al., 2017:181). The study referred to emerging market economies - which makes it relevant to South Africa as an emerging market economy (Fraga, Goldfajn & Minella, 2004:369). Okere et al., (2017:181) suggest that audit reports enhance the investment decision-making process, specifically for investors in emerging market economies. The findings of the study implied the importance of an audit, as it suggested that investor confidence can be enhanced by good quality audits (Okere et al., 2017:192). High-quality audits are those that are conducted in compliance with ISAs and applicable standards (International Standards on Quality Control 1 (ISQC 1), 2009: par 11). An RA must

conduct audits in terms of applicable ISAs (ISQC 1, 2009: par 11). In compliance with ISAs, the RA must communicate the outcome of the audit to the users of audited financial information such as investors.

An audit report works as a means of communication between the RA and investors (Okere et al., 2017:181; Köhler et al., 2020:1.). However, it was noted that investors in emerging markets need more comprehensive audit reports to make investment decisions (Okere et al., 2017:181). The shortcomings identified in less comprehensive audit reports include the use of default information and technical terms that lead to misinterpretation (Okere et al., 2017:182-183). As a result, the study recommends that information in the audit report should be improved where necessary to ensure effective communication between the RA and investors to enhance the investment decision-making process (Okere et al., 2017:182). The RA must ensure that the audit report properly communicates the audit outcome to the users of both financial information and audit report.

RAs are expected to provide supplementary information where appropriate to ensure that sufficient and appropriate information is communicated to users of audited financial information (Dennis et al., 2019:1). As a result, RAs are expected to provide supplementary information in the audit report if management did not provide comprehensive information in the financial statements (Dennis et al., 2019:1). ISA 706 (2016 revised) provides RAs with an opportunity to provide supplementary information to improve audit reports and enhance communication. ISA 706 implies that additional disclosure or supplementary information can be provided in the KAM or emphasis of matter audit report section (Dennis et al., 2019:1). The emphasis of matter paragraph or KAM is used to focus the financial information users' attention to matters presented or disclosed in the financial statements that are of such importance that they are fundamental to users' understanding of the financial statements (Filipovic, Bartulovic & Filipovic, 2016:388). Disclosure can include matters relating to management estimates and measurement uncertainty if such information was not already properly disclosed by management in the financial report (Dennis et al., 2019:1).

According to ISA 706, the emphasis of matter paragraph or KAM paragraph may include issues related to uncertainty in the future outcome of exceptional litigation or

regulatory action (Filipovic et al., 2016:388). The emphasis of matter or KAM paragraph may also include discussion on the early application of new accounting standards that have a pervasive effect on financial statements (Filipovic et al., 2016:388). The paragraph can also include issues related to a major catastrophe that has had, or continues to have, a significant effect on the entity's financial position (Filipovic et al., 2016:388). Other matters that the paragraphs can contain include issues relating to Going Concern; one of the fundamental accounting assumptions, which is based on the fact that the company will continue to operate in the future (Filipovic et al., 2016:388). The RA should assess going concern assumptions and include this issue in the audit report where appropriate (Filipovic et al., 2016:388). The emphasis of matter and KAM paragraph provides risk-related information to investors (Czerney, Schmidt & Thompson, 2019:200). The matters that are included in the emphasis of matter and KAM paragraph are not always a requirement, but they are added at the RA's discretion using professional judgement (Czerney et al., 2019:203).

Investors need to consider the type of audit opinion issued by the RA when considering if the financial information audited is relevant and reliable for decision making (Zaky & Siregar, 2019:2). The types of audit opinions that can be issued are modified or unmodified (Zaky & Siregar, 2019:1). The unmodified audit opinion is the opinion that states that the financial statements are presented fairly and are prepared in accordance with applicable financial reporting standards (Zaky & Siregar, 2019:1). The modified audit opinions consist of unqualified opinion with explanatory paragraph, qualified opinion, adverse opinion and disclaimer of opinion (Zaky & Siregar, 2019:1). Disclaimer of opinion is when the RA cannot issue an opinion due to limitations imposed on the audit by the auditee (Zaky & Siregar, 2019:1). Qualified opinion, unqualified opinion with explanatory paragraph and adverse opinion usually come as a result of financial statements carrying material misstatements⁴ due to fraud or error (ISA 200, 2009: par 11-12).

⁴ A material misstatement is a misstatement that is in the RA's judgement may, individually or in aggregate with other misstatements, impact on the economic decisions of users of financial information. A misstatement is the difference between what is reported or disclosed in the financial information and what is required to be presented or disclosed in compliance with the applicable financial reporting framework. Misstatements may arise from error or fraud.

The RA is required to use professional judgement to determine if the financial statements carry material misstatements that must be reported on in the audit report. In the case of auditing financial information of a portfolio of investments, RAs had to evaluate the impact of audit misstatements after considering aggregate misstatement from a schedule of audit differences⁵ (Emett et al., 2018:1). If the misstatements are material individually or in aggregate then a qualified opinion, an unqualified opinion with an explanatory paragraph or an adverse opinion can be issued (Zaky & Siregar, 2019:1).

2.2 FINANCIAL INFORMATION

2.2.1 Financial information, financial reports and financial statements

This study refers to three related concepts; namely, financial statements, financial reports and financial information. Financial information is what the financial statements and financial reports contain (Lev, 2018:465). However, not all financial information is available in financial statements and financial reports. Lev (2018:487) has suggested that financial information sources can include weekly sales reports. Caserio, Panaro & Trucco (2016:44) also suggested that financial information can be obtained from management discussions and analysis. Inghirami and Scribani (2016:14) identified monthly, quarterly and yearly reports as sources of financial information. Financial information is also information that has been processed from various sources for use in decision making, like the minutes of management meetings (Rousseau, 2016:698; Schaub, 2018:29; Inghirami & Scribani, 2016:14).

The IFRS Conceptual Framework (2018:A92) describes financial reports as reports that contain financial statements and other financial information. The IFRS Conceptual Framework (2018:A92) implies that there are many forms of financial reports and that financial statements represent only one of them. Different forms of financial reports provide information that can be used internally by management and externally by other users of financial information (Inghirami & Scribani, 2016:14). Financial reports must be compiled in a structured way following financial reporting standards and be

⁵ Schedule of audit differences summarises all misstatements that have been identified by the RA during the audit. The report will include individually material and immaterial misstatements.

presented in a precise layout (Inghirami & Scribani, 2016:14; IFRS Conceptual Framework 2018: A50).

The financial statements are described as a particular form of financial reports that provide information about the reporting entity's assets, liabilities, equity, income and expenses (IFRS Conceptual Framework, 2018:A92). In terms of International Accounting Standard 1 (IAS 1:Presentation of Financial Statements), financial statements comprise a statement of financial position, a statement of comprehensive income, a statement of changes in equity, a statement of cash flows, notes on significant accounting policies and notes containing other explanatory information (IAS 1, 2018:A941). It was noted that financial statements are ordinarily accompanied by information that is not necessarily part of financial statements (Sasol, 2017:2-8). Accompanying information include the audit committee report, company secretary report, director's report and the audit report (Sasol, 2017:2-8). The accompanying reports do not form part of financial statements that are audited in terms of International Audit Standard 700 (IAS 700: Forming and Opinion and Reporting on Financial Statements; Sasol 2017:7; International Standards for Auditing (ISA) 700, 2016: par A21). The implication is that the financial statements plus accompanying reports make up the financial report. The concepts of financial statements, financial reports and financial information will be used based on their relevance in this study.

2.2.2 Users of financial information

Financial reporting is an integral part of the functioning of an economic entity (Voss, 2019:185). Internal and external financial information users can evaluate the economic entity and the results of the economic activity of the entity from financial reports (Voss, 2019:185). Isiavwe et al. (2017:1) suggest that stakeholders rely on financial information disclosed in financial statements for investment decision making. Hence, one of the objectives of financial reporting is to provide information that is decision-useful to existing and potential investors (Tang et al., 2016:3).

Based on the Conceptual Accounting Framework, the users of financial information comprise existing and potential investors, lenders and other creditors (IFRS Conceptual Framework, 2018:6; Tang et al., 2016:3). Existing investors use financial

information to assess management stewardship and making future net cash flow projections (IFRS Conceptual Framework, 2018:6). Potential investors need financial information to decide on investment action. Both existing and potential investors are usually active in the capital markets and they need the information to assist them in investment decision making (Isiavwe et al., 2017:1).

In the capital market, financial information is needed by both information intermediaries and financial intermediaries (Xu, 2018:88). Information intermediaries serve as vehicles for financial information analysis (Xu, 2018:88). Examples of information intermediaries are short-sellers⁶, equity analysts, credit-rating agencies, media and RAs (Desai et al., 2016:6). Just to explain the role of a few information intermediaries through examples. If the view of short-sellers is sufficiently bearish⁷, they will short the stock⁸ and that action will inform the trading decisions of other investors (Desai et al., 2016:6). Equity analysts release their opinions in the form of buy, sell or hold recommendations (Desai et al., 2016:6; Tucker et al., 2020:5). A credit-rating agency's action can take the form of a rating change if they believe the financial information indicates a sufficiently large change in the probability of default (Desai et al., 2016:6). Credit rating agencies use financial information to assess the investee's probability to pay debts as they fall due. The investee will have a high probability of default if there is a likelihood of not meeting financial obligations as they fall due. The credit rating agency downgrades investees with a higher probability of default.

RAs can also act as information intermediaries just like the previously identified short-sellers, equity analysts and credit-rating agencies. RAs can issue a going concern opinion modification if they believe the investee's survival is in doubt or price-protect⁹ themselves from potential reputational and litigation risks by increasing their audit fees (Desai et al., 2016:6). All information intermediaries seek to disseminate the processed or analysed financial information to users like investors (Schaub, 2018:29).

⁶ Short selling is borrowing of commodities or securities on the market, then selling them with an intention to buy them back in order to return to the lender. The seller will be viewing the asset as overpriced as a result, the seller is planning to profit from selling at a higher price then buy back at a lower price.

⁷ Bearish means the asset price is expected to go down

⁸ To short the stock means the investor is short-selling shares

⁹ RAs price-protect themselves by including a premium in the audit fees based solely on audit risk. Audit risk is the risk that the RA might express an inappropriate audit opinion.

Financial intermediaries evaluate the financial data and supply information to users (Xu, 2018:88). Financial intermediaries work for investors by identifying borrowers who can lend money provided by investors (Caglayan & Xu, 2017:2). The financial intermediaries make use of financial information of borrowers when assessing the creditworthiness of borrowers (Caglayan & Xu, 2017:3; Tucker et al., 2020:7). The intermediaries are there to create an opportunity for firms in need of finance to access external financing (Caglayan & Xu, 2017:6). Financial intermediaries include most of the financial institutions like investment banks, commercial banks, insurance providers and asset management firms (Caglayan & Xu, 2017:1-6).

Financial intermediaries, therefore, make use of financial information for investment decision making. Financial information is at times used to specify debt covenants¹⁰ more specifically using balance sheet and income statement information (Tucker et al., 2020:7). Borrower's credit analysis information is primarily extracted from audited financial statements as they provide an overview of the profitability, liquidity, capital structure and cash flow generating capacity of the potential borrower (Tucker et al., 2020:8). Financial intermediaries base their decisions on cash flows, income statements and earnings per share when making financing decisions (Tucker et al., 2020:6) and investors use financial information to forecast the future development of the company and decide whether to invest or not (Xu, 2018:88).

Besides banks, creditors, investors and analysts, there are other users of financial information like tax authorities and other legislative bodies (Tucker et al., 2020:12; Osadchy et al., 2018:343). Tax authorities use financial information to confirm the company's compliance with tax regulations (Osadchy et al., 2018:343). Securities exchanges like the JSE evaluate financial information when confirming compliance with listing requirements, registering new firms for listing, making decisions on the need to change accounting and reporting requirements for listed companies (Osadchy et al., 2018:343). Company management uses financial information for making managerial decisions (Osadchy et al., 2018:340). Financial accounting data, available in the annual reports, is relevant for top-level managers in deciding on the means of

¹⁰ A debt covenant is an agreement between the investee and the lender whereby the investee will have to operate within the rules set by the lender as a condition for receiving a loan.

financing investment projects (Osadchy et al., 2018:340). Suppliers and customers need financial information before establishing business relationships with the company (Osadchy et al., 2018:343). Other external users include lawyers, media and information agencies, trade and production associations and trade unions who make use of the financial information when analysing the financial affairs of the investee or potential investee (Osadchy et al., 2018:343).

2.3 ASSET MANAGEMENT FIRMS

Investors come in different forms that can be characterised into groups of debt or equity investors and public or private investors (Christensen et al., 2018:1). A single investor can still relate to all these groupings (Christensen et al., 2018:1). Debt investors invest in loans, bonds and mortgages (Gebauer, Setzer & Westphal, 2018:11). Debt financing can be further split into business bank credit and business trade credit (Cole & Sokolyk, 2018:3). Business bank credit is lending from financial institutions and business trade credit is lending from suppliers (Cole & Sokolyk, 2018:3).

Investors who invest in debt receive benefits through interest or by selling bonds at a value higher than the notional amount (Zheng, 2018:306). Equity investors are investors with a call option¹¹ on the firm or investee assets (Huang, Ritter & Zhang, 2016:1). Equity investors invest through buying shares of the investee and benefit through ownership of the investee (Muda, 2017:41). Equity investors received dividends or realise returns through appreciation of the value of shares (Muda, 2017:41).

Private equity investors are sometimes referred to as buyout groups (Huang et al., 2016: 1) and private equity firms make use of portfolio companies to make investments (Huang et al., 2016:1). Private equity investors rely on private and public debt financing in making their investments (Huang et al., 2016: 26). Private investors comprise

¹¹ Call option is an option to buy assets or to own assets after paying a price agreed upfront. In this instance, equity investors are deemed to have the option to recover their equity investment in the investee by selling the investee's assets if they can recover the investment during the ordinary course of investee's business.

financial partners such as incubators¹² or accelerators¹³, business angels¹⁴, venture capitalists¹⁵, and corporate venture capitalists¹⁶ (Di Pietro, Prencipe & Majchrzak, 2018:3). Both debt and equity investment can be achieved through either public or private investment. The latter is normally realised through raising capital from private investors (Huang et al., 2016:26). Public investment is when the investee lists on the stock market to raise capital (Acharya & Xu, 2017:1).

Asset management firms work with both private and public investors in both debt and equity financing or investment (Christensen et al., 2018:1). Asset management firms work as intermediaries between providers of capital and investors of capital, depending on the needs of the investors (Caglayan & Xu, 2017:2). According to Chen (2019:par 1-7), an asset management firm or company is a firm that invests pooled funds from clients. The pooled funds can be invested through stocks, bonds, real estate, master limited partnerships¹⁷ and many more ways (Chen, 2019: par 1-7). The asset management firms manage portfolios of high net worth individuals to hedge funds and pension funds (Chen, 2019: par 1-7). By investing, it means they take money from the provider, which is the investor, and put it into an instrument or vehicle¹⁸ where it will generate returns (Chen, 2019: par 1-7). The role of an asset manager is so important - to the extent that it is believed that worldwide asset managers are managing more than \$100 trillion worth of assets (Kashyap et al., 2019:1). As a result, asset management firms are an appropriate representation of investors in this study.

Asset management firms act on the instruction of investors, who can be shareholders, bondholders or bond issuers (Kashyap et al., 2019:2). The asset management firms

¹² Incubators are investors who identify start-up business then create a conducive environment for the business to grow through resourcing it with funding and management expertise.

¹³ Accelerators identify start-ups or mature companies that are stagnating. The accelerator will then provide the means for the business to start growing again

¹⁴ Business angels are individuals who invests in the business in exchange for participation in capital or ownership of the business

¹⁵ Venture capitalist are similar to business angels, but instead of investing as individuals they invest pooled funds.

¹⁶ A corporate venture capitalist is similar to venture capital except that funding is not pooled from individuals but is pooled from corporates.

¹⁷ Master limited partnerships are business ventures that exist in the form of publicly traded limited partnerships. A limited partnership is a partnership of two or more partners

¹⁸ Investment vehicles are assets offered by the investment industry to help investors move money from present to the future with the hope of increasing its value. The assets include shares, bonds, warrants and commodities.

usually manage less liquid assets or investments with long-term investment horizons (Calimani, Halaj & Zochowski, 2019:3). Pension fund assets, insurance fund assets and asset management firm's self-constructed investment portfolios are examples of assets with long-term investment horizons. In the management of investments on behalf of clients, asset managers are expected to keep sufficient liquidity to meet the needs of the client like withdrawals or investor redemption (Shin, Shim & Morris, 2017:1).

Asset management firms operate under relevant regulations. In the United States of America, they are regulated by the Securities Exchange Commission and Financial Stability Board (Shin et al., 2017:1). In South Africa, asset management firms are regulated by the Financial Services Board (FSB) and the Collective Investment Schemes Control Act (CISCA), among other regulators (Barnett, 2018: par 1-11). The asset management firms are mostly regulated for fair treatment of investors (Chance & Beck, 2016:346). Fair treatment of investors involves full and accurate disclosure of investment details; marketing that is not misleading; and ensuring that there is no favoritism of clients or investors (Chance & Beck, 2016:346).

An institution or investor chooses an asset manager to delegate specific strategies like fulfilling an investment mandate (Gerakos, Linnainmaa & Morse, 2016:3). An investment mandate is a document drawn, such as an investment policy statement, by the asset manager and then agreed to by the investor (Gerakos et al., 2016:4). The asset manager either sets up an investment vehicle as a single account or mixes the account with a finite number of institutional clients seeking the same strategy exposure (Gerakos et al., 2016:3). Asset managers then combine these investments into pooled holdings for all clients in each of the strategies. The pooled holdings are referred to as asset manager funds (Gerakos et al., 2016:3). The asset manager can fulfill strategy policy allocations (either in-house or by issuing an investment mandate) to an external manager (Gerakos et al., 2016:4).

In the management of the investment, asset managers are required to view each portfolio separately with respect to its own constraints and limits (Chance & Beck, 2016:346). The asset manager is expected to earn a risk-adjusted return for the investor (Gerakos et al., 2016:6). To ensure better performance of investments, some

available consultants advise pension funds, endowments, and other institutional investors on the optimal allocation of capital to asset managers (Gerakos et al., 2016:2). The consultants help investors by shopping for the right asset managers and holding them accountable for investment performance (Gerakos et al., 2016:2).

Asset management firms are usually compensated for their services based on a base fee of around two percent of the client's assets under management and top-up fee based on asset performance (Chen, 2019: par 1-7; Kashyap et al., 2019:1). The performance compensation is usually relative to benchmark performance or other performance measures agreed with the client (Kashyap et al., 2019:1).

2.4 CONCEPTUALISING VALUE IN INVESTMENT DECISION MAKING

Azar et al. (2019:1) conducted a study on the value-relevance of accounting information. The study pointed out that the value of accounting information to investors is not only in the adoption of high-quality accounting standards, but in their enforcement (Azar et al., 2019:2). The strict implementation of accounting information - which is an element that is required of professionals like CAs - results in the value being realised (Azar et al., 2019:2). Below is a synopsis of value in application or enforcement of correct accounting standards and having the right professionals to apply the relevant standards.

Financial information is valuable for investment decision making if it is relevant and reliable (Azar et al., 2019:15). Financial information in the financial statements provides signals to prospective investors to make investment decisions (Xu, 2018:87). If not properly prepared and presented, the signals can cause damage to the market value of the organisation (Xu, 2018:87). As a result, financial information provides value to investors if it provides the correct signals needed for investment decision making (Xu, 2018:87). Xu (2018:87) suggests that the preparers and auditors of financial information can add value to the investment decision-making process if they positively contribute to the provision of relevant and reliable financial information.

CAs can create value to relevant stakeholders if they possess the right skills and competencies to perform the duties of an accountant (Nor et al. (2017:1). SAICA has

developed a minimum competence framework for aspiring CAs to prepare them to appropriately perform the duties of CAs and RAs (Keevy & Mare, 2018:1). The fundamental principles and competencies of CAs and RAs create the expectation that they act professionally and add value in their field of work (Kareem et al., 2018: 102). The above literature implies that CAs and RAs should use their skills and competencies to provide investors with decision-useful information. An investor should be comfortable with inputs from CAs and RAs when seeking information that is valuable for investment decision making.

