Addis Ababa University

College of Business and Economics

Department of Accounting and Finance

Challenges and Opportunities in Adopting IFRS by Private Commercial Banks

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Alexander Hache

This is to certify that the thesis prepared by Alexander Hache, titled: "Challenges and opportunities in adopting IFRS by private commercial Banks" and submitted in partial fulfillment of the requirements for Degree of Master of science in accounting and finance complies with the regulations of Addis Ababa University and meets the accepted standards with respect to originality and quality.

Signed by the Examining Committee:

Approved by the Board of Examiners

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DECLARATION

I, Alexander Hache, declare that the thesis entitled "Challenges and Opportunities in Adopting IFRS by Private Commercial Banks" is my original work. I have carried out the present study independently with the guidance and support of the research advisor, Sewale Abate (PhD). Any other contributors or source used for the study have been duly acknowledged. Moreover, this study has not been submitted for the award of any Degree or Diploma program in this or any other institution.

Alexander Hache ________________ ________________

Signature Date

STATEMENT OF CERTIFICATION

This is to certify that Alexander Hache has carried out his research work entitled "Challenges and Opportunities in Adopting IFRS by Private Commercial Banks" for the partial fulfillment of Masters of Degree in Accounting and Finance. This study is original and is not submitted for any degree in this university or any other universities and is suitable for submission of Masters in Accounting and Finance.

Confirmed by Advisor	___________________	______________
Sewale Abate (PhD)	Signature	Date

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I would like to express my deepest and sincere gratitude to my advisor Sewale Abate (PhD), for his guidance and encouragement in preparing and finishing this study.

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ACRONYMS

AABE:	Accounting and Audit Board of Ethiopia
ACCA:	Association of Chartered Certified Accountants
AISG:	Accountants International Study Group
ANAN:	Association of National Accountants of Nigeria
BOD:	Board of Directors
CFO:	Chief Finance Officer
CIA:	Certified Internal Auditor
CPA:	Certified Public Accountant
EBA:	Ethiopia Bankers Association
ECX:	Ethiopian Commodity Exchange
EU:	European Union
FASB:	Financial Accounting Standard Board
FDI:	Foreign Direct Investments
FRC:	Financial Reporting Council
GAAP:	Generally Accepted Accounting Principle
IAS:	International Accounting Standard
IASB	International Accounting Standards' Board
IASC:	International Accounting Standards Committee
ICAN:	Institute of Chartered Accountants of Nigeria

IFRS 1:	First time adoption of International Financial Reporting
IFRS:	International Financial Reporting Standards
IFI:	International Financial Institution
IOSCO:	International Organization of Securities Commissions
IPSAS:	International Public Sector Accounting Standards
ISA:	International Standard for Auditors
MCPE:	Mandatory Continuing Professional Education
NASB:	National Accounting Standard Board
NBE:	National Bank of Ethiopia
PIE:	Public Interest Entities
SME:	Small and Medium Enterprises
SPPS:	Statistical Package for Social Science
UAE:	United Arab Emirates
UK:	United Kingdom
UNCATD:	United Nations Conference on Trade and Development
USA:	United States of America
USSR:	Union of Soviet Socialist Republic
WTO:	World Trade Organization

TABLE OF CONTENTS

Contents **Page**

LIST OF TABLES

ABSTRACT

International Financial Reporting Standards (IFRS) has increasingly been required and adopted globally. Furthermore, the rapid growth of Ethiopian financial market, banking sector and regulatory requirement has led to the need for improving the current accounting system to harmonize with the globalization trend of the world economy. This thesis aims at identifying the challenges and opportunities in adopting IFRS by private commercial Banks. The study used purposive sampling to conduct the research in a focus group of IFRS implementation team of each private Bank using questionnaire since these teams are believed to have the knowledge and expertise of applying the standard. Even though at this time all financial institutions adopted the standard in their financial statements still the standard is not embedded in the day to day operation of the Banks and this shows that the standard is not fully adopted due to the existing challenges in the business environment. Finally, the result of the survey shows there is a challenge in lack of knowledge to practically apply the standard, problem of data asymmetry, compatible technology which can embed accounting information with the requirement of IFRS, and lack of competent training having the capacity to provide beyond the theory of IFRS are the major findings and the opportunities are access to finance, comparability, improve analysis of information for decision making and better access to capital market.

Key words: International Financial Reporting Standard, Private Banks, Adoption, Opportunities, Challenges.

CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

The first move towards accounting standards convergence was the proposal to create the Accountants International Study Group (AISG) by the professional accountancy bodies in Canada, the United Kingdom and the United States in 1966. This was formed in order to develop comparative studies of accounting and auditing practices in the three nations. The AISG was eventually created in 1967. It published 20 studies until it was disbanded in 1977. After discussions and signature of approval by the three AISG countries and representatives of the professional accountancy bodies in Australia, France, Germany, Japan, Mexico and the Netherlands, the IASC was established in 1973. By the beginning of the 21st century in only one of the nine original IASC countries (Germany) did even a relatively small number of listed companies used IASs to report to domestic Investors. The primary goal of IASC formation was to develop a single set of high quality International Accounting Standards (IASs) to replace national standards. Between 1973 and 2001, the IASC issued 41 standards or IASs. However, because of the absence of independence constituent and technical expertise, the body was replaced on the 1st of April 2001 with International Accounting Standards' Board (IASB) (James Odia, 2013). The primary objective of the IASB was to create international accounting standards, globally. Here, begins a new era of international Financial Reporting. The structure of the newly formed international accounting body was changed with the creation of a well-focused sub bodies with well-focused responsibilities and the objective was also changed from harmonization to convergence or global standard setting (Doupnik & Perera, 2015).

All listed companies in France, Germany, the Netherlands and the UK and other 21 countries were mandated by the European commission to adopt IASs or the International Financial Reporting Standards (IFRS) from 2005.The Australian government and standard setter had put up an adoption policy of IAS by 2005. A Memorandum of Understanding (MOU) was agreed between the United States Financial Accounting Standard Board (FASB) and the International Accounting Standard Board (IASB), towards the convergence of US GAAP and the IFRS in 2002. In the Norwalk Agreement, both the FASB and IASB pledged their joint commitment towards the development of high quality, compatible accounting standards for both domestic and cross border financial reporting. It is argued that changes made in the US GAAP can be expected to influence the international environment Tarca (2004). Gannon & Ashwal (2004) argue that the convergence efforts of the FASB and the IASB already have changed U.S. GAAP and more effects are expected as the efforts to narrow the differences between the IFRS and US GAAP continue.

IFRS Adoption and Implementation at National Level

According to Proclamation No.847/2014 Article 5(1), Ethiopia has adopted International financial Reporting Standards (both full-IFRS and IFRS for SME) for the purpose of preparing financial statements in December, 2014. Article 5 of chapter three of the proclamation which is entitled as "Applicable Financial Reporting standards" Stipulates the following: "The financial reporting standards to be used when preparing financial statements shall be: a) International Financial Reporting Standards; or b) International Financial reporting Standards for Small and Medium Enterprises; issued by International Accounting Standards board or its successor; and c) International Public Sector Accounting Standards Applicable to Charities and Societies issued by International Public sector Accounting Standards Board or its successor as adopted, adapted or amended by the Board." 3.1.4.1. Enactment of the Financial Reporting Proclamation.

The enactment of a Proclamation to Provide for Financial Reporting (Proclamation no. 847/2014) is the current development in the accounting, auditing and financial reporting history in Ethiopia. Before the promulgation of this proclamation, there is no single organized body responsible for regulating the accounting and auditing professions and financial reporting practices in Ethiopia and very minor provisions have been issued in various separate laws that are not found in a single place and issued by various regulatory body.

The government of Ethiopia issued this proclamation (No.847/2014) to achieve the following objectives as stated in Article 1 of the proclamation: to establish a sound, transparent and understandable financial reporting system applicable to entities in both private and public sectors; to have a uniform financial reporting law that enhances transparency and accountability by centralizing the hitherto decentralized financial reporting structures of Ethiopia; to support various building blocks of the economy and to reduce the risk of financial crisis, corporate failure and associated negative economic impacts; and to ensure that the provision of financial information meets internationally recognized reporting standards.

Based on the proclamation AABE was organized which is accountable to the Ministry of Finance and Economic Development (Art.3/2/ of Regulation 332/2014). According to the Article 5 of the 332/2014, the board shall have the following objectives: (1) Promoting high quality reporting of financial and related information by reporting entities; (2) Promoting the highest professional standards among auditors and accountants; (3) Promoting the quality of accounting and auditing services; (4) Ensuring that the accounting profession is used in the public interest; and (5) Protect the professional independence of accountants and auditors. According to Article 4(2) of the proclamation No.847/2014, the Accounting and Auditing Board of Ethiopia (AABE) shall have the following, inter alia, powers and duties to: (1) Issue standards and directives relating to financial reporting and auditing and ensure compliance therewith; (2) Conduct inquiry or investigation and impose administrative sanction in accordance with the provisions of the proclamation where appropriate on public interest entities and public auditors to enforce compliance with financial reporting and auditing standards; and (3) Cooperate with, or become a member or an affiliate of, any international body, the objectives or functions of which are similar to or concerned with those of Board.

After the establishment of the board the country moved to the adoption of IFRS in three phases as follows

Phase 1-Significant Public Entities-Financial Institutions and Public enterprises owned by Federal or Regional Governments (Adopted currently)

Phase 2-Other Public Interest Entities (ECX member companies and reporting entities that meet PIE quantitative thresholds) and IPSAs for charities and societies- required to issue IFRS and IPSAs based financial statements respectively for the year ending July 7, 2018

Phase 3-Small and Medium-sized Entities- Statutorily required to issue IFRS based financial statements for the year ending July 7, 2019.

With the reference to this AABE developed road map for the public entities to adopt the standard and based on this commercial Banks produced financial statement based on International

Financial Reporting Standard in 2018. However, still because of the reason that challenges have not been clearly identified Private commercial Banks are struggling to adopt the standard in their operation rather than a translation of financial statement from GAAP to IFRS and securing the benefits associated with the adoption. Therefore, this case initiated the study of the challenges and opportunities in the context of Ethiopia so that private commercial Banks adopt the standard in to the day to day operation of the Banking environment and utilize the opportunity.

1.2. Statement of the Problem

Various studies have been conducted to assess adoption of IFRS in different countries around the world. Most of these studies conducted on the data from developed and industrialized countries. The European Union (EU) took the lead when it mandated all listed companies in the European Union to start the adoption and implementation of the IFRS in their financial reporting since 2005 (Odia et al.,2013).According to Веке (2015) as cited in (Onalo et al., 2014) although it became mandatory for firms listed on capital markets of European and other developed countries to implement IFRS beginning from 2005, only few emerging countries have recently converged with or adopted IFRS as their reporting standards. Hence most prior extant studies on the change from local GAAP to IFRS or better state IFRS adoption/convergence focus majorly on European and other developed countries with rareness of such studies on emerging economies . Lack of empirical studies on the association between changes in accounting standards or IFRS adoption and accounting quality of financial institutions such as banks in terms of earnings management and value relevance is theoretically and practically precarious giving the functional status of financial institutions particularly banks on economic scenes local or international. Furthermore, financial institutions particularly banks is one sector that is expected to be most affected by changes in accounting standards specifically IFRS adoption or convergence (Olanoetai, 2014). According to IASB (2014) as cited in (Olano et al., 2014) moving to IFRS has had a major impact on the reporting requirements of financial institutions.

