Addis Ababa University

College of Business and Economics

Department of Accounting and Finance

Adoption, Challenges and perception of International Financial Reporting Standards (IFRS) on the Quality of Financial Reporting of Financial Institution in Addis Ababa, Ethiopia

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A thesis submitted to Addis Ababa University College of Business and Economics in partial fulfillment of the requirements for the Degree of Masters of Science in Accounting and Finance.

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Declaration

I, Melese Hailemichael declare that this paper is a result of my independent research work on the topic entitled adoption, challenges and perception of international financial reporting standards (IFRS) on the quality of financial reporting of financial institution in Addis Ababa, Ethiopia in partial fulfillment of the requirements for the degree of masters of science in Accounting and Finance at Addis Ababa University. This work has not been submitted for a degree to any other university. All the references are also duly acknowledged.

Melese Hailemichael

Signature: _______________________

Date: ______________________

Confirmation

This is to certify that Melese Hailemichael has carried out this research work on the topic entitled Adoption, Challenges and perception of International Financial Reporting Standards (IFRS) on the Quality of Financial Reporting of Financial Institution in Addis Ababa, Ethiopia under my supervision. This work is original in nature and has not been presented for a degree in any University and it can be submitted for the partial fulfillment of the requirements for the award of the Degree of Masters of Science in Accounting and Finance.

Dr. P. Laxmikantham

Signature: ___________________________

Date: _________________________

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Acronyms

AABE	Accounting and auditing Board of Ethiopia
ACCA	Association of Chartered and Certified accountants
ECXA	Ethiopia Commodity Exchange Authority
ECX	Ethiopia Commodity Exchange
EPAAA	Ethiopian Professional Association of Accountants and Auditors
FASB	Financial Accounting Standards Board
GAAP	General Accepted Accounting Principles
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
ROSC	Report on the Observance of Standards and Codes
SME	Small and Medium Enterprise
SPSS	Statistical package for social science

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Abstract

International Financial Reporting Standards (IFRS) have been adopted by 143 countries around the world. The goals of the IFRS is to develop, in the public interest, a single set of high-quality, understandable, enforceable and globally accepted financial reporting standards based upon clearly articulated principles. However, its adoption and implementation bring opportunities and create challenges to the adopter. The main objective of this study was to assess the adoption, challenges and impact of international financial reporting standards (IFRS) on the quality of financial reporting of financial institution in Addis Ababa to provide an input for financial institution, governmental and policy makers and serve as for future researches on this field of study. Both primary and secondary sources of data have been used for the study from 32 financial institutions. Primary data were collected through pre designed questioners whereas secondary data were collected from different governmental organization reports, scientific papers and proceedings relevant to the study using document and regression analysis techniques, and proclamations and regulations that deal with financial reporting issues in Ethiopia. The study found that some financial institutions in Addis Ababa, Ethiopia have started using IFRS voluntarily for the preparation of their financial statements without making necessary awareness but nationally; IFRS is adopted officially in December 5, 2014 through enactment of Proclamation. And from the analysis of survey that in the dependent and independent variables there is significant correlation. Among those the IFRS on the quality of financial reporting has significant correlation with the transparency, accountability and economic efficiency. The result of the study will provide a good lesson for other Financial Institution, Governmental and Policy Makers for the implementation of IFRS network.

***Key Words**: IFRS, Adoption; Benefits; Challenge; Quality; Transparency, Financial institutions*

Chapter One: Introduction

This chapter includes the following; background of the study, statement of the problem and continued with the research questions, objective of the study, significance of the study, scope of the study and organization of the paper.

1.1. Background of the Study

In most countries especially developed ones, many or even all entities have a legal obligation to prepare financial statements that conform to the required standards or set of accounting principles that are generally acceptable in that county (Frank 2002).

The great majority of these entities are companies or organizations which are publically accountable especially the multinationals which need greater international uniformity in the regulations underpinning the preparation of company's financial statements (Frank 2002).

The quality of financial reporting is essential to the need of users who require them for investment and other decision making purposes (Fashina and Adegbite, 2014). Financial reports can only be regarded as useful if it represents the economic substance of an organization in terms of relevance, reliability, comparability, understandability, timeliness and simplifies interpretation of accounting numbers (Kenneth, 2012). If the IFRS adoption era, most countries had their own standards with local bodies responsible for developing and issuance of the local standards even if some of them align largely with the International Accounting Standards (IAS).

The International Accounting Standards Board adopted the IFRS framework on 1 April, 2001 the International Accounting Standards Board (IASB) took over the setting of International Accounting Standards from the International Accounting Standards Committee (IASC).

Thenceforth, the IASB updated the already existing International Accounting Standards and referred to them as International Financial Reporting Standards (IFRS); the standards were adopted by over 143 countries around the world. IFRS was established and approved by the IASB. The goals of the IFRS Foundation and the IASB is to develop, in the public interest, a single set of high-quality, understandable, enforceable and globally accepted financial reporting standards based upon clearly articulated principles. (IFRS, 2015)

In Africa 19 of the 53(36%) countries have adopted IFRS. The momentum of Africa appears to be much slower than that of the rest of the world Jeff Van Rooyen (2011). A trustee of the International Financial Reporting standards Foundation and also an African saw the value of economic globalization for continent by stating the following: “The whole world is converging. Africa needs to be part of this. In the case of Ethiopia is moving toward implementing IFRS within the next five years, this paper to assess the IFRS adoption progress in Ethiopia and investigate factors that motivate Ethiopia to adopt IFRS, and advantages and challenges ahead of IFRS adoption in Ethiopia. This study makes an effort to bridge this gap and tries to study the Ethiopian data with reference to IFRS adoption, benefits of IFRS for Ethiopia, challenges faced by the stakeholders in the process of adoption of IFRS, and the factors that affect the adoption. (IFRS, 2016)

According to World Bank on the Report on the Observance of Standards and Codes, there is no specific set of accounting regulations in Ethiopia and therefore accounting practices vary across institutions (World Bank, 2007). But now the first financial reporting Federal state regulatory body is established for the first time in Ethiopia by regulation entitled Council of Ministers Regulation to provide for the establishment and to determine the procedure of the Accounting and Auditing Board of Ethiopia (Council of Ministers Regulation No. 332/2014) pursuant to

Article 4(1) of the Financial Reporting Proclamation No. 847/2014. Accordingly, provision of Article 3(1) of this regulation describes that "The Accounting and auditing Board of Ethiopia (AABE) is hereby established as an autonomous government organ having its own legal personality." AABE consists of 12 members which includes one representative from each of various Ministries.

1.2. Statement of the Problem

Many countries have faced challenges in their decisions to adopt IFRS, its wide spread adoption has been promoted by the argument that the benefits outweigh the costs. Many jurisdictions have cultural, legal, or political obstacles to an immediate full adoption of IFRS (Wayne, 2010). Recently there has been a push towards the adoption of IFRS developed and issued by the International Accounting Standards Board (IASB). IFRS are attracting significant scholarly attention especially in markets where decision making on its adoption is approaching (Thi Phana and Mascitellib, 2014). There are some conducted researches, for example, a study to investigate the effects of IFRS adoption on foreign direct investment and Nigeria economy (Okpala 2012), The Impact of International Financial Reporting Standards (IFRS) Adoption on Financial Reporting Practice in the Nigerian Banking Sector (Matthew A.2015), Implementation of IFRS in Ethiopian Banks: An Assessment of Banks' Reluctance To Implement It, (Dr.P.Fareedmastan Zinabu G. A.Anuradha, 2015) and IFRS Adoption Progress in Ethiopia (Teferi D., Dr. J.S. Pasricha, 2016). Therefore in this research the researcher file gap in this area of study in Ethiopia and also investigate because there is few studies in the progress of IFRS in Ethiopia the researcher was examine the perception of IFRS on the quality of financial reporting of financial institution in Addis Ababa.

1.3. Research Objectives

1.3.1. General Objective

The main objective of this study was to assess the Adoption, Challenges and perception of International Financial Reporting Standards (IFRS) on the Quality of Financial Reporting of Financial Institution in Addis Ababa.

1.3.2. Specific Objectives

The Specific objectives of the study are to find out the following:

1. To identify the impact of adopting IFRS on the quality of financial reporting in financial institution.
2. To examine challenges face by financial institution in adoption of IFRS.
3. To recognize the benefits of adopting IFRS in financial institution.

1.4. Significance of the Study

The findings of this study will be useful to the stakeholders, employers, employees and the potential investors including:

Financial Institution in Addis Ababa, Ethiopia

The findings of this study will be useful to ultimate goal of financial institution in the quality of financial reporting information is issued to public. This goal can be achieved the financial institution in Addis Ababa to adopt IFRS for effective financial reporting. This study necessary because would enable the managers of financial institution to improve on their implementation of the standards. It would also help the employers, employees and the potential investors who may want to invest on the institution. Finally, it would serve as a reference source to students or other researchers who might want to carry out their research on the similar topic.