Valuation is an important aspect of investment decision making, since investors mostly require current value as opposed to historic value when making investment decisions (Mbobo & Ekpo, 2016: 186). Investment decision making based on financial information measured using International Financial Reporting Standard 13 (IFRS 13), fair value accounting, has been found to enhance transparency in financial reporting and aid in investment decisions (Ogundana et al., 2018:11). Fair value measurement is an aspect of accounting that requires professional judgement and estimation (Emett et al., 2018: 1; Cannon & Bedard, 2017: 81-83). An investor will realise value from the services of a CA who apply relevant skills and competencies when exercising professional judgement during valuation.

A RA should audit the work of a CAs, specifically where professional judgement was used to value financial instruments that are relevant for investment decision making (Keltona & Montague 2018:3). Investors expect RAs to add value by giving an opinion on the reasonableness of professional judgement and estimates made by management during the recognition and measurement of transactions and account balances that are relevant for investment decision making (Keltona & Montague 2018:3). As a result, Keltona and Montague (2018:3) suggest that the investor perceives value in the heightened awareness prompted by the RA's comment on the management judgements and estimates. To ensure that audit value is realised by investors, an RA must abide by ISAs and not violate the provisions of the CPC during the auditing of financial information (Kareem et al., 2018:102).

Investors need to get high-quality services to support investment transactions, because any investment deal relates to risks of financial loss (Antonova, 2019:301).

As a result, investors require due diligence as part of the investment decision-making process (Antonova, 2019:301). Due diligence is done to identify and assess existing and potential risks of the proposed transaction with the capital (Antonova, 2019: 301). Due diligence is also done to suggest measures to minimise and prevent identified investment risks (Antonova, 2019:301). A study by Cumming and Zambelli (2016:34) concluded that due diligence contributes towards the selection of a better investee. However, due diligence performed by CAs and accounting firms has been found to have a less pronounced impact on investment performance compared to the ones done internally by private equity fund managers (Cumming & Zambelli, 2016:34). The study by Cumming and Zambelli (2016:34) suggests that CAs are adding less value to the investment decision-making process as far as due diligence is concerned. Due diligence performed by CAs can be valuable to investors if it has a positive impact on investment performance (Cumming & Zambelli, 2016:34).

Value in the investment decision-making process can be realised in the opportunity costs associated with due diligence (Cumming & Zambelli, 2016:2). Opportunity costs include time not spent considering other profitable projects or time not spent on adding value to other firms in the fund's portfolio (Cumming & Zambelli, 2016:2). Time spent on due diligence becomes a source of value realised through a better future performance of the investee if due diligence was done appropriately (Cumming & Zambelli, 2016:35).

2.5 INVESTMENT DECISION-MAKING PROCESS

2.5.1 Investment decision-making process

Investment decisions are made based on financial information available in the financial report (Osadchy et al., 2018:348; Xu, 2018:87). Financial reports are analysed for indicators of problems in managing the financial and economic activities of the potential investee (Osadchy et al., 2018:348). Financial reports are also used for forecasting factors that will affect investee performance (Osadchy et al., 2018:348).

The financial information required for decision making is more useful if it is audited. Investors consider the audit report when making investment decisions (Lakis & Masiulevičius, 2017:117). An audit report is not useful to investors all the time,

especially if it does not carry credibility or it does not meet the expectations of the investor (Lakis & Masiulevičius, 2017:117). Audited financial information is used for investment decision-making processes like capital budgeting, valuation, asset pricing and cash-flow forecasting.

Capital budgeting techniques involve discounted cash flow, net present value, earnings multiple, economic value-added, breakeven analysis, internal rate of return and the weighted average cost of capital (Batra and Verma, 2017:29). The capital budgeting techniques identified are usually applied by senior management of the investees like CFOs for internal investment projects (Batra and Verma, 2017:30). The techniques are also used by external investors who want to invest in the firm or in the firm's projects (Batra and Verma, 2017:30). Capital budgeting techniques are used to value future investments.

Valuation is done for capital projects and in a business combination (Maldonado & Pinho, 2019:220). International Financial Reporting Standard 3 (IFRS 3) is an accounting standard which establishes guidelines relating to business combination (Maldonado & Pinho, 2019:220). The standard guides accounting for the business combination when the acquirer obtains control of the acquiree (Maldonado & Pinho, 2019:220). This generally entails asset acquired and liabilities assumed to be measured at fair value (Maldonado & Pinho, 2019:220). One of the important aspects of a business combination is the valuation of goodwill (Maldonado & Pinho, 2019:220). Goodwill and goodwill impairment has been identified to be important determinants in cash-flow forecasting (Maldonado & Pinho, 2019:220). Identification of assets and liabilities for valuation in business combinations requires financial information. Asset management firms acquire startup companies, listed companies and private equity which require a valuation in terms of IFRS 3.

There is an acknowledgement that financial information is largely based on historical accounting information (Ogundana et al., 2018:4). Historical accounting information has been discounted as outdated and not suitable for making economic decisions (Ogundana et al., 2018: 4). Historical information has been found to have less value relevance due to its limited predictive ability when compared to fair value (Ehalaiye et al., 2017:111; Tucker et al., 2020:11). The limitations of historical accounting

information resulted in the introduction of fair value accounting (Ogundana et al., 2018:4; Emmett et al., 2018:1). Fair value provides accounting information that reflects market characteristics and is hence suitable for making economic decisions (Ogundana et al., 2018:4). Financial information is required to ensure the identification and valuation of all financial instruments.

Investment in different asset classes involves the pricing of assets, which is done based on pricing models that rely on financial information (Barillas and Shanken, 2019:1). Pricing of assets helps in coming up with an optimal portfolio of assets that can generate optimal returns for the investors (Barillas and Shanken, 2019:1). The asset pricing or valuations models that rely on financial information include the Capital Asset Pricing Model and the Fama and French model (Barillas and Shanken, 2019:1). Asset management firms can use any of these valuation and pricing techniques to value investments. The pricing or valuation of shares helps in the calculation of goodwill and goodwill impairment.

A study done using a regression analysis identified goodwill and goodwill impairment to be important determinants in cash flow forecasting (Maldonado & Pinho, 2019:220). Incorrect cash-flow forecasting has been identified as one of the reasons for the failure of companies and projects (Abdullahi et al., 2017:34). The cash-flow forecasting capabilities of firms are reported to be influenced by the capacity and technical competence of professionals (Abdullahi et al., 2017:34). Cash-flow forecasting errors can result in discouraged current and potential investors and unnecessary costs resulting from too little or too much borrowing (Andersson & Karlsten, 2019:v). Cash-flow forecasting is required for liquidity planning of the organisation (Knoll, Setzer & Laubis, 2018:1583). A significant proportion of enterprise value comes from the firm's future growth opportunities (Biggerstaff, Goldie & Kassa, 2017:1). Estimating future cash flows using methods like discounted cash-flow analysis gives investors opportunities to come up with the investment value or intrinsic value, which is important for investment decision making (Biggerstaff et al., 2017:1). Financial reports are therefore required to have adequate information to make cash- flow forecasts.

Investors need information that can help in assessing the investee value (Xu, 2018:88). If investors can determine the firm value to be higher than the market value,

then they invest in the firm with the anticipation that they will realise returns when the market value changes to reflect the true firm value (Xu, 2018:88). All the valuation techniques identified above are used to determine the relevance of an investment before the commitment of capital. The process involves forecasting, budgeting and determining the availability of finance. The section below details how CAs and RAs use their skills and competencies to aid the investment decision-making processes, which include forecasting and capital budgeting.

2.5.2 Chartered Accountants' and Registered Auditors' values in investment decision making

Investment decisions are made after using capital budgeting techniques, which involves the evaluating of the investment's exposures to different risk factors and possible financing opportunities, among other things (Iachan, 2017:2). The choice of capital budgeting techniques used for investment decision making differs, depending on among other factors, the complexity of the technique (Graham & Sathye, 2017:57). An institution that does not have personnel with certain skills and competencies will not be able to apply complex capital budgeting techniques (Graham & Sathye, 2017:57). Having the right skills gives an investor the opportunity to apply the appropriate investment decision-making tools that will yield desired investment performance. As a result, it is important to have skilled professionals like CAs so that they can use the appropriate tool to make investment decisions (Graham & Sathye, 2017:44,57). CAs are able to apply relevant investment decision-making tools that produce a reasonable estimate of return on investment. The financial information needs to be audited to enhance its credibility for investment decision making.

The value of an RA to an investor depends on whether the investee is a professional investor or a non-professional investor (Köhler et al., 2020:1). Non-professional investors were found to have difficulties in processing information in KAM (Köhler et al., 2020:1). The implication is that even if financial information is audited, the audit might still be of less value to an investor who cannot understand the audit report. However, professional investors are likely to realise value from audits (Köhler et al., 2020:1).

2.6 INVESTORS' PERCEPTION

Perception of investors is influenced by: a) quality of input information for decision making; b) the effort invested in making decision making data available and usable; c) efficiency of decision-making systems or processes; and d) the orientation of the one providing the financial information (Glaum et al., 2016:26). Below is a synopsis of the current perceptions of investors on the value of CAs and RAs based on the literature.

Investors perceive value from the CA if enough disclosure is made in the financial report on tricky matters such as material measurement uncertainty (Dennis et al., 2019:25). In instances where CAs did not provide enough disclosure, the RA has an opportunity to add value by ensuring that material measurement uncertainty is brought to the attention of the investors through KAM or the emphasis of matter section of the audit report (Dennis et al., 2019:25). Tricky matters that has material measurement uncertainty include transactions and balances that require estimation and use of assumptions during measurement, valuation and disclosure. An example is financial instruments that are measured at fair value.

Fair value accounting is used as an accounting measurement basis for financial reporting purposes (Joe, Vandervelde & Wu, 2017:30). The measurement process involves estimation and judgement by the preparer of financial information (Bhattacharjee, Moreno & Wright, 2019:91-92; Cannon & Bedard: 2017:81). Elements such as estimated discount rates are used based on benchmark data collected by the compiler of financial information (Bhattacharjee et al., 2019:91-92). It was noted that at times, the compiler of financial information use bias benchmark data to motivate preconceived ideas like bonus payment (Bhattacharjee et al., 2019:91-92). Also, when there is pressure from owners of the business to achieve targeted results, the preparers of financial information may engage in actions that will misrepresent financial information. The compilers of financial information (who may be CAs) may exploit the discretion to exercise professional judgement in choosing accounting principles that work for their preconceived ideas (Todorovic, 2018:146). The indications are that investors should be mindful of the possibility of creative accounting by directors that paints a distorted picture of the finances of the organisation (Isiavwe et al., 2017:1). When the RA is engaged to perform audit services, particular emphasis

will have to be put on accounting aspects where the preparer of financial information used discretion or judgment.

RAs are tasked to evaluate the appropriateness of the valuation techniques, assumptions and accuracy of calculation by management (Bhattacharjee et al., 2019:91-92). Bhattacharjee et al. (2019:91-92) raised a concern that RAs' evaluation of the appropriateness of valuation is sometimes influenced by the client-compiled benchmarks (Bhattacharjee et al., 2019:91-92). RAs were found to have performed insufficient benchmark analysis in evaluating the appropriateness assumptions made in the valuation of account balances (Bhattacharjee et al., 2019:91-92). The failure by the RAs to appropriately audit estimates and assumptions resulted in them not identifying management bias in the selection of the benchmarks used to make assumptions (Bhattacharjee et al., 2019:91-92). RAs were noted to be more inclined to accept assumptions and estimates made by management - even if they are not appropriate (Massey, 2016:277). The inclination to management assumptions and estimates were as a result of management influence (Massey, 2016:277). Due to profit motives, RAs try not to disagree with management in order to retain audit contracts (Massey, 2016:277). The commercial aspects of the RAs' work create ethical challenges that can compromise the RAs' ability to uphold the public interest during audits (Massey, 2016:277). Of noting is the RAs' inconsistencies across the audits.

RAs have been noted to make inconsistent decisions during the audit, since they are influenced by factors related to the audit client (Emett et al., 2018:33). It was noted that audit adjustment decisions made for similar portfolios with similar aggregate misstatements differ, because RAs are influenced by the distribution of audit misstatement (Emett et al., 2018:33). RAs were noted to propose larger audit adjustments if audit misstatements are concentrated in a few individual securities with smaller book values (Emett et al., 2018:2). The opposite was noted when overstatements are concentrated in a few individual securities with larger book values or when spread across a larger number of individual securities (Emett et al., 2018:2). As a result, the investors perceived RAs to be inconsistent in the treatment of audit misstatements. It was noted that RAs use their judgement to make audit adjustments

that deviate from correcting aggregate misstatement¹⁹ in a portfolio if not doing so would understate the income of the client or auditee (Emett et al., 2018:33). RAs were also found to not incorporate management bias assessment when using their judgement to correct misstatements (Emett et al., 2018:34-35). This results in management bias going undetected in the account balances (Emett et al., 2018:34-35). As a result, the credibility of the RA's work will have been affected by lack of independence. Independence concerns arises when the relationship between the RA and management makes it difficult for the RA to perform audit service objectively.

Other than risk assessment and materiality concerns, investors consider the independence of the RAs in assessing the decision-usefulness of the work of RAs. As investors make use of audit reports, it was noted that investors need to take cognisance of the possible lack of independence between the RA and the auditee (Kareem et al., 2018:102). Lack of independence leads to an increased risk of the RA issuing an inappropriate audit opinion (Kareem et al., 2018:102). Investors prefer RAs not to provide non-audit services to the auditee (which may compromise independence) and to meet independence requirements in terms of ISA 200 (2009: par 14) (Kareem et al., 2018:102). An independent RA is perceived to be a professional who can provide information that is useful for investment decision making.

Even with an independent RA, the audit report information might still not be decision-useful if the information on the audit report is not sufficient for decision making for investors and other users of audit reports (Köhler et al., 2020:2). Hence, the International Auditing and Assurance Standards Board (IAASB) has started an initiative to improve the audit reporting model (Köhler et al., 2020:2). The initiative is expected to enhance the communicative value of the audit report, specifically using the KAM section of the audit report (Köhler et al., 2020:2).

The investors value the information disclosed under KAM if that information was not previously known to them or disclosed by auditee (Köhler et al., 2020:8). Investors have made calls for RAs to provide investors with more information on the auditee

¹⁹ Aggregating misstatements is combining significant and insignificant misstatements in order to assess their collective impact on the financial information that can be used for investment decision making process.

using the Emphasis of Matter audit report section (Keltona & Montague, 2018:1). The information that is expected to be in the emphasis of matter audit report section is information that was not disclosed by management and matters relating to management estimation and professional judgement. Even with the option to use KAM, the CAs are still expected to provide a possible range of outcomes for estimates and disclose such in the financial reports (Keltona & Montague, 2018:1).

The use of KAM should be in line with the guidance provided by the ISA. Even though the audit firms and RAs are expected to apply the same audit standards, some audit firms have more advanced and sophisticated audit technology, while others do not (Hoffman, Pham & Dao, 2018:3). The same applies to accountants; some accountants have specialised industry knowledge, while others have a generalised knowledge (Hoffman et al., 2018:3). It was noted that firms hire high-quality RAs, in the eyes of the investors, to signal the market and increase investor confidence - especially if they have risky investments (Hoffman et al., 2018:4). The big four audit firms and industry-specific specialist RAs have been identified as high-quality RAs (Hoffman et al., 2018:4). It was also noted that firms with diversified business strategies are most likely going to hire one of the big four audit firms (Hoffman et al., 2018:27). Other than the kind of auditor, big four firm or not, the investors take into consideration the audit approach used as far as materiality is concerned.

Literature suggests that investors take cognisance of audit materiality when making investment decisions (Lakis & Masiulevičius, 2017:117). The materiality that the RA uses was noted to be sometimes bigger than the materiality the investor considers appropriate (Lakis & Masiulevičius, 2017:117). In such an instance, the investor considers the audit report to be inappropriate for investment decision making (Lakis & Masiulevičius, 2017:117). The audit opinion would have been based on a lower risk of material misstatements, yet the investor considers a higher risk of material misstatement (Lakis & Masiulevičius, 2017:117). There is a perception that the RA's assessed risk of material misstatement might not be appropriate for the investor - rendering the audit outcome insufficient for decision making.

The preparers and reviewers of financial information may make material errors that affect the quality of financial statements (Osadchy et al., 2018:347). As a result, there

is a need for investors to use analytical tools to identify misstatements in the financial information before it is used for decision making (Osadchy et al., 2018:347). The implication is that financial information should not be considered usable until it is analysed for reliability (Osadchy et al., 2018:347). Some of the procedures taken by the investors to check if financial information is decision-useful are similar to the procedures done by RAs during an audit (Lakis & Masiulevičius, 2017:117). The review and analytical procedures done by investors imply that investors perceive financial information to be not of good quality for decision making all the time (Osadchy et al., 2018:347).

2.7 CONCLUSION

A significant number of corporate scandals involved CAs and RAs in recent years. The scandals led to the review of the Chartered Accounting and Auditing profession. The literature review showed that the process of becoming either a CA or an RA is rigorous. The professionals are expected to be competent and skilled in their line of work. CAs and RAs are expected to perform their duties being guided by the CPC. The CPC is expected to bring credibility and trust in the work of CAs and RAs.

CAs are expected to perform their duties with a degree of care and skill in compliance with applicable accounting standards. RAs are required to do the same in compliance with International Standards on Quality Control 1 (ISQC 1) and ISAs. CAs are ordinarily expected to produce financial information and RAs are expected to produce audit reports, with both being used for investment decision making.

The users of financial information cut across the entire economy, but the focus of this study is a select group of investors which are asset management firms. This group will represent the investors in this study. Asset management firms are firms that work as financial intermediaries between the providers of capital and those requiring capital. In doing their work, asset management firms rely on the work of CAs and RAs. However, the level of reliance is influenced by the perceived value of what comes from the CAs and RAs. The perceived value seems to have been affected by the recent scandals in the Chartered Accounting and Auditing profession. The literature already indicates that the perception exists that there are shortcomings in the work of CAs and

RAs. Literature suggests that there is a need to study the perceptions of South African CAs' and RAs' value in investment decision making, considering the current economic events and scandals noted above.

Based on the literature, it is recommended that more stringent regulations be enforced to ensure that the information provided in the financial statement is reliable and useful. CAs must adhere to core principles in compiling financial information, presenting financial statements and financial reports. Management must perform regular and reviews on balances to ensure effective decision making by users who rely on the financial information. If the CA and RA professions do not address the current issues, the implications are that a low level of confidence in the financial reporting system will discourage investors, increase their prudence and slow down the financial flows into the South African economy. Another related impact will be a reduction in the efficiency of the capital markets and the economy.

The next chapter provides details of the research design and approach followed during the data gathering process. The discussion on the research method will start by discussing how the participants were selected, the method used to collect data, how data was analysed during the interpretation of the research findings, then data management and measures implemented to ensure the trustworthiness of data and findings. The chapter covers the ethical considerations of the study before the conclusion.

CHAPTER 3 – RESEARCH DESIGN AND METHODS

3.1 INTRODUCTION

A significant body of literature exists which details the relationship between CAs, RAs and investors. The investors were noted to have been reliant to some extent on the work of CAs and RAs. During the literature review, many factors have been identified that can influence the perception of investors of South African CAs' and RAs' value in investment decision making. Of note was the process to become a CA or RA. The process is designed to produce competent, skilled and always-up-to-date professionals. To continue to use the CA or RA designation is prestigious, yet it requires one to continuously abide by SAICA or IRBA CPC. The regulation of the conduct of CAs and RAs using the CPC is something that investors have a high regard of. As a result, literature identified duties of CAs and RAs to be valuable to investors in investment decision making and other uses.

A host of users of financial information and audit reports was identified in the literature. CAs and RAs were noted to be significant role players who ensure that users get financial information in usable financial reports that are audited for assurance and credibility. When conceptualising value using literature, it was noted that investors realise value from CAs and RAs if they get information that is decision-useful for investment purposes. Value is also realised if the information from CAs and RAs contribute positively to investment performance.

The literature reviewed in Chapter 2 suggests that there are shortcomings in the work of CAs and RAs. The shortcomings are linked to several recent corporate scandals in South Africa in which CAs and RAs were involved. The scandals have brought in the research question about the view of the investors on the value of CAs and RAs in the decision-making process. The research question will be addressed through research taking into consideration the current events in relation to the past.

This chapter discusses the 1) research design and approach; 2) research method, which will be comprised of the sample selection, data collection, data analysis and management; and 3) ethical considerations before the conclusion.