Few studies have been conducted on the data from developing and emergent countries like Ethiopia. Studies on IFRS have been conducted in Nigeria such as Demaki (2013) examines Prospects and Challenges of International Financial Reporting Standards to Economic Development in Nigeria and finds that need of amendment of laws and regulation is among the major challenges and among the benefit enhanced effectiveness of management function is the major one. Michael (2013) studied the Application and Challenges of International Financial Reporting Standards in Nigeria. The result of the study is lack of preparedness is the major challenge. Odia et al. (2013) studied the issues, challenges and lessons from IFRS Adoption. The findings are lack of legal and regulatory and allocations of resources are the major problems.

Kumar (2014) and Rawat et al. (2015) conducted a study on International Financial Reporting Standard (IFRS) and finds complexity of IFRS is the significant problem and among others enhance refined performance measures is the benefit of IFRS adoption. Thappa (2012) Studies on challenges of IFRS adoption in Indian Banking Industry result showed that lack of awareness is the major challenges of IFRS adoption.

Tesfu (2012) Studies the Benefits and Challenges of adopting IFRS in Ethiopia and found that need for training, complexity of IFRS and lack of implementation guidance are the major challenges of IFRS adoption. Mihiret (2016) investigates the Process, Issues and Implications of IFRS Adoption in Ethiopia .The study shows that lack of commitment and low capacity among accounting Professional and lack of coordination of all concerned stakeholders are the major challenges. Hailemichael (2016) studies Adoption, Challenges and perception of International Financial Reporting Standards (IFRS) on the Quality of Financial Reporting of Financial Institution in Addis Ababa, Ethiopia and finds that there is a strong positive relationship between IFRS adoption and quality of Financial reporting of financial institutions and the study also highlights challenges of IFRS adoption the significant ones are cost of adoption, IT challenge and lack of implementation agent and guidance. Teshome (2017) investigates Challenges and Prospects of International Financial Reporting Standards (IFRS) implementation in Ethiopia .The investigation shows that need for training, lack of readiness to implement within the time frame set by the board, lack of adequate implementation guidance and lack of enforcement capacity are some of key challenges facing the transition to IFRS. Alemi (2016) conducts a research on IFRS Adoption Progress in Ethiopia and founds that shortage of qualified professionals and lack of preparedness are the major challenges of IFRS adoption. Most of the studies conclude that Transparency and comparability are the major benefits of IFRS adoption.

In spite of studies that have been conducted on the adoption of IFRS, challenges and opportunities in Ethiopia, as per the researcher's knowledge these studies were conducted prior to the financial institutions mandatorily adopt and practical face the challenges. Moreover, closely related researches did not thoroughly identified the challenges and opportunities, focuses was on the adoption of IFRS in a nationwide at macro level, focuses was on the quality of financial reports produced by banks, data's were gathered from developed and industrialized countries. Therefore, this study makes an attempt to bridge this gap and tries to study and identify the opportunities and Challenges of adopting IFRS specific to private commercial banks.

1.3. Research Questions

In light of the above statement of the problem, this study tries to find answers to the following basic research questions:

1. What are the major challenges private commercial Banks face in adopting IFRS?
2. What are the opportunities that these commercial Banks can seek from adopting the standard?

1.4. Objectives of the Study

1.4.1. General Objective

The general objective of this study is to identify the challenges and opportunities for private commercial Banks in the first time adoption of IFRS in the accounting process and financial statement preparation.

1.4.2. Specific Objective

The specific objectives of the research include the following:

1. To identify the challenges private commercial Banks face in the first time adoption of IFRS.
2. To identify the opportunities that private commercial Banks can use in the first time adoption of IFRS.

1.5.Significance of the Study

This study will pave the way for the identification of challenges and opportunities in adopting IFRS by private commercial banks to mitigate the challenges ahead so that private Banks encrypt the standard in to their day to day operation. The paper also allows managements and other stakeholders to clearly identify the opportunities that can be driven from the adoption and accounting information process.

It also paves the way in how to overcome the challenges and utilize the opportunities. Moreover, it serves as a reference document for further research who will be interested in the area.

1.6.Scope of the Study

Despite the multifarious characteristics and impact in adopting IFRS in nationwide the effect is majorly seen in financial institutions in Ethiopia. Government owned commercial banks are excluded from this study due to their size, as exposure to challenges and opportunities majorly influenced by company size compared to small size, their adoption of IFRS was outsourced and this outsourced firm being international makes them unreachable for the study. On top of the above reason the focus on private banks are due to the keen interest of researcher in this sector, easy access to resources and ease of access to respondents. Therefore, this research is limited to the challenges and opportunities of private commercial banks in Ethiopia

1.7.Limitation of the Study

This study has the following anticipated limitations;

- Lack of full cooperation of the respondents and their commitments in filling the questionnaires completely.
- Lack of empirical studies on the challenges and opportunities in adopting IFRS in Ethiopia private commercial banks.

The limitation stated above overcome in this study by frequently communicating the respondents at their work premises and at the time of collecting questionnaire by checking the completeness of their response. International empirical studies and other closely related researches referred to overcome the limitation of having studies specific to Ethiopia private commercial banks.

1.8. Organization of the Study

The research report is organized in five chapters, the first chapter deals with background of the study, statement of the problem, research questions, objective of the study, significant of the study, scope and limitation of the study. The second chapter tries to highlight review of theoretical and conceptual literature review and review of empirical literature related to the subject matter under considerations. Methodology of the study, which comprises research design, target population, sampling technique, sample size, data collection method and instrument, data analysis method and reliability test used in the study presented in chapter three. In the fourth chapter, the data collected analyzed; interperated and the findings presented accordingly. Finally, in chapter five, after summary of findings and conclusion, the study recommends a kind of action to be taken to overcome the challenges, what opportunities to be used and areas of future research.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1.Introduction

The increasing growth in cross-border financial transactions, international trade, and investments; which unavoidably involves the preparation and presentation of accounting reports. With the increasing globalization of the marketplace, international investors need access to financial information based on harmonized accounting standards and procedures (Beke, 2011). These reports are useful across various national borders and have brought about the development of International Accounting Standard (IAS) which was first published in 1975 by the International Accounting Standards Committee (IASC). Since then, the process for setting international accounting standards has undergone substantial evolution, culminating in the 2001 restructuring of the IASC into the International Accounting Standard Board (IASB). International Financial Reporting Standards (IFRSs) are accounting standards developed by the International Accounting Standards Board (IASB). Many countries have adopted the IFRS as their official domestic accounting standards. Each country adopting IFRS undergoes a transition process in the year of adoption. This process may be fairly disruptive for users of financial statements as accounting treatments of similar items may vary, and impair comparability and trend analysis. The IFRSs provide provision to remove allowable accounting alternatives (that existed in most countries under their respective local GAAPs) and requires accounting measurements that better reflect a firm’s economic position and performance (Taibat and Adikwu, 2018).

During the past years, there have been new introduction and additions to the contents of International Accounting Standards and International Financial Reporting Standard, these new introduction and additions are as a result of globalization. According to Abel (2011) financial accounting information are statutorily required to be prepared in line with universally accepted assumptions, principles and conventions of accounting which aid intra-firm, inter-firm and industry comparisons overtime. This comparison can cut across borders from one country to another when the international financial reporting standard is adopted. Since inception of IFRS, many developed and developing countries like Nigeria, Benin, Burkina Faso, Botswana, The

Democratic Republic of Congo, Cote d'Ivoire, Ethiopia, Kenya, Togo, Tanzania, Uganda, Zambia, Korean, Bangladesh, Libya e.t.c. have adopted International Financial Reporting Standards (IFRSs) as their basis for financial reporting. The foremost countries to adopt the IFRS standards were countries around Europe. This was due to the derivatives of the European Union (EU), which mandated all listed companies in the year 2005. In fact the year 2005 to 2009 was regarded by the IASB to provide a stable platform for EU companies that started implementation in 2005. Presently more 120 countries are reported to have adopted or converged with at least IFRS1. The adoption and implementation of international standards in a country takes place in an environment that is affected by factors unique to that country; for example the economy, politics, laws and regulations and cultures. A reason that seems to cut across countries for not fully incorporating IFRS is the irresistible urge to amend the international standards to rove for national specificities and the various challenges be it financial and otherwise that the convergence will bring (Oghogho, Raphael and Omimi, 2016).

2.2. Theoretical and Conceptual Literature Review

2.2.1. International Financial Reporting Standard

One of the main ideas of IFRS is that one set of accounting standards can help both developed and developing countries to attract foreign investments (Ball, 2006; Al-Ajmi, 2009; Armstrong *et al*., 2010; Ramos and Martinez-Zarzoso, 2010; Schleicher *et al*., 2010). According to Ball (2006), if different countries are using different accounting standards based on different principles, it may prevent foreign investors to put money in the country which is using its own accounting standards (i.e. local Generally Accepted Accounting Principles (GAAP)). Hence, the International Accounting Standards Board (IASB) argues that uniformity of accounting standards may be useful and beneficial to all countries in the world irrespective of the level of development (IFRS Foundation, 2011). According to Bhimani (2008), IFRS tends to lower information risk in financial reporting and as a result, decrease the number of uncertainties in investors. Lambert *et al*. (2005) predict that higher information quality associated with IFRS may cause investors to agree on a lower rate of return that, in turn, means lower cost of capital to the firm (Daske *et al*., 2007; Armstrong *et al*., 2010). Schleicher *et al*. (2010) conclude that IFRS should enhance investment efficiency in the countries which apply such standards.

Aghator & Adeyemi (2009) stated that with the dawn of globalization and increasing demand for transparent, comparable financial information in the markets, the IASC was restructured in the year 2001 by creating the International Accounting Standards Board (IASB), among other changes. The IASB is responsible for developing, in the public interest, a single set of high quality, comprehensive and enforceable global accounting standards that require transparent and comparable information in general purpose financial statements and other financial reporting to help participants in the various capital markets of the world and other users of the information to make economic decisions.

Aghator & Adeyemi (2009) opined that International Financial Reporting Standards (IFRS) refers to a series of accounting pronouncements published by the International Accounting Standards Board to help preparers of financial statements, throughout the world, produce and present high quality, transparent and comparable financial information. Currently, most financial statements prepared for reporting in Nigeria especially for Public Listed Entities and Significant Public Interest Entities in Nigeria and Other public Interest Entities are drawn up in accordance with requirements of IFRS, with this Nigeria reporting entities are using the same frame work as their peers worldwide, which would enhance the relevance of their reports in the international arena. In recent times, we have seen many countries in Africa as well as in European Union countries adopting IFRS as the financial reporting framework, though this adoption is subjected to some modifications in alliance to countries GAAP to aid credible and reliable information.