Governmental and Policy Makers

The government can use the findings of this study to assist in policy formulation and development for a framework used for improving the adoption of IFRS practices in relation to performance of financial statement quality in this region and throughout the country. It also enables them to know what kinds of policies should be framed or formulated in order to enhance the performances of financial institution.

Academics/Researchers

Findings from this study will assist academicians or other researchers to use as a base for farther research or study hence it will provide little understanding of the nature and influence of those IFRS on quality of financial reporting of financial institution and other organization.

1.5. Scope of the Study

The unit of analysis for this study was head of finance department which are working for the selected financial institutions as a finance director or finance manager. This study did not compare and contrast the finding of different financial institutions one with the other, since it is strongly believed that the financial institutions of Addis Ababa are homogenous. Moreover, the study deals only the impact of adoption, challenges and perception of IFRS on the quality of financial reporting of financial institution in Addis Ababa and quality was mainly look at in terms of transparency, accountability and economic efficiency. The study is only inclusive of that financial institution found in Addis Ababa and only comparison is made based on previous similar studies in the other sectors since it is difficult to get such research study in the financial institution in Ethiopia. The periods of the study were from 2011 to 2015 annual reports both years inclusive.

1.6. Organization of the Paper

Generally the paper is organized into five chapters. The first chapter presents background which continued statement of the problem and continued with the research questions, objective of the study, significance of the study, scope of the study and organization of the paper. The second chapter deals with the literature review and conceptual framework of the study. The third chapter is research methods, sample size and sampling methods, method of data collection, data quality assurance and etc. The fourth chapter handles data presentation, analysis and interpretation. The fifth chapter wind ups the paper by summary of major findings, conclusion and recommendation.

Chapter Two: Literature Review

In this chapter the researcher included the background about the International Financial Reporting Standards (IFRS); IFRS adopted and used by financial institutions, the researcher also investigate about the factors affecting the qualities of financial statements and the relationship between the IFRS and the qualities of financial statements in the financial institutions.

2.1. International Financial Reporting Standards

Definition of IFRS is standards and rules for reporting financial information, as established and approved by the Financial Accounting Standards Board (FASB). IFRSs are issued by the International Accounting Standards Board (IASB), formerly known as International Accounting Standards Committee (IASC). The main objective of the IASB is “to develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the world's capital markets and other users make economic decisions” (Epstein & Mirza, 2002).

To bridge the gap between accounting standards among countries, the IASC was founded in 1973 by a group of professional accounting practitioners. The IASC was to formulate uniform and global accounting standards aimed at reducing the discrepancies in international accounting principles and reporting practices. In this light, the IASC was established. Since its establishment the IASC has actively been championing the uniformity and standardization of accounting principles for over two decades (Carlson, 1997). In April 2001, the IASB took over the setting of International Accounting Standards from the IASC. Thenceforth, the IASB updated the already existing International Accounting Standards and referred to them as International Financial Reporting Standards (IFRS).

IASB mission is to develop International Financial Reporting Standards (IFRS) that bring transparency, accountability and efficiency to financial markets around the world. IASB work serves the public interest by fostering trust, growth and long-term financial stability in the global economy (IFRS, 2015).

- IFRS brings transparency by enhancing the international comparability and quality of financial information, enabling investors and other market participants to make informed economic decisions.
- IFRS strengthens accountability by reducing the information gap between the providers of capital and the people to whom they have entrusted their money. Our Standards provide information that is needed to hold management to account. As a source of globally comparable information, IFRS is also of vital importance to regulators around the world.
- IFRS contributes to economic efficiency by helping investors to identify opportunities and risks across the world, thus improving capital allocation.

For businesses, the use of a single, trusted accounting language lowers the cost of capital and reduces international reporting costs. (IFRS, 2015)

For many years, each country has had its own system of accounting standards and principles; however, as many companies became international, the workload to report financial statements multiplied. Not only were companies required to report financial statements using their home country's standards; but the company would also be required to report financial statements using the standards of all countries that were listed as exchanges (The unification of international accounting standards, 2007).

The IAS/IFRS (International Accounting Standards/International Financial Reporting Standards) consists of a set of international accounting principles, the adoption of which aims at establishing clear rules originally within the European Union to draw up comparable and transparent annual reports and financial statements (Cardozzo, 2008). Their adoption represents an essential element to obtain an integrated, competitive and attractive beyond the European capital markets. With the increasing internationalization of trading activities amongst countries of the world, necessitated by globalization, brings changes of the adoption and adaptation of local accounting practices and harmonizing it with that of the International Financial Reporting Standards (IFRS). According to (Nkundabanyanga, 2004) IFRS are accounting standards set up with an aim of harmonizing accounting procedure across the world.

IFRS are body of prescriptive rules and guidelines with global reach and appeal which provide direction and guidance on how business enterprises in a globalised world could achieve the goal of proper record keeping, transparency, uniformity, comparability and enhancing public confidence in financial reporting (Tendeloo and Vanstraelen, 2005). Thus, failure on the part of the firm to apply the requirements of IFRS would result in inconsistencies, lack of accountability and transparency, distortion in financial reports, which in turn results into poor financial reporting practices and dissemination of accounting information that is of less value to any particular group of users. This is because the preparation and presentation of financial statements will be bereft of objectivity, reliability, credibility and comparability, and thus results in fraudulent business practices which subsequently lead to business failure and become devastating on the national economy (Atu et al., 2014).

Various literatures argued for the necessity of single accounting standard for the globe., for instance, argued in favor of the global convergence of accounting standards asserting that convergence in accounting standard is a very positive development as it: contributes to the free flow of global investment and achieve substantial benefits for all capital markets stakeholders; improves the ability of investors to compare investments on a global basis and thus lower their risk of errors of judgment; has the potential to create a new standard of accountability and greater transparency, which are values of importance to all market participants including regulators, and creates an unprecedented opportunity for standard setters and other stakeholders to improve the reporting model (Shabana and Samant, 2011). The globalization of international financial markets across the globe, the idea of adopting a common language for financial reporting to enhance international comparability has become widespread (Jeanjean and Stolowy, 2008). Countries have permitted their domestic companies to use International Financial Reporting Standards (IFRS), an international reporting language in recent years (Li, 2010).

The momentum of Africa appears to be much slower than that of the rest of the world (Jeff 2011). In the case of in our country review on accounting standards in Ethiopia conducted by World Bank and IMF in 2007, "Reports on Observance of Standards and Codes (ROSC)", indicated various issues in accounting standards in Ethiopia. One of the major issues is The Ethiopian Professional Association of Accountants and Auditors (EPAAA), has no legal backing and is not a member of International Federation of Accountants (IFAC).

Under that scheme the EPAAA was supposed to actively participate in the process. It could be noted that the post-1991 period brought about some favorable conditions for the development of accounting and auditing in the country that could be exploited by aspiring professional associations. The EPAAA has not developed to a level where it can offer certification examinations (World Bank, 2007).

According to World Bank on the Report on the Observance of Standards and Codes, there is no specific set of accounting regulations in Ethiopia and therefore accounting practices vary across institutions (World Bank, 2007).

2.2. Financial Institution in Ethiopia

The government of Ethiopia as a nation has expressed an initiative to integrate the financial statements of its companies with international standards. In our country most of organizations use GAAP for their financial reporting and there are very few companies use IFRS and among them most of the companies are financial institutions currently government enforce companies to use IFRS in their financial reporting. (Financial Institutions Audit Reports) Intention of the government to implement IFRS in Ethiopian share companies, including Banks and Insurance, is manifested by the issued Proclamation No. 847/2014 December 5, 2014 called "Financial Reporting Proclamation of Ethiopia" which obliges companies to follow IFRS in their financial statement presentation. The National Bank of Ethiopian (NBE) and the Securities and Exchange Commission also adopted this date for compliance and has issued guidance compliance circulars to ensure full implementation of IFRS in Ethiopia.

There are no extra requirements for banks and insurance companies for preparation of their annual financial statements. Banks and insurance companies are subject to regulatory laws and directives issued by the National Bank of Ethiopia, but there are no extra requirements in these laws or directives for preparation of annual financial statements. The applicable requirements for preparation of annual financial statements for banks and insurance companies are those provided in the Commercial Code. The Commercial Code has no requirement for compliance with any defined accounting standards. Banks and insurance companies are public interest entities which should be subjected to high standards of financial reporting (World Bank, 2007).

Auditors for banks are required to be approved by the National Bank of Ethiopia on an annual basis; banks are required to send selected auditor's name to the National Bank of Ethiopia for the approval of the appointment of bank auditor. This is a legal requirement under Proclamation for Licensing and Supervision of Banking Business No. 84/1994. When approving auditors the National Bank of Ethiopia ensures that only those auditors licensed by Office of the Federal Auditor General (OFAG) are approved (World Bank, 2007).

Auditors for insurance companies are not subjected to any additional requirements other than the provisions of the Commercial Code. The Proclamation for Licensing and Supervision of Insurance Businesses No.86/1994 states that the auditors for insurance companies shall have powers, functions, and duties; and be subject to liabilities and penalties under the Commercial Code. There are no other regulations for auditors of insurance companies (World Bank, 2007).