3.2 RESEARCH DESIGN AND APPROACH

In the context of this study, business research is an academic study of topics related to questions relevant to business, including management and organisations (Bell, Bryman & Bill, 2019:4). A research design provides a structure that guides the use of a research method and the analysis of the subsequent data (Bryman et al., 2014: 100). This section will provide a framework for the collection and analysis of data (Bryman et al., 2014:100). The research design applied to this study is relevant to what is to be studied and how it will be studied. The research design is appropriate for addressing the research objectives.

When deciding on a design, a researcher can follow a quantitative or qualitative design or both (Queirós, Faria & Almeida, 2017:370). Quantitative research is a research strategy that emphasises quantification in the collection and analysis of data (Rahman, 2017:105). Quantitative research denotes amounting something (Rahman, 2017:105) and adopts structured procedures and formal instruments for data collection (Queirós et al., 2017:370).

Quantitative research findings are easy to generalise to the whole population or a sub-population, because they come from a larger sample size (Rahman, 2017:106). Sampling and data analysis can be less time consuming if statistical software is used (Rahman, 2017:106). A researcher planning to have a highly representative sample is better off with quantitative study (Queirós et al., 2017:382). Several statistical tests and techniques can be used in a quantitative study (Queirós et al., 2017:382).

The disadvantages of quantitative research studies are that they fail to ascertain deeper underlying meanings and explanations (Rahman, 2017:106). The quantitative research approaches have tendencies of taking a snapshot of a phenomenon; that is, it measures variables at a specific moment in time, disregarding the meaning that can be derived in the detail (Rahman, 2017:106). A quantitative study approach has limited capacity to elicit perceptions, as the researchers will not connect with subjects or participants (Rahman, 2017:106).

Qualitative research is any type of research that produces findings not arrived at by statistical procedures or other means of quantification (Rahman, 2017:103). A qualitative research approach produces a detailed description of participants' opinions and experiences, which gives in-depth findings (Rahman, 2017:104; Queirós et al., 2017:370). The researcher can discover the participants' inner experience and can determine how meanings are shaped in a qualitative interview (Rahman, 2017:104). A qualitative research design is more flexible than a quantitative one, as research participants are asked open-ended questions as opposed to closed-ended questions (Rahman, 2017:104; Singer & Couper, 2017:116). A qualitative, semi-structured interview study approach allows conducting interviews that are quicker to do and makes it is easy to compare participants' answers (Queirós t al., 2017:379).

The disadvantage of qualitative research approaches is that they sometimes leave out contextual sensitivities and focus more on meanings and experiences (Rahman, 2017:104). A qualitative research study can be time consuming - especially in preparing for interviews (Queirós et al., 2017:379). Qualitative research approaches mostly use small samples, which makes generalisation difficult (Rahman, 2017:105). Data interpretation and analysis are complex in a qualitative approach, because of elusive data and stringent requirements for analysis (Rahman, 2017:105).

The research method adopted took into consideration the advantages and disadvantages of each method discussed above, the research question, specificities and the nature of the research study. This study follows a qualitative approach, because it involves personal experience on the subject of the study (Kumar, Sachan & Mukherjee, 2017:301). The qualitative approach allows multiple individuals or participants who experience similar events to tell their stories without any distortions or persecutions (Alase, 2017:9). Kumar et al. (2017:301) state that the arguments for qualitative research are based on its increased possibility for broad and rich descriptions and its sensitivity to ideas and meanings of the individuals concerned. The suitability of the approach is on the premise that the study will involve people that will possibly have different interpretations of the topic of the study (Kumar et al., 2017:301).

The open-ended questions embedded in interview questions allow responses that give breadth and representative coverage at a lower cost (Singer & Couper, 2017:116). The perceptions of the value of CAs and RAs to investors are unique. An approach that allows participants to express themselves freely is appropriate due to the uniqueness of the responses. The researcher believes that a qualitative research design is the most appropriate way to address the objectives of this study. Qualitative research design is appropriate if the research is exploratory (Kumar et al., 2017:301). Since the way in which value is uniquely added to investors may need to be explored further, the qualitative research will allow such to happen. As such, new knowledge can be added to the literature about the perceived value that CAs and RAs add to the investment decision making process.

This study seeks to make conclusions and inferences out of the research data in line with the objectives of the research. A research approach that can analyse raw data to the objectives of the researcher is inductive (Alase, 2017:12). Qualitative research makes an inductive approach possible (Alase, 2017:12). The findings of the research in an inductive approach emerge out of themes identified from raw data (Alase, 2017:12). The themes are relevant and in conformity with the researcher's objectives (Alase, 2017:12). The themes are identified in qualitative research which involves interviews as identifying words or phrases that are repeated in the participants' responses (Alase, 2017:15). Themes are described as significant statements that can be grouped into larger units of information called meaning units (Alase, 2017:16). Therefore, the researcher creates findings by observing the phenomenon under study and develops conclusions and recommendations based on the observations (Alase, 2017:11). The researcher will make observations that are aligned to theories relating to the CAs and RAs' value in the investment decision-making process. The observation will assist in drawing up conclusions.

In this study, a qualitative research design allowed the researcher to gather contextual, in-depth knowledge of the perceived value added by the CAs and RAs. In inductive qualitative research, the how and why questions are imposed - thereby furthering or promoting the depth of responses (Woiceshyn & Daellenbach, 2018:3). The qualitative research approach provided the research participants with an opportunity to narrate their experiences in settings they are familiar with (3.3.2 describes the setting in which

data was collected). During the data collection process, new ways in which CAs and RAs add value to the investment decision-making process were noted.

To have preconceived knowledge of the subject and to be familiar with the context of the study can be an advantage if it does not influence the responses from participants or the interpretation of the results (Bengtsson, 2016:8). The researcher has a basic knowledge of accounting, auditing and investment - which supports the qualitative study approach. Qualitative research requires interpretation of the results; hence, the researcher needs to understand the field of study to detect and take into account misrepresentations that may crop up in the data (Bengtsson, 2016:8). The researcher can scan data, and detect and eliminate misinterpretations and inconsistencies.

Research participants may have different opinions on the use of concepts, procedures and interpretation of CAs' and RAs' value in investment decision making. As a result, there will be no single or consensus of truth in this qualitative research. The choice and interpretation of concepts might differ, but how the concepts are discussed concerning truth and trustworthiness matters in the qualitative study, because there is no definite truth (Bengtsson, 2016:13). The researcher is more interested in an in-depth understanding of CAs' and RAs' value in investment decision making and in establishing different perspectives of participants, rather than aiming at singular truth.

A semi-structured interview is the most appropriate research approach to complement the research design. The semi-structured interview consists of a dialogue between researcher and participant, guided by a flexible interview protocol and supplemented by follow-up questions, probes and comments (DeJonckheere & Vaughn, 2019:1). The method allows the researcher to collect open-ended data, to explore participant thoughts, feelings and beliefs about the research topic and to delve deeply into personal and sometimes sensitive issues (DeJonckheere & Vaughn, 2019:1). The overall purpose of using semi-structured interviews for data collection is to gather information from key participants who have personal experiences, attitudes, perceptions and beliefs related to the topic of interest (DeJonckheere & Vaughn, 2019:2).

A semi-structured interview is a popular data collection method that has proved to be both versatile and flexible (Kallio et al., 2016:6-7). The main advantages are that the semi-structured interview method is successful in enabling reciprocity between the interviewer and participant, and enabling the interviewer to improvise follow-up questions based on participants' responses (Kallio et al., 2016:6-7).

Despite the utility, semi-structured interviews can be intimidating and challenging for researchers and participants not familiar with qualitative approaches (DeJonckheere & Vaughn, 2019:1). The other problem with interviewing is that not all interviewees make great participants (DeJonckheere & Vaughn, 2019:7). Participants are sometimes hard to engage in conversation or may be reluctant to share what they deem sensitive information or personal topics (DeJonckheere & Vaughn, 2019:7). Some or all these challenges can be alleviated by prioritising listening over talking, using clear language and avoiding jargon, deeply engaging in the interview process by actively listening, expressing empathy, demonstrating openness to the participant's worldview and thanking the participant for helping to understand their experience (DeJonckheere & Vaughn, 2019:7).

3.3 RESEARCH METHOD

3.3.1 Selection of research participants

Non-probability sampling is often used in a qualitative study that takes either a convenient sampling or a purposive sampling approach (Etikan, Musa & Alkassim, 2016:3). In non-probability sampling, randomisation is not important in selecting a sample from the population of interest (Etikan et al., 2016:1). Rather, subjective methods are used to decide which participants are included in the sample (Etikan et al., 2016:1). Hence, non-probability sampling is a sampling technique where the samples are gathered in a process that does not give all the participants or units in the population equal chances of being included like a probability sampling (Etikan et al., 2016:1). Non- probability sampling was used because it is cheaper and quicker to implement.

The researcher opted for a convenience sampling approach, because the approach allowed the selection of participants who are easily accessible, available and are willing to participate. The application of a convenient selection approach started with

the selection of the research site. Though the topic refers to investors, the sample had to be drawn from a group of asset management firms, because it was practical and cost-effective to focus on a specific group of investors. It was noted that most of the asset management firms are situated in Cape Town, which is almost 1 000 kilometers from Kimberley where the researcher is stationed. The remainder of the asset management firms are in Johannesburg, which is almost 500 kilometers from Kimberley. As a result, a database of asset management firms where most of the targeted participants were identified, ASISA, was used as the source for sampling. It was easy and convenient to select participants from members of ASISA, because their detail was available and the researcher could see the minimum value of assets being managed by the participants. Affiliation with ASISA makes participants a credible and trustworthy sample, since they are required to comply with standards of ASISA.

Briefly, ASISA operates as a non-profit company empowered by a mandate from an industry that manages assets with a combined value of nearly R7.7 trillion (www.asisa.org.za). The total value of assets managed by members of ASISA in South Africa makes members of ASISA a significant representation of investors in South Africa, though it mainly comprises asset management firms. ASISA has 119 members, which are asset managers operating in South Africa as asset management firms, foreign collective Investment schemes, other institutions and individuals (www.asisa.org.za). Below is a table summarising the 119 members of ASISA grouped into four different categories based on their unique characteristics that are explained below. (Also refer to Table 1.1 in Chapter 1 page 17 for the characteristics of each category of ASISA members).

Table 3.1: Population from which sample participants were selected

QUALIFYING CRITERIA FOR VOTING MEMBERSHIP OF ASISA:	NUMBER OF MEMBERS
Asset management firms managing assets of R10 billion or more.	23
Asset management firms managing assets of less than R10 billion.	60
Foreign Collective Investment Schemes	20
Institution or individual involved in business activities which are complementary to the business of ASISA members	16
Total	119

Source: www.asisa.org.za

Out of the 119 members (asset management firms) of ASISA, the 23 who are asset management firms were selected to participate in the study. The selection of the participants should reflect and represent the homogeneity that exists among the participants' sample pool (Alase, 2017:13). The 23 participants all had similar characteristics in that they are all registered with ASISA. The 23 participants are companies duly established, registered and authorised in terms of the applicable Laws in South Africa (www.asisa.org.za). The 23 participants offer savings and investment products and manage assets of R10 billion or more each (www.asisa.org.za). The essence of conducting a research study with homogenous participants is to get a better gauge and a better understanding of the overall perceptions among the participants' lived experiences (Alase, 2017:13).

Of the 119 members, 60 members are asset management firms that manage assets of R10 billion or less each, while 20 are foreign collective investment schemes not controlled by a local organisation (www.asisa.org.za). A total of 16 members of the 119 are any institutions or individuals involved in business activities that are complementary to the business of ASISA members (www.asisa.org.za). The 16 members include actuaries, investment consultants, accountants, lawyers, information providers, industry service providers, industry switches and software firms (www.asisa.org.za). The researcher considered the 23 participants selected to be firms that would provide rich information about the phenomena being studied. The value of assets under the management of each selected research participant creates

an expectation that each participant considers a variety of important aspects in the investment decision-making process. Such variety and exposure make the participants relevant for the study.

In qualitative studies, it is common that data are collected from between 1 to 30 participants (Bengtsson, 2016:10). Qualitative studies are conducted on relatively small sample sizes, and the aim is to find a reasonably homogeneous sample, so that, within the sample, the researcher can examine convergence and divergence in some detail (Alase, 2017:13). The sample of 23 was considered adequate for the qualitative study. Alase (2017:15) recommended as many as 25 participants but as few as two participants for semi-structured interviews. The study by Alase (2017:15) further confirms the adequacy of the sampled 23 participants that can be interviewed during the limited period of the study and that results can be appropriately analysed. The details of the 23 participants are per Table 3.2 below:

Table 3.2: Sample of research participants

Name of the Asset Management Firm (Research participant where the Chief Investment Officer will be interviewed)
1. 27four Investment Managers (Pty) Ltd
2. ABSA Financial Services Ltd
3. Afena Capital (Pty) Ltd
4. Alexander Forbes Group Holdings Ltd
5. Allan Gray (Pty) Ltd
6. Assupol Life Ltd
7. Coronation Fund Managers Ltd
8. Discovery Holdings Ltd
9. FirstRand Life Assurance Ltd
10. Foord Asset Management (Pty) Ltd
11. Hollard Life Assurance Company Ltd
12. Investec Asset Management Ltd
13. Kagiso Asset Management (Pty) Ltd
14. Liberty Holdings Ltd
15. Mazi Asset Management (Pty) Ltd
16. Momentum Metropolitan Holdings Ltd
17. Nedbank Wealth
18. Oasis Group Holdings (Pty) Ltd
19. Old Mutual Emerging Markets Ltd
20. Prescient Investment Management (Pty) Ltd
21. Prudential Portfolio Managers (SA) (Pty) Ltd
22. PSG Konsult Ltd
23. Sanlam Ltd

Chief Investment Officers are preferred to represent the selected participants, because their voice or opinion in an asset management firm gives the perspective of how the whole firm operates and make investment decisions (Clark & Urwin, 2017:3). Senior Analysts and Analyst are preferable as second and third choice respectively, because they are involved in determining, establishing and implementing policies and

methodologies of the firm. Analysts are part of the team that is in proximity and led by the Chief Investment Officer. It was also imperative to select participants who manage high-value assets, since participants who manage low-value assets do not usually afford to have Chief Investment Officers (Clark & Urwin, 2017:3).

In preparation to recruit the sampled participants, the researcher compiled the phone numbers and email addresses of the prospective participants from the database of ASISA, available at www.asisa.org.za. The researcher then started by making phone calls to prospective participants (asset management firms) to establish to whom an invitation for participation in the research should be sent. The phone calls were followed by emails with a formal written invitation to participate in the research (Alase, 2017:13). The formal written invitation comprised a letter titled 'request for permission to conduct research'. The invitation letter provided the title of the research project, details of the researcher and study leader, the purpose of the study, a confirmation that the study has received from Research Ethics Committee of the University of Free State, details of why the participant was selected and the nature of participation in the research, the potential benefits and risk of participating in the study, how the participants details and contribution to the study will be kept confidential and how the participant will be informed of the findings of the study if they want to be. In response to the invitations, the participants were requested to provide the researcher with written consent to participate in the study. In addition, the participants were expected to provide the gatekeeper permission letters authorising the study at the organisations and providing the details of the representative of the participants.

The researcher requested the services of SAICA to assist with the distribution of invitations and interview questions to participants sampled for the study. In return, SAICA requested the researcher to share findings with them. SAICA and the researcher both sent invitations to participants in a workable plan that ensured that duplication of invites was avoided. The plan was that, if for any reason all the sampled participants did not respond, verbal invites would be done. The recruitment strategy included seeking assistance from the participants who would have already agreed to participate in the research project. The researcher requested participants that agreed to participate to recommend ways of getting the remaining prospective participants to agree to participate. The recommendations would most likely include channels of

communication to use, who to contact within the organisation and the details of the authority levels that will be expected to sanction the participation in the research. Email addresses and phone numbers of the right contacts from the participants would also be shared as the researcher used verbal invites.

It was expected that the initial point of contact when the researcher sends invitations to selected participants (asset management firms) would not be the individuals who can sanction participation in the research. The first point of contact would be to refer the researcher to the officials with authority and capacity to sanction participation in the research. Once the invitation was accepted, the researcher requested the details of the official assigned within the asset management firm to assist with data collection. The details included the email address and phone number. The assigned official to be interviewed would be a Chief Investment Officer or Senior Analyst or an Analyst.

SAICA and the researcher consolidated the details of sampled asset management firms who agreed to participate in the study. SAICA then distributed interview questions to the representatives of the participants identified in the permission letters. No identifying characteristics of any of the participants will be disclosed in this research project other than the general characteristics that explain the homogeneity and field of study. This is to ensure the confidentiality of all responses is maintained. Participation in this research was entirely voluntary and dependent on the responses received after invitation letters were sent to prospective participants.

Each asset management firm was asked to delegate a professional to assist with the data collection (who is a Chief Investment Officer or Senior Analyst or Analyst in the respective order of preference). The letter of invitation sent to the asset management firms requested a delegated official to participate in a research study on the investors' perception of the value of CAs and RAs in the investment decision-making process. Refer to Appendix 2 for a copy of the letter of invitation.

Based on the general credentials of investment professionals, to be delegated to represent participants, normally encountered in practice and for this research project, the following assumptions were made for all participants:

- a) Due to the nature of their work, all participants will have at least the required level of tertiary education deemed necessary by professional investment firms, such as a relevant bachelor's degree or postgraduate level of education;
- b) due to the nature of the participants' operating environment, it is accepted that all participants will be adequately experienced and have relevant financial professional affiliation (such as Chartered Financial Analyst, CA or alike); and
- c) it was assumed that each participant will have competences acceptable for employment as an investment professional, as would hold through standards set by investment firms in their recruitment processes.

Based on the nature of this study, the sampled group and to not compromise the confidentiality of the representatives of participating firms, no differentiation will be made as it pertains to age, gender, race or similar demographics. This study, by design, could not make any assertions inferring the results obtained herein on any of the identified demographics.

3.3.2 Data collection

Qualitative data collection requires information-rich participants; hence, selection of the right participants is an important task (Etikan et al., 2016:4). The 23 participants selected were expected to provide rich information relevant to the study. In this study, semi-structured individual interviews were conducted, field notes taken and audio or video recording done where necessary with the permission of the participants. The recording of audio or video was done to ensure the completeness and accuracy of the transcribed data. Recording helps in ensuring the researcher's attention is not taken away from the interview process. Interviewing and transcribing at the same time might result in important comments and body language being missed; hence, recording was done.

Data collected by way of interviews or focus groups or other discussions are often recorded by audio or video (Bengtsson, 2016:11). The recordings are usually transcribed into a written form, which is an interpretive process (Bengtsson, 2016:11). Transcriptions sometimes need to be very detailed to capture speed, tone of voice, emphasis, timing and pauses, but these components can be difficult to write down and also analyse (Bengtsson, 2016:11). The literature suggest that the researcher should

perform the transcribing procedure (Bengtsson, 2016:11). The data sources identified in the paragraph above are expected to be adequate to compile information relevant to formulate a conclusion on the investors' perception of CAs' and RAs' value in investment decision making. The field notes detail the things that the researcher heard, saw, understood, considered and felt during the progression of the interview. The interview data were captured by taking notes during the interview and expanding them immediately after the interview, where possible. Notes were kept throughout the data collection phase. The notes helped in recalling the observations made during each interview.

Semi-structured interviews can be conducted in multiple ways or approaches, which include face to face, telephone, text or email, individual, group, brief and in-depth (DeJonckheere & Vaughn, 2019:2). These approaches have advantages and disadvantages (DeJonckheere & Vaughn, 2019:2). The face to face has a preference, because it presents an opportunity to observe the social and non-verbal cues of the interviewee (DeJonckheere & Vaughn, 2019:6). The researcher was not able to conduct physical face-to-face interviews due to the cost of visiting all the research participants. Due to the worldwide pandemic related to the COVID-19, a virus that can spread through physical or close contact, interviews were conducted on a virtual platform for the sake of health and safety of participants and researcher. As a result, all semi-structured in-depth interviews with all participants were conducted telephonically, Skype, Microsoft Teams, Zoom or similar platform.