2.2.2. Ethiopia Status in the Adoption of IFRS

Even though Ethiopia has existed as an independent country throughout its recorded history, it has had periods of very open relationships with Western powers – especially Britain and USA. Modern accounting was introduced into Ethiopia in 1905 along with the inflow of British investment although Ethiopia, being one of the ancient civilizations with commercial activities, might have retained indigenous accounting concepts from earlier times (Kinfu, 1990). This phenomenon engendered the subsequent adoption of British accounting models and entry of British public accounting firms in Ethiopia. The British orientation of accounting practice has been sustained through professional accountancy training provided by the Association of Chartered Certified Accountants (ACCA) (Mihret et al., 2012). On the other hand, accounting education was introduced into Ethiopia's higher education with the assistance of American academics in the early 1960s (Kinfu, 1990; Knowles, 2006).

Consequently, Ethiopia's accounting education has continued to be American-oriented over the past five decades, owing to a predominant use of American literature. This trend is consistent with the global experience whereby wide distribution of American intellectual capital served as a prelude to the global accounting harmonization initiative of IFRS adoption (Richardson, 2010), although the IFRS agenda is spearheaded by IFIs (over which the USA has a significant influence).

The ways in which IFI-led reforms have progressed in Ethiopia signify the change in the nature of imperial connection and thus shifting priorities of imperial agents. These reforms including IFRS adoption can be interpreted as resulting from the converging of interests of imperial powers. Nevertheless, it can be noted that the pressures on the Government to liberalize the Ethiopian economy and the ensuing incentives to embark on the reforms are consistent with the pressures experienced by other developing economies in the era of globalization, as they come attached to financing requirements of IFIs. Also, when critically evaluated, the interest of the IFIs tends to contradict the agenda of localizing accountancy.

For instance, WTO membership challenges national boundaries for the operation of professions (Richardson, 2010). The reform projects also paid little attention to the integration of Ethiopia's accounting education, practice and professional training, despite the fact that 'the biggest challenge to implement the new initiatives remains to be a lack of skilled manpower'.

After going through the above process in the accountancy arena the Ethiopian government issued Proclamation No.847/2014 Article 5(1) to adopted International financial Reporting Standards (both full-IFRS and IFRS for SME) for the purpose of preparing financial statements in December, 2014. Article 5 of chapter three of the proclamation which is entitled as "Applicable Financial Reporting standards" Stipulates the following: "The financial reporting standards to be used when preparing financial statements shall be: a) International Financial Reporting Standards; or b) International Financial reporting Standards for Small and Medium Enterprises; issued by International Accounting Standards board or its successor; and c) International Public Sector Accounting Standards Applicable to Charities and Societies issued by International Public sector Accounting Standards Board or its successor as adopted, adapted or amended by the Board.” 3.1.4.1. Enactment of the Financial Reporting Proclamation.

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After the establishment of the board the country moved to the adoption of IFRS in three phases as follows

Phase 1-Significant Public Entities-Financial Institutions and Public enterprises owned by Federal or Regional Governments (Adopted currently)

Phase 2-Other Public Interest Entities (ECX member companies and reporting entities that meet PIE quantitative thresholds) and IPSAs for charities and societies- required to issue IFRS and IPSAs based financial statements respectively for the year ending July 7, 2018

Phase 3-Small and Medium-sized Entities- Statutorily required to issue IFRS based financial statements for the year ending July 7, 2019.

2.3. Review of Empirical Literature

2.3.1. Challenges of Adopting IFRS

Obazee (2007) opined that the principal factors affecting the implementation of IFRS in Europe, America and the rest of the world are cultural issues, mental models, legal impediments, educational needs and political influences in those countries rather than the most widely perceived technical issues. This goes a long way to explain Siaga's (2012) statistics which shows that despite 40% of African country have access to IFAC only 28% of IFAC members in Africa have adopted IFRS. This then shows that it's not about the technical problem but the other factors as opined by Obazee (2007). Cairns (2001) in his research said that there have been varying levels of compliance with IFRS despite claims by companies that their financial statements are IFRS compliant. This is in consonance with Daske, Hail, Leuz & Verdi (2008) and Ball (2006) who opined that presently most IFRS adoptions are in labels and with various versions which are inconsistent with IASB's prescription. Cairns (2001) went further to say that failure of auditors to express opinion on IFRS compliance or non-compliance is equally disturbing. He concluded by saying the major challenge for implementation of IFRS will be the enforcement mechanisms of IFRS especially in jurisdictions with weak institutions and enforcement agencies. Besides, there are lots of uneven applications, breeding different IFRS versions (Tsakumis, Campbell & Douphik, 2009). Nobes (2006) has indicated the motivations and opportunities for different IFRS to continue, there must a coordinated regulatory review and enforcement mechanism to facilitate consistent application. The complexity of certain IFRSs and tax orientation of most nations have been identified as the two most significant impediments to convergence (Larson & Street, 2004).

Ball (2006) stressed the challenges that most countries will face in adopting and implementing IFRS is that of changing culture and developing systems of regulation and accountability. He opined that there are cultural, languages, regulatory and accounting profession challenges as well as demands for greater accountability and wider political participation and embracing of necessary political reforms faced by countries in adopting IFRS. In fact embracing globalization and adopting IFRS has challenges as it makes necessary reforms to a country's regulatory, legal and economic structures and adaption of its culture to the West. Ball went further to explain that there will be need for training and education for investors, accountants, auditors, preparers and users of financial reports etc, development of IFRS curricula at the university and other level, adjustment of the accounting training and education to incorporate IFRS, the legal system must be conversant with the new IFRS standards as it applies to tax issues and other applications of laws all these recommendations involves cost which is also a challenge.

Rong-Ruey (2006) in his research explained that the implementation challenges of IFRS include: timely interpretation of standards, continuous amendment to IFRS, accounting knowledge and expertise possessed by financial statement users, preparers, auditors and regulators, while the research by Ball, Robin & Wu (2003) included managerial incentive. These cultural issues, mental models, legal impediments, educational needs and political influences make harmonization and moving from one tradition to another difficulty. This is in agreement with the views of Armstrong et al. (2007) and Soderstrom & Sun (2007) both of whom concluded that cultural, political and business differences may continue to impose significant obstacles in the progress towards a single global financial communication system because a single set of accounting standards cannot reflect the differences in national business practices arising from differences in institutions and cultures. Although IFRS has a lot potentials as exclaim by Ball (2006) and Choi & Meek (2005) to include cross-border comparability, increase reporting transparency, less information costs, increase the liquidity, increase competitive advantage etc. all this benefits cannot be realized if individual and Countries cannot overcome their perception about IFRS; this is because negative perception at most times brings about negative out come. To buttress this fact Winney, Marshall, Bender & Swiger (2011) found that small businesses in the US were not prepared for IFRS because they do not see benefits in switching from GAAP to IFRS.

According to Pawen Jain (2011) Awareness of International Financial Reporting Practices Adoption of IFRS means a complete set of different reporting standards have to bring in. The awareness of these reporting standards is still not there among the stakeholders like Firms, Banks, Stock Exchanges, and Commodity Exchanges etc. To bring a complete awareness of these standards among these parties is a difficult task.

Amendments to the Existing Laws in India, Accounting Practices are governed mainly by Companies Act 1956 and Indian Generally Accepted Accounting Principles (GAAP). Existing laws such as Securities Exchange Board of India regulations, Indian Banking Laws & Regulations, Foreign Exchange Management Act also provide some guidelines on preparation of Financial Statements in India. IFRS does not recognize the presence of these laws and the Accountants will have to follow the IFRS fully with no overriding provisions from these laws. Indian Lawmakers will have to make necessary amendments to ensure a smooth transition to IFRS (Pawen Jain, 2011).

Pawen Jain (2011) in his research explained that IFRS adoption will affect most of the items in the Financial Statements and consequently, the tax liabilities would also undergo a change. Currently, Indian Tax Laws do not recognize the Accounting Standards. A complete overhaul of Tax laws is the major challenge faced by the Indian Law Makers immediately. Enough changes are to be made in Tax laws to ensure that tax authorities recognize IFRS-Compliant financial statements otherwise it will duplicate the administrative work for the Firms.

Pawen Jain (2011) on his study the basic challenge of IFRS implementation is the Financial Reporting System IFRS provide complete set of reporting system for companies to make their Financial Statements. In India, various laws and acts provide the financial reporting system but not as comprehensive as provided by the IFRS. Indian Firms will have to ensure that existing business reporting model is amended to suit the requirements of IFRS. The amended reporting system will take care of various new requirements of IFRS. Enough control systems have to be put in place to ensure the minimum business disruption at the time of transition. All the challenges mentioned here can be worked out by bringing a proper Internal Control & Reporting system in place. Firms, Regulators and Stock Exchanges in India take some guidelines from the countries which have adopted the IFRS and have similar economic, political and social conditions.

The challenges of adopting IFRS in Kenya as discussed in the United Nations Conference were: gap between education in Kenya and the requirements of IFRS, the lack of training and inability of accountants and professional bodies in Kenya to remain abreast of the standards issued by IASB and lastly, lack of Kenya representative in the standard setting process (UNCTAD, 2008), this is consistent with Katto (2010) who presented the challenges African will encounter during implementation include the lack of professional accountants, lack of awareness of the value of audit and professional accounting bodies and stock exchanges do not exist in all African countries to promote financial reporting. South African is not left out as some of the challenges they will face relates to high cost of convergence and implementation, the realization that the complexity around the standards was greater than anticipated. All this view is also in consonance with the view of Irvine & Lucas (2006), who suggested that the UAE, in embracing globalization and adopting IFRS, will need to develop appropriate regulatory systems to overcome cultural issues relating to secrecy and fraud. Gyasi (2010) who found that external environments such as legal affects the adoption of international Financial Reporting Standards in developing countries in general and in Ghana in particular. Judge & Pinsker (2010) who found that foreign aid, import penetration, and level of education achieved within a national economy are all predictive of the degree to which IFRS standards are adopted across 132 developing, transitional and developed economies. Also in Bangladesh, Hossen (2014) opined that for IFRS to be fully operational in the country, a strong accounting, institutional framework must be placed to manage the changes of IFRS, legal systems should be well developed to aid swift implementation the IFRS, Government need to establish an independent oversight body like the Financial Reporting Council (FRC) that will be responsible for setting accounting and auditing standards, monitoring compliance with accounting standards, reviewing auditors' practice and reviewing reporting practices and enforcing sanctions for violations and also better educational training for students and regular training for reactionaries.

Implementation of IFRS in Libya will be difficult due to the various challenges such implementation will face such as lack of technical skills and inadequate knowledge of Libyan professional accountants, the difficulty to develop its existing accounting systems, and a regulatory framework to cope with economic and social development, recent evolution in accounting profession including international financial reporting standards application, and inadequate education and training of accountants. In expanding the views of Schachler et al., (2012); Laga (2012); and Masoud (2014), Mohamed (2014) in his research concluded that weakness of professional accountancy body, lacks of an independent oversight body, inconsistency of existing laws and regulatory frameworks of accounting in Libya with recent development of accounting profession, economic growth in Libya, lacks technical skills and inadequate knowledge of Libyan professional accountants and weak accounting education all poses a challenge to the implementation of IFRS in Libya.