The Income Tax Law requires taxable income of businesses to be determined on the basis of financial statements prepared according to generally accepted accounting standards. The Income Tax Proclamation No. 286/2002 states that taxable business income shall be determined per tax period on the basis of the profit and loss account, or income statement, which shall be drawn in compliance with generally accepted accounting standards. The problem in this case is that 'generally accepted accounting standards' is not defined, and there are no accounting standards set or adopted in the country (World Bank, 2007).

2.3. Bank Directors' Responsibilities in Ethiopia

The Commercial Code of Ethiopia was proclaimed in 1960 (Government of Ethiopia 1960). This Code contains accounting and external auditing provisions, which still serve as the legal basis for financial reporting and external audit of companies and the Banking Business Proclamation No. 592/2008 require the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the bank as at the end of the financial year and of the operating results of the bank for that year. The directors are also required to ensure that the bank keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the bank. They are also responsible for safeguarding the assets of the bank. The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with international financial statements standards and in the manner required by the Commercial Code of Ethiopia, 1960 and the Banking Business Proclamation No. 592/2008 and for such internal controls as the directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Commercial Code of Ethiopia, and the Banking Business Proclamation. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the bank and of its operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial controls.

2.4. Insurance Directors' Responsibilities in Ethiopia

The Commercial Code of Ethiopia, 1960 and Licensing and Supervision of Insurance Business Proclamation No. 746/2012 of the Government of Ethiopia Supervision of Insurance Business directives of National Bank of Ethiopia require the directors to prepare financial statements that fairly present the state of affairs of the company as at the end of the financial year and of the operating results of the company for that year. The codes also required the directors to ensure that the company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the company. They are also responsible for safeguarding the assets of the company.

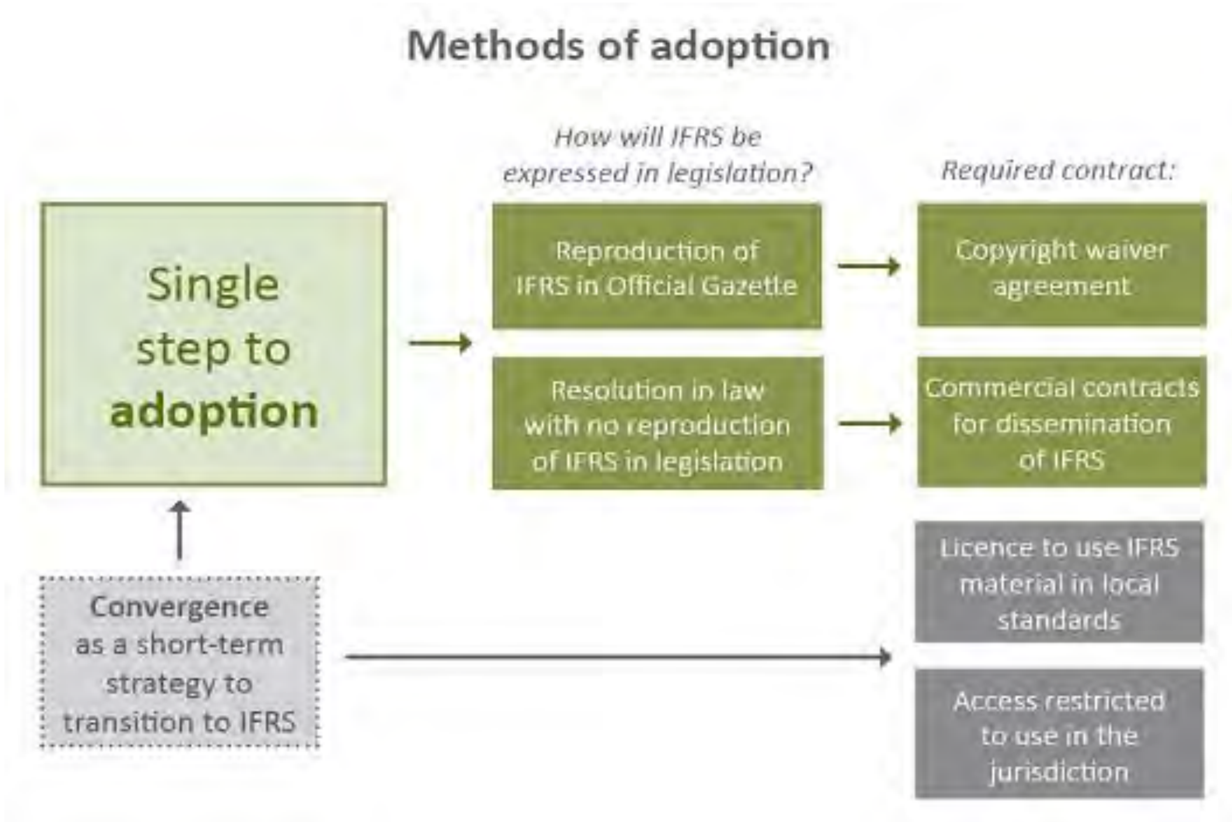
The directors are responsible for the preparation of fair presentation of the financial statements in accordance with International Financial Reporting Standards and in the manner required by the Commercial Code of Ethiopia, 1960 and Licensing and Supervision of Insurance Business Proclamation No. 746/2012 of the Government of Ethiopia Supervision of Insurance Business directives of National Bank of Ethiopia for such internal controls as the directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Commercial Code of Ethiopia, 1960 and Licensing and Supervision of Insurance Business Proclamation No. 746/2012 of the Government of Ethiopia Supervision of Insurance Business directives of National Bank of Ethiopia. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and of its operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial controls.

The finance sector investment including insurance in general is characterized by high public interest. Companies are owned by a number of shareholders regardless of the size of the share by each holder. Citizens decide to relay their businesses with confidence that government can protect their interest. In the context of the Ethiopian insurance industry, the Licensing and Supervision of Insurance Proclamation No. 86/1994 (article No.37) that has been operational for almost two decades and the substitute Proclamation No.746/2012 (article No. 54) postponed the manner in which reinsurance business may be transacted.

2.5. Approaches to IFRS Adoption

Adoption of IFRS is more than just an accounting exercise. This is because accounting and reporting represent only a small part of the conversion efforts (AABE 2015). A country can change its existing accounting system to a globally recognized accounting standard called IFRS either by totaling replacing or customizing it with IFRS over time. The first approach is known as adoption or 'big bang' approach while the latter is called a convergence approach. 'Big bang' approach is a strategic decision to adopt IFRS on a single date or, perhaps, a series of dates applied to companies of different sizes. Under this approach, once IFRS are adopted, all IFRS standards should be complied while preparing financial statements and the existing accounting standard should be replaced with IFRS; while in Convergence approach, gradual movement is made towards IFRS through customizing with the existing accounting standards and IFRS are applied gradually. Converging a few local standards to IFRSs each year can allow local preparers and auditors to learn a few topics at a time rather than immersing themselves in the full set of IFRSs and convergence approach can also allow time for necessary changes in local legal frameworks (IFRS, 2013).



Source: http//www.ifrs.org

Figure 2.1: Methods of Adoption

2.6. IFRS and Financial Reporting Quality

The quality of financial reporting is indispensable to the need of users who require them for investment and other decision making purposes (Fashina and Adegbite, 2014). Financial reports can only be regarded as useful if it represents the "economic substance" of an organization in terms of relevance, reliability, comparability, understandability, timeliness and simplifies interpretation of accounting numbers (Kenneth, 2012). Before the IFRS adoption era, most countries had their own standards with local bodies responsible for developing and issuance of the local standards even if some of them align largely with the IAS.

However, all these studies refer to voluntary adoption of IAS/IFRS, which might be the result of corporate incentives to increase transparency. For instance, documents that the decision to report under IFRS is positively related to corporate size, the number of foreign equity markets on which the firm's shares are traded and the additional issuance of equity shares (Ashbaugh, 2001). Similar findings are reported by (Cuijpers and Buijink, 2005) and (Gassen and Selhorn, 2006). For a sample of European non-financial firms that voluntarily adopted IFRS, document that foreign listing and geographical dispersion of operations are important drivers. Findings therefore suggest that companies voluntarily shifting to IFRS have incentives to improve transparency and the quality of financial reporting (Cuijpers and Buijink, 2005). Along the same lines argued that foreign mutual fund ownership is significantly higher among IFRS adopters, which suggests a voluntary switch to IFRS aimed at attracting foreign investors by providing them with both more information and information that is more familiar to them (Covrig et al., 2007).

2.7. Challenges of Adopting IFRS

Though adopting IFRS is expected to facilitate growth in bilateral economic activities, the benefit may not be evenly distributed across all bilateral relations due to certain challenges. The pre-adoption conformity of national GAAP to IFRS determines the significance, and therefore the benefit, of IFRS adoption. However, institutional differences among partner countries can impact the effect of convergence to a set of uniform financial reporting standards, as they can affect the degree to which the new accounting standards are actually enforced and influence the interpretation of accounting information prepared under IFRS.