Semi-structured interviews include a short list of pre-prepared guiding questions that are supplemented by follow-up and probing questions that are dependent on the interviewee's responses (DeJonckheere & Vaughn, 2019:6). Refer to Appendix 1 for semi-structured pre-prepared guiding interview questions. The guiding interview questions are linked to the attributes influencing the investors' perception of CAs' and RAs' value in the investment decision-making process. Additionally, Alase (2017:13) recommended that qualitative researchers only ask one or two central questions followed by no more than five to seven sub-questions. Several sub-questions follow each general central question, and the sub-questions narrow the focus of the study, but leave open the questioning (Alase, 2017:13). In addition to posing the central and

sub-central questions to participants, as a rule, qualitative researchers must utilise the open-ended question formula (Alase, 2017:13).

The bottom line is that the wording of the research questions should be in a way probing and open-ended (Alase, 2017:13). Semi-structured interviews provide the participants with a chance to inform the interviewer of important matters concerning the CAs' and RAs' value not covered by the pre-populated questions. At the same time, the pre-populated questions were available to provide structure to the interviews. The approach allowed the researcher to get an informed view of the perception of value from the investors.

The researcher is to use open-ended questions without reference to the literature or theory unless otherwise indicated by a qualitative strategy of inquiry (Alase, 2017:13). Semi-structured interviews required the researcher to review literature related to the research topic area in order to develop guiding questions (Kallio et al., 2016:6-7). The guiding questions were developed to address the investors' attributes that contribute to understanding how the CAs and RAs add value to the investment decision-making process. Chapter 2 identified attributes that will be explored. The attributes identified from Chapter 2 provided a theoretical framework for the study and guided the researcher in developing the questions for the interviews. Like all qualitative research, interviewing is iterative (DeJonckheere & Vaughn, 2019:6). Data collection and analysis occur simultaneously; as a result, changes to the guiding questions are made as the study unfolds where necessary (DeJonckheere & Vaughn, 2019:6). Questions that are not effective are replaced with other questions and additional probes (DeJonckheere & Vaughn, 2019:6).

Semi-structured, in-depth interviews are appropriate, because they reduce the distance between the interviewer and interviewee. In-depth interviews are more efficient as they provide more qualitative information, more statistics, more depth, more representation and more value (Kumar et al., 2017:301). In this study, the guiding questions were asked first. As the participants respond to the main question, they might fail to provide information about the areas covered by sub-questions. In such instances, the sub-questions were asked as follow-up questions.

Interview sessions started with an easy, context-setting question before moving to more difficult or in-depth questions (DeJonckheere & Vaughn, 2019:5). The easy questions were prompt questions that opened up the discussion and created a friendly environment (DeJonckheere & Vaughn, 2019:5). The subsequent questions elicited responses to help answer the research question (DeJonckheere & Vaughn, 2019:5).

The researcher wanted to conduct and conclude the participants' interviews within a reasonable period (Alase, 2017:14). The planned period allowed for additional follow-up interviews to be conducted (Alase, 2017:14). To get good data from participants, the most important thing at the beginning of the interview is to establish a rapport with the participant (Alase, 2017:14). The researcher created an environment which made the participants comfortable, trust the interviewer and know what the interviewer wants (Alase, 2017:14). Interviews were scheduled to ensure data collection between September and October 2020. Interviews continued until data saturation is achieved. As the study progressed, data saturation was assessed by the researcher by evaluating the richness of the data collected, whether new substantive codes are being elicited, and whether new thematic categories are emerging. When saturation was reached, a further three interviews were undertaken to confirm if no new substantive codes can be elicited.

The researcher knew that data saturation was reached when there was no more new information or themes emerging during the study (Majid, Othman & Mohamad, 2018:66). At the point of theoretical saturation, all new information should not be adding unidentified codes or themes (Majid et al., 2018:66). Majid et al. (2018:73) suggest that data saturation can be reached after interviewing 12 participants. With 23 participants selected for this research, there was a higher chance of reaching data saturation if more than 12 participants from the sample agree to participate. Theoretical saturation would be evident when all the variations of the phenomena have been identified and noted from the participants.

To ensure that saturation is achieved, the researcher searched for the extreme variations of each concept or phenomena and compared these with other variations for any emerging themes. During the analysis of the interview transcripts, the researcher identified new codes and themes (Majid et al., 2018:71). The identified

codes and themes will be defined and named before being compiled into a report (Majid et al., 2018:71). In the process of monitoring data saturation, the researcher documented new themes as they emerge. As the interview progressed, the researcher monitored the progression of themes and changes to definitions of themes and codes. As the rate of progression declines, the researcher knows that data saturation is about to be reached. The codes and themes including the related definitions were revised after analysis of each and every interview (Majid et al., 2018:71).

After all interviews were completed, data analysis was repeated at least three times so that the researcher could get a chance to go through all the transcripts with the context of identified and defined themes and codes (Majid et al., 2018:71). An iterative process was followed during the data analysis as is necessary in order to correctly capture all the themes and codes (Majid et al., 2018:71). Any new themes and codes that were identified were followed by a re-review of interview transcripts and additional or follow-up interviews where necessary.

Misrepresentations may arise due to the participants not telling the whole truth, or their being unable to express themselves, or being affected by what they think the researcher wants to hear (Bengtsson, 2016:11). The inconsistencies that arise due to misrepresentation must be identified during data analysis. In general, the misrepresentation or unclear inputs will result in follow-up interviews; but if extreme, they will result in the abandonment of the participant.

3.3.3 Data analysis

The purpose of data analysis is to organise and elicit meaning from the data collected and draw realistic conclusions (Bengtsson, 2016:10). In qualitative content analysis, data is presented in words and themes, which makes it possible to draw some interpretation of the results (Bengtsson, 2016:10). The qualitative data to be analysed included interview transcripts, interview notes and audio or video recording.

In qualitative research, several analysis methods can be used; for example, phenomenology, hermeneutics, grounded theory, ethnography, phenomenography and content analysis (Bengtsson, 2016:8). Qualitative content analysis is not linked to any science, and there are fewer rules to follow (Bengtsson, 2016:8). Therefore, the

risk of confusion in matters concerning philosophical concepts and discussions is reduced (Bengtsson, 2016:8). A study by Bengtsson (2016:9) defined content analysis as a research technique for making replicable and valid inferences from texts (or other meaningful matter) to the contexts of their use. Content analysis is more than a counting process, as the goal is to link the results to their context or to the environment in which they were produced (Bengtsson, 2016:9).

Content analysis is a research method that provides a systematic and objective means to make valid inferences from verbal, visual, or written data to describe and quantify specific phenomena (Bengtsson, 2016:9). For the semi-structured interview data collection method, the researcher considered content analysis to be appropriate. The content was derived from interview transcripts, interview notes and audio or video recording. The transcribed interview records were numbered and filed according to the research participants to assist in identification and analysis.

The literature suggest that the researcher should read the transcripts at least three times to get a feel of what the research participants were saying verbally, and also to get a better feel of the participants' state of mind vis-a-vis how the subject-matter has affected their lived experiences (Alase, 2017:15). After the interviews were completed, the researcher went through the interview responses in the transcripts to identify common themes. The researcher will search for words or phrases that are repeated in the participants' responses. This helped the researcher to narrow down or condense the words or sentences in a transcript. The researcher then read each interview transcript again and listened to any audio or video recording devices that were used during the interviews for clarity. After going through the transcripts and any other recordings at least two to three times, the researcher started coming up with themes and categorising them in the patterns of responses by the research participants. The identified themes are the meaning units (Alase, 2017:15). According to Alase (2017:15), meaning units are words or statements that relate to the same essence of the lived experiences that the research participants tried to convey through responses.

The process of identifying meaning units or themes is called data coding. According to Alase (2017:15), data coding requires three generic cycles. The first generic cycle is a process that gradually codes the sometimes lengthy and convoluted responses

from research participants into meaningful, chunky statements (Alase, 2017:15). The researcher went through the collected data extensively to identify the preliminary codes. This process helped the researcher break down the responses into a format or themes that the researcher can condense and manage (Alase, 2017:15). This process can also help researchers be aware of some keywords or phrases that are repeated or expressed by the participants (Alase, 2017:15). The words or phrases can sometimes mean a lot to the veracity of what the participants are trying to convey to the researcher (Alase, 2017:15), which is the essence of the participants' lived experiences in the subject matter of the research (Alase, 2017:15). The first circle triggers analytical thinking and help in identifying areas where follow up will be needed.

The second generic cycle is another condensation process that further helps the researcher reduce the first generic chunky statements into fewer words (Alase, 2017:15). So, it is the data condensation cycle (Alase, 2017:15). Data condensation gives the researcher another opportunity to extrapolate in very few tangible words the true gist or essence of what the research subject matter meant to the lived experiences of the participants (Alase, 2017:15).

The third and final generic cycle stage is what Alase (2017:15) described as the category phase. This stage allows researchers to narrow down to extremely few words the responses of the participants (Alase, 2017:15). In the final stage, the researcher will encapsulate or capture the essence of the meaning units of the research participants' lived experiences in few words (Alase, 2017:15).

During the coding process, the researcher avoided interjecting his personal experiences into the lived experience of the research participants. The coding process is subjective, since it is done using the researcher's discretion. In a nutshell, the data analysis techniques identified above included matching of patterns, then building explanations where data collaborate. Data gathered from interviews were categorised based on the responses to similar questions asked. The data were then analysed to extract meaning and information to formulate a conclusion.

3.3.4 Data management

Securing and managing the data collected in a qualitative research study is important (Alase, 2017:14). As the manager of the research database, it is the responsibility of the researcher to provide adequate security for the safekeeping of the data collected (Alase, 2017:14). Alase (2017:14) suggested the following measures for securing and safeguarding the research data from outsiders: a) as an added protection, a researcher should destroy through deletion any video, audio or taped recorded information after it has been transcribed for the safety and protection of the participants; b) a researcher should provide a safe and sturdy storage system for the safekeeping and management of the research data; c) researchers should have a sturdy safety system that protects the data collected from the hands of an outsider; this can be achieved by providing a password-protected system for the filing and storing of research data.

The interview notes were scanned and stored in a password-protected computer and the hardcopy documents were destroyed immediately after scanning. The same applies to recorded videos or audios. Before hardcopy documents were scanned and before video or audio recordings were saved in a backup facility, they were stored in a secure lockable area with limited access. Back-up of all information was done in a password-protected cloud back-up facility.

3.3.5 Measures to ensure trustworthiness

In a qualitative study, rigorous data collection procedures influence quality and trustworthiness and these aspects critically influence the results of the study (Kallio et al., 2016:6-7). Hence, the researcher adhered to qualitative perspectives during the entire research process. The aim is to achieve the rigour and credibility that make the results as trustworthy as possible. As a result, the researcher endeavoured to stay true to the text to achieve trustworthiness.

In data analysis, different concepts can be used in the discussion of trustworthiness (Bengtsson, 2016:8). For this study, four concepts have been identified to guide the quality and to ensure the trustworthiness of the study. The concepts are credibility, dependability, transferability and confirmability (Bengtsson, 2016:13).

Credibility refers to the research process, which is to establish how the data and the analysis procedures are carried out and to ensure that no relevant data have been excluded (Bengtsson, 2016:13). The credibility of this study is achieved by getting a scientific review of data collection instruments. The University of the Free State scientific review committee reviewed the data collection instruments, research approach and method before approval was granted to continue with the study. The researcher or interviewer asked unplanned questions that cater for unanticipated answers to ensure that all relevant data are collected.

Dependability refers to stability; that is, the extent to which data change over time and the alterations made in the researcher's decisions during the data analysis process (Bengtsson, 2016:13). The researcher kept track of the coding decisions. The memos were used to track changes during the data collection and analysis where re-coding and relabeling were necessary during the research process.

Transferability refers to the degree to which the results may apply to other settings or groups and the number of participants (Bengtsson, 2016:13). The researcher ensured that the sample selected was a true representation of the population so that accurate conclusions could be drawn from the research results. Since this is a qualitative study that makes use of a small sample, claiming the research findings to be representative may be difficult. Regardless of this challenge, the depth of the study would be adequate to ensure that appropriate conclusions can be drawn from the research findings.

Confirmability is largely an issue of presentation and refers to the objectivity or neutrality of the data (Bengtsson, 2016:13). Though the researcher used his knowledge of the field of study to guide the research process, the data collection and analysis were done without bias. The research was approached with an open mind receptive to all possibilities and outcomes. The research outcomes from qualitative studies are sometimes difficult or impossible to replicate because the data arise from a specific context (Bengtsson, 2016:13). As a result, it will be difficult to confirm the research outcome by using similar research or replicating the study.

3.4 ETHICAL CONSIDERATION

As has been established from the research design and method, the data collection involved human subjects that represent asset management firms. Both asset management firms and individuals need to be engaged ethically. Hence, during the planning stage, the researcher was required to consider the ethical aspects to protect the participants (Bengtsson, 2016:10). The participants were informed that the final research report will be shared with SAICA. Participants were informed that SAICA intends to use the findings from the study to make informed decisions on training, products and services for the development of SAICA members, specifically in the Investment industry. The results will be of value to SAICA's internal corporate reporting division, which strategically focuses on the value members have in the industry.

After a research design was established, a presentation of ethical aspects was sent to the University of Free State's General Human Research Ethics Committee (GHREC) for review and approval. An information letter to persons involved in the study was written as per Appendix 2 and 3, and all participants were informed orally or in writing about the study before they could start contributing to the study. The participants were guaranteed confidentiality and informed that their participation is voluntary and that they can withdraw their data from the study or participation thereof at any time without any effect on their relationship with the researchers. Participants did not need to provide reasons for withdrawing their participation in the study.

3.5 CONCLUSION

This chapter explained that a qualitative research design was suitable to understand the investors' perception of CAs' and RAs' value in the investment decision-making process. To complement this design, a semi-structured interview approach was selected. The research site and research participants were conveniently selected based on factors identified to be convenient for the researcher. Accordingly, ASISA which was accessible to the researcher and is an organisation with registered target participants, was selected as the research site.

Participants included asset management firms that were managing assets with a minimum value of R10 billion each. Each participant was requested to avail a representative official to assist with the study. In order of preference, the officials that

were requested to represent the participants were Chief Investment Officer or Senior Analyst or Analyst. The collection of data from participants using semi-structured interviews, field notes and audio or video recording contributes to the trustworthiness of the study. Data was stored in such a way that confidentiality will be maintained. Several strategies were implemented to ensure trustworthiness and to increase the rigour of the study during both the data collection and analysis phase.

Chapter 4 will have a presentation of the empirical findings of the study. These findings are based on the analysis of data obtained from the semi-structured individual interviews held with the research participants, as well as field notes and audio or video recordings.

CHAPTER 4 – PRESENTATION OF THE RESULTS AND AN ANALYSIS OF THE OUTCOME OF THE RESEARCH

4.1 INTRODUCTION

Chapter 3 explained that a qualitative research design and semi-structured interview approach was applied to understand the investors' perception of the value of CAs and RAs in the investment decision making process. Chapter 3 also described the method used in selecting both the research site and the participants, as well as data collection, analysis and management. The measures implemented to ensure the trustworthiness of the study were also dealt with. The chapter concluded with a discussion of the ethical considerations applied during the study.

This chapter presents an analysis and discussion of the research findings. Semi-structured in-depth individual interviews were used in order to achieve the research objectives. In this chapter, the interpretation and reporting style will be discussed followed by a description of the interview context. Thereafter, the empirical findings will be presented within the context of the components influencing the value of CAs and RAs as discussed in Chapter 3. These components include qualifications and competences of CAs and RAs, experience and skills, investor expectations, value and information relevance including decision usefulness of CAs and RAs in the investment decision making process, professional value relevance and ethical conduct of CAs and RAs.

4.2 INTERPRETATION AND REPORTING STYLE

Semi-structured interview data were first analysed by listening to the recording of the eleven interviews conducted to identify preliminary codes. The codes were then recorded in a separate document. The descriptive, open coding technique was used during the first phase. The researcher listened to the recording again and codes were updated where necessary. Similar codes were grouped and assigned to a specific descriptive category. Further analysis was done to identify the interrelationship between the descriptive categories. During the identification of interrelationships, common themes were identified which brings the context of value added by CAs and RAs.

An inductive reasoning process was followed during the analysis and interpretation of data. The identified themes were linked to or aligned with the theory identified in Chapter 2 that relates to value-added by CAs and RAs in the investment decision-making process. Participants were given special codes or identifications ranging from P1 to P11. P1 means participant number one. Verbatim quotes from the participants were used to support the research findings. If P1 is being quoted for the fifth time, the quote will be identified as P1:5. Verbatim quotes were indicated in italics and were indented. Paraphrased quotes were only presented in inverted commas. The researcher replaced words such as they or them in the quotes with actual words or terms referred to by the participant in order to provide better meaning and understanding to the reader. The replacement words are presented in brackets in the quotes. Additional words were added in brackets in cases where the participant's quote used incorrect words in order to promote better comprehension by the reader. To further protect the anonymity of the participants, no reference is made to the organisation they work for.

In Chapter 3 section 3.3.1, the representative of the participants for data gathering or interview process were identified to be Chief Investment Officers, Senior Analysts and Analysts. During the data gathering process, it was noted that portfolio managers, wealth managers and asset managers also work under the supervision of the Chief Investment Officers. These officials, which were not previously identified in Chapter 3 section 3.3.1, were considered for interview sessions. The portfolio managers, asset managers and wealth managers were at times observed to be more senior than Senior Analysts and Analysts which then makes them more suitable for interviewing in the data collection process.

A first-person writing style was used in presenting the findings of this study in order to allow the principal researcher an opportunity to express what the participants felt during the data collection process. The following section starts with the description of the interview context, followed by analysis of responses to the self-administered portion of the interview schedule. The self-administered questions were meant to bring context to the interviews and to better understand the participants in relation to the interviews conducted.

4.3 DESCRIPTION OF INTERVIEW CONTEXT

A total of 23 asset management firms were invited to participate in the study. Altogether 16 participants initially showed interest to participate, seven declined to participate from the beginning when they were first approached. Of the 16 which initially showed interest to participate, only 11 eventually participated. Four of the 16 eventually declined due to capacity challenges and the fifth could not get a suitable time to participate within the timeframe for data gathering process.

Data gathering was conducted during the period spanning from September 2020 to October 2020. During this period, South Africa and the rest of the world was facing the Covid-19 pandemic. The pandemic led to the South African government declaring a nationwide state of disaster. This resulted in the government imposing restrictions such as social distancing and other regulations meant to combat the spread of the pandemic. In response to government regulations and in an effort to combat the spread of Covid-19, most of the selected participants (asset management firms) instructed their employees to work from home. The researcher noted that the adjusted working arrangement negatively affected the rate of participation in the study. Participants ended up declining to participate because the new work arrangement added work pressure on the officials. Contact details of participants were mostly office numbers, which did not allow the researcher to make contact with them due to working from home arrangements. With the easing of the social distancing regulations, most participants found themselves having to work under pressure to catch up on work they could not do under stricter regulations. As a result, they opted not to participate due to capacity constraints. Also, when the social distance restrictions were eased, the asset management industry was in the busy time of the calendar year since it was a reporting period. This added more capacity constraints on the participants.

The designations of the 11 representatives of the participants who were interviewed are as described in Table 4.1 below:

Table 4.1: Summary of participants

Designation	Number of participants
Chief Investment Officer	1
Chief Investment Officer (Chief Executive Officer)	1
Portfolio Manager	3
Asset manager	2
Wealth Manager	0
Senior Analyst	1
Analyst	3

Even though only eleven participants were interviewed, the researcher noted recurring themes during the interview process. No new themes emerged after the seventh interview - meaning data saturation was reached. Thus, additional interviews were not expected to change the research findings.

The interview recordings were regarded as data for the research. The recordings enhanced the trustworthiness of the study since they could be replayed to get a better understanding of the themes that emerged during the study. The researcher used the recordings and notes taken during the interview to describe his experience. The researcher observed a closer relationship with the participants who are CAs. Though it was not part of the study to establish the qualifications of the participants, participants who are CAs found it easy to connect with the researcher who is also a CA.

The field notes and interview recordings were used to provide some background of each of the 11 interview participants. All interviews were conducted on Microsoft Teams. The background of each of the interviews is detailed below.