2.3.1.1.Technological Challenges

As Kishore, Priyabrata, and Sovan (2015) stated on their study that currently banks have made significant investments in technology for providing different services as core banking, net banking off line banking etc. Present technological support is attuned to Indian GAAP. The banks now have to change existing system to new environment which will correspond to classification and presentation of financial statement under IFRS. The IT challenges are absence of updated accounting software, challenges related to IT operation, lack of trained technicians, high cost involved, and obsolescence.

2.3.1.2. Economy

A significant obstacle to international financial reporting standardization is that accounting regulations whether national or international can and do have economic consequences (Nobles & Parker, 2004). Governments of different countries may be unwilling to give up control over a process which has real economic consequences to an international body over which they have little or no influence.

2.3.1.3. Cost of Adoption

Between Czech Republic GAAP and IFRS and the fact that companies must primary prepare financial statements in line with Czech Republic GAAP, reporting under IFRS brings to the companies significant additional cost. This cost include investments into high quality employees with knowledge of IFRS, investments into Information System and cost related to changes in the processes and the administration of the company needed for reporting under IFRS (Kateřina, Karel, and Milana, 2015). A further study that a conversion project will place increase in demands of the trained and professional personnel, which may come at a time when they are able to handle it. As a result the wages cost as percentage of the total expenses for the bank will increases (Mohammad, Aziz and Kahkashan , 2011). Mohammed, Aziz and Kahkashan (2011) also stated that updating of information technology and information systems shall require an investment of bulky amount. The Indian banks have not made any such provisions for meeting out these investments. These investments shall have major impact over liquidity of the banks.

2.3.1.4. Rules and Regulations

International Accounting Standards as espoused in IFRS by IASB are principles-based which work within a set of laid down framework. On the other hand, rules-based system regulates issues as they arise. Principles-based system operates within a framework that provides the background of principles within which standards can be developed and the standards so produced are not in conflict with each other. Differences in legal systems and accounting rules among countries have serious implications for the adoption and implementation of accounting standards.

There is a multiplicity of laws and bodies for the regulation of accounting, financial reporting and auditing requirements of companies and other public interest entities in Nigeria, while the main legal framework for corporate accounting and auditing practices in Nigeria is the Companies and Allied Matters Act 2004 (Akhidime, 2010). Strangely, the Nigerian Companies and Allied Matters Act which was last amended in 2007 has remained unchanged to reflect any recognition of IFRS provisions even as IFRS adoption is considered to conflict with some existing Nigerian laws (Izedonmi, 2014). With IFRS conflicting with some of the existing

Nigerian corporate financial and auditing laws, the prospect of a smooth transition to IFRS without adequate enforceable statutes remains threatened.

2.3.1.5. Educational Institution

No accounting reform Project is complete without upgrading the accounting curriculums of at least some universities in the country (McGee, 2006). Universities and other tertiary educational institutions are considered to be in the best position to take a lead in the provision of needed academic direction and foundation for training of accountants. The implication of this is that lecturers in these institutions are barely knowledgeable of the modalities and workings of IFRS to effectively educate or transfer the skills to others. As a commonly held view, the trainee (student) cannot efficiently become a master if the trainer is not first a master indeed (Garuba and Donwa, 2011). Izedonmi (2014) asserts that only one out of more than two hundred accounting departments of Nigerian Universities and polytechnics has developed the needed curriculum for international accounting and auditing standards. The fact that professional accounting bodies require successful education at the tertiary level as pre-requisite for enrolling into their professional examinations underscores the importance of tertiary education which NASB (2010, p.19) considers "a critical success factor that requires urgent attention". The practical implementation of IFRS understandably therefore, requires adequate technical capacity, particularly among preparers of financial statements and auditors. The Committee on Road Map to the Adoption of International Financial Reporting Standards (CRAIFRS) had envisaged that Nigeria may encounter the shortage of accountants and auditors who are technically competent in the implementation of IFRS (NASB, 2010). The latest study of Isenmila and Aderemi (2013) revealed that even after two years into the implementation of the adoption of IFRS in Nigeria, "Tertiary Educational Institutions have not potentially developed enough to support the ongoing mandatory adoption of IFRS". The very weak Nigerian educational system that is ill-equipped and unprepared to provide the required theoretical knowledge that are needed for the production of persons to be trained and absorbed into the membership of local professional accountancy bodies portends great danger to the successful implementation of the adoption of IFRS as there is bound to exist situation where there is lack of the required human capacity to drive the transition to IFRS.

2.3.1.6. Level of Awareness

What underscores the low level of awareness by virtually all the stakeholders of IFRS adoption and implementation in Nigeria, in the view of Izedonmi (2014) is the fact that whereas it took the ten (10) leading accountancy bodies 37 years to build the International Accounting Standards, Nigerian opted to implement its adoption after only four (4) years of preparation along an IFRS road map that was designed in 2010. It is therefore, not out of place to consider other challenges against the adoption and implementation of IFRS as likely flowing from the short period it is taking Nigeria to prepare for the transition from GAAP to IFRS. The transition from GAAP to IFRS has serious implications for regulators, users of financial statements, educators, and other stakeholders whose roles in the successful implementation and adoption of the new standards cannot be taken for granted; hence they are required to be appropriately communicated of such implications. While the Committee on Road Map to the Adoption of International Financial Reporting Standards counseled on the need to have a logistical framework of targeted activities aimed at creating awareness amongst the stakeholders (NASB, 2010). It is considered by Garuba (2011) that "most users and even the preparers and assessors of IFRS based accounts such as accountants and auditors have very low IFRS awareness and would find difficulty in understanding, appreciating and to correctly implement what they are not current about or sufficiently aware of".

2.3.1.7. Professional Accounting Bodies

Professional accounting bodies have the responsibility of taking a leading role in the orientation of prospective and existing members of their bodies of the demands of IFRS. They have responsibility of giving clear guidance and directions to their members on ways around the difficulties encountered in the application of the standards. However, while much is being done by the two professional accounting bodies in Nigeria, the Institute of Chartered Accountants of Nigeria, ICAN and the Association of National Accountants of Nigeria ANAN, need to upgrade their members knowledge on the requirements of IFRS through Mandatory Continuing Professional Education (MCPE) programmes. These efforts are considered to be largely at pedestal and expository levels that lack sufficient depth to provide the required level of proficiency among both the preparers and auditors of IFRS based financial statements. The poor professional development and professional retooling of the skills of Nigerian accountants and auditors on the workings of IFRS is a disposing factor to the dearth of knowledgeable professionals that are needed to drive the transition to IFRS in Nigeria, hence a potential threat to the successful transition to IFRS (John, 2018).

2.3.2. Opportunity of Adopting IFRS

2.3.2.1. Attraction of investment and financial support

Credible financial information which make investment decisions efficient, crucially depend on the qualitative and quantitative characteristics of information including relevance, reliability, comparability, understandability, full disclosure of underlying accounting policies, etc. As companies, seek investment opportunities in other countries or within the country, their figures must tell the real comparative story through time, across industries and jurisdictions to attract the right investment and financial support. Thus, except the goal of credible financial reporting is pursued conscientiously such that no doubts exist about the quality of the financial statements produced by companies in Nigeria, a price will inevitably be paid. As Harteneck (1997) observed, in countries where "doubt exist as to the quality, consistency or transparency of their rules, a price must be paid for the shortcomings namely lower market values for their shares and/or higher interest rates for their financing. Also The cost of raising funds depend significantly on the quality of information available to potential and existing investors as well as the basis of accounting policies applied.

Indeed, lack of knowledge of the basis of accounting implies higher risks and higher costs of raising funds. Accordingly, the cost of raising funds will be much lower with IFRS statements. Indeed, the use of IFRS will facilitate greater acceptability of financial reports by regulators and this can enhance secondary listings of companies in global stock markets. Inevitably, local stock exchange will become busier and more active as entities with IFRS-based financial reports continue to attract FDIs (Oghogho, Raphael and Omimi, 2016).

2.3.2.2. Bridge Communication gap with Stakeholders

Accounting and financial information users are numerous so also are their needs different. Therefore, financial information must be presented in a language that communicates effectively with the various users. IFRS, given its global appeal, enhances this communication with greater stakeholders. No conversion is required as the language of preparation is internationally understood by current and potential investors (Oghogho, Raphael and Omimi, 2016). Okpala (2012) in his research concluded that the adoption of IFRS will increased the level of confidence of global investors and investment analysts in the financial statements of companies in Nigeria. For the multinational companies, it will help them to fulfill the disclosure requirement for stock exchanges around the world (Armstrong et al. 2007, Covrig, Defond & Hung, 2007). In focus of investors one of the significant advantages of IFRS compared to GAAP is its focus on investors as they can read and understand the financial statements which are in simplified form (Ramesha, 2016).

2.3.2.3. Attraction of More Foreign Direct Investments (FDIs)

With more reliable and credible financial statements, the propensity to attract foreign direct investments will increase as the nation's risk profile would be known and predictable. In other words, investors are attracted to environments where the rewards are high relatively to risks. Availability of reliable information contributes to the lowering of this risk (Abel, 2011). This view is in consonance with Okpala (2012) who found out that there is a significant relationship between IFRS adoption by companies and FDI in Nigeria which in turn will improve the economy. Furthermore, Ramesha (2016) stated as thousands of companies in Europe and other joining countries across the world has already created a huge base for IFRS adoption, it also improves the companies to access to financial markets by having the financial statements prepared under one reporting standards.

2.3.2.4.Comparability and Transparency

Ramesha (2016) conducted a study on "Convergence of Indian Accounting Standards with IFRS-prospects and challenges" found that all companies, preparing their consolidated financial statements, have been reporting under one reporting standard have improved the comparability not only for investors, but also all stakeholders who use the financial statements. The most mentioned factor about the advantages of IFRS has been the standardization of financial reporting which eventually improves the comparability of financial statements in major financial markets. This also removes the trade barrier, as this was one of the key factors as why the EU has been trying to adopt single reporting standards. This factor can also be mentioned as one of the crucial advantages of converting to IFRS as it makes the EU member countries to be consistent not only on macroeconomic aspects, but also on financial reporting which improves relationship between investors and companies among member countries. The comparability of financial statements under IFRS will be improved only if the adoption of IFRS expands including more countries. However, the comparability of financial statements get worse if the same country uses two different sets of reporting standards, thus IFRS and national reporting standards. Irrespective of various challenges, adoption of IFRS in India has significantly changed the contents of corporate financial statements as a result of this more refined measurement of performance and state of affairs, and Enhanced disclosures leading to greater transparency Ashok (2014).