Furthermore, different studies, both extant and contemporary, had been carried out on the impact of IFRS, as wells as the challenges adopters of the accounting standards face in moving to the standard. In this connection, (Street and Larson, 2004) cited in (Cardozzo, 2008) conducted a survey within EU member states to test the plans and barriers to convergence to IFRS before their mandatory adoption by listed companies in 2005. The survey highlights that most of EU listed companies do not plan to converge national GAAP to IFRS, and after the required adoption they might keep this two accounting systems for individual accounts. The main impediments are based on the difficulties arising in the application of some IFRS and the tax system of countries sampled as well as the lack of guidelines of national bodies in the application of such standards.

Similarly other literature studies the problems of implementing IFRS in Czech Republic by analyzing the key issues that arise by moving to IAS/IFRS reporting. Their research paper underlines that even though the Czech accounting system is moving closer to IFRS in some areas such as the valuation at fair value, the need of national system to keep separate the tax and financial reporting to ensure that the different objectives of the two reporting systems are met explains why the Czech system differs in certain aspects from IFRS (Sucher and Jindrichovska, 2004). Given the strong influence of tax rules on financial reporting, (Vellam, 2004) discusses whether the convergence between national GAAP and IFRS can be achieved in practice, by describing the differences between Polish financial reporting and the IASB conceptual framework. The preference of Polish accounting system for a tax orientation and the lack of an effective enforcement of international accounting standards are perceived as the main reasons of a full compliance of IFRS requirements.

2.8. Benefits of IFRS Adoption

Various studies have been conducted in different countries to identify benefit realized and challenges faced in adopting IFRS for the first time. IFRS might provide the following benefits: organization problem between management and shareholders can be substantially reduced through implementation of IFRS as increased transparency causes managers to act more in the interests of the shareholders and IFRS adoption could reduce the cost of investors for processing financial information and the improving financial reporting quality in turn allows the small investors to compete better with professionals, and hence reduces the risk they are trading with a better-informed professional (known as “adverse selection”) (Bhattacharje and Islam, 2009).

2.9. IFRS Adoption and Implementation in Ethiopia

Adopting IFRS is like starting a family as it requires careful planning, commitment and complete understanding of its implications. There are three steps that new adopters of IFRS should pass through before adopting it. According to this guide, the first step is making policy decisions through building consensus among concerned stakeholders. The second step is preparing a plan by building in targets and deadlines, and making them public and helps to identify obstacles that must be overcome. The third step is identifying the resources that we have on hand and what we need to implement the new standard such as availability of local professionals at company and national level, finance for capacity building, and source of finance, materials and technical supports (IFRS, 2013).

From this standpoint, this research is carried out to study adoption, challenges and impact of IFRS on the quality of financial reporting of financial institution in Addis Ababa, Ethiopia. From the analysis of the annual reports of institutions in Ethiopia, the researcher has learned that IFRS is voluntarily adopted as there was no law which enforced them to use IFRS which were adopted at national level in 2011 to 2015 only.

2.10. Trends of IFRS Application in Ethiopia

According to the analysis of the annual reports of financial institutions in Ethiopia, an institution in Ethiopia has started to use IFRS in their financial reporting for the first time in 2002/03. The first organizations that used the term IFRS for the first time in their annual report in Ethiopia are government owned entities such as Commercial Bank of Ethiopia, Construction and Business Bank and Ethiopian Insurance Corporation. (Teferi and Dr. J.S. Pasricha, 2016)

The analysis of the proclamations, regulations and directives, however, indicated that there was no national or regional law that required companies to adopt and implement IFRS in Ethiopia. Even in 2008, Article 23(1) of the Proclamation to Provide for Banking Business (Proclamation No. 592/2008) stipulates that "the National Bank may direct banks to prepare financial statements in accordance with the international statements standards, whether their designation changes or they are replaced, from time to time." This showed that Ethiopian Government was not interested to adopt IFRS officially in 2008 when the proclamation was enacted and postponed the adoption for another time. Similarly after four years Article 26(1) of a Proclamation to provide for Insurance Business Proclamation No. 746/2012 stipulated "the National Bank may direct insurers to prepare financial reports in accordance with international reporting standards, regardless of the change."

Even though IFRS is not officially adopted at national level, auditors indirectly enforce the same upon management of the organizations who have little or no accounting knowhow about accounting standards. This fact was succinctly explained by one of the higher CEO of Audit firm in Ethiopia as follows:

2.11. Awareness Made During IFRS Adoption at Financial Institution Level

Adopting IFRS involves policy decision to adopt, planning and making all necessary resources required available to handle all the changes that will result in changes in system, procedures, and operation. Financial institutions started using IFRS without passing through these steps which indicated that any previous systems, processes, procedures and preparation of human resources has occurred in relation to IFRS. Professionals from audit entities and the newly established Board also agree with practitioners and pointed out that organizations started to use IFRS without making adequate and necessary awareness discussing under An Official of Accounting and Auditing Board of Ethiopia also agree with the professionals IFRS is used without making necessary preparedness saying: "IFRS is not adopted in Ethiopia but auditors were simply saying in compliance with IFRS as there is no one who was reviewing their works and there were no actions being taken on those who were giving or saying so. Even though there was no adopted or developed accounting standard in Ethiopia, they were saying in accordance with GAAP but it was not clear to which GAAP they were referring and they repeated the same in IFRS case, too. Of course, Office of General Auditor was certifying professional accountants and auditors but was not regulating them and this was the basic gap. However, now the newly established Board will fill this gap."[AABE General Manager Comment] The researcher realized that Companies in Ethiopia have started to apply IFRS in preparing their financial statements without accessing its impact on their financial performance and making policy decisions, and providing training on

IFRS to their staffs.

2.12. Motivating Factors for Adopting IFRS in Ethiopia

In Ethiopia's context it was found that there are different factors that motivate the adoption of IFRS in Ethiopia which can be divided into internal and external factors. From internal factor, the most motivating factor is the absence of national accounting standards in the country.

Agreeing with what is argued for by academics, practitioners pointed out additional reasons stating that while debate was going on among different stakeholders, another pressure comes from external forces. The most external pressure, according to them, comes from, lenders and donors, international correspondent organizations, World Bank and IMF, International Audit Firms(such as Earnest and Young, KPMG International, and Delloitte) , Association of Chartered and Certified accountants (ACCA) through its affiliate offices and Ethiopian graduates who are working as professional auditors in Ethiopia and pushing companies to use IFRS.

2.13. 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.

The newly enacted Proclamation (proclamation No. 847/2014) has eight Chapters where the eighth part of the proclamation comprises provisions that deal with miscellaneous issues (such as conflict of interest, confidentiality, power of the Council of Minister to issue Regulations and that of Board to issue directives, Transitory Provisions and repealed and inapplicable laws).

The board shall be 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:

- Promoting high quality reporting of financial and related information by reporting entities;
- Promoting the highest professional standards among auditors and accountants;
- Promoting the quality of accounting and auditing services;
- Ensuring that the accounting profession is used in the public interest; and
- Protect the professional independence of accountants and auditors.

2.14. Establishment of the Board

The first financial reporting Federal state regulatory body is established for the first time in Ethiopia by regulation entitled" Council of Ministers Regulation to Provide for the Establishment and to Determine the Procedure of the Accounting and Auditing Board of Ethiopia (Council of Ministers Regulation No. 332/2014) pursuant to Article 4(1) of the Financial Reporting Proclamation No. 847/2014. Accordingly, provision of Article 3(1) of this regulation describes that "The Accounting and auditing Board of Ethiopia (hereafter the 'Board') is hereby established as an autonomous government organ having its own legal personality."

Accounting and Auditing Board of Ethiopia consists of 12 members which includes one representative from different Ministries.

The analysis of the board composition, as indicated in the table, shows that 66 (58% plus 8 %) of the board members are from regulators, 17% are from professionals, and the remaining 17 % are representing preparers and users as they are represented by the union of traders.

Sr. No	**Representation from**	**Number**	**Percentage**
1	Government Officials	7	58
2	Professionals	2	17
3	Preparers and Users	2	17
4	Academic (by Ministry of Education)	1	8
Total		**12**	**100**

Source: Accounting and Auditing Board of Ethiopia

Table 2.1: Composition of member of Board of Directors

According to AABE 2015 five years strategic plan Conversion to IFRS leads to greater transparency and other benefits include;

- ❖ Improved comparability of financial statements across sectors, countries, regions, and companies.

- As Ethiopia sustains its growth trend, it requires increased access to capital markets to raise capital, reduce barriers to cross border mergers & acquisitions, and listings (once a stock exchange is established)
- Increased level of confidence in financial reporting, common accounting systems, and better relationships with investors & stakeholders. IFRS addresses changing commercial practices, global markets as well as investor needs.
- Internal reporting is used as a basis for reporting under IFRS, e.g. Operating Segments IFRS 8
- Cost efficiency IFRS streamlines reporting; one accounting language is used group wide, eliminating the need for reconciliations and restatements for consolidation purposes
- Change of management focus as IFRS are focused on risk and uncertainty. IFRS compliant financial statements have a positive impact on proactive risk management and focus on maximizing shareholder value.