Understanding research participants

The participants were requested to answer three questions before the date of the interview. The questions were designed to gain a deeper understanding of the participants and to bring context to the discussion that would ensue on the interview date. The participants were first asked to describe their role within the organisation

they work for. Secondly, they were to provide the top five investment services their firms provide in order of importance. The third question the participants had to answer was the extent to which they used the following tools to make investment decisions: financial statements, audit reports, capital budgets, asset valuations, asset pricing, cash-flow forecasts, discounted cash flows, net present value, internal rate of return, the weighted average cost of capital, earnings multiple, economic value-added, breaks even analysis and other tools not suggested on the interview schedule. On the third question, the participants were to indicate if they use each of the suggested tools often, very often, seldom, very seldom or not applicable. The participants' responses to the first and the second question are detailed below. Table 4.2 summarises the role of the respondents at the asset management firms.

Table 4.2: Role of respondents at the asset management firms

Roles of respondents who participated in the research	Number of respondents performing the role	Percentage of respondents performing the role
Current and potential investment analysis	8	73%
Investment research report writing and presentation	6	55%
Management of equity fund	7	64%
Portfolio construction	5	45%
Management of the asset management firm	1	9%
Chairperson of the investment committee	2	18%

The responses to the first question indicate that the majority of participants (73%) analysed several asset classes for investment. After an analysis of the potential investments, the asset management firm will have to write an investment research report. Just more than half (55%) of the respondents indicated that they are involved in investment research report writing and presentation. When assets are approved for investment, the asset management firm will invest in a single asset through the purchase of equity or will build a portfolio of assets to be invested in. Altogether 64% of the respondents were involved in the management of equity funds, or equity investments and 45% were involved in the construction of investment portfolios. The

findings are consistent with literature - which confirmed that asset management firms evaluate potential investments using investment mandates before making an optimal investment decision (see section 2.3 pages 37-39). The decision of what to invest in is done by an investment committee.

The investment committee decides on whether the asset should be invested in through equity investment or if it should be added to a portfolio. section 2.3 (page 38) indicates that asset management firms can construct investment portfolios or make a unitised investment in different asset classes. In this study 18% of the participants were noted to be chairpersons of the investment committees, while 9% of the respondents who were chairpersons of the investment committees were also responsible for managing the entire asset management firm as CEOs. Table 4.3 provides a broad overview of the investment services offered by the participants' firms.

Table 4.3: Participants' investment services

Investment services	Number of participants providing the service	Percentage of participants providing the service
Investment in equity	9	82%
Investment in unit trust	3	27%
Investment in own constructed portfolio	6	55%
Investment in client tailored portfolios	3	27%
Investment in tax free investments	1	9%
Investment in Money market	1	9%
Investment in property	1	9%
Fund management and administration eg, pension fund	5	45%
Writing and Publication of research reports, recommendations	5	45%
Proxy for clients	1	9%
Multi asset manager and portfolio construction	2	18%

The asset management firms who participated in the study offer eleven investment services. When participants buy shares that will be called investment in equity (see section 2.3 page 37). It was noted that 82% of the participants invest in equities. When funds of different investors are combined to make a collective investment, the funds combined are put into a unit trust. The unit trust will break down investments it makes on behalf of fund contributors into units (see section 2.3 pages 37-38). Each contributor will then own a certain number of units in a unit trust depending on the contribution made. The asset management firms that manage what is invested in unit trusts are called fund managers. It was noted that 27% of the participants invest in unit trust and 45% are fund managers.

Asset management firms construct a portfolio of investments either based on direct instruction from the clients or at their own discretion guided by the investment policy statement (see section 2.3 page 38). It was observed that 55% of participants are involved in the construction of a portfolio of investments using own discretion for an investment of qualifying assets based on the investment mandate. Altogether 27% of participants construct tailor-made investment portfolios - which are constructed based on the strict instruction from the clients. The investors who usually want tailor-made portfolios are multi-asset managers (see section 2.3 page 39). It was observed that 18% of the participants are multi-asset managers.

Participants' investment analysis and reports are not only used by the asset management firm to make decisions on what to invest in. Some reports are sold to third parties who would want to use the recommendations and findings to make investment decisions (see section 2.3 page 39). It was indicated that 45% of the participants are involved in writing research reports for publication to subscribers or for sale. Other investment services were provided by a maximum of 9% of participants per each service. The other investment services include tax-free investment services, money market investment and investment in properties. The findings are consistent with the literature in section 2.3 (page 37) that details the retail investment services that financial institutions provide. When an asset management firm represents investors in exercising voting rights at shareholder's meetings, it is called proxy voting. It was noted that 9% of the participants were proxies.

The participants' responses to question three relating to investment decision-making tools are summarised in Table 4.4 below:

Table 4.4: Extent of tool used during investment decisions

Tool	Very Seldom (n)	Seldom (n)	Often (n)	Very Often (n)	Not Applicable (n)	Did not specify (n)
Financial Statements	9% (1)	9% (1)	-	(9)	-	-
Audit reports	9% (1)	27% (3)	27% (3)	36% (4)	-	-
Capital budgets	9% (1)	36% (4)	9% (1)	27% (3)	18% (2)	-
Asset valuations	9% (1)	9% (1)	27% (3)	55% (6)	-	-
Asset pricing	9% (1)	-	45% (5)	45% (5)	-	-
Cash-flow forecasts	9% (1)	9% (1)	27% (3)	55% (6)	-	-
Discounted cash flows	9% (1)	9% (1)	18% (2)	64% (7)	-	-
Net Present Value	9% (1)	9% (1)	18% (2)	64% (7)	-	-
Internal rate of return	9% (1)	27% (3)	18% (2)	45% (5)	-	-
The weighted average cost of capital	18% (2)	9% (1)	9% (1)	64% (7)	-	-
Earnings multiple	9% (1)	9% (1)	-	73% (8)	9% (1)	-
Economic value added	9% (1)	36% (4)	18% (2)	36% (4)	-	-
Breakeven analysis	18% (2)	45% (5)	27% (3)	9% (1)	-	-
Other	-	-	-	9% (1)	9% (1)	64% (7)

Confirming the literature in chapter 2, the majority of the participants made use of earnings multiple tools (73%), followed by discounted cash flows, net present values and the weighted average cost of capital (64%) very often. Cash-flow forecast and asset valuations were also used very often by the majority of the participants (55%). Additionally, audit reports (often 27%, very often 36%) and internal rate of return (often 18%, very often 45%) were used by 63% of the participants. Ninety percent of participants often use asset pricing (45% often, 45% very often) and 54% of participants often use economic value-added tools (18% often, 36% very often). Contrary to the existing literature, the participants in this study seldom used capital budgets or break-even analysis when making investment decisions.

Based on the discussion with P9, other methods used in their management firm includes comparable methods as well as asset manager investment processes and philosophies. The comparable method is when an investor estimates the value of the target company using the value of another similar company with tradable shares or

that has been recently bought or sold. The comparable or similar company must be similar in terms of size, nature of business and capital structure among other factors.

4.4 EMPIRICAL FINDINGS

The information obtained during semi-structured interviews conducted was used to present the empirical findings. A replay of the recorded interviews was conducted to improve the trustworthiness of the study. The empirical findings will be presented within the context of the theoretical framework set out in Chapter 3. The theoretical framework consists of attributes influencing the value of CAs and RAs to investors namely, qualifications (section 2.1), competences (section 2.1), experience and skill (sections 2.1.2, 2.1.3, 2.4, 2.5.2, 2.6), investor expectations (sections 2.1.2, 2.1.3, 2.2.3, 2.4, 2.5.2), Investor value (sections 2.1.1, 2.1.2, 2.1.3), information relevance (section 2.1.1), decision-usefulness (sections 2.1.2, 2.2.2), professional value relevance (sections 2.1.2, 2.4, 2.6), ethical conduct (sections 2.1.1, 2.6) and Investor perception (sections 2.1.1, 2.6). The identified attributes are discussed below. Where appropriate, some attributes that are related were consolidated during the analysis and interpretation of findings. Each section contains a table summarising the themes and categories relevant for describing the empirical findings.

4.4.1 Qualifications and competence²⁰

Qualification and competences of the CAs and RAs are relevant for ensuring that the CAs' and RAs' work meets the expectations of the investors (section 2.1). Based on the literature, the participants were asked to describe their understanding of the qualifications and competences of CAs and RAs and if such understanding brings an expectation of value from the professionals. Table 4.5 below provides a summary of themes that emerged from the analysis of findings relating to the qualification and competences of CAs and RAs.

²⁰ Competence is the ability to do something successfully or efficiently. The difference between skills and competencies are that, skills are the specific learned abilities that one need to perform a given task, whilst competencies are the person's knowledge and behaviours that lead them to be successful in a task.

Table 4.5: Summary of themes relating to qualifications and competencies

Theme	Categories
A qualified CA is an option	<ul style="list-style-type: none"> • CA qualification is only relevant in South Africa • There are better leaders in finance who are not CAs • Specialised fields do not necessarily require CAs or RAs
A CA provides an extra edge	<ul style="list-style-type: none"> • A finance director or CFO should be a qualified CA • There must be a CA in the finance team

Some participants were of the opinion that the role of CAs in the industry can be assumed by professionals who are not CAs or even accountants. It was noted that professionals with a Master's in Business Administration (MBA), Chartered Certified Accountants (ACCA) and those who completed their qualifications with the Chartered Institute of Management Accountants (CIMA) are options as professionals who can provide similar services to CAs (P10:4). One participant was of the opinion that an individual, who is not a qualified CA, but who can think outside of the box and receive proper training, can do a better job (in leadership and compilation of financial information useful for investment decision making) than a CA (P11:1). The participants' views are consistent with the arguments presented in Chapter 2 that investors can make use of alternative professionals in place of CAs when making investment decisions. One respondent gave the example of the previous Chief Financial Officer (CFO) of MTN:

..... (Mr) Ralph Mupita who is an engineer (by profession) was the CFO of MTN (group) before his recent appointment as the CEO. He has been doing a fantastic job (in performing duties expected from CAs occupying the positions of CFO) than most CAs which earned him his most recent promotion (P8:1).

Other participants brought strong arguments in support of the view that CAs and RAs have unique competencies that make them more desirable than non-CAs. One

participant said that “more than half of the investment professionals in their firm are CAs (P4:1)”. The participant was of the opinion that the significance of the number of CAs in the investment industry implies that CAs play a crucial role in the South African investment industry (P4:11). Though the importance of the CAs is acknowledged, it was highlighted that the CA designation was not a requirement for participation in the industry. Two participants held that:

..... a CA in the management of the company (investee or potential investee) is not a requirement but for most of the JSE listed companies, it is quite common that (a finance director) will be a CA (P2:2).

I will be very worried if the (finance director) of a listed company is not a CA (P4:2).

There was a general appreciation amongst the participants that CAs are a better option than non-CAs to perform the accounting functions detailed in section 2.1.2 (pages 25-28). The CAs were considered to be people that uphold professional behaviour. The participants' view was that the CAs' professionalism is enforced through their membership with SAICA. The participants appreciated the ongoing learning that CAs undergo through membership with SAICA in what is termed continuous professional development (P2:4). As a result of the continuous professional development²¹, the CAs are expected to be more competent and to have up-to-date knowledge compared to accountants who are not CAs (P2:12). A participant who concurs with the view stated that:

The qualifications of CAs does not necessarily create an expectation of value but creates an expectation of competence because if one qualifies as a CA then they should know (how to perform accounting duties better) (P3:9).

²¹ Although the respondents indicate that SAICA membership requires continuous profession development, all professions, including RA's, CIMA and ACCA also require continuous professional development.

Participants had the view that if the asset management firm is evaluating a potential investment, the composition and qualification of the potential investee's management team is considered. The participants were of the opinion that there must be at least a CA in the finance department of the potential investee. One participant commented that:

If the finance director or CFO of the potential investee is not a CA we immediately put a red flag...there has to be at least a CA in the finance team even if the CFO or FD (Finance Director) might not be a CA... (P3:1).

The comment P3:1 emphasises having at least a CA in the finance team. The comment is similar to comment P2:2 and P4:2 in the sense the respondents consider the importance of a CA in the finance unit on the investees.

From an audit perspective, the participants were mostly in agreement that one cannot be an RA without being a CA. This view is consistent with the process highlighted in the literature that describes the route to be a RA (see section 2.1 page 21-23). Participants took the view that financial reporting standards can be very difficult to understand for everyone, yet a qualified CA was considered to be better equipped to interpret accounting standards than non-CAs. This is consistent with the findings from the literature review that CAs should be competent in all areas highlighted in the SAICA competence framework (see page 28 of section 2.1.2). Two respondents commented that

There is consistency in language and application (of accounting standards) if the CA prepares the financial statements, compared to if its someone else (who is not a CA) (P2:8).

There (are) more expectations from the CAs because they are on top of the pecking order in terms of (understanding) accounting (P6:7).

4.4.2 Experience and skill²²

Because of the skills that CAs and RAs obtain through the process of qualifying to register as members of SAICA and IRBA respectively, there is an expectation that CAs and RAs must perform at a level that is reasonably expected from someone who is a CA or an RA (see section 2.1 on pages 21-23). The process to obtain a membership of SAICA and IRBA as a CA or RA respectively requires experiential training. The implication is that a CA or an RA should have sufficient work experience to be able to provide value to the investment decision-making process (see section 2.1 on pages 21-23). To understand if the participant perceived the experience and skills of CAs and RAs to be valuable in the investment decision-making process, the following questions were asked. Firstly, participants' perceived role of CAs and RAs in the asset management industry and South African economy as a whole; and secondly, the importance of CAs and RAs when dealing with some of the complex accounting issues which require subjective judgment - such as valuations and estimates. Table 4.6 below provides a summary of themes and categories that emerged from the analysis of findings relating to the experience and skills of CAs and RAs.

²² Skill is the ability to do something well. The difference between skills and competencies are that, skills are the specific learned abilities that one need to perform a given task, whilst competencies are the person's knowledge and behaviours that lead them to be successful in a task.

Table 4.6: Summary of themes relating to experience and skills

Theme	Categories
Collaboration between CAs and other professionals	<ul style="list-style-type: none"> • Depending on the nature of work to be done. Accountants might need to rely on the work of experts • Specialists provide more trustworthy assumptions than CAs
Investor's research work is the same	<ul style="list-style-type: none"> • Knowledge of a CA helps to aid accurate reporting • An audit does not take away the responsibility of the analyst to verify data and information. • The contribution of CAs to the investment decision-making process involves providing data in the form of financial information that the investor must verify for investment decision-making purposes. • Even though CAs' and RAs' work forms the basis on which financial decisions are made, an investor still needs to do his/her work before making a decision.
Investors prefer audited information	<ul style="list-style-type: none"> • Financial information must be audited, regardless of who the preparer is.

The participants took the view that experience should aid a CA in knowing when to use an expert in matters where CAs do not have the required knowledge. If assumptions are to be used in fair value accounting, for example, the assumptions do not necessarily have to come from CAs. This is consistent with the observation from the literature that auditors are sometimes inclined to accept inappropriate management assumptions. The auditors' action is caused by not having an independent specialist to assist with the evaluation of the reasonableness of management assumptions during an audit (see section 2.6 pages 46). As one responded noted, the assumptions used to calculate employee benefit obligations should most probably be done by actuaries, then the CA will ensure that the values

and disclosures are properly reported in terms of the accounting standards (P1:5). As a result, participants were of the view that CAs cannot work in silos, but need to work with other professionals to produce meaningful information. It was noted that actuaries and property valuers can provide inputs, but might not be able to provide the information in a readable format that is expected for financial reporting or investment decision making. On the issue of collaboration between CAs, RAs and other experts, a participant said:

.....I think what is happening is that (if) they (CAs) do not have the area of expertise (to make estimates and assumptions) they (CAs) often get outside consultants like McKinsey with the expertise to make correct estimates and assumptions (P1:4).

Below are some of the comments made by participants regarding the use of experts by CAs and RAs.

There is so much subjectivity in certain aspects of accounting that might not necessarily need a CA to (make subjective decisions), but you would need an expert in that area to make reasonable and correct assumptions. The value of a CA will come when they are reporting on the assumptions used (P4:3).

...but even the auditors will need to (request the services of an) industry experts in certain fields to help audit the work of other experts or specialists (P2:1).

The participants opined that the use of experts does not make financial information irrelevant for the investment decision-making process. The participants also held that without diminishing the importance of financial information, investment decisions should be made based on the methodology of the asset management firm. The implication is that the work of a CA is used as input to begin the work of an investment professional. This view is consistent with the literature in Chapter 2 which suggests that the investor must do their own work to evaluate the appropriateness of financial information for investment decision making (see section 2.6 on pages 44-45).

The participants held that even after an audit has been done, certain data will still need to be verified - not because the work of a CA or an RA is not trusted. Two participants confirmed the need to perform verification on material aspects of the financial statements to check the accuracy and completeness of the information (P7:1; P8:3). The participant's view is that material information is important for the investment decision-making process (P7:1; P8:3). The indication from participants is that verification is a part of the processes that should be carried out by the research team (investor) (P1:16). One participant had the following to say:

Financial information will always have to be verified with external sources, but RAs and CAs are trusted to provide verifiable data (P1:6). We invest other people's money so we need to be sure of the information that we rely on. As such we make sure that we verify and cross-check all the data for reasonability and accuracy that we use for investment decision making (P1:7)

Participants' views suggest that the cross-checking of financial information by investors before use for investment decision making used to be purely a process issue without doubting the preparer. Literature confirmed the argument by suggesting that the cross-checking of financial information was part of the due diligence process meant for identifying and assessing existing and potential risks of a potential investment transaction (see section 2.4 page 40).

Further literature indicates that cross-checking of financial information is no longer a mere process issue as suggested by comment P1:17. Findings from the literature review indicate that investors are no longer having full confidence in the accuracy and reliability of audited financial information provided by CAs (see section 2.4 page 40). There is an indication that investors are now applying analytical and related methods to confirm the reliability of audited financial information before using the financial information to make investment decisions (see section 2.6 page 44). With the increase in concerns of misconduct of CAs and RAs, there is now an element of skepticism (see section 1.1.1). One participant said:

...we do have a high level of comfort on the work of CAs and RAs but because of high-level fraud cases in recent years and increase(s) (in) instances where financial statements have to be restated, we cannot have absolute comfort (on audited financial information given to us). We still have to double-check if (the) information provided is appropriate, accurate and complete (P2:5).

There was an acknowledgement that after investors' verification is done, the results can be different from that provided by CAs or audited information. The difference is not always because the CAs and the RAs did not do their work properly, but it might just be as a result of different approaches or perspectives taken. The following comment from a participant was noted:

We (investors)... sometimes use different assumptions when we evaluate financial information that requires subjective judgement. Our outcome ... (might) be different but it doesn't mean that the CAs and the RAs were wrong but it's a matter of us using a slightly different approach (P3:3).

When asset management companies analyse financial information for reliability and accuracy, they do not only consider the information in the financial statements. The comment below from one of the participants indicates that not all the information the investors require is available in the financial statements. This is in line with literature that financial information needed for investment decision making is more than just financial statements (see section 2.2.1 page 31). The participant said:

Financial statements are backward-looking. They provide information at a point in time so... (one) will always need to consult with management for information that is not in the financial statements. That is in terms of (investee's or potential investee's) strategy and more forward-looking information (P6:5).

The statement P6:5 above is in agreement with section 2.2.1 (pages 31-32) where it is stated that financial information is more than just financial statements. Literature

review findings suggest that financial information includes forward-looking information; information obtained through management discussion and information available in the investee's integrated reports (section 2.2.1 pages 31-32).

Though the financial statements are not the only source of financial information based on literature in section 2.2.1 (pages 31-32), participants indicated that JSE-listed companies should publish audited financial statements. This is consistent with the literature that the JSE service issue 24 requires all listed companies to be audited (see section 1.1.2 on page 10). None of the participants indicated that they invest in unlisted companies. As a result, one participant stated that:

...If financial statements are not audited, we will not look at them. We will wait until they are audited as required by the JSE. We do not have instances where we would have to work with unaudited financial information (P11:5).

The participants expected RAs to assist companies in the process of complying with the JSE listing requirements. The participants' view was that the JSE listing requirement is for listed companies to submit audited financial statements. So, RAs play a role in auditing the financial information that will be published in terms of JSE listing requirements.

Participants held that the RAs' role for listed companies means that the RAs and CAs have a crucial role in the South African economy as far as the investment industry is concerned. This is consistent with literature that RAs and CAs help to uphold the integrity of the capital market (see section 2.2.2 page 33). That is, by auditing all the listed companies, the RAs and CAs participate in enhancing the credibility of the JSE and investment activities are done based on published, audited financial information.