2.3.2.5. Uniformity in Accounting Language

Adoption of IFRS will lead to uniformity in accounting language across the globe which is a

Pre requites for the globalization of business, finance and investment with primary objective of eliminating the unnecessary complexity that exists with multiple reporting languages. As it is common knowledge, there exist differences in the classifications of financial information, levels of disclosure and accounting concepts between countries. Abel (2011) opined that accounting terminologies can easily confuse the uninitiated owing to differences in business language. In supporting his view gave an instance on the word stock which, in most North American countries, refers to share ownership, whereas, in the commonwealth countries, the word stock is typically associated with merchandise inventory. The closest word to current in Japanese language is said to be present. While these two words (i.e. current and present) may appear to convey the same meaning, such may not be the case if used in terms of asset valuation in the preparation of financial statements. While current value is about discounted cash flow measures. In this sense, unsold stock may convey under-subscribed floatation. In commonwealth countries, this will refer to unsold inventory of finished goods. Still on current: whereas the time frame distinguishing a current and non-current liability is typically a year in the US and in IFAC standards, the cut-off point is commonly four years in Germany. In fact, Choi (1998) said it succinctly when he observed in his presentation at the IOSCO TAIPEI 1997 conference that “Accountants inhabit a kind of Tower of Babel where we not only speak different language but also give different interpretations of the same events and transaction”.

A. Goyal (2010) state in his seminar paper named "implementation of IFRS on Indian banks'', adopting IFRS provides credibility to the financial statements of Indian companies and help them integrate with the global economy. Financial statements prepared based on international reporting standards also help these entities to tap the global financial markets, with greater ease since the lenders and capital providers can better understand the relative standing of the company and can make well-informed estimates about the financial health of the entities.

Proponents of IFRS claim that IFRS possess many advantages over the domestic accounting standards of individual countries. Several studies report improvements in accounting quality following voluntary IFRS adoption (Barth, Landsman & Lang, 2008) as well as mandatory IFRS adoption (Daske et al., 2008). For example, Barth et al. (2008) provided evidence from 21 countries, showing that firms applying international accounting standards generally had less earnings management, more timely loss recognition, and more value relevance of accounting amounts than others.

Prior researchers provided many reasons for a higher accounting quality in the financial statements under IFRS:

- they were originally designed for developed capital markets and therefore, more relevant to investors (Ball, 2006).
- they reduce the alternative accounting methods, leading to lower earning management (Jeanjean & Stolowy, 2008).
- they require higher quality measurement and recognition rules (De Franco, Kothari & Verdi, 2010) that better reflect a firm's underlying economic position, hence more transparent than local GAAP (Ding et al., 2007).
- they require higher disclosure levels, thereby mitigating information asymmetries between firms and their shareholders (Healy & Palepu, 2001).

Besides the higher financial reporting quality argument, advocates of IFRS also claim that IFRS reporting increases comparability of firms across markets and countries (De Fond et al., 2010) thus, facilitating cross-border investment (Lee & Fargher, 2010) and integration of capital market

(Saudagaran, 2008). In light of the IFRS effects on the capital market, the promoters of IFRS often argue that companies could access the international capital market more easily (Christensen, Hail & Leuz, 2011), especially the ones with high level of internationalization such as trading or raising fund in overseas markets (Daske et al., 2009). Hence, all of these researchers stated above conducted their study by focusing on the adoption of IFRS in a nationwide at macro level and on the quality of financial reports produced by banks. On top of this, most journals reviewed focuses on data gathered from developed and industrialized countries, the study made previously did not thoroughly identified challenges and opportunities, these studies were conducted prior to the financial institutions mandatorily adopt and practical face the challenges. Because of this, the researchers failed to address the study made on this thesis and the study attempts to bridge the gap and tries to identify the opportunities and Challenges of adopting IFRS specific to Ethiopia private commercial banks.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1. Research Design

This study used descriptive and explanatory research design to examine the challenges and opportunities of adopting IFRS by private commercial Banks. According to Kothari (2004), the purpose of descriptive research is to describe accurately the characteristics of a particular individual situation of a group. In short it describes the state of affairs as it exists at present.

The required data has been collected using quantitative approach by applying self-administered questionnaire.

3.2. Target Population

The target population of the study was sixteen private commercial Banks operating in Ethiopia. This is because of the reason that these banks are using their internal human capacity in adopting IFRS which allows the team to have a close relation to the topic and expose them to practically face the challenges and opportunities in the process of adoption unlike government owned commercial bank which contracted an international firm to implement the adoption of the standard where the exposure to the challenges and opportunities is minimal and also the size of the government owned Bank is not comparable to private banks as the challenges and opportunities differ based on the size. Therefore, due to the stated reason selecting private commercial banks assist to get real time firsthand response about the subject in the study.

3.3. Sampling Techniques

The research focus was on employees in IFRS implementation teams who have been working at private commercial Banks. Purposive sampling technique was used for this study as it focuses on selected groups working for IFRS implementation project team because they are believed to be very knowledgeable about IFRS since the adoption is at early stage. Purposive sampling is a non-probability sampling method and it occurs when “elements selected for the sample are chosen by judgment of the researcher. The advantage of purposive sampling is one of the most cost effective and time efficient, may be the only appropriate method available if there are only limited number of primary data sources who can contribute to the study (John Dudovskiy, 2018)

3.4. Sample Size

Based on the sampling technique and the target population the study selected 112 samples from the sixteen private Banks who have 122 IFRS implementation team in order to give equal chance to all participants and as the organization of the team member numbers was not consistent across these private banks & out of the total questionnaire distributed 109 responded. The selected sample have better knowledge, understanding and expertise in IFRS adoption unlike other employees working in the banking operation and expected to give answer to the research questions stated in this study. The following table depicted the breakdown of the sample size taken from each bank.

Table 3.1: Sample Size

Banks	**Total No. of IFRS Team members**	**Sample Size**
Dashen Bank S.Co	7	7
Awash Bank	11	7
NIB International Bank	9	7
Bank of Abyssinia	8	7
United Bank S.C	7	7
Wegagen Bank	7	7
Enat Bank	7	7
Debub Global Bank	7	7
Lion International Bank S.C	8	7
Zemen Bank	7	7
Oromia International Bank	7	7
Cooperative Bank of Oromia	8	7
Addis International Bank S.Co	7	7
Buna International Bank	7	7
Berhan International Bank S.Co	8	7
Abay Bank S.Co	7	7
Total Sample	**122**	**112**

3.5. Data Collection Method and Instrument

In order to identify the challenges and opportunities of adopting IFRS by private commercial Banks, data were gathered from primary sources to meet the objective of the study.

Primary data was gathered through adapted questionnaire from studies (www. shodhganga. inflibnet.ac.in) and modified it with the consultation of experts to use it as a research instrument. Closed ended questions were used since it is easier to generate statistical analysis on a large number of participants. The questions were formatted using the 5 point Likerts scale form.

The questionnaire was organized by giving importance to all factors relation to adoption of IFRS challenges and opportunities to the private Banks. It shows the opinions of the IFRS implementation team in regard to each question.

3.6. Data Analysis Methods

The data collected using questionnaires were organized and tabulated the various data depending on the common features of the information obtained. Identified mistakes and data gaps were rectified as soon as possible. Once editing has done, data were analyzed using quantitative approaches. The quantitative data analysis was done by the use of version 20 SPSS software. It employed statistical methods such as frequency, percentage, mean and standard deviation, which used to determine the proportion of respondents choosing the various responses.

3.7. Reliability

Internal consistency reliability is a measure of consistency between different items of the same construct. Cronbach's Alpha is a reliability measure designed by Lee Cronbach in 1951 (Bhattacherjee, 2012). Cronbach's Alpha is a coefficient of reliability. It is commonly used as a measure of the internal consistency or reliability of a psychometric test score for a sample of examinees. For testing the reliability of the data instrument, Cronbach's Alpha was calculated to test the reliability of the research instrument. According to Zikmund, Babin and Griffin (2010) scales with coefficient alpha between 0.8 and 0.95 are considered to have very good quality, scales with coefficient alpha between 0.7 and 0.8 are considered to have good reliability, and coefficient alpha between 0.6 and 0.7 indicates fair reliability. Based on this reliability test was made on 41 items and the result is shown in the below table.

Table 3.2: Reliability of Items of the study

Reliability Statistical Result	
Cronbach's Alpha=0.882	N of Items= 41

CHAPTER FOUR
RESULTS AND DISCUSSION

4.1. Introduction

This chapter explains and discusses the results of findings based on the analysis done on the data collected from private banks. The results of the study are discussed by summarizing the different sources results from questionnaire. The discussion tries to complete the objectives of the study and answer the research questions. For this research a total of 112 questionnaires issued to 16 private banks 7 respondent each which allocated to IFRS Adoption and Implementation teams. A total of 109 questionnaires were collected. All the questionnaire respondents were located in Addis Ababa as it is mentioned in section three.

To this end, the results obtained from the questionnaire are analyzed through descriptive statistics and statistical analysis using statistical package for social sciences (SPSS).

4.2. Demographic Characteristics of the Respondents

4.2.1. Gender of Respondents

The demographic data for gender depicted that out of the 109 respondents there were 85 male and 24 female. Table 4.1 depicted that the male respondents formed the majority of the target population with a percentage of 78%, while female respondents were represented by 22 %.

Table 4.1: Gender of Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	85	78.0	78.0	78.0
	2	24	22.0	22.0	100.0
	Total	109	100.0	100.0	

Source: Study Survey, 2018

4.2.2.Age of Respondents

The population was largely dominated by respondents of 31-40 years age band, i.e. 49.5%, followed by age group of 21-30 (39.4%). The rest of the respondents were beyond 40 year age category was (11%).

Table 4.2: Age of Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	21-30	43	39.4	39.4	39.4
	31-40	54	49.5	49.5	89.0
	Above 40	12	11.0	11.0	100.0
	Total	109	100.0	100.0	

Source: Study Survey, 2018

4.2.3. Educational Qualification

It can be seen from table 4.3 the respondents hold a range of educational qualification from Degree to master's degree. The majority of the group holds a degree which accounts 74 (67.9%). 35 (32.1%) of the respondents hold Master's degree. And since almost all of the respondents are educated, it can be concluded that all groups are capable of understanding and answering the questions in the questionnaires.

Table 4.3: Educational Qualification

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Degree	74	67.9	67.9	67.9
	Masters	35	32.1	32.1	100.0
	Total	109	100.0	100.0	

Source: Study Survey, 2018

4.2.4.Tenure of Respondents

Some of the respondents have served in the banking industry for more than 15 years. From the respondents, only 3 of them have served less than 5 years. The majority of the respondents have worked in banking between 6-10 years which consists of 58.7% of the study group. The other 23.9% respondents served between 11-15 years while respondents who have worked for more than 15 years followed with a frequency of 16 representing 14.7%. Having experienced respondents assist to clearly identify the challenges of adopting IFRS as they have competent knowledge and understanding about the banking industry.

Table 4.4 Respondents Year of Experience

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Year 1-5	3	2.8	2.8	2.8
	Year 6-10	64	58.7	58.7	61.5
	Year 11-15	26	23.9	23.9	85.3
	Year >15	16	14.7	14.7	100.0
	Total	109	100.0	100.0	

Source: Study Survey 2018

4.3. Challenges in Adopting IFRS

Here this study tried to discuss the entire question regarding the challenges of adopting IFRS in Ethiopia's private commercial banks and the result revealed questionnaire that was collected from the IFRS implementation teams. Accordingly, regarding to the challenges of IFRS adoption, the mean values for the questions ranges from 1.31 up to 1.99 showing the results that the average respondents agree with the listed challenges existence in the adoption of the standard, with the standard deviation less than one and around one indicating that the respondents perception were close to one another.