2.15. Roadmap to IFRS Implementation in Ethiopia

Although some reporting entities in Ethiopia says they are already using IFRS for their financial statements, during the world bank 2007 review of financial statements that focused on issues of presentation and disclosure (not issues of recognition and measurement which are not detectable through a review of financial statements requirements) on sample of 35 financial statements from financial institutions, public enterprises, share company and NGOs revealed that there were significant differences between the actual accounting practices and IFRS requirements and concluded that the actual accounting practice in Ethiopia differ from IFRS.

The reference to IFRS by such entities prior to the national mandatory requirement date shall be referred herein as "voluntary" adoption and treated accordingly. Such claim by reporting entities and their auditors shall be scrutinized strictly and any infraction shall be dealt with firmly. The following three phases stated to adopt IFRS in Ethiopia (AABE 2015).

Phase 1: Significant Public Interest Entities and all Financial Institutions and public enterprises owned by Federal or Regional Governments at July 8, 2016 is recommended as the date for adoption of IFRS for financial institutions and large public enterprises. The choice of July 8, 2016 is anchored on the need to give sufficient period (22 months) over which to effectively transit to IFRS.

Phase 2: Other Public Interest Entities (ECX member companies and reporting entities that meet PIE quantitative thresholds) and IPSAs for Charities and Societies for statutory purposes, by July 8, 2017. This means that all other public interest entities and Charities and Societies in Ethiopia will statutorily be required to issue IFRS and IPSAs based financial statements respectively for the year ending July 7, 2018.

Phase 3: small and Medium-sized entities IFRS for SMEs shall mandatorily be adopted as at July 8, 2018. This means that all Small and Medium-sized Entities in Ethiopia will statutorily be required to issue IFRS based financial statements for the year ending July 7, 2019.

2.16. Current movements on Human Resource Development toward IFRS

There is a move to promote IFRS in Ethiopia through arranging various workshops, seminars, and panel discussions. The major organizations that are arranging these events are ACCA Ethiopia, HST Audit and Consulting firm which is an affiliate of The United Kingdom professional services firm, Deloitte Touche Tohmatsu Ltd (Deloitte), Ethiopian Commodity Exchange Authority, Privatization and Public Enterprises Supervising Agency, Earnest and Young Different training workshops are being arranged and conducted on IFRS in Ethiopia.

From the interview conducted with lecturers of accounting from six Universities including Addis Ababa University stated that a seven days Training was offered to around 40 accounting lecturers from selected universities in the country on IFRS for SME by ACCA Ethiopia in collaboration with Addis Ababa University-College of Business and Economics in August 2014. However, the trainings should be conducted on a coordinated way and serious attention should be given from all concerned bodies(government, regulators, board of directors, managements, shareholders, employees, NGOs, Development partners, media and so forth) and it should not be given for formalities and on short term-benefits basis.

2.17. Empirical studies on IFRS

Internationalisation and globalisation of business has given reason for harmonised financial statement preparation and presentations S. Isabel and I. Mariela, Implementation of IFRS for non- financial companies and its impact on financial stability and monitoring at the Central Bank of Chile.

Companies compete globally for limited resources, shareholders, potential investor and creditors as well as multinational enterprises are required to bear the cost of adopting financial statement that are prepared using national standards M. Abdulkadir, Adoption of international reporting standard in developing economy.

It is expected that the move towards IFRS convergence will enhance capital market performance and ginger global business expansion in Nigeria. In the view of this development all corporate organisation are expected to adopt and comply with IFRS in preparation and presentation of their financial statement R. Oghoma and F. Iyoha, “Compliance with accounting standards by quoted insurance companies in Nigeria: An empirical investigation.

There is wide spread adoption and compliance by other country of the world. In a survey conducted by H. Manuel, How to hedge disclosure on Spanish stock market, on how to hedge disclosures, today firms face several financial risks in their daily business activities due to global, international trading and transactions.

All the banks increased their net profit as a result of reclassifying their financial instrument in 2008 and 2009. On the influence of IFRS implementation on business management, the finding of the study shows that there are positive effects from the adoption of the IFRS by Finnish companies W. Jonna, The influence of IFRS implementation on business management.

IFRS are seen as a comprehensive information package where the management gets improved financial information easier for their decision making and judgment. In another research conducted by W. Jonna, The influence of IFRS implementation on business management that mandatory IFRS contributes and improve business environment.

The study was a survey report. He also found out that after mandatory IFRS adoption, the quality of information in accounting and business environment increased significantly more for mandatory adopters. The impact of inclusion of IFRS in schools and colleges curriculum, this will enable the potential accountants to be well trained before joining the accounting and auditing profession H. Daske, C. Hail, and V. Leuz, Mandatory IFRS reporting around the world: Early evidence on economic consequences.

Chapter Three: Research Methodology

The purpose of this study is to evaluate the adoption, challenges and perception of international financial reporting standards (IFRS) on the quality of financial reporting of financial institution in Addis Ababa.

3.1. Study Setting

The Study was conducted in the adoption, challenges and perception of international financial reporting standards (IFRS) on the quality of financial reporting of financial institution in Addis Ababa. As of November, 2015, the total numbers of 35 financial institutions registered under National Bank of Ethiopia in Addis Ababa, of which 18 are banks and the remaining17 are insurances registered under National Bank of Ethiopia in Addis Ababa. Therefore, out of the total number of entire population of the financial institutions the researcher decided 32 sample institutions are selected those governmental or not Share Company and microfinance institutions are exclude from this research because of covering the entire population in the study makes difficult.

	Governmental	Private	Total
Bank	2	16	18
Insurance	1	16	17
Total	**3**	**32**	**35**

Source: Primary Data collected from NBE

Table 3.1: Number of financial institutions

3.2. Research Design

The study was conducted in financial institutions where there head offices. In order to attain the objective of the study and answer the research questions; researcher was adopting both quantitative and qualitative (Mixed) research approach. And here the rationale of using such a mixed approach is to gather data that could not be obtained by adopting a single method and for triangulation. When we use the word quantitative to describe quantitative dissertations, we do not simply mean that the study will draw on quantitative research methods or statistical analysis techniques. Quantitative research takes a particular approach to theory, answering research questions and/or hypotheses, setting up a research strategy, making conclusions from results, and so forth (Creswell 2003).

3.3. Source Population

All banks and insurances registered under National Bank of Ethiopia.

3.4. Study Population

All private banks and insurance registered under National Bank of Ethiopia.

3.5. Sample Design and Procedure

From the total population the researcher selected data from all private financial institutions registered under National Bank of Ethiopia in Addis Ababa.

3.6. Data Collection Instrument and Administration

Here the researcher used both primary and secondary data’s and the primary data were collected from the concerned bodies at head office of those selected financial institutions in the study.

Primary data were collected by using a pre designed questioners, the primary data also supplemented by secondary data collected from different governmental organization reports, scientific papers and proceedings relevant to the study.

3.7. Data Collection Procedures

In order to work this research researcher first develops a research proposal and the proposal was approved by the research advisor; next the researcher collects data by getting permission from concerned authorities in those financial institutions by bringing those support letters written from department. The data for this study were collected by two data collectors. In this research names of the institutions and those personals that give the response for complete-ting the questionnaire were not listed on the questionnaire to keep confidentiality. Among those lists of financial institutions the researcher used all samples which are included in the study. And in this study data were collected by using pre designed format or questionnaire in English by giving the necessary consent for respondents. All data were collected from financial institutions of finance department heads and other officials who are working as directorate deputy or division finance manager during the data collection period. Director or finance department heads and other deputy or division finance manager who are responsible for the preparation of fair presentation of the financial statements in accordance with international financial reporting standards and in the manner required by the commercial code of Ethiopia. The reasons in the institutions chosen for responding to the research questionnaire is that; the researcher believes that those personals are officials are suitable candidates for answering the questionnaire since finance department heads and other deputy or division finance manager who are working as in the institutions to make most financial decisions of the institution activities.