Audited financial information provides a certain level of comfort because one would know that there ... (was) at least ... a second pair of eyes that looked at the financial information (P6:1).

Comment P11:5 suggests that information that should be audited can only be used when it is audited. The only unaudited financial information that can be considered for investment decision making is supplementary information according to respondents. The supplementary information can be information gathered through discussions with management, sales forecast, interim financial reports and other sources. Supplementary information is information not provided in the form of annual reports or quarterly reports - which is required to be audited in terms of the JSE listing requirements (JSE service issue 24). A participant indicated that:

An investment decision would not be made solely based on interim results which might not be audited. Over and above that, investment decisions are not made based on one period (only), so the entire period (that is) considered before an investment decision is made should contain (at least) audited financial information (P1:11).

4.4.3 Investor expectations and value

CAs and RAs have to meet the expectations of investors in order for the services of CAs and RAs to be valuable to the objectives of investors (see section 2.4 from page 38 onwards). To understand investor expectations, the participants were asked to describe their expectations from RAs and CAs - particularly from the financial information compiled by CAs and audit reports issued by RAs. One common way in which RAs and CAs get to provide value to investors is through audited financial information. CAs work as the compilers, RAs as auditors and investors as users of financial information (see sections 2.1.1 – 2.1.3). The participants were asked questions meant to establish how investors realise value as users of the information provided by CAs and RAs. As a result, the participants were also asked if their interests were served by the work RAs and CAs do. The questions also established if asset management firms are getting sufficient communication from CAs and RAs that assist in the investment decision-making process. Table 4.7 provides a summary of the themes identified during the analysis of the findings relating to the expectations of asset management firms from CAs and RAs and the value they get through the work of CAs and RAs.

Table 4.7: Summary of themes relating to investor expectations

Theme	Categories
Ethical	<ul style="list-style-type: none"> • CAs are expected to be competent and ethical professionals • RAs are expected to be independent and to provide credibility to audited information • The audit opinion must corroborate audit findings
Content of audit report	<ul style="list-style-type: none"> • The audit report must emphasise risk areas • The current format of the audit report is appropriate and the information it covers is adequate
Fraud	<ul style="list-style-type: none"> • RAs should do more during the audit in order to provide reasonable assurance on matters relating to management override of controls and fraud
CAs' and RAs' value in audited financial information	<ul style="list-style-type: none"> • Audit reports are necessary before financial information can be used • RA to report on the audit of financial information
Value of CAs who are not RAs	<ul style="list-style-type: none"> • No difference between financial information prepared by a CA and a non-CA, as long as the preparer is experienced and financial information is audited • CAs who are not RAs provide value through employment as investment practitioners

Participants expect RAs and CAs to be ethical professionals because of their public reputation in South Africa. CAs and RAs are expected to shun corrupt activities and be gatekeepers against acts of misconduct in their working environment. This is consistent with the literature that CAs and RAs must abide by the SAICA and IRBA CPC (see section 2.1.1 on pages 23-24). Because RAs are expected to provide confidence to the public that uses audited financial information, the participants expected RAs to be independent of their auditees. This is in line with literature that

RAs must add credibility to the information to be used by investors in decision making (see section 2.5.1 page 41). As below, the participants opined that because of limited access to information, there has been an element of deception by management at the expense of investors:

There has to be an element of trust in the work done by CAs and RAs because we as investors don't get to see the detail of the accounting practices. When you look at what happened at Tongaat (Hulett) you will realise that Investors would not have known that the auditors did not do enough to uncover accounting irregularity up until the effects of the irregularity start to reflect in the financial market. The auditors might have realized that something is wrong but they let it go because if they disagree(d) with the management of Tongaat (Hulett) they ... (were) likely (going) to lose the audit contract (P3:2).

The Tongaat Hulett scandal is one instance in which the participant took the view that the auditors did not match the audit report with audit findings. The participant was of the view that the auditors knew about the concerns regarding the valuation of assets, but they did not bring that matter to the attention of the investors through the audit report. The observation by the participant is similar to the corporate scandal relating to accounting irregularity at Tongaat Hulett identified in section 1.1.1 (page 5).

Participants took the view that the issue of lack of ethics will always be present in the accounting and auditing industry. Participants opined that asset management firms have to know that from time to time there will be financial scandals similar to the ones reported at Steinhoff and Enron. Similar cases were noted by the literature findings described in section 1.1.1 (pages 3 and 6). One participant had to say investors must not put overreliance on the work of CAs and RAs due to ethical concerns that crop up now and again (P5:3).

The participants expect RAs to issue audit reports that provide more information about risk areas that might affect the audit opinion or the decision of investors if there is a material misstatement. This view is consistent with the literature that the RA must make use of the KAM or the emphasis of matter section to report on material matters

to the users of financial information (see section 2.1.3 on page 30). The participants added that it might be necessary for the report with the detailed audit findings to be shared with investors. Participants were of the opinion that some matters might have been regarded as insignificant for the audit report, yet they are important for the investors' decision making. The participants considered the following matter to not have been properly reported in the audit report by the RAs:

Deloitte signed off on the audit report of African Bank without raising going concern issues. The auditors (RAs) of the African Bank should have reported on more issues pertaining to going concern in the audit report particularly on impairment of loans (P1:9).

Some participants indicated that there must be a disclosure of the audit risk and approach taken to deal with identified risk (P2:6; P4:5). Though participants were interested in the audit opinion, they were also concerned about what RAs could have included in the audit report but were not included (P6:4). A participant had this to say:

Material issues (in the financial statements) which could impact on the company's assessment of investment case must be highlighted in the audit report (P7:2). Matters relating to related party transactions and relationships must be highlighted in the audit report because this is when we as investors can get to know and monitor (the) director's dealings (P7:3).

The treatment of related party transactions was noted to be a concern that enabled corporate scandals at Steinhoff and Enron (see Chapter 1.1.1 pages 3,6-7). The result was that standards relating to auditing and accounting for related parties were either issued or revised (see section 1.1.1 pages 3, 6-7).

Respondents felt that companies use related party transactions to commit corporate crimes or misconducts. As a result, the participants expect auditors to put more energy towards trying to uncover fraud and management override of controls. The literature identified the management override of controls, collusion and fraud as reasons why RAs cannot provide absolute assurance (ISA 200 2009: par 11-12). This is consistent

with the participant's view that RAs cannot be able to provide absolute assurance during an audit (P1:8).

The recent media concerns relating to Steinhoff and Tongaat were identified as matters in which management had been concealing inappropriate accounting practices that eventually come to light when investors had already lost money (section 1.1.1 page 3). Though the participants acknowledged the limitations posed by the complexity of fraud, collusion and management override of controls (P5:4), they were of the opinion that the auditors should prove that sufficient work to cover such kinds of risks has been done by making disclosures in the audit report. Some participants had to say:

... I... want to see where the auditors mention that they have done some work pertaining to detection of fraud (P1:10)

The auditors must provide a bit of comfort (to the users of financial information) that they have done some (audit) work or certain procedures ... to address the risk of fraud. (A) specific paragraph should be added on fraud risk (in audit report) (P2:9).

Some participants were of the opinion that only immaterial aspects should remain undetected, but as soon as they are material they should be detected because the issues should be more glaring. The participant said:

I expect auditors to pick up more material matters of fraud or error in the audit report though I don't expect them to cover everything (P4:6).

Participants who expected RAs to provide value through addressing risks relating to fraud, collusion and management override of controls implied that investors can realize value through the audit process. This view seems to have led some participants to attribute more value from CAs who are RAs. The respondents opined that RAs provide a unique contribution to the financial information - which is not provided by CAs who are not RAs. Because of this view, and because participants preferred to use audited financial information, the unaudited financial information does not provide participants

with much value until they are audited. The participants were quoted below implying that the value of CAs is mostly realised after the financial information is audited compared to before the audit:

We are....user(s) of the output (work) of the accountants (CAs) and auditors (RAs) because they prepare the financial statements and audit them before we use them (P2:7)

The other participant had to say:

The (South African) economy can't do without the services of CAs and RAs because the CAs provide financial information which is so vital for decision making. In the same breath that financial information need(s) to be audited by RAs who are also CAs (P4:4).

CAs who are not auditors were also appreciated by some participants. A participant was noted to have observed several CAs who work within the finance department of different companies (P1:2). Participants had the view that when a company has complex accounting practices that involve accounting for significant amounts of unlisted financial instruments, then a CA would be more desirable to manage such complexity than a non-CA (P1:3). The participants suggested that CAs have the capability to manage complex accounting matters using the knowledge and skills acquired in the process of qualifying as CAs. Participants indicated that there are several CAs who are working for asset management firms and other firms offering related services. The participants' observations were in line with literature which details the work that CAs are capable of doing based on their competencies earned through the SAICA training programme (see section 2.1.2 page 28). A participant is quoted saying,

....depending on the nature of work the asset management firm is targeting (in its investment mandate), if it's a fundamental asset manager, I would certainly expect the team to have CAs but if the firm is using quantitative strategies then you will need engineers more than CAs because of the complexity of calculations involved (P5:1).

The arguments for RAs and CAs show that both professionals have something to offer that is valuable to asset management firms. The literature and participants' views suggest that the process of qualifying as a CA and the requirement for the CAs to have life-long learning creates an expectation that both CAs and RAs should always be competent professionals who perform at a high level (P2:14). In appreciation of CAs who are not RAs, the participants were of the opinion that it would be more ideal and valuable to the asset management firm if the CA who works for the firm is also a holder of the Chartered Financial Analyst Charter.

CAs who holds the Chartered Financial Analyst charter are more likely to have an extra edge in terms of their performance in the investment industry because they would have extensive knowledge of both accounting and investment (P10:1).

4.4.4 Decision-usefulness

Financial information is decision-useful if it carries a predictive and confirmatory value (see section 2.1.2 page 25). Literature provided various uses of financial information as per section 2.2.2 (from page 33 onwards). Literature was used to understand the kind of information provided by CAs and RAs that is useful for investment decision making. Using the information gained from the literature, participants were asked to describe the difference between using information compiled by CAs and that which is compiled by non-CAs. They were also asked if there is a difference between using audited and unaudited financial information. Some aspects of the findings relating to these questions are presented in section 4.4.3 above. Another question asked was for participants to describe the category of financial information that is more relevant for investment decision making. Only one theme was identified from the analysis of findings relating to decision usefulness of financial information prepared by CAs and audited by RAs. See table 4.8 below.

Table 4.8: Summary of themes relating to decision usefulness

Theme	Categories
Useful financial information	<ul style="list-style-type: none"> • Cashflow statement • The whole set of financial information • Financial information is more useful when deciding on investments linked to a corporate.

The participants consider the whole set of financial statements to be relevant for investment decision making. This is consistent with the literature in section 2.2.2 where various uses of financial information were highlighted. The statement of financial position, statement of comprehensive income and cash flow statement were identified as sections of financial information that receive particular attention for investment decision making. It was noted that the participants were of the view that they cannot better understand these selected sections without explanatory notes and accounting policies. The quotes below indicate the participants' views that:

...The whole set of financial statements is important starting from the directors' report up to the notes (P8:2).

Cash flow statements are important because they are not easily manipulated. One can manipulate (the) depreciation rate to have preferred earnings reported but that does not have a cash flow effect. The cashflow provides more of a true picture (P3:4).

The investment approach also influences how the investor values certain aspects of financial information. The participant quoted immediately below makes use of a top-down approach - which starts from macroeconomic analysis up until a stage is reached where financial information is used.

We take a macro view, we try to get (an) understanding of the macroeconomic outlook of South Africa...., then we narrow to sectors where a fundamental analysis of companies is done, we (then) look for companies with a strong balance sheet, good management, good

earnings growth outlook, cash-generating capacity, high returns on equity or invested capital. When we get to the company level that's when we start to look at the financial information of a target company (P1:1).

The participants considered that financial information provides relevant signals that help in making financial decisions. The participants' observation is consistent with the literature that the financial statement provides signals that are relevant for investment decision making (see section 2.4 page 38). Another participant stated that they were able to observe and analyse the financial health of the company from the financial statements.

All financial decisions are made based on financial information in the financial statements, however certain parts like the financial statements receive more attention and in some events, you would want to look at other factors that are not in the financial statements but that are relevant for decision making (P3:5).

Certain signals were observed not to be available in the financial statements (P3:6). Information such as the margins, return on equity and cash-flow forecasts are important for investment decision making, yet such information is not presented in the financial statements (P4:7). Participants quoted below provided circumstances where information needed for investment decision making will not be available in the financial statements.

..... the complexity of the investee plays a role in determining what you would use to make an investment decision. If you want to invest in City Lodge hotels you would be more worried about the occupancy rate among other things (P1:12).

We use financial statements more if the investment decision is valuation-based and risk-based though we also get information from customers and competitors (P2:11).

4.4.5 Ethics and professional Value relevance

CAs and RAs are expected to demonstrate the professionalism that they are accorded by the SAICA and IRBA CPC. The CPC as per analysis done in sections 2.1.2, 2.4 and 2.6 is meant to regulate the conduct of the CAs and RAs. The participants were asked to describe their perceived CAs' and RAs' compliance with the CPC.

Literature suggests that there is an increase in cases of misconduct reported in the media in South Africa in recent years (see section 1.1.1 pages 1-7). As a result, one of the aspects this study intends to establish is what motivates CAs and RAs to commit acts of misconduct and if CAs and RAs are perceived to be enablers or disablers of corruption in South Africa. The analysis of the findings on the matters relating to ethics and professional value relevance of CAs and RAs led the themes per Table 4.9 below.

Table 4.9: Summary of themes relating to ethics and professional value relevance

Theme	Categories
Corruption is a personal choice	<ul style="list-style-type: none"> • CAs and RAs in general are not corrupt • CAs and RAs cannot do much to reduce corruption other than them staying ethical • CAs and RAs use their knowledge to commit misconduct.
Greedy	<ul style="list-style-type: none"> • CAs and RAs in general comply with the CPC except a few • The few that are unethical are generally motivated by greed

Participants were of the opinion that CAs and RAs in general cannot be classified as corrupt. Those who chose to be corrupt do so on their own accord, not because there is anything wrong with the profession. One participant had this to say:

It's not CAs its people who are in the profession and it's not a weakness in the profession but a moral issue (P11:6).

The problem of corruption is not an issue pertaining (to) CAs its an individual issue and a social concern. (P11:2).

Some participants were of the view that when CAs engage in corruption, fraudulent activities and misconduct, they would use their expert knowledge to conceal their misconduct through sophisticated accounting practices. One participant cited the example of Steinhoff and said:

What happened at Steinhoff was an expert way of defrauding the company using the expert knowledge of CAs. It has taken CAs (PwC Investigation) time to get to the bottom of what actually happened at Steinhoff because of the sophistication of the fraud perpetrated by fellow CAs (P9:2).

Participants believed that SAICA and IRBA should apply harsher penalties and sanctions against CAs and RAs who are found guilty of misconduct such as the CAs who were working for Steinhoff and RAs who were auditing VBS Mutual Bank (P5, P10). P5 was of the view that to stop misconduct by CAs and RAs, the investing public must play a role as well and not only wait for the action to be taken by SAICA or IRBA. The participant suggested that asset management firms should disassociate themselves from audit firms and companies that are being audited by audit firms with individuals who are found guilty of misconduct (P5). The participants stated that

It seems as though big (four) audit firms are not adequately penalised for misconduct by their members. Even though individuals (KPMG audit partners who were responsible for the audit of VBS Mutual Bank and Linkway Trading) were penalised, it took long for SAICA to take action and nothing seems to have been done against the audit firm itself. They (KPMG) just dismissed the individuals (KPMG audit partners who were responsible for the audit of VBS Mutual Bank and Linkway Trading), restructured the firm and continued with their business..... (P5:5)

.... they (audit firms with individuals found guilty of misconduct) will not stop until there is more activism against the firms. The industry (investors and companies needing audit) must stop contracting in such firms as auditors in protest against misconduct by their (audit firm's) employees (who are found guilty of misconduct) (P10:5). When it comes to the likes of (the) CEO of Steinhoff, just removing him from the (SAICA's) register of CAs will not be enough, he should have been requested (by SAICA) to pay a hefty fine which he can feel in his pocket.... (P10:6).

Participants took the view that ethics is a moral issue that is not directly tied to being a CA or an RA. The view of participants is that a good number of CAs and RAs are generally ethical, except for a few. Literature suggests that the CPC was designed to ensure that CAs and RAs adhere to high ethical standards, thereby ensuring high quality in the work output (see section 2.1.1 page 24). In section 2.6 (page 44), the literature raised the concern that commercialisation of the audit motivates RAs to commit acts of misconduct due to profiteering motives. A participant highlighted a similar point noted from the literature and stated that:

You find cases where audit fees are so high and the audit partner (RA) does not want to lose the client, in such a case (a) compromise can be made leading to instances of lack of objectivity, integrity and due care because the auditor wants to retain the contract (P3:7).

Greedy elements raised by participants have been linked to RAs who would compromise their integrity to make audit clients happy and to continue to retain business with the client. Participants' views suggested that RAs' bonuses that are linked to financial performance put pressure on RAs to enter into contracts with clients who would compromise ethical standards.

Other than profit motives, some CAs have been noted to perpetuate misconduct when trying to cover mistakes. The participants suggested that this motive for committing misconduct is something that does not happen often, but made reference to it happening at First National Bank (P1:14). The participant suggested that when CAs

try to cover up errors, they end up compounding the problem - leading to a worse off position than before (P1:14). Some reasons provided for misconduct included:

wanting to gain more power and influence in society and political circles (P10:3).

People have different motivations to commit fraud, some want to see share prices go up through fraudulent means so that they can get bonuses like what happen at Enron (P11:3).

4.4.6 Investor perception

The perception of investors is an important element in investment decision making. Literature suggests that the perception of investors is influenced by a) quality of input information for decision making; b) the effort invested in making decision-making data available and usable; c) efficiency of decision-making systems or processes; and d) the orientation of the one providing the financial information (see section 2.6 page 44). Guided by the findings from the literature, the participants were asked a) if the audit approach applied by RAs are relevant for consideration before reliance can be put to the audit report; b) if the independence of the RA is a matter of concern; c) if their general perception of CAs and RAs has been influenced by media reports highlighting misconduct by CAs and RAs (section 1.1.1 pages 1-7); d) to express their view of using big four, medium-size or sole proprietor auditors. Table 4.10 below summarises the themes and related categories noted whilst analyzing findings related to investor perception.

Table 4.10: Summary of themes relating to investor perception

Theme	Categories
Independence	<ul style="list-style-type: none"> • Independence is a major concern, requiring audit rotation • Everything has to be considered with skepticism. New measures have been put in place because of concerns relating to CAs and RAs in the media
Technical capacity	<ul style="list-style-type: none"> • Big four auditors are preferred due to available capacity, research and technical advantage • Scandals by small audit firms are not reported

The participants were found to be more interested in the independence of their auditors. Because of the financial benefits that come with the work of RAs, it was noted that if there is no independence, RAs can compromise integrity, objectivity and due care. Not upholding high standards of integrity, objectivity and due care are not in the best interest of the purpose of the audit, since it can lead to inappropriate audit opinion being issued by RAs. The participants' view is consistent with literature stating that if there is a lack of independence, there can be a lack of objectivity and integrity (see section 2.6 page 45). In a bid to promote independence, the asset management firms are now promoting audit firm rotation. The participants made the following similar comments:

...if the auditor has been auditing (the same investee) for at least 10 years we start asking management to rotate the auditors, if its 20 years we immediately push for voting out the auditor because independence is important to us (P1:14).

Because.... we rely on the audited financial information (to make investment decisions) it is important that the auditors are rotated after 10 years so that we can make use of independent audit opinion (P2:3).

Over and above concerns regarding independence, integrity and professional competence and due care of RAs have also come into scrutiny by investors. CAs and RAs are losing the perception of being seen as professionals who act with integrity as a result of media reports that highlight the professional integrity of some CAs and RAs (P2:11). The two participants below are concerned about the recent trend of negative reports concerning CAs and RAs.

..I feel that CAs are lacking professional competence and due care (P4:9).

... considering the poor track record (of CAs) over the past five years, I don't even know if CAs know what they are doing from an auditing perspective, considering the Steinhoff scandals and the like (P5:2).