Table 4.5: Challenges of IFRS Adoption in Private Banks

No	Questions	SA	A	N	D	SD	TOTAL	MEAN	SD
1	IFRS requires immediate change in Banks policies & procedures	67	42	0	0	0	109	1.39	0.49
		61.5%	38.5%	0	0	0	100%		
2	Insufficient preparatory period is causing difficulty in convergence with IFRS	43	59	7	0	0	109	1.67	0.59
		39.4%	54.1%	6.4%	0	0	100%		
3	Inadequate training facilities at an affordable cost is road block to IFRS	59	50	0	0	0	109	1.46	0.50
		54.1%	45.9%	0	0	0	100%		
4	IFRS based financial statements will not provide a fair picture of financial position of the Banks in Ethiopia which suffers from higher inflation.	62	44	3	0	0	109	1.46	0.55
		56.9%	40.4%	2.8%	0	0	100%		
5	Fair Value measurement being highly subjective obstructs in execution of IFRS	49	59	1	0	0	109	1.56	0.52
		45%	54.1%	0.9%	0	0	100%		

No	Questions	SA	A	N	D	SD	TOTAL	MEAN	SD
6	IFRS implementation is likely to increase tax burden on companies	69	39	0	1	0	109	1.39	0.54
		63.3%	35.8%	0	0.9%	0	100%		
7	Work and burden of an accountant/auditor will be increased due to implementation of IFRS	65	43	1	0	0	109	1.41	0.51
		59.6%	39.4%	0.9%	0	0	100%		
8	Cost of audit fee will increase due to the convergence with IFRS	49	36	8	12	5	109	1.99	1.18
		44%	33.0%	7.3%	11%	4.6%	100%		
9	IFRS has increased complexities in preparing financial statements thereby increased the risk of errors and omissions	59	49	1	0	0	109	1.48	0.55
		54.1%	45%	0.9%	0	0	100%		
10	Quality of audit report will be compromised due to insufficient or inadequate practical knowledge of IFRS implementation	56	53	0	0	0	109	1.49	0.50
		51.4%	48.6%	0	0	0	100%		
11	Lack or insufficiency of professional evaluators increases the over statement or under statement of financial position	49	55	5	0	0	109	1.6	0.58
		45%	50.5%	4.6%	0	0	100%		
12	Lack of sufficient and complete accounting data	59	50	0	0	0	109	1.46	0.50
		54.1%	45.9%	0	0	0	100%		
13	Lack of competent technology or software to run IFRS data	75	34	0	0	0	109	1.31	0.47
		68.8%	31.2%	0	0	0	100%		

Note: Strongly Disagree (SD=1), Disagree (D=2), Neutral (N=3), Agree (A=4), Strongly Agree (SA=5)

Source: Study Survey, 2018

As depicted under Table 4.4 the survey result collected from the private commercial banks for the first questions respond shows 38.5% says agree and remain 61.5% responds strongly agree. That means 100% of the respondents agrees on the adoption of IFRS requires an immediate change in policies and procedures. This shows that if internal policies and procedures are not amended in compliance to IFRS there will be continues challenge to fully adopt the standard in to the operation of banks. For the second question regarding insufficiency of preparatory period, the respondents reply 6.4% says neutral, and 54.1% says agree and remain 39.4% responds strongly agree. Based on the total respondent opinion around 93.5% of them agreed that the adoption of IFRS is not given sufficient time for the adoption which resulted a challenge to the private banks and drawing backward the time to adopt the standard in the operation of the banks.

For the third question from the total respondents, 45.9% says agree and remain 54.1% responds strongly agree. The total survey result indicates 100% of the respondents believe that there are inadequate training facilities at an affordable cost being a road block to the adoption of IFRS. The result indicates that banks face a challenge of higher training cost to create awareness to staff members as there are no affordable training centers compared to other training costs, this at the same time will hold many banks not to train all human capacity with the subject of IFRS at the same time creating a knowledge gap.

For question number four the respondent results shows, 2.8% says neutral, 40.4% says agree and remain 56.9% responds strongly agree. From this total survey result, around 97.3% respondents agree that IFRS will not provide fair picture in a country where there is higher inflation. Adopting IFRS reflects real time financial statement and considers inflation rate in producing financial information. But in countries like Ethiopia where sufficient information's are not available and where there is a credibility question about the information it is hard to get exact inflation rate in highly inflated economy to consider in the financial information. So preparing financial statement and adoption in this environment distorts the IFRS information and comparability benefit of IFRS against financial statements issued in other countries. For the fifth question of this study out of the total respondents, 0.9% says neutral, 54.1% says agree, and 45% says strongly agree. Based on the result of the survey, fair valuation is subjective and obstructs the implementation of IFRS.

For the question of adoption of IFRS increases the tax burden on the banks , the survey result of the respondents describe as follows, 0.9% says disagree, 35.8% says agree and remain 63.3% responds strongly agree. Most of the respondent opinion shows almost 99.1% of them shows adoption of IFRS has a tax burden. This is validated by Pawen J. (2011) in his research as a result of IFRS adoption, the tax liabilities undergo a change and this is also expected by the respondent in an increase in a tax burden.

For the question of implementing IFRS increases the burden to accountants and auditors, the survey result of the respondents describe as 0.9% says neutral, 39.4% says agree and remain

59.6% responds strongly agree. The higher respondent opinion shows almost 99.1% of them shows adoption of IFRS has burden to accountants and auditors. Therefore, over burdened accountants and auditors will have effect on the quality of IFRS implementation in the finance and audit process.

The eighth question regarding that implementation of IFRS will increase audit fee respondents of the IFRS implementation team responded as follows. 4.6% of them say strongly disagree, 11% says disagree, 7.3% says neutral, and 33% says agree and remain 44% responds strongly Agree. Based on this survey result the implementation of IFRS increases the audit fee and as a result cost burden will be shouldered by banks on top of the costs of training ultimately creating challenges for the banks in the adoption process. The ninth question preparing financial statement based on IFRS is complex and this will result in increase in error and omissions and the respondents responded as follows, 0.9% neutral, 45% says agree and 54.1% says strongly agree. Having respondents agree on the work burden to accountants and auditors in the previous question respondents also agree that the adoption of IFRS is complex and there is a possibility of creating errors which is a road block to the adoption and quality of financial statements.

The tenth question refers to the inadequate or insufficient knowledge of practical implantation of IFRS and the implantation team responded as follows, 48.6% says agree and 51.4% strongly agree. All respondents 100% of them agree that there is inadequate or insufficient knowledge of IFRS implementation as a road block to the adoption of the standard. Further evidenced from research made by Garuba(2011) that most users and even the preparers and assessors of IFRS based accounts such as accountants and auditors have very low IFRS awareness and would find difficulty in understanding, appreciating and to correctly implement what they are not current about or sufficiently aware of. In the eleventh question lack of sufficient professional evaluators increases the over or under statement of financial statement and the respondents responded as follows, 4.6% says neutral, 50.5% says agree and 45% strongly agree. Based on the study 95.5% of the respondents agree that there is a lack of professional valuators contributes to the over or under statement of financial position even using internal resource to close the lack of external valuators will be without experience or expertise which also affects financial position. In the twelfth question challenge of having sufficient and complete accounting information to the IFRS implementation is responded as follows by respondents', 45.9% says agree and 54.1% says strongly agree. This show the banks face a challenge having complete accounting data for processing financial reports in time and with the expected quality to fully compliant with IFRS. The data's are also expected from related work departments as an input to the financial statement and its disclosure.

In the last question having a technological challenge in adopting IFRS study shows that, 31.2% says agree and 68.8% says strongly agree. Based on this 100% of respondents agree that there is a challenge for not having IFRS compatible software in the banking operations. This result are supported in previous research by Kishore, Priyabrata and Sovan (2015) that banks making significant investments in technology however facing a challenge due to absence of updated accounting software, information technology operation, lack of trained technicians and obsolescence.

The major challenges that can come from the adoption of the standard are analyzed by ranking each from the highest to the lowest by 109 respondents from the sixteen private banks. The response shows the degree of confidence the respondents believe that in sequence of their ranking that private banks can face a challenge. The findings are analyzed as follows.

Table 4.6: Major Challenges of Adopting IFRS

Ranking of major challenges from high to low based on the sum of the percentage of respondent's response who rated high or low					
	Label	N	Frequency	Percentage	Rank
1	Broad changes in accounting world	109	48	44.0%	4
2	High cost of adoption	109	53	48.6%	3
3	Human psychology(resistance to adopt new things)	109	49	45%	5
4	Lack of knowledge	109	68	62.4%	1
5	Lack of training	109	59	54.1%	2

(1)-Very High, (2)-High, (3)-Moderate, (4)-Low, and (5)-Very Low

Source: Study survey 2018

The challenges of IFRS implementation are ranked from the highest to the lowest based on responses of IFRS implementation project Teams Rating. As a result, 68(62.4%) respondents believe that there is a very high lack of knowledge in adopting IFRS this is also validated by Rong-Ruey (2006) study that the challenges for adopting IFRS as a lack or insufficiency of accounting knowledge, on the next level 59 (54.1%) respondents accepts that there is a high level of lack of training on IFRS, moderately with 53 respondents considers the high cost of adoption as a challenge to adopt IFRS, on the fourth level 48 respondents ranked at low level that IFRS adoption will face a challenge from a broad change in the accounting world which directly also affects banking industry at large, and at the very low level or at a least level in the fifth position the resistance to adopt the standards from people who avoids change will be a road block to effective adoption.

4.4. Opportunities of Adopting IFRS

Under the opportunities in adopting IFRS, the mean values for all questions were around 1, standard deviation being around one and less than one. This revels that, the respondents had a positive response and close to one another.