3.8. Measurement Variable

Dependent Variable:

- Impact of IFRS on the quality of financial reporting

Independent Variables:

- Transparency, Accountability and Economic Efficiency

Independent Variables	Factors
Transparency	Enhancing the international comparability
	Enhancing quality of financial information,
	Enabling investors and other market participants
Accountability	Reducing the information gap between the providers of capital and the people to whom they have entrusted their money
	Standards provide information that is needed to hold management to account
	As a source of globally comparable information,
	Vital importance to regulators around the world
Economic Efficiency	Helping investors to identify opportunities and risks across the world improving capital allocation

Table 3.2: Independent Variables factors

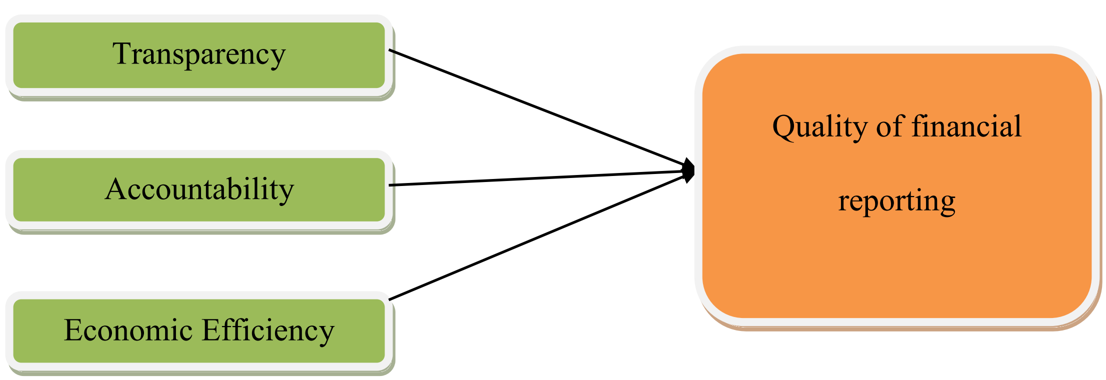


Figure 3.1: Dependent and independent variables

3.9. Data Management

The collection data were checked by principal investigator (the Student Researcher) on daily basis for any incompleteness and /or inconsistency. When there is any incompleteness and /or inconsistency appear, correction was made by returning back to those data collectors for which incompleteness appears.

Data entries were attempted by a pre designed data base by Statistical package for social science (SPSS). The data bases were created based on data type and size. The researcher were conducted a visual checks; data lists and data cleaning were be given due attention as it is the means for identifying the errors.

3.10. Data Processing Procedures

After the researcher complete the data collection, data entry and data cleaning for this study; the researcher were used SPSS to get the required data analysis results for study and the researcher employed descriptive statistics, Correlation and Regression analysis to get the required output from the data analysis and also the researcher presented results by using tables and different kinds of statistical data presentation techniques. And according to the analysis result the researcher try to infer statistically accepted inferences by giving the answer for those research questions raised in the study

3.11. Ethical Consideration

Permission was sought from each financial institution during the study. In this study the institution include banks and insurance; which are owned by shareholders in Addis Ababa, Ethiopia. Here the data collectors give the necessary information to respondents from pre-

prepared information sheet and the consent on the first section of the questionnaire; thus before collecting data from respondents those data collectors explain the purpose and the conduct of the study through a generic latter written by department. And also they inform those participants can withdraw at any time during the data collection.

3.12. Assessing reliability

The reliabilities of adoption, challenges and perception of international financial reporting standards (IFRS) on the quality of financial reporting of financial institution in Addis Ababa were assessed with Cronbach's Alpha. Table 3.3, report means, standard deviations, correlations, and reliability values for each of constructs. The reliability values for all constructs are all greater than .70, which are considered acceptable

Item-Total Statistics

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Squared Multiple Correlation	Cronbach's Alpha if Item Deleted
IFRS on the quality of financial reporting	12.9922	.791	.976	.966	.705
Transparency	13.0156	.885	.498	.710	.878
Accountability	12.9297	.843	.622	.849	.825
Economic Efficiency	13.0703	.682	.729	.895	.785

Table 3.3: Item-Total Statistics for reliability

Chapter Four: Data Analysis, Results and Discussion

This chapter presents the data analysis, the research findings or results, and based on the results the researcher gives discussion on the findings and also gives some interpretation of the result. In order to presents findings and the discussion about the perception of international financial reporting standards (IFRS) on the quality of financial reporting of share companies in Addis Ababa; the researcher uses different form of tables and figures and qualitative analysis done in prose.

4.1. Response Rate at Financial Institutions

A total of 32 questionnaires were administered to financial institutions in Addis Ababa, all questionnaires were completely filled and returned. Data for the analysis in this study were collected from 32 financial institutions in Addis Ababa finance department the respondents were finance managers, deputy finance manager and others officials. These institutions are selected from registered under National Bank of Ethiopian. A response rate of 100 percent was achieved.

Rate	Number of Questionnaires	Percent
Completed	32	100%
Not Completed	0	0%
Total	32	100%

Source: Research data (2016)

Table 4.1: Response Rate

4.2. General Information

4.2.1. Respondent Gender

Gender	Frequency	Percent	Cumulative Percent
Male	24	75%	75%
Female	8	25%	100%
Total	32	100%	

Table 4.2: Respondent Gender

From Table 4.2, the total 32 of respondents 75% or 24 of them are Males the remaining 25% or 8 of respondents were females. This implies the gender distribution of officials in those financial institutions in Addis Ababa is not balanced.

4.2.2. Respondents Age

Age Bracket	Frequency	Percent	Cumulative Percent
Less than 25 years	0	0%	0%
25-34 Years	11	34.4%	34.4%
35-44 Years	17	53.1%	87.5%
45-54 Years	4	12.5%	100%
Over 54 Years	0	0%	100%
Total	32	100%	

Table 4.3: Age Brackets of Respondent

From Table 4.3, a total of 32 respondents 11 of them or 34.4% were found at the age bracket 25-34 Years, 17 or 53.1% of respondents were found at the age bracket 35-44 Years, and 4 or 12.5% of respondents were found at the age bracket 45-54 Years. This indicates most of respondents' in the financial institution were mature or from 35 to 44 age groups are dominant with appropriate work experience and therefore they were well versed with relevant information on IFRS which was needed for the study.

4.2.3. Educational Background of respondents

Educational Background	Frequency	Percent	Cumulative Percent
BA/BSC Degree	23	71.9%	71.9%
MSc/ MA	9	28.1%	100%
Total	32	100%	

Table 4.4: Respondents Education Status

The education level of the participants varied widely from a total of 32 respondents 23 or 71.9% of respondents have 1st degrees (BA/BSc Degree), and the remaining respondent 9 or 28.1% have 2nd Degree (MSc/MA Degree). This indicates most of officials are middle level professionals, this suggests our respondents give relevant and accurate information needed for the study of IFRS on the quality of financial reporting of financial institutions in Addis Ababa.

4.2.4. Respondents position

Your position in the company	Frequency	Percent	Cumulative Percent
Director or Finance Manager	16	50%	50%
Deputy Finance Manager	9	28.1%	78.1%
Other	7	21.9%	100%
Total	32	100%	

Table 4.5: Position in the financial institutions

From Table 4.5 total of 32 respondents 16 or 50% of them are Director or Finance Manager, 9 or 28.1% of them of our respondents were Deputy Finance Manager and the remaining respondents 7 or 21.9% were Others officials. This implies the information gathered for this study was collected from the concerned bodies in those financial institutions and the researcher believes that the information we get from those personals are truthful and appropriate for the study.

4.2.5. Respondents Type of the company

Type of the company	Frequency	Percent	Cumulative Percent
Financial institutions-Bank	16	50%	50%
Financial institutions-Insurance	16	50%	100%
Total	32	100%	

Table 4.6: Type of the company

Types of company from total of 32 respondents 16 or 50% of our respondents from Financial Institutions-Bank share companies and 16 or 50% of our respondents from Financial Institutions-Insurance share companies. This implies the information gathered for this study was collected from the all financial institutions except governmental and microfinance institutions.

4.2.6. Does your company use IFRS?

Does your company use IFRS?	Frequency	Percent	Cumulative Percent
Yes	3	9.4%	9.4%
No	29	90.6%	100%
Total	32	100%	

Table 4.7: Dose your company use IFRS

From Table 4.7, prove total of 32 respondents of financial institutions were adopted or not. This question was a yes or no answer. 3 or 9.4% of respondents adopted or use IFRS and the remaining 29 or 90.6% of the respondents say that IFRS were not adopted by financial institution.

4.2.7. What is the difficulty you encountered at the first time adoption of IFRS?

What is the difficulty you encountered at the first time adoption of IFRS?	Frequency	Percent	Cumulative Percent
Difficulty in understanding how to implement IFRS	1	3.1%	3.1%
Lack of regulation	5	15.6%	18.8%
Lack of regulation on how to implement	24	75%	93.8%
Other	2	6.2%	100%
Total	32	100%	

Table 4.8: Difficulty you encountered at the first time adoption of IFRS

The difficulties encountered at the first time adoption of IFRS 1 or 3.1% respondents experienced difficulty in understanding how to implement IFRS, 5 or 15.6% respondents stated that lack of regulation, 24 or 75% of respondents experienced Lack of regulation on how to implement, and the remaining of respondents 2 or 6.24% experienced.