Participants indicated their reaction to concerns regarding the independence, integrity and professional competence and due care of RAs. The participants attested that they now perceive audited financial information with more skeptical lenses than before. Respondents considered their firms to now demanding measures to be put in place - like mandatory audit partners or audit firm rotation, in order to ensure the independence of RAs. Literature in section 1.1.1 (page 7) states that MAFR was instituted because of the lack of independence of RAs. Participants have become more skeptical when looking at audited financial information, because even big audit firms like Deloitte and KPMG have been drawn into the allegations of misconduct (P3:8). The following comments show the current perception of participants working for asset management firms:

..... there are no reasons not to trust CAs but there are more reasons to be skeptical (P4:10). Every 5 years we insist on audit partner rotation (P4:8)

Because of recent accounting scandals reported in the media, I have become very skeptical of balances involving management assumptions, and the use of intercompany transactions and all related party transactions (P7:4).

The auditors (for private sector companies) are appointment through a process that involves management..., this tends to taint the independence of management. I think it's better in the public sector where the auditor general of South Africa doesn't get to be appointed or fired as the auditor of an institution (P9:1).

The investors are now having to look at the Environmental, Social and Governance before an investment decision is made. What is more important now is the governance aspect where the investors must consider the composition of the remuneration committee, audit committee, social and ethics committee and then also the independence of the auditors (P10:2).

The cases of RAs' misconduct reported in section 1.1.1 and which drew the last four comments above were noted to be influencing the kind of audit firm the asset management firms prefer to be auditors of investees. Participants considered most listed companies to be big and having complicated systems - which then requires auditors with sufficient capacity in terms of human resources, audit tools and research and development to perform the audits. The big four auditors were considered to have the capacity to give updated training and development to their employees - which is beneficial for audit. The participants' view is consistent with the literature which stated that firms with diversified business strategies are most likely going to hire big four audit firms for audit (section 2.6 page 48). Participants in support of having big four audit firms as auditors stated that:

....big four audit firms can import knowledge and skills from anywhere in the world because of the big network of firms. Medium size audit firms like Mazars and Sizwe Ntsaluba Gobodo are also auditing some JSE listed companies but they can only audit a few that are not so big (P1:15).

Big four audit firms have more experience in different countries and have been engaging in different types of business. They also have better learning and development compared to smaller firms (P2:13).

The medium-size audit firms, though recognized, are not being given the same level of preference as the big four audit firms. The fact that big four audit firms have been reported to be involved in recent accounting scandals did not negate their importance in the investment industry. The participants were of the view that far worse misconducts might be done by medium to small audit firms, but such will not receive much media attention, because smaller size audit firm clientele is small companies that do not draw public interest. Smaller size audit firms were reported not to draw much public interest as big four audit firms.

4.5 CONCLUSION

The purpose of the study is to establish if asset management firms as a select group of investors perceive the work of CAs and RAs to be valuable in the investment decision-making process. The study was carried out using a semi-structured interview data gathering process. Eleven officials representing participants or asset management firms were interviewed. The interpretation and reporting style of the findings of the study was presented in section 4.2. The information gathered to set the interview context was presented in section 4.3. The empirical findings were presented against the theoretical framework in section 4.4. The empirical findings were reported and analysed under six headings - which are qualifications and competences (section 4.4.1), experience and skills (section 4.4.2), investor expectation and value (section 4.4.3), decision-usefulness (section 4.4.4), ethics and professional value relevance (section 4.4.5) and investor perception (section 4.4.6).

In terms of qualifications and competence of CAs and RAs, it was found that there is a high regard for the CA qualification in South Africa. The participants regarded the process of qualifying as a CA or an RA to be yielding competent professionals. As a result, there is a general expectation that the finance unit of each investee must have at least a CA. Though CAs have an appreciated importance in the investment industry,

there is an acknowledgement that some roles CAs play or assume can be assumed by professionals who are not CAs.

Regarding the experience and skills of CAs and RAs, it was found that even a newly qualified CA or RA will have adequate qualifications and experiences to perform roles identified in section 2.1. The participants were of the view that CAs and RAs should work in collaboration with other participants in order to ensure accuracy and appropriateness of work output. One of the CAs' and RAs' contribution to the investment decision-making process is audited financial information. The audited financial information is first analysed by asset management firms before being used to make investment decisions.

In terms of investor expectation and value, it was noted that participants expect CAs and RAs to be competent and ethical. The RAs in particular were expected to be independent of their auditees to ensure the credibility of the audit. Participants' view was that RAs should provide sufficient reporting of risk matters in the audit report without changing the format of the audit report. During the audit, the RAs are expected to adequately cover the risk of fraud and management override of controls. The expectations of participants in terms of the work that RAs should do to cover the risk of fraud has been found to be contrary to what RAs can do in terms of ISAs. One such expectation is for RAs to be able to detect fraud, management override of controls and collusion. In another instance, the participant was of the view that auditors should provide absolute assurance - yet that is not practical in terms of the ISAs. This was an indication that some participants did not have full knowledge of the roles of RAs in terms of the ISAs. The findings relating to an expectation gap between the RAs and the participants are consistent with the literature in section 2.1.3 (page 32). Literature suggests that the expectation gap arises if an investor expects an RA to provide an absolute assurance when only a reasonable assurance can be provided. The comments from participants who had a misunderstanding of certain concepts were analysed to ensure that they do not misrepresent the findings and conclusion of the study. The analysis of comments was consistent with section 3.3.2 (page 102), which states that where inconsistencies are identified, follow-up interviews should be done. After analysis of the participants' comments, it was noted that follow-up interviews were not necessary, since there was no misrepresentation of data or findings. The

CAs who are not RAs were noted to be valuable to investors through being employed by asset management firms. The CAs' role in compiling financial information that will eventually be used by investors after being audited was appreciated.

Regarding decision-usefulness, the whole set of financial statements was considered useful for investment decision making by participants. Participants emphasized the importance of the cash-flow statement in making investment decisions. The financial statements were identified as one source of financial information with other sources such as management discussions and analysis, quarterly reports, integrated reports and strategic plans being considered important sources for investment decision making. Participants were of the view that financial information is important for all types of investments, though it may not be enough in cases where non-financial information will need to be considered.

In terms of ethics and professional value relevance, participants were of the view that RAs and CAs cannot be generalised as corrupt professionals based on isolated cases of misconduct by some CAs and RAs. The CAs and RAs who were committing acts of misconduct were viewed as professionals who used their superior knowledge and skills to commit the misdeeds. The participants were of the opinion that CAs and RAs who commit misconduct do so mainly because of greed. The CAs and RAs who generally comply with the CPC were considered to be doing their best by staying ethical. CAs and RAs were not expected to stop misconduct by others (which may include corruption), since they do not have the legal capacity to do so. Participants expected investors, IRBA and SAICA to all act against CAs and RAs who are guilty of misconduct. Investors were expected to disassociate themselves from guilty RAs and CAs, including the firms the guilty CAs and RAs work for. IRBA and SAICA were expected to act quicker with harsher sentences on CAs and RAs and related firms that are found guilty of misconduct.

Regarding investor perception, the research findings were bordered around the independence and technical capacity of RAs and CAs. The participants' view was that the media reports regarding misconduct by CAs and RAs have caused the need to consider the work of CAs and RAs with skeptical lenses. According to participants, the acts of misconduct resulted from a lack of independence. As a result, the audit firms

and RAs should be frequently rotated as auditors of investees. The participants supported the MAFR implemented by IRBA. Despite the rotation of auditors, the participants were of the view that it is better to be audited by big four audit firms. The big four audit firms were considered to be well capacitated to audit the investees in a way that satisfies the needs of the participants. The small- to medium-size auditors were still not trusted to audit mostly listed companies, because of their perceived low-quality audits.

The next chapter presents an overview, limitations and conclusion of the study. Chapter 5 will also present the recommendations that come through the analysis of the findings reported in this chapter.

CHAPTER 5 – CONCLUSION AND RECOMMENDATION

5.1 INTRODUCTION

Chapter 4 presented the empirical findings against the theoretical framework. Based on the theoretical framework, the empirical findings were reported and analysed under the following six categories: 1) qualifications and competence; 2) experience and skills; 3) investor expectation and value; 4) decision-usefulness; 5) ethics and professional value relevance; and 6) investor perception.

This chapter provides an overview of the purpose of the study, then concludes with a discussion of whether the investors perceive the work of CAs and RAs to be valuable for the investment decision-making process. This chapter also provides recommendations that were derived from the findings before it describes the limitations of the study.

5.2 OVERVIEW OF THE RESEARCH PURPOSE

As indicated in Chapter 1, CAs and RAs are significant role players in the process of compiling financial information. CAs and RAs ensures that users of financial information get credible audited financial information in usable format. A host of users of financial information and audit reports were identified, which includes investors. Accordingly, a problem will arise if CAs and RAs do not adhere to the CPC and applicable standards and regulations. The CPC and applicable standards and regulations are meant to inspire the confidence of the investors in the work of CAs and RAs. Non-adherence to the CPC and applicable standards and regulations by CAs and RAs creates a perception that the work of CAs and RAs is not valuable for investment decision-making purposes. Investors realise value from CAs and RAs if they get information that is decision-useful for investment purposes. Value is also realised if the information from CAs and RAs contribute positively to investment performance.

If there is no value that can be derived from the work of CAs and RAs, then the chartered accountancy and audit professions will become redundant. The low investor confidence and redundant professions will have negative permutations - which will perpetuate problems of unemployment in South Africa. Consequently, the primary

objective of the study is to establish if asset management firms, as a select group of investors, perceive the work of CAs and RAs to be valuable for the investment decision-making process.

5.3 FINDINGS

The presentation of the research findings as below commence with the primary objectives followed by secondary objectives. The findings linked to the primary objectives are in section 5.3.1. The findings linked to secondary objectives are in section 5.3.2 which is the secondary objective in section 1.3.2 a), 5.3.3 which is the secondary objective in section 1.3.2 b) and 5.3.4 which is the secondary objective in section 1.3.2 d). The secondary objective in section 1.3.2 c) is presented together with the primary objective since the two are closely related.

5.3.1 Investor perceptions

The findings linked to the primary objectives will be presented based on the theoretical framework using the six categories, which are: 1) qualifications and competence; 2) experience and skills; 3) investor expectation and value; 4) decision-usefulness; 5) ethics and professional value relevance; and 6) investor perception.

In terms of qualifications and competence, an individual can qualify to be a CA after completing a university qualification and experiential training based on or after fulfilling the SAICA guidelines for registering as a CA. Then a CA can also qualify to be an RA after fulfilling the requirement to qualify as an RA set out by IRBA. The process of qualifying as either a CA or an RA requires experiential training on which the trainees are assessed based on a SAICA or IRBA developed competence framework. As a result, a qualified CA or RA is a competent professional. The investors consider the qualifications and competences of CAs and RAs to be unique and important for the investment decision making process. The investors consider that it is through the qualification and competencies of CAs and RAs that the CAs and RAs provide the services that are relevant for investment decision making. Such services include the compilation of financial information, auditing of financial information and being employed as investment professionals.

Experience and skills can be gained over time by repeating the same tasks over time. To qualify as a CA or RA, the aspirant candidate must go through extensive training - which involves periodic assessment against the competence framework developed by SAICA. By the time an aspirant is signed off as a CA and RA, the professional would have gained adequate experience and skills expected of a CA or an RA. Even with the skills and experience CAs and RAs would need to be qualified to register with SAICA and IRBA respectively, there are some aspects that CAs and RAs will not be able to do alone. As a result, CAs and RAs need assistance when it comes to areas of specialisation. A skilled and experienced CA or RA knows when to request a specialist to assist in executing certain tasks that require specialists. CAs and RAs are still able to add value even with the help of a specialist, because 1) the CA or RA knows when to request assistance from a specialist; 2) the specialist will still need a CA or RA to convert their contribution into financial information that is usable for investment decision making.

In terms of investor expectations and value, investors consider CAs and RAs to be generally competent and ethical professionals. To enhance the independence of RAs, the investors voted for audit firm rotation, which supports of the already implemented MAFR. The MAFR has been introduced and implemented by IRBA. With the MAFR already implemented, the investors are now comfortable that independence concerns that might arise from long audit engagements or contracts are addressed. An independent auditor's report is valuable to investors when making investment decisions. With the scope of the study not going beyond what is already provided by the ISAs, the investors indicated their satisfaction with the RAs' audit work and reporting done through the audit reports.

The information that CAs and RAs provide is useful for the investment decision-making process. The investors make use of audited financial information and non-audited financial information. The audited financial information is provided to investors in the form of audited financial statements. Non-audited financial information includes financial forecasts, strategic plans and interim financial information. The information that CAs contribute to the integrated reports is considered useful for investment decision making by investors. Though investment decisions are not made based only

on financial information, financial information remains an important element in investment decision making.

Investors do not consider all CAs and RAs to be corrupt, even though a number of CAs and RAs have been involved in cases of misconduct which includes allegations of corruption. The indication by investors is that CAs' and RAs' compliance with the CPC makes them ethical professionals whose contribution to the investment decision-making process that can be relied on. The investors appreciated SAICA and IRBA as professional bodies that govern the conduct of the CAs and RAs. The regulation by SAICA and IRBA leaves CAs and RAs with a professional duty and a moral responsibility to be ethical. The cases of misconduct involving CAs and RAs reported in the media made the investors more skeptical of isolated instances of misconduct that might arise and cause losses in investment. Even with the skepticism, the investors have not considered or looked for alternative professionals or solutions to fill in the role of CAs and RAs in the investment decision-making process.

The investors value the importance of financial information audit which can only be done by RAs in South Africa. The big four audit firms (which have names that have frequently been associated with accounting scandals and instances of misconduct) remain the preferred auditors by the investors. The investors want auditors who have sufficient capacity and competences to efficiently and adequately audit the investees and potential investments. As a result, the investors realise value from the capacity and competences of the CAs and RAs. After literature review and field study, the findings below were noted during conceptualization of value to investors in investment decision making process.

5.3.2 Value in investment decision making process

The literature review established that value is realised in the implementation and enforcement of high-quality accounting standards. Accounting standards such as IFRS are used to compiled financial information. Financial information is valuable to investors if it is relevant and reliable for investment decision making. Financial information is relevant and reliable if it provides correct signals that are appropriate for investment decision making. Signals include share price, cash flow forecast,

profitability, management stewardship, liquidity of potential investments and expected rate of return. Some of the signals are considered complex or requiring complex accounting treatment. As a result, the investors were noted to have a high regard for professionals who can unpack and simplify complex transactions into decision useful information. Transactions, accounting ratios and signals that are considered complex are those that include transactions that should be recognised, measured and disclosed using estimates, assumptions and professional judgement which incorporates subjectivity. Investors consider CAs and RAs as the right professionals to take out the complexity out of valuation, recognition, measurement, and disclosure of transactions.

5.3.3 Value of CAs and RAs

Investors see value in CAs as they are considered to be the professionals that correctly implement and enforce high-quality accounting standards. Investors consider financial information compiled by CAs and audited by RAs to be relevant and reliable for investment decision-making process. CAs and RAs are considered to be the preferred professionals to provide financial information that is relevant and reliable since they possess the relevant skills and competencies required for compilation and auditing of financial information respectively. The skills and competencies of CAs makes them able to account for complex transactions and for RAs to be able to reliably audit the same transactions. The skills and competences that CAs and RAs possess makes the professionals valuable to investors. There are other professionals other than CAs and RAs who also provide value in investment decision-making process. It was established that fund managers were preferred to perform due diligence compared to CAs. It was noted that the preference of fund managers to perform due diligence did not diminish the importance of CAs and RAs to investors during the investment decision making process. Several elements and other professionals which play an important role to investors during investment decision-making process were noted. As a result, below recommendations were established during the study.

5.3.4 Recommendations

During the analysis of findings of the current study, several areas have been identified which require further study. Below is a summary of the recommendations that arise from this study.

Some investors indicated that there is a difference between the way CAs and RAs are appreciated in South Africa as compared to developed countries. Professionals with ACCA, CIMA and MBA have been noted to be considered in the roles CAs play in South Africa. As a result, further investigation is needed to determine if there are professionals with qualifications other than that of CAs or CA equivalence in developed countries who are an alternative to professionals who are CAs or CA equivalent.

Investors considered SAICA and IRBA to not doing enough to discipline CAs and RAs respectively who would have been found guilty of misconduct. Investors are of the view that CAs and RAs who are found guilty in high profile cases or whilst working for big accounting firms have not been disciplined timeously. Those who have been disciplined have not been given penalties or sanctions that match the gravity of the misconduct they are guilty of. As a result, participants want harsher penalties on CAs or RAs who are found guilty of misconduct. Investors also suggested that there must be activism against accounting or auditing firms found guilty of misconduct. The activism should involve the public and private sector blacklisting the guilty firms by stopping to do business with them. The above recommendation assume that not enough is being done to address misconduct by CAs and RAs. As a result, more research is required to study how SAICA and IRBA have been dealing with cases of misconduct over a certain period.

Investors were of the view that the RAs' audit approaches have not been sufficiently covering the risk of fraud, collusion and management override of controls. The view of investors, which are consistent with section 2.1.3 (page 32), is as a result of an expectation gap between the RAs and the investors. Literature suggests that the level of assurance expected by investors during the audit of fraud, collusion and management override of controls is not consistent with the ISAs. Though, the investors' expectations on this matter are not in line with the requirements and guidance from ISAs, further research needs to be done on the aspect. A study needs to be conducted on the transparency of audit approaches followed by auditors as a means of adding value to the investment decision making process.

The investors have indicated the need to report certain items on the audit report which the RAs might consider to be immaterial for inclusion in the audit report. The indication

is that what the investors consider to be material might be different from what the RA considers to be material. As a result, a further study is required to deduce materiality from an investor perspective, taking into consideration both quantitative and qualitative materiality.

5.4 LIMITATIONS AND DIRECTION FOR FURTHER RESEARCH

Although this study has a significant contribution, it is not free of limitations. This study was qualitative in nature. A quantitative approach and analysis could be employed in forthcoming studies to support and validate the findings. Another limitation is that the sample used in this study was enough for the purposes of this study and allowed reasonable conclusions to be drawn, but it cannot be considered representative of all investors in the South African economy. Larger and more representative samples within South Africa can be considered for the next study to strengthen the current findings. There is also an opportunity to further extend and verify the findings to other developing and developed countries.

5.5 CONCLUSION

The conclusions of this study were presented in this chapter taking into consideration the objectives of the study. The theoretical framework was used as guidance in presenting the conclusion of this study. The study was set out to establish if investors perceive the work of CAs and RAs to be valuable in the investment decision-making process. The study's conclusion was presented within the context of the theoretical framework consisting of the six components influencing the value of CAs and RAs in the investment decision-making process. The framework provided rich descriptions that revealed that CAs and RAs possessed attributes that are valuable to investors, particularly in the investment decision-making process. This final chapter also provides recommendations for further research where necessary and the limitations of the study.

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APPENDIX 1 – SEMI-STRUCTURED INTERVIEW GUIDING QUESTIONS

PART A – Self-administered

Please complete this section before the scheduled interview:

Question 1: Describe your role within your organisation

Question 2: Please list the top 5 investment services your firm provides to investors in order of importance

- 1.
- 2.
- 3.
- 4.
- 5.

Question 3: For each of the items listed below, indicate to what extent your firm uses this tool to make investment decisions:

	Very seldom	Seldom	Often	Very often	N/A
Financial Statements					
Audit reports					
Capital budgets					
Asset valuations					
Asset pricing					
Cash-flow forecasts					
Discounted cash flows					
Net Present Value					
Internal rate of return					
The weighted average cost of capital					
Earnings multiple					
Economic value added					
Breakeven analysis					
Other (please specify)					

Part B - Interview schedule

Main question	Sub-questions
1. How do you identify assets to invest in?	
	1.1 Where do you get the funding you invest in assets?
2. What roles do CAs assume in the asset management industry?	
	2.1 What, in your view, is the role of CAs in fair value accounting which includes judgement and estimation and how important is that role?
	2.2 In your view, how reasonable are the assumptions CAs make when estimating transaction values and balances compared to none CAs?
	2.3 Who would you trust to provide financial information that is accurate and complete?
3. How much comfort do you get from knowing that valuation, estimates and assumptions were audited?	
4. What role do you think RAs and CA play in the South African Economy?	
	4.1 Do you re-perform or recheck what could have or have been done by CAs and RAs and what motivates that?