Table 4.7: Opportunities of Adopting IFRS

No	Items	SA	A	N	D	SD	TOTAL	MEAN	SD
1	It will improve analysis of information for decision making.	35	64	2	8	0	109	1.39	0.49
		32.1%	58.7%	1.8%	7.4%	0	100%		
2	Accuracy and reliability of accounting information will be enhanced	28	75	0	0	6	109	1.67	0.59
		25.7%	68.8%	0	0	5.5%	100%		
3	Better industry comparison of financial statement	34	75	0	0	0	109	1.46	0.50
		31.1%	68.9%	0	0	0	100%		
4	Merger and acquisition became easy	19	67	23	0	0	109	1.46	0.55
		17.4%	61.5%	21.1%	0	0	100%		
5	IFRS brings better corporate governance	54	38	5	12	0	109	1.56	0.52
		49.5%	34.9%	4.6%	11.0%	0	100%		
6	Better access to capital market(including foreign investors)	24	38	34	13	0	109	1.39	0.54
		22.0%	34.9%	31.2%	11.9%	0	100%		

No	Items	SA	A	N	D	SD	TOTAL	MEAN	SD
7	It will reduce cost of capital	11	35	42	11	10	109	1.41	0.51
		10.1%	32.1%	38.5%	10.1%	9.2%	100%		
8	Easy of using one consistent reporting standard when there is subsidiary in different countries	40	63	6	0	0	109	1.99	1.18
		36.7%	57.8%	5.5%	0	0	100%		
9	It will make internal audit easier and less costly	14	45	17	33	0	109	1.48	0.55
		12.8%	41.3%	15.6%	30.3%	0	100%		
10	It will facilitate better business risk management	23	43	20	16	7	109	1.49	0.5
		21.1%	39.4	18.3%	14.7%	6.5%	100%		
11	Harmonize internal and external reporting by creating a single accounting language	53	41	15	0	0	109	1.6	0.58
		48.6%	37.6%	13.8%	0	0	100%		

Note: Strongly Disagree (SD=1), Disagree (D=2), Neutral (N=3), Agree (A=4), Strongly Agree (SA=5)

Source: Study survey 2018

Under this survey, for the above listed questions the respondents give their opinion and I analyzed as follows. For the first question the respondents say 7.4% says disagree, 1.8% says neutral, 58.7% says agree and the remaining 32.1% responds strongly agree. This view of the implementation team regarding adoption of IFRS shows that the standard improves the analysis of information for decision making by demonstrating 90.8% agreement from the total respondents. Further the result shows that an analysis of information for decision making by managements and other stakeholders will improve due to the adoption of the standard and expected to make profitable decisions based on the information's. The respondents also give their opinion for the second question adopting IFRS will result in accuracy and reliability of accounting information, and analyzed the answer like this, 5.5% respondent says strongly disagree, 68.8% says agree and the remaining 25.7% responds strongly agree. This survey result of the respondent shows around 94.5% of them agreed on the opportunities stated in the question in adopting IFRS. Since IFRS compliant information's are not based on historical it reflects reliable information with the elaboration disclosure which uncovers the detail information about the banks.

For the third question of the opportunities of adopting IFRS, the respondent's gives their opinion as follows, 68.9% respondent says agree, and 31.1% says strongly agree. From this result 100% of the opinions agree that adopting of IFRS will be better opportunity for the private banks for industry comparison. As in using GAAP banks have their own individual way of treating their accounting data but currently because of using one common language in preparing financial statements banks have better opportunity to compare with their peer banks in making a decision.

The forth question of this survey regarding adopting IFRS making merger and acquisition easier is as follows, 21.1% respondent says neutral, 61.5% says agree and remain 17.4% responds strongly agree. The analysis for this survey results around 78.9% of the respondents opinion agrees that adopting IFRS will result in making merger and acquisition easier for the private commercial Banks. Since adoption of IFRS creates transparency all financial performance of each banks are open to all stakeholders specially to professionals to easily measure or analyze the performance and the risk level of each bank for merger and acquisitions. The fifth question is about if IFRS brings corporate governance to the private banks and the response from respondents was, 11% says disagree, 4.6% say neutral, 34.9% say agree and the remaining 49.5% say strongly agree. Overall response for this question shows that 84.4% of the respondents agree that the adoption of IFRS brings better corporate governance.

The sixth question response from the IFRS implementation team with regard to better access to capital or foreign investments is analyzed as follows, 11.9% say disagree, 31.2% say neutral, 34.9% say agree and the rest 22% responded that they strongly agree. The respondents clearly indicated with their response that when firms adopt IFRS they will have a great potential to access capital or foreign investment when compared from those companies which did not adopt the standard. This further strengthened by Ramesha (2016) on his research that adoption of IFRS creates a huge base to access financial market. The question whether implementation of IFRS will reduce the cost of capital was responded as, 9.2% say they strongly disagree, 10.1% say disagree, 38.5% say neutral, 32.1% say agree and 10.1% say strongly agree. As the majority of the respondents responded as either neutral or disagree the impact of adopting IFRS has minimal effect on the cost of capital and to the contrary 42.2% responded agree that IFRS have effect on cost of capital because of the reason that since when there is transparent information about the risk companies have it have implication on the cost of capital for example when there is lower risk reflected on the financial statement cost of capital will also be minimal. The eighth question focused on easy of using consistent reporting standard when there is subsidiary in different country in the assumption prospect expansion of the private Banks responded as follows, 5.5% say neutral, 57.8% say agree and 36.7% say strongly agree. Based on this question the adoption of the IFRS will facilitate future prospect expansion to other countries making it easy as there will be consistent standard allowing consolidation of financial statement and financial performance evaluation easy. This opportunity verified by respondents agreeing 94.5% out of the total respondents.

The ninth question focused the adoption of IFRS making internal audit easier and less costly and the study group responded as follows, 30.3% say disagree, 15.6% say neutral, 41.3% say agree and 12.8% strongly agree. The tenth question refers that IFRS will facilitate better business risk management and the respondents responded to this question as, 6.5% say strongly disagree, 14.7% say disagree, 18.3% neutral, 39.4% say agree and 21.1% say strongly agree. Because of IFRS compliant financial statements have risk disclosures, other detailed financial information's and transparency respondents agrees that business have better risk management. This response is further supported in Diana (2017) finding that IFRS adoption will provide better information for the decision making of the management department, and it facilitates a more efficient risk management.

Finally the group respondents for this survey give the response for the question of harmonizing internal and external reporting by creating a single accounting language by adopting IFRS is supported by responding as, 13.8% say neutral, 37.6% say agree, and 48.6% say strongly agree. Their response demonstrates that 86.2% of the respondents agree on that IFRS will create a single accounting language where all can work together and communicate. This was further explained by Abel (2011) that "accounting terminologies can easily confuse the uninitiated owing to differences in business language". The point rose by Abel shows that uniformity of accounting standard creates single accounting language which facilitates business and also as confirmed from respondents.

The major opportunities that can be driven from the adoption of the standard are analyzed by ranking each positive outcome from the highest to the lowest by 109 respondents from the sixteen private banks. The response shows the degree of confidence the respondents believe that in sequence of their ranking that private banks can assume the opportunity. The findings are analyzed as follows.

Table 4.8: Major Opportunities of Adopting IFRS

Ranking of major opportunities from high to low based on the sum of the percentage of respondent's response who rated high or low					
Label		N	Frequency	Percentage	Rank
1	Better corporate governance	109	47	43.1%	4
2	Comparability	109	39	35.8%	3
3	Existence of uniform accounting system	109	64	58.7%	1
4	Investment opportunity	109	51	46.8%	5
5	Mandatory application of it	109	58	53.2%	6
6	Transparency	109	52	47.7%	2

(1)-Very High, (2)-High, (3)-Moderate, (4)-Low, and (5)-Very Low

Source: Study survey 2018

The opportunities of IFRS implementation are ranked from the highest to the lowest based on responses of IFRS implementation project Teams Rating. As a result, 64(58.7%) respondents accepts at a very high confidence that the adoption of IFRS will bring or create uniform accounting system, on the next level 52 (47.7%) respondents accepts that IFRS will bring transparency of financial statements and information's, moderately with 39 respondents comparability is accepted as an opportunity IFRS will bring, on the fourth level 47 respondents ranked at low level that IFRS would bring as an opportunity and at the very low level in the fifth position the mandatory application is ranked. In general adoption of IFRS provides opportunity of creating uniform accounting system, transparency, comparability and better corporate governance. These opportunities are strengthened by Ramesha (2016) that one reporting standard improved the comparability not only to investors, but also all stakeholders who use the financial statements and Ashok (2014) in his statement the enhanced disclosure leading to greater transparency.

Benefit to shareholders

In the adoption of the standard on top of the opportunities to the Bank investors will also be benefited in the process. In respect to the respondents with this regards are that because of the adoption of the standard it will allow to have better information for decision making by strongly agreeing 61.5% and agreed by 38.5% that is 100 % agreement with the point. The response for being confident in information presented 39.4% strongly agree, 54.1% agree and 6.4% neutral. IFRS creating better understanding for risk and return responded 54.1% strongly agree, 45.9 agreed on the opportunity stated. Like the opportunity stated for the banks managements investors will also can compare a peer banks financial statement for their decision responded as 56.9% strongly agree, 40.4% agree and 2.8% neutral and finally that adopting IFRS saves time in analyzing financial report responded as 63.3% strongly agree, 35.8% agree and 0.9% neutral. The overall mean of the response for the six questions are 1.39 up to 1.67 and the standard deviation from the mean are around 0.5.

Table 4.9: Opportunities to shareholders

No	Items	SA	A	N	D	SD	TOTAL	MEAN	SD
1	Better information for decision making	67	42	0	0	0	109	1.39	0.49
		61.5%	38.5%	0	0	0	100%		
2	More confidence in information presented	43	59	7	0	0	109	1.67	0.59
		39.4%	54.1%	6.4%	0	0	100%		
3	Better understanding of risk and return	59	50	0	0	0	109	1.46	0.50
		54.1%	45.9%	0	0	0	100%		
4	Investors can compare a peer Banks financial statement	62	44	3	0	0	109	1.46	0.55
		56.9%	40.4%	2.8%	0	0	100%		
5	More timely/real time financial statement	49	59	1	0	0	109	1.56	0.52
		45%	54.1%	0.9%	0	0	100%		
6	Save time in analyzing financial reports because of explanatory disclosures	69	39	0	1	0	109	1.39	0.54
		63.3%	35.8%	0	0.9%	0	100%		

Note: Strongly Disagree (SD=1), Disagree (D=2), Neutral (N=3), Agree (A=4), Strongly Agree (SA=5)

Source: Study survey 2018

Training Priority

Based on the requirement respondents ranked who should be given priority to close or to tackle awareness problems on the effective adoption of IFRS. Hence, majority of the respondents gave their priority to the accountants, auditors, CFO, BOD, managements, investors, regulatory bodies and accounting curriculum respectively from first to eighth level. The result depicts that priority to be given to the direct implementers' first to a better and effective adoption i.e. to accountants, auditors and CFOs.

Table 5.1: Training for successful Adoption of IFRS

Ranking who should be provided training to clear awareness problem from first to eight level on the sum of the percentage of respondent's response who rated their priority					
Label		N	Frequency	Percentage	Rank
1	IFRS training for CFOs	109	48	44%	3
2	IFRS education in the accounting curriculum	109	40	36.7%	8
3	IFRS training for accountants	109	60	55%	1
4	IFRS training for auditors	109	55	50.5%	2
5	IFRS training for managements	109	34	31.2%	5
6	IFRS training for investors	109	33	30.3%	6
7	IFRS training for BOD	109	34	31.2%	4
8	IFRS training to regulatory bodies	109	26	23.9%	7

(1)-First, (2)-Second, (3)-Third, (4)-Fourth, (5)-Fifth, (6)-Sixth, (7)-Seventh, and (8)- Eighth level

Source: Study survey 2018

CHAPTER FIVE
SUMMARY OF MAJOR FINDING, CONCLUSION AND RECOMMENDATIONS

5.1. Summary of Findings

Even though resources are committed but there are still challenges to fully adopt the standard and this thesis focused in identifying the challenges and opportunities of adopting IFRS by private commercial banks as they are on the first phase of adoption. Therefore, based on the analysis of this study the following are summary of findings to be the main challenges and opportunities for the adoption and implementation of IFRS.