4.2.8. How many years IFRS was introduced in this Company?

How many years IFRS was introduced in this Company?	Frequency	Percent	Cumulative Percent
Less than 2 years	1	3.1%	3.1%
2-5 years	2	6.2%	9.4%
5-10years	0	0%	9.4%
Not applicable	28	87.5%	96.9%
Other	1	3.1%	100%
Total	32	100%	

Table 4.9: IFRS was introduced in this Company

When IFRS was introduced in the company from a total of 32 respondents 1 of them or 3.1% were IFRS introduced in the company's less than 2 years, 2 or 6.2% of respondents were IFRS introduced in the company's 2-5 Years, none of respondents were IFRS introduced in the company's, 28 or 87.5% of respondents were IFRS introduced in the company's not applicable and 1 or 3.1% of respondents were IFRS introduced in the company's other justification. This indicates most of officials in financial institutions were not yet adopted IFRS and therefore they were well versed with related information on how to implement IFRS.

4.2.9. Does your company understands and uses proclamation No. 847/2014 date December 5, 2014 about IFRS on Share Company?

Does your company understands and uses proclamation No. 847/2014 date December 5, 2014 about IFRS on Share Company?			
	Frequency	**Percent**	**Cumulative Percent**
Yes	24	75%	75%
No	8	25%	100%
Total	32	100%	

Table 4.10: Understands and uses proclamation No. 847/2014 date December 5, 2014

From Table 4.10, prove total of 32 respondents of financial institutions were understands and uses proclamation No. 847/2014 date December 5, 2014. This question was a yes or no answer. 24 or 75% of respondents understands and uses proclamation No. 847/2014 date December 5, 2014 about IFRS on financial institution and the remaining 8 or 25% of the respondents not understands and uses proclamation No. 847/2014 date December 5, 2014 about IFRS on financial institutions.

4.2.10. Did you get through formal training when IFRS was introduced?

Did you get through formal training when IFRS was introduced?			
	Frequency	**Percent**	**Cumulative Percent**
Yes	3	9.4%	9.4%
No	29	90.6%	100%
Total	32	100%	

Table 4.11: Formal training when IFRS was introduced

Form table 4.11 the respondents were involved in training activity or not. This question was a yes or no answer. 3 or 9.4% of the respondents say that they were involved in training activities when IFRS was introduced. 29 or 90.6% of the respondents say that they were not involved in training activities when IFRS was introduced. 90.6% of the respondent could say that they were not undergone training process when IFRS was introduced that means there hasn't to be a form of training when introducing IFRS into a company in Ethiopia. But some individuals attend at Association of Chartered and Certified accountants (ACCA) to get formal training.

4.2.11. Have you ever attended any seminar concerning IFRS?

Have you ever attended any seminar concerning IFRS?			
	Frequency	**Percent**	**Cumulative Percent**
Yes	13	40.6%	40.6%
No	19	59.4%	100%
Total	32	100%	

Table 4.12: Attended any seminar concerning IFRS

Table 4.12: shows if the respondents were involved in seminar activity or not. This question was a yes or no answer. 13 or 40.6% of the respondents say that they were involved in seminar activities while 19 or 59.4% respondents say that they were not involved in seminar activities

when IFRS was introduced. If 59.4% of the respondents could say they didn't attended seminar when IFRS was introduce, this means it is necessary for the department members of a institution that will adopt IFRS to attend seminars concerning IFRS. Like National workshop to launch IFRS implementation in Ethiopia to Implementing standards in financial reporting and auditing. The Accounting and Auditing Board of Ethiopia(AABE) in collaboration with the Association of Chartered and Certified accountants(ACCA)April 26,2016 at UN conference Center.

4.2.12. Is the increase in number of your foreign investors as a result of IFRS adoptions.

Is the increase in number of your foreign investors as a result of IFRS adoption?			
	Frequency	**Percent**	**Cumulative Percent**
Yes	1	3.1%	3.1%
No	31	96.9%	100%
Total	32	100%	

Table 4.13: IFRS has increased the number of foreign investors

Table 4.13 shows if IFRS adoption has increased the number of foreign investors or not. This question was a yes or no answer. 1 or 3.1% of the respondents say that IFRS adoption has increased the number of foreign investors in the bank they work for while 31 or 96.9% respondents say that IFRS adoption hasn't increased the number of foreign investors when IFRS was introduced. If 96.9% of the respondents could say they didn't increased the number of foreign investors when IFRS was introduce, this means it is necessary to attend seminars and training concerning IFRS adoption of to fill the gab knowledge on IFRS adoption has increased the number of foreign investors in the bank or insurance they work for. It can be said that companies that adopt IFRS in share companies in Addis Ababa has the possibility of increase in the number of foreign investors which is consistent with the "benefits of IFRS adoption".

4.3. IFRS Adoption?

Sr. No.	IFRS Adoption	Mean	Std. Deviation	N
1	Do you think the statement of accounting standards your company used partly outdated?	4.25	0.672	32
2	Statement of accounting standards used in your company is not sufficiently comprehensive enough to become a basis for preparation of high quality financial statements.	4.22	0.491	32
3	Ethiopian government encourage companies to adopt IFRS	4.25	0.672	32
4	IFRS is better than GAAP	4.53	0.507	32
5	In practice IFRS has really improved the reporting practice in your company compare to the GAAP.	4.22	0.706	32
6	IFRS is difficult or cumbersome.	4.25	0.44	32
7	The adoption of IFRS has brought about high quality financial statements.	4.31	0.644	32
8	The adoption of IFRS has brought about transparent financial statements.	4.47	0.567	32
9	The adoption of IFRS has brought about comparable financial statements.	4.53	0.567	32
10	IFRS can help the local investors to make better investment decisions compare to the GAAP.	4.38	0.492	32
11	The cost of adopting IFRS is too high compare to the benefits that will be enjoyed.	3.87	1.04	32
12	IFRS provides better information for regulators than GAAP	4.38	0.66	32
13	The adoption of IFRS will result in a positive change or development in human resources.	4.53	0.507	32
14	The adoption of IFRS will increase transparency and comparability of financial statements	4.56	0.504	32
15	There is a greater efficiency and decrease in cost of finance under IFRS than in GAAP	4.16	0.808	32
16	Companies that operates or aims to operates in multiple foreign countries will be under pressure to comply with accounting standard under IFRS than in GAAP	4.41	0.665	32
17	The adoption of IFRS will promote and increase access to overseas market.	4.53	0.567	32

Table 4.14: IFRS Adoption

For this study the researcher take seventeen International Financial Reporting Standards of adoption also asked for response by the statements with a 5 point Likert scale and indicate the extent they agree with the statements that is: 5-Strongly agree, 4-Agree, 3-Nutral, 2-Disagree, 1-Strongly disagree. A mean (M) score of 0-1.5 means that there respondents strongly disagreed, between 1.50 to 2.50 means they disagreed, 2.50 to 3.50 means the respondents were neutral or not sure, 3.50-4.50 means they agreed, and a mean above 4.50 means there respondents strongly agreed. Based on the findings on Table 4.12 (M=4.25; SD=0.672), the respondents could agree the statement of accounting standards your company used partly outdated even some share companies stated Ethiopia haven't standards organization uses GAAP only, (M=4.22; SD=0.491), the respondents could agree Statement of accounting standards used in share companies is not sufficiently comprehensive enough to become a basis for preparation of high quality financial statements, (M=4.25; SD=0.672), the respondents could agree Ethiopian government encourage companies to adopt IFRS, (M=4.53; SD=0.507), the respondents could strongly agree IFRS is better than GAAP, (M=4.22; SD=0.706), the respondents could agree in practice IFRS has really improved the reporting practice in your company compare to the GAAP, (M=4.25; SD=0.44), the respondents could agree IFRS is difficult or cumbersome, (M=4.31; SD=0.644), the respondents could agree the adoption of IFRS has brought about high quality financial statements, (M=4.47; SD=0.567), the respondents could agree the adoption of IFRS has brought about transparent financial statements, (M=4.53; SD=0.567), the respondents could strongly agree the adoption of IFRS has brought about comparable financial statements, (M=4.38; SD=0.492), the respondents could agree IFRS can help the local investors to make better investment decisions compare to the GAAP, (M=3.87; SD=1.04), the respondents could agree the cost of adopting IFRS is too high compare to the benefits that will be enjoyed, (M=4.38; SD=0.66), the respondents could agree IFRS provides better information for regulators than GAAP, (M=4.53; SD=0.507), the respondents could strongly agree the adoption of IFRS will result in a positive change or development in human resources, (M=4.56; SD=0.504), the respondents could strongly agree the adoption of IFRS will increase transparency and comparability of financial statements, (M=4.16; SD=0.808), the respondents could agree there is a greater efficiency and decrease in cost of finance under IFRS than in GAAP, (M=4.41; SD=0.665), the respondents could agree Companies that operates or aims to operates in multiple foreign countries will be under pressure to comply with accounting standard under IFRS than in GAAP and (M=4.53; SD=0.567), the respondents could strongly agree the adoption of IFRS will promote and increase access to overseas market.