5. How do you value RA's professional judgement on subjective matters during the audit?	
6. Describe your organisation's expectations from RAs and CAs.	
	6.1 How are the interests of your organisation served when dealing with a CA and a RA?
	6.2 What communication would you miss from financial information not prepared by a CA?
7. What expectations do you have from the audit reports and are they met?	
	7.1 What do you expect an RA to communicate to you in an audit report and are you getting that communication?
	7.2 What would you change from the current format of the audit report for it to give you different communication?
8. What are your expectations from an RA regarding identifying and reporting on human error or mistakes, management override, collusion and fraud during an audit?	
	8.1 Do you expect to see any information relating to management's valuation, estimation and assumptions in the audit report?

9. How different is it to use audited AFS compared to unaudited when making investment decisions?	
10. In making projections and forecasts for investment decision making, does it make a difference if you use financial information compiled by a CA?	
11. Which information is relevant for investment decision making in the financial reports?	
	11.1 Which type or category of investment decisions do you rely more on financial information to make?
	11.2 Does financial information provide relevant signals that are appropriate for decision making?
12. Do you consider the appropriateness of the audit approach when deciding to put reliance on the audit report and audited financial information?	
13. Does the independence of the RA matter during the investment decision-making process?	
	13.1 What is your view on conflict of interest involving RAs and CAs?
	13.2 How does a conflict of interest involving RAs and CAs affect your reliance on audits and financial information?

<p>14. How did/does your perception change on the value that CAs and RAs add to investment decision making when reading media reports highlighting inappropriate actions taken by CAs and RAs?</p>	
	<p>14.1 Describe RAs' and CAs' current compliance with principles of integrity, objectivity, confidentiality, professional behaviour, professional competence and due care.</p>
	<p>14.2 What is the role of RAs and CAs in public and private sector corruption?</p>
	<p>14.3 What motivates Chartered Accountants to commit acts of misconduct?</p>
<p>15. Would you consider the appropriateness of audit opinion or report based on who the RA is (i.e. Big 4, sole proprietor, the experience of the RA, etc)?</p>	
	<p>15.1 Do you have any reasons not to trust the work of CAs and RAs?</p>
<p>16. How different is it to use financial information prepared by a CA compared to non-CA?</p>	
<p>17. What is your view on completeness, neutrality and freeness from the error of financial information compiled by a CA compared to other professionals?</p>	

18. What is your view on completeness, neutrality and freeness from error of financial information audited compared to unaudited?	
19. How relevant is the emphasis of matter or KAM section of the audit report during investment decision making?	
20. What do you know about the qualifications and competences of CAs and RAs?	
	20.1 Does your understanding of qualifications and competences of CAs and RAs create an expectation of value from their services in investment decision making process?

APPENDIX 2 – INFORMATION SHEET FOR INFORMED CONSENT

REQUEST FOR PERMISSION TO CONDUCT RESEARCH

Dear Prospective Participant

I'm doing a research project and would like to request permission to conduct my research at your organisation.

DATE

15 July 2020

TITLE OF THE RESEARCH PROJECT

Perceptions of South African Chartered Accountants' (CAs') and Registered Auditors' (RAs') value in investment decision making

PRINCIPAL RESEARCHER NAME	STUDENT NUMBER	CONTACT NUMBER
Edson Chawaremera	2018643433	+27 78 138 8816

FACULTY AND DEPARTMENT:

Faculty of Economic and Management Sciences
University of Free State (UFS) Business School

STUDY LEADER NAME	POSITION	CONTACT NUMBER
Dr. Cornelia Crous	Lecturer and UFS staff member	+27 51 401 9017

WHAT IS THE AIM / PURPOSE OF THE STUDY?

The study will be conducted for the purpose of completing the Master of Business Administration qualification. The study seeks to establish if asset management firms as a select group of investors perceive the work of CAs and RAs to be valuable in the investment decision-making process. Secondly, the study also seeks to establish the asset management firms' perception of the value that South African CAs and RAs add to the investment decision-making process. Thirdly, the study seeks recommendations

for improving or maintaining the investors' perceptions of South African CAs' and RAs' value in the investment decision-making process. As a result, the findings of the study will be shared with the South African Institute of Chartered Accountants (SAICA), which intends to use it to make informed decisions on training, products and services for the development of SAICA members, specifically in the Investment industry. The results will also be of value to SAICA's internal corporate reporting division, which strategically focuses on the value its members have in the industry.

WHO IS DOING THE RESEARCH?

My name is Edson Chawaremera; I'm a special advisor in the SAICA Nation Building Project. I'm currently seconded to work as a Senior Financial Advisor of the Northern Cape Community Education and Training College through a partnership between the SAICA Nation Building Project and Department of Higher Education Science and Technology (DHEST). I am pursuing a Master of Business Administration degree at the UFS. My student number is 2018643433 and my contact details are +27 78 138 8816 or email 2018643433@ufs4life.ac.za or edsonecha@gmail.com.

HAS THE STUDY RECEIVED ETHICAL APPROVAL?

This study has received approval from the Research Ethics Committee of UFS. A copy of the approval letter can be obtained from the researcher.

Approval number: UFS-HSD2020/0727/1009

WHY IS YOUR ORGANISATION BEING INVITED TO TAKE PART IN THIS RESEARCH PROJECT?

Your organisation was selected to be a participant in the study since it meets the qualifying criterion for participants who can assist with meeting the objectives of the study. The qualifying criteria included being an investor, an asset management firm managing assets with a minimum value of R10 Billion, a member of the Association for Savings and Investment South Africa (ASISA) and operating in South Africa. A population of 119 participants drawn from the ASISA website was considered for this study. Your organisation is one of the 23 asset management firms that were selected and are expected to participate in the study. The minimum value of assets being managed by your firm provided the researcher with confidence that adequate and

appropriate contributions will be obtained from your delegated official. Your details have been obtained from the publicly available details on the ASISA website and your organisation's website.

WHAT IS THE NATURE OF MY PARTICIPATION IN THIS STUDY/WHAT DOES THE RESEARCH INVOLVE?

The asset management firm is requested to delegate either the Chief Investment Officer, Senior Analyst or Analyst to answer the interview questions representing your organisation. This study will most likely require a one-hour semi-structured interview session. The interview questions will be provided upfront before the interview date to help the organisation prepare responses. The interviewee or delegated official will be expected to respond to both structured questions and follow-up questions during the interview session. Follow-up interviews, if necessary, will be done on a date and time that will be requested and communicated after the first interview session. The interview will be conducted telephonically, via Skype, Microsoft Teams or Zoom, depending on the option the participant is comfortable with. With the permission of the participant, the researcher would like to digitally record the audio or the video of the interview session. Digital recording will ensure the factual accuracy and completeness of the data. Interviews will only be recorded after written consent is obtained from you and under the precondition that you may request. The recording will be stopped at any time during the interview at your request. The nature of the interview questions in the interview schedule are not of a personal, sensitive or compromising nature. However, if the participant is not comfortable with recording of the interview, the researcher will take manual notes from the interview session. The field study which includes the interview sessions will be expected to be completed between 15 July 2020 and 30 September 2020.

The researcher's semi-structured interview questions will seek to gather an understanding of the asset management firm's perceptions of:

- a. the appropriateness and adequacy of qualifications and competences of CAs and RAs;
- b. the valuableness of skills and experience of CAs and RAs;
- c. the CAs' and RAs' ability and willingness to meet the expectations of asset management firms;

- d. relevance and usefulness of information compiled by CAs and RAs in financial reports and audit reports for investment decision making;
- e. ethical conduct of CAs and RAs in and out of public practice; and
- f. the CAs and RAs as professionals in general.

WHAT ARE THE POTENTIAL BENEFITS OF TAKING PART IN THIS STUDY?

This is the first study that attempts to understand the asset management firm's perception of the value of CAs and RAs in South Africa. The results of this study will add to the existing body of knowledge about the work of CAs and RAs, including its relevance to the investment decision-making process. The results of this study could also assist the Independent Regulatory Board for Auditors (IRBA) and SAICA in identifying ways to sustain or enhance the professional reputation of the accounting and auditing profession. The responses of the participants will be kept confidential by the researcher. For the purpose of completing the qualification, the responses of the participants might be shared with the research supervisor and the UFS Business School, both of which will keep the information confidential.

WHAT IS THE ANTICIPATED INCONVENIENCE AND RISKS OF TAKING PART IN THIS STUDY?

It is understood that taking some of your time during working hours may be inconvenient to you. This study will most likely require a one-hour semi-structured interview session. The researcher will provide you with as much notice as would be reasonably possible and be flexible in terms of the interview venues, dates and times. To adhere with social distancing as a result of the COVID-19 pandemic, all the interviews will be done either telephonically, or via Skype, Microsoft Teams or Zoom.

WILL WHAT I SAY BE KEPT ANONYMOUS AND CONFIDENTIAL?

The details of the delegated official to represent the participant will not be recorded anywhere and no one will be able to connect the participants to the answers provided. The responses will also not be associated with the participant or asset management firm. A fictitious participant code number or a pseudonym will be used where data need to be referenced to a specific participant. The fictitious number will be used for any publications of your anonymous data or other research reporting methods - such as

conference proceedings, journal articles and others. The researcher transcribing and coding the interviews will sign a confidentiality clause to ensure that the data remain strictly confidential. Otherwise, records that identify the participant or delegated official will be available only to people working on the study, unless you give permission for other people to see the records. Participant or delegated official might decide to disclose information and data related to the study to persons other than the researcher, in such a case confidentiality is not guaranteed.

HOW WILL INFORMATION BE STORED AND ULTIMATELY DESTROYED?

Hard copies of answers if generated will be stored by the researcher for a period of five years in a locked filing cabinet for future research or academic purposes. Electronic information will be stored on a password protected computer and cloud back-up facility for five years. Future use of the stored data will be subject to further Research Ethics Review and approval where applicable. After five years, electronic files will be permanently deleted and hard copies shredded and disposed of.

WILL THERE BE PAYMENT OR ANY INCENTIVES FOR PARTICIPATING IN THE STUDY?

The researcher understands that your participation in the study might cause a loss of productive working hours that will not be compensated. Due to limited resources, the researcher will not be in a position to offer compensation for participation in the study.

CAN I WITHDRAW FROM THIS STUDY?

Participating in this study is entirely voluntary and you are under no obligation to consent to participate. Should you decide to participate, you will be asked to sign a written consent form. You are free to withdraw at any time and without giving a reason or being prejudiced.

HOW WILL THE INSTITUTION / ORGANISATION / COMPANY BE INFORMED OF THE FINDINGS / RESULTS OF THE STUDY?

If you would like to be informed of the final research findings, please contact Edson Chawaremera at cell number +27 78 138 8816 or email 2018643433@ufs4life.ac.za or edsonecha@gmail.com. The findings will be accessible for a period of 12 months after the completion of the study. Should you require any further information or want

to contact the researcher about any aspect of this study, please use the contact details above. Should you have concerns about how the research has been conducted, you may contact my research supervisor, Dr Cornelia Crous CA(SA) on +27 51 401 9017 or fax 086 658 4365 or email CrousC@ufs.ac.za.

Yours sincerely

Edson Chawaremera

APPENDIX 3 – INFORMED CONSENT

CONSENT TO PARTICIPATE IN THIS STUDY

I(Name of delegated official).....
.....(position).....(name of
organisation or participant), confirm that the person asking my consent to take part in
this research has told me about the nature, procedure, potential benefits and
anticipated inconvenience of participation.

I have read (or had explained to me) and understood the study as explained in the
information sheet. I have had sufficient opportunity to ask questions and am prepared
to participate in the study. I understand that my participation is voluntary and that I am
free to withdraw at any time without penalty (if applicable). I am aware that the findings
of this study will be anonymously processed into a research report, journal publications
and/or conference proceedings.

I agree to the recording of the interview proceedings.

I have received a signed copy of the informed consent agreement.

Full Name of Participant: _____

Signature of Participant: _____ Date: _____

Full Name(s) of Researcher(s): _____

Signature of Researcher: _____ Date: _____

APPENDIX 4 – ETHICAL CLEARANCE



GENERAL/HUMAN RESEARCH ETHICS COMMITTEE (GHREC)

11-Sep-2020

Dear Mr Edson Chawaremera

Application Approved

Research Project Title:

Perceptions of South African Chartered Accountants' (CAs') and Registered Auditors' (RAs') value in investment decision making

Ethical Clearance number:

UFS-HSD2020/0727/1009

We are pleased to inform you that your application for ethical clearance has been approved. Your ethical clearance is valid for twelve (12) months from the date of issue. We request that any changes that may take place during the course of your study/research project be submitted to the ethics office to ensure ethical transparency. Furthermore, you are requested to submit the final report of your study/research project to the ethics office. Should you require more time to complete this research, please apply for an extension. Thank you for submitting your proposal for ethical clearance; we wish you the best of luck and success with your research.

Yours sincerely

Dr Adri Du Plessis

Chairperson: General/Human Research Ethics Committee

Date:
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APPENDIX 5 – TURNITIN REPORT



Assignment Inbox

preferences

Welcome to your new class homepage! From the class homepage you can see all your assignments for your class, view additional assignment information, submit your work, and access feedback for your papers. ✕

Hover on any item in the class homepage for more information.

Class Homepage

This is your class homepage. To submit to an assignment click on the "Submit" button to the right of the assignment name. If the Submit button is grayed out, no submissions can be made to the assignment. If resubmissions are allowed the submit button will read "Resubmit" after you make your first submission to the assignment. To view the paper you have submitted, click the "View" button. Once the assignment's post date has passed, you will also be able to view the feedback left on your paper by clicking the "View" button.

Assignment Inbox: MBRP7900 MAIN On _8154_1						
Assignment Title	Info	Dates		Similarity	Actions	
DRAFT BOX		Start	28-Jan-2020	8:00AM	15% ■	Resubmit View
		Due	31-Dec-2020	11:59PM		
		Post	05-Feb-2020	12:00AM		

APPENDIX 6 – LANGUAGE EDITOR’S REPORT



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23 October 2020

To whom it may concern

This is to certify that I lightly language-edited the field study of Edson Chawaremera electronically via track changes and comments, excluding references. The author effected the changes. In this way, both linguistic excellence and the author's ownership of his text were ensured.

Sincerely

Dr Luna Bergh

Language and Writing Specialist



UNIVERSITY OF THE FREE STATE
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YUNIBESITHI YITHREESTATI



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29 October 2020

To whom it may concern

Reference editing – MBA thesis: Mr Edson Chawaremera

This serves to confirm that the MBA thesis submitted to Star Language Services in October 2020 by Mr Edson Chawaremera had its references reviewed and edited, and that the accompanying feedback was sent to the client thereafter. The language editing of the thesis was provided by another party.

Star Language Services can provide further details regarding what was edited, should such information be requested.

Please note: While every effort is made to ensure that each client is given thorough feedback, Star Language Services cannot guarantee that that which the client submits in its final form is identical to the text received for editing or the changes that were suggested.

Please feel free to contact me should any further information be required.

Yours faithfully,

Naledi Gouws

Owner: Star Language Services

APPENDIX 7 – SEMI-STRUCTURED INTERVIEW GUIDING QUESTIONS WITH REFERENCE TO LITERATURE

PART A – Self-administered

Please complete this section before the scheduled interview:

Question 1: Describe your role within your organisation

Question 2: Please list the top 5 investment services your firm provides to investors in order of importance

- 1.
- 2.
- 3.
- 4.

Question 3: For each of the items listed below, indicate to what extent your firm uses this tool to make investment decisions:

	Very seldom	Seldom	Often	Very often	N/A
Financial Statements					
Audit reports					
Capital budgets					
Asset valuations					
Asset pricing					
Cash-flow forecasts					
Discounted cash flows					
Net Present Value					
Internal rate of return					
The weighted average cost of capital					
Earnings multiple					
Economic value added					
Breakeven analysis					
Other (please specify)					

Part B - Interview schedule

		Linking information to Literature. To be deleted before the interview schedule is sent to participants		
Main question	Sub-questions	Attributes influencing the perception of CAs and RAs' value in the investment decision-making process (Refer to key below)	Reference Chapter	The reference section in the chapter
1. How do you identify assets to invest in?		1	2	2.3
	1.1 Where do you get the funding you invest in assets?	1	2	2.3
2. What roles do CAs assume in the asset management industry?		4	2	2.1.2
	2.1 What, in your view, is the role of CAs in fair value accounting which includes judgement and estimation and how important is that role?	4	2	2.1.2/ 2.4/ 2.5.2

	2.2 In your view, how reasonable are the assumptions CAs make when estimating transaction values and balances compared to none CAs?	4	2	2.1.2/ 2.4/ 2.5.2
	2.3 Who would you trust to provide financial information that is accurate and complete?	4	2	2.6
3. How much comfort do you get from knowing that valuation, estimates and assumptions were audited?		4	2	2.1.3/ 2.4
4. What role do you think RAs and CA play in the South African Economy?		4	2	2.1.2/ 2.1.3/ 2.6
	4.1 Do you re-perform or recheck what could have or have been done by CAs and RAs and what motivates that?	4	2	2.4/ 2.5.2
5. How do you value RA's professional judgement on subjective matters during the audit?		4	2	2.6

6. Describe your organisation's expectations from RAs and CAs?		5	2	2.4/ 2.5.2
	6.1 How are the interests of your organisation served when dealing with a CA and a RA?	6	2	2.1.1
	6.2 What communication would you miss from financial information not prepared by a CA?	6	2	2.1.2
7. What expectations do you have from the audit reports and are they met?		5	2	2.1.3
	7.1 What do you expect a RA to communicate to you in an audit report and are you getting that communication?	6	2	2.1.3
	7.2 What would you change from the current format of the audit report for it to give you different communication?	5	2	2.2.3
8. What are your expectations from a RA regarding identifying and reporting on human error or mistakes, management override, collusion and fraud during an audit?		5	2	2.1.3

	8.1 Do you expect to see any information relating to management's valuation, estimation and assumptions in the audit report?	5	2	2.1.2/ 2.4
9. How different is it to use audited AFS compared to unaudited when making investment decisions?		7	2	2.1.1
10. In making projections and forecasts for investment decision making, does it make a difference if you use financial information compiled by a CA?		8	2	2.1.2
11. Which information is relevant for investment decision making in the financial reports?		8	2	2.2.2
	11.1 Which type or category of investment decisions do you rely more on financial information to make?	8	2	2.2.2
	11.2 Does financial information provide relevant signals that are appropriate for decision making?	9	2	2.4
12. Do you consider the appropriateness of the audit approach when deciding to put reliance		11	2	2.6

on the audit report and audited financial information?				
13. Does the independence of the RA a matter during the investment decision-making process?		11	2	2.6
	13.1 What is your view on conflict of interest involving RAs and CAs?	11	2	2.6
	13.2 How does a conflict of interest involving RAs and CAs affect your reliance on audits and financial information?	11	2	2.6
14. How did/does your perception change on the value that CA's and RA add to investment decision making when reading media reports highlighting inappropriate actions taken by CAs and RAs.		11	2	2.6
	14.1 Describe RAs' and CAs' current compliance with principles of integrity, objectivity, confidentiality, professional behaviour, professional competence and due care?	10	2	2.1.1

	14.2 What is the role of RAs and CAs in public and private sector corruption?	9	2	2.6
	14.3 What motivates Chartered Accountants to commit acts of misconduct?	10	2	2.6
15. Would you consider the appropriateness of audit opinion or report based on who the RA is (i.e. Big 4, sole proprietor, the experience of the RA, etc.)?		11	2	2.6
	15.1 Do you have any reasons not to trust the work of CAs and RAs?	11	2	2.6
16. How different is it to use financial information prepared by a CA compared to non-CA?		11	2	2.1.1
17. What is your view on completeness, neutrality and freeness from the error of financial information compiled by a CA compared to other professionals?		9	2	2.1.2
18. What is your view on completeness, neutrality and freeness from the error of		9	2	2.1.2

financial information audited compared to unaudited?				
19. How relevant is the emphasis of matter or KAM section of the audit report during investment decision making?		9	2	2.4
20. What do you know about the qualifications and competences of CAs and RAs			2	2.1
	20.1 Does your understanding of qualifications and competences of CAs and RAs creates an expectation of value from their services in investment decision making process	1 and 2	2	2.1

Key²³:

Understanding the participant	1
Qualification	2
Competence	3
Experience and skill	4
Investor expectations	5

²³ Linking information to Literature. To be deleted before interview schedule is sent to participants

Investor value	6
Information relevance	7
Decision usefulness	8
Professional value relevance	9
Ethical conduct	10
Investor perception	11