5.1.1. Challenges

From the analysis of the study there is a prevalence of knowledge gap in IFRS among various stakeholders. The study also revealed lack of competent training with regard to the practical application of the standard, lack of competent or sufficient asset valuators in the country which could affect the fair value measurement of the banks' asset in particular and the fairness of the financial statement of the banks in general. First time adoption of IFRS requires large data in terms of type and time span. However, the study revealed that lack of accounting information's or data insufficiency and incompleteness as one of the challenge for the smooth adoption of IFRS.

Moreover resistance is expected from both the preparers and professionals to be bound by the provisions of the proclamations especially those who were playing game where there is no rule of the game in the accountancy profession. The study further deduced that lack of IFRS compliant accounting software as one of the challenge in adopting on the day to day operation of the banks.

5.1.2. Opportunities

Adoption of the standard will make easy for merger and acquisition between peer banks as they use the same language of communication and transparent financial performance. On top of this all of the respondents expressed their expectation that the comparability of the financial Statements will be enhanced and can make financial statement analysis easy and understandable.

It also create better access to capital market since IFRS is an international business language that all international investor understand and when Ethiopia uses IFRS, these international investors can easily include Ethiopia private commercial banks among their potential alternatives for investment while making their investment decisions. If such consideration is there, hopefully Ethiopia will be their first choice and FDI will increase in Ethiopia.

There will be an easy access to finance since IFRS is carefully designed and becoming global language, it will be easy for the private banks operating in Ethiopia to get loans and to work with international financial institutions. Moreover it harmonizes internal and external reporting by creating a single accounting language. This could create conducive environment for having single high quality accounting standards both inside and outside, good financial reporting framework will be established which will result into well-established financial reporting system.

5.2. Conclusions

In the current accounting era in Ethiopia the adoption and implementation of IFRS are the main issue in every topic of companies and business are also flourishing to provide training and even global training providers and consultants are entering to the market to take their stake and adopters are also spending millions in capacity building and adoption process to meet the dead line set by the regulatory body for mandatory adoption.

Even though resources are committed but there are still challenges to fully adopt the standard and this thesis focused in identifying the challenges and opportunities of adopting IFRS by private commercial banks as they are on the first phase of adoption. Therefore, based on the finding there are still challenges which should be addressed and the challenges are lack of knowledge, lack of competent training based on practical application of the standard, accounting data problem, lack of IFRS compliant accounting software creating challenge in adopting on the day to day operation of the banks, and due to the factor that resistance from people who avoids changes are the challenge to the private banking industry for smooth adoption and implementation of the standard. And since the challenges not being addressed banks are running their day to day operation without being fully compliant to IFRS which this will create a continuous cost to the financial institutions and continues work of monthly or yearly financial translation from GAAP to IFRS brining the effect of prudence in their financial report issued.

Moreover, stakeholders especially decision making bodies of the private banks be able to utilize the opportunities that the IFRS adoption brings to the banking environment for decision in making investment and comparing performances of peer banks rather than only considering IFRS adoption as a regulatory requirement and to be compliant.

5.3. Recommendations

Though there is a regulatory requirement to implement the adoption of IFRS. The adoption has its own challenge and opportunities as stated above. Hence, in order to overcome the challenges stated above, the following suggested as recommendations.

- Since there is lack of practical application of IFRS, the Banks focus on training all their staff members who have relation to the adoption of the standard or who are required to provide information for the application. Besides, the training provided by the training facilities should tailor to specific industry sector and must also include on the practical application of the standard rather than only providing the theory aspect.
- Accounting information's and other related disclosure requirements to be in e-communication to minimize errors and to timely deliver information for the intended purpose rather than using papers which might not be tailored as per the requirement of IFRS. This will be enhanced if private banks to look for to adopt accounting technology or software's to facilitate accounting information as most banks are currently using banking software which facilitate service to their clients rather than also having accounting software to minimize human interference.
- Human-resources-development program and mechanisms should be established at national level like the accounting courses or curriculums in universities and college to be changed to IFRS as this will contribute to the national human resource in the field of accounting at the same time saving the cost burden of training staff by each companies in the country and Banking industry as one of the hiring institutions will be benefited from the amended curriculum.
- Based on the finding not havening competent or sufficient asset valuators in the country affects the fairness of financial statement of the banks as it is open for error resulting in over or under statement of financial statement. Therefore, to overcome this challenge Banks can utilize the internal expertise to evaluate their asset but since the adoption of IFRS is a recent

phenomenon and not having regulated market where market price could not be found easily the internal expertise also lacks the capacity so banks should strength the internal capacity even commute resource to encourage staff to have international certification and qualification for valuators.

- Those who plays critical role in decision making in the Banking must focus on making financial decision by clearly analyzing or using information analyzed based on the standard as in one of the opportunity adopting standard to see their banks weakness and strength and over come through the effective utilization of financial statements rather than focusing on the month end or yearend profit.
- The existing policies and procedures in the banking environment not being tailed to or amended to be compliant to IFRS is one reason for lack of accounting information's and adoption of the standard in the day to day operation of the banking process. Therefore, private commercial banks should tune their policies and procedures to the application of International Financial Reporting Requirement these can be Human Resource, Procurement, Asset management and accounting policy and procedure.
- Investment decisions must consider on top of other factors also utilizing IFRS requirement to analyze the positive and negative outcome of the investment including fulfilling the local requirement that financial institution be compliant to. In addition, it clearly gives decision makers to make profitable decision.
- Assigning external auditors private banks should consider the knowledge and capacity of the audit firm with respect of International Financial Reporting Standard as well as International Standard for Audit(ISA) as this affects the credibility of financial statements and errors and omissions could be overlooked due to inadequate knowledge in the stated standards and practical knowledge as mostly audit fee takes the greater proportion or attention of Banks board of directors in selecting audit firms.

5.4. Recommendation for Future Research

This study was conducted on the general challenges and opportunities of adopting IFRS in Ethiopian private commercial Banks considering the accessibility of the IFRS implementation team, data and researcher participation in the adoption process in one of the private Bank. In doing this study and in the work process of adoption I recommend that future researches to focus on the impact of the newly introduced IFRS 9 which was changes from IAS 39 which focuses on the financial instrument where all banks are majorly will be impacted by the adoption of this standard. Moreover, other area where future researchers can focus is on the financial impact of the adoption of IFRS compared to the GAAP financial statement since all financial institutions issued their financial statement based on the standard effective June 30, 2018.

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APPENDICES

Appendix I: Questionnaire

Addis Ababa University

College of Business and Economics

MSC Accounting and Finance

The aim of this questionnaire is to identify the **Challenges and Opportunities in adopting IFRS by private commercial Banks**. Since the data will be used for research purpose, your frank and sincere responses will be highly appreciated. Moreover, I confirm you that all your responses are confidential. There is no need to write your name. Please put only one tick mark for each line in the labeled column where (1-Strongly disagree; 2-Disagree; 3-Neutral; 4-Agree; 5-Strongly agree). Moreover, please rank reasons where necessary. Thank you so much for sharing your valuable information and for giving your precious time to me.

If there is any question or require clarification you may contact me by the under listed mobile number.

Alexander Hache

Mobile 0911-146764

Part I: General questions

1. Gender Male ☐ Female ☐
2. Age under 20 ☐ 21-30 ☐ 31-40 ☐ Above 40 ☐
3. Your higher academic qualification Diploma ☐ Degree ☐ Masters ☐ PHD ☐
4. Professional membership certification ACCA ☐ CPA ☐
   CIA ☐ N/A ☐ Other(Specify) ________________
5. Year of work experience 1-5 ☐ 6-10 ☐ 11-15 ☐ >15 ☐
6. Current position (Job Title)______________________________
7. Did you have attended any IFRS related trainings? Yes ☐ No ☐
8. If your answer is yes to Q7 how adequate is the IFRS training that you have had for implementation of IFRS. Adequate ☐ Not Adequate ☐ Neutral ☐

Part II: Challenges and opportunities of IFRS adoption

The following are list of challenges and opportunities in the adoption of IFRS by Ethiopian private commercial Banks.

- **Please rank the major reasons for being positive/opportunity in applying IFRS.(Select 1 for most preferred and 6 for least preferred)**

No	Major Opportunities	Ranks
1	Better corporate governance	
2	Comparability	
3	Existence of uniform accounting system	
4	Investment opportunity	
5	Mandatory application of it	
6	Transparency	

- **Please rank the major reasons for being negative/challenging in applying IFRS.(Select 1 for most preferred and 5 for least preferred)**

No	Major Challenges	Ranks
1	Broad changes in accounting world	
2	High cost of adoption	
3	Human psychology(resistance to adopt new things)	
4	Lack of knowledge	
5	Lack of training	

- **Opportunities for the company/Bank**

No	Statements	SA	A	N	D	SD
1	It will improve analysis of information for decision making					
2	Accuracy and reliability of accounting information will be enhanced					
3	Better industry comparison of financial statement					
4	Merger and acquisition became easy					
5	IFRS brings better corporate governance					
6	Better access to capital market(including foreign investors)					
7	It will reduce cost of capital					
8	Easy of using one consistent reporting standard when there is subsidiary in different countries					
9	It will make internal audit easier and less costly					
10	It will facilitate better business risk management					
11	Harmonize internal and external reporting by creating a single accounting language					

- **Benefits to investors**

No	Statements	SA	A	N	D	SD
1	Better information for decision making					
2	More confidence in information presented					
3	Better understanding of risk and return					
4	Investors can compare a peer Banks financial statement					
5	More timely/real time financial statement					
6	Save time in analyzing financial reports because of explanatory disclosures					

- **Challenges in convergence to IFRS**

No	Statements	SA	A	N	D	SD
1	IFRS requires immediate change in Banks policies and procedures					
2	Inadequate training facilities at an affordable cost is road block to IFRS					
3	Insufficient preparatory period is causing difficulty in convergence with IFRS					
4	IFRS based financial statements will not provide a fair picture of financial position of the Banks in Ethiopia which suffers from higher inflation.					
5	Fair value measurement being highly subjective obstructs in execution of IFRS					
6	IFRS implementation is likely to increase tax burden on companies					
7	Work and burden of an accountant/auditor will be increased due to implementation of IFRS					
8	Cost of audit fee will increase due to the convergence with IFRS					
9	IFRS has increased complexities in preparing financial statements thereby increased the risk of errors and omissions					
10	Quality of audit report will be compromised due to insufficient or inadequate practical knowledge of IFRS implementation					
11	Lack or insufficiency of professional evaluators increases the over statement or under statement of financial position					
12	Lack of sufficient and complete accounting data					
13	Lack of competent technology or software to run IFRS data					

- **Effective transition of all private Banks to IFRS requires the following steps. (Please rank 1 for most preferred and 6 for least preferred)**

No	Requirements	Ranks
1	IFRS training for CFOs	
2	IFRS education in the accounting curriculum	
3	IFRS training for accountants	
4	IFRS training for auditors	
5	IFRS training for managements	
6	IFRS training for investors	
7	IFRS training for BOD	
8	IFRS training to regulatory bodies	

- **Please provide below any additional observations or comments with respect to the adoption of IFRS by private commercial Banks.**

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Thank you!