4.4. Benefits of IFRS?

Sr. No.	Benefits of IFRS	Mean	Std. Deviation	N
1	Improves transparency of financial statement	4.5	0.508	32
2	Improves accountability of financial statement	4.44	0.504	32
3	Improves efficiency of financial statement	4.47	0.507	32
4	Improves reliability of financial statement	4.53	0.507	32
5	Improves relevancy of financial statement	4.59	0.499	32
6	Improves completeness of financial statement	4.69	0.471	32
7	Improves comparability of financial statement	4.56	0.504	32
8	Improves understandability of financial statement	4.5	0.718	32
9	IFRS provides better information for investors to make a decision	4.56	0.504	32
10	Improves credibility of financial statement	4.59	0.499	32
11	Decreases information cost	4.13	0.907	32
12	IFRS provides better information for management to make a decision	4.66	0.483	32
13	Ease to integrates IT system	4.37	0.66	32
14	Ease to consolidated financial reports	4.47	0.507	32
15	IFRS adoption improves regulation oversight and enforcement	4.5	0.508	32

Table 4.15: Benefits of IFRS

For this study we take fifteen benefits of International Financial Reporting Standards also asked for response by the statements with a 5 point Likert scale and indicate the extent they agree with the statements that is: 5-Strongly agree, 4-Agree, 3-Nutral, 2-Disagree, 1-Strongly disagree. A mean (M) score of 0-1.5 means that there respondents strongly disagreed, between 1.50 to 2.50 means they disagreed, 2.50 to 3.50 means the respondents were neutral or not sure, 3.50-4.50 means they agreed, and a mean above 4.50 means there respondents strongly agreed. Based on the findings on Table 4.12 found that eight statements on benefits of IFRS are answered in the rage of 4.13 to 4.50 are agree on the benefits of IFRS the remaining seven statements answered in the range of 4.53 to 4.69 are strongly agree.

4.5. Challenges Faced in the Adoption of IFRS

Sr. No.	Challenges Faced After the Adoption of IFRS	Mean	Std. Deviation	N
1	IFRS is sophisticated	4.19	0.859	32
2	Less number of professional with IFRS	4.31	0.693	32
3	IFRS has additional Cost	4.31	0.644	32
4	IFRS has a negative balance of retained earnings	4.16	0.92	32
5	Conflict between laws and IFRS	4.22	0.906	32
6	Differences in IFRS‘s implementation process	4.22	0.706	32
7	Lack of Internal IFRS Experts	4.44	0.619	32
8	Lack of proper instruction from regulatory bodies	4.31	0.931	32

Table 4.16: Challenges Faced in the Adoption of IFRS

For this study we take eight challenges faced in the adoption of IFRS also asked for response by the statements with a 5 point Likert scale and indicate the extent they agree with the statements that is: 5-Strongly agree, 4-Agree, 3-Nutral, 2-Disagree, 1-Strongly disagree. A mean (M) score of 0-1.5 means that there respondents strongly disagreed, between 1.50 to 2.50 means they disagreed, 2.50 to 3.50 means the respondents were neutral or not sure, 3.50-4.50 means they agreed, and a mean above 4.50 means there respondents strongly agreed. Based on the findings on Table 4.14 we found that all of those eight challenges faced in the adoption of IFRS are answered in a rage of 4.16 to 4.44 that is they all agree on the eight challenges faced in the adoption of IFRS.

In general descriptive statistics of the study dependent variables is IFRS on the quality of financial reporting and the independent variable are Transparency, Accountability and Economic Efficiency. In the following Table shown descriptive statistics

Descriptive Statistics

	N	Mean	Std. Deviation
IFRS on the quality of financial reporting	32	4.3438	0.27837
Transparency	32	4.3203	0.36052
Accountability	32	4.4062	0.34261
Economic Efficiency	32	4.2656	0.41448
Valid N (listwise)	32		

Table 4.17 Descriptive Statistics

The dependent variable (i.e. IFRS on the quality of financial reporting) has a mean response of 4.3438 and std. of 0.27837 from this it can be argued that most of the respondents are agreed with the IFRS on the quality of financial reporting in the financial institution in Addis Ababa, Ethiopia. Similarly all the independent variables (i.e. transparency, accountability, and economic efficiency) have a mean response from 4.2656 (lowest) with std. of 0.41448 to 4.4062 (highest) with standard deviation of 0.34261 indicating that most respondents are agreed with the question designed for each variable.

4.6. Correlation Analysis for IFRS on the quality of financial reporting

The researcher carried out a correlation analysis to test the relationship between the dependent and the independent variables. In the study dependent variables is IFRS on the quality of financial reporting and the independent variable are transparency, accountability and economic efficiency. The findings for this analysis are shown in the following

Correlations

		IFRS on the quality of financial reporting	Transparency	Accountability	Economic Efficiency
IFRS on the quality of financial reporting	Pearson Correlation	1	.635**	.800**	.880**
	Sig. (2-tailed)		0	0	0
	N	32	32	32	32
Transparency	Pearson Correlation	.635**	1	0.31	.447*
	Sig. (2-tailed)	0		0.085	0.01
	N	32	32	32	32
Accountability	Pearson Correlation	.800**	0.31	1	.571**
	Sig. (2-tailed)	0	0.085		0.001
	N	32	32	32	32
Economic Efficiency	Pearson Correlation	.880**	.447*	.571**	1
	Sig. (2-tailed)	0	0.01	0.001	
	N	32	32	32	32

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

Table 4.18: Correlation coefficient for determining IFRS on the quality of financial reporting in financial institutions in Addis Ababa

The Pearson correlation analyses confirm that there is a significant positive relationship between three independent variables (transparency, accountability, and economic efficiency) and the outcome variable. The bivarate correlation between subjective transparency and FRS on the quality of financial reporting is 0.635, that of accountability and FRS on the quality of financial reporting is 0.800 and efficiency and FRS on the quality of financial reporting 0.880 and all are significant at the 0.01 level of confidence.

4.7. Regression Analysis for IFRS on the quality of financial reporting in financial institutions in Addis Ababa

The researcher carried out a regression analysis to show the association between the independent variables with the dependent variable on the financial institutions data.

Coefficients [a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.443	.150		2.949	.006
Transparency	.212	.030	.274	6.986	.000
Accountability	.341	.035	.420	9.825	.000
Economic Efficiency	.348	.031	.518	11.389	.000

a. Dependent Variable: IFRS on the quality of financial reporting

Table 4.19: Regression Coefficients for IFRS on the quality of financial reporting in financial institutions in Addis Ababa

Table 4.19; shows there is significant association between the independent variables transparency, accountability and economic efficiency with the dependent variable IFRS on the quality of financial reporting in financial institutions in Addis Ababa; since the p-value for those independent variables are less than 0.05. And the resulting regression equation is as follows;

$$Y = 0.443 + 0.212X_1 + 0.341X_2 + 0.348X_3 + e$$

Where Y= IFRS on the quality of financial reporting, X_1= Transparency; X_2 = Accountability; X_3 = Economic Efficiency; and e= the residual amount. The regression equation above show as by taking all factors into account constant at zero, the IFRS on the quality of financial reporting will have a value of 0.443. And the findings presented also show that taking all other independent variables at zero, a unit increase in transparency would lead to a 0.212 increase in the IFRS on the quality of financial reporting; taking all other independent variables at zero, a unit increase in accountability would lead to a 0.341increase in the IFRS on the quality of financial reporting; and taking all other independent variables at zero, a unit increase in economic efficiency would lead to a 0.348 increase in the IFRS on the quality of financial reporting.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.983[a]	.966	.962	.05425

a. Predictors: (Constant), Economic Efficiency, Transparency, Accountability

Table 4.20: Model Summary for Dependent Variable IFRS on the quality of financial reporting

From table 4.20; R-Square which is the coefficient of determination is a commonly used statistic to evaluate model fitness. The adjusted R^2, is also called the coefficient of multiple determination, is the percentage of the variation in the dependent variable explained uniquely or jointly by the independent variables. 96.2% of the variations in IFRS on the quality of financial reporting can be attributed to the combined effect of the predictor variables. This means that 3.8% of the changes in the changes can be attributed to other factors.

ANOVA[b]

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	2.320	3	.773	262.707	.000[a]
Residual	.082	28	.003		
Total	2.402	31			

a. Predictors: (Constant), Economic Efficiency, Transparency, Accountability

b. Dependent Variable: IFRS on the quality of financial reporting

Table 4.21: ANOVA Result for IFRS on the quality of financial reporting

Table 4.21; show the P-value of 0.000 indicates that the regression relationship is significant in predicting how the three independent variables economic efficiency, transparency and accountability influence the IFRS on the quality of financial reporting. The F critical at 5% level of significance is 0.03. Since F calculated is 262.707 is greater than the F critical (value = 0.03) thus showing that the model is significant.

Chapter Five: Summary, Conclusion and Recommendations

This study wanted to explore the adoption, challenges and perception of international financial reporting standards (IFRS) on the quality of financial reporting of financial institution in Addis Ababa, Ethiopia**.** Therefore this chapter gives the summary of the research finding, conclusions, recommendations and suggestions for further research based on the results in chapter four.

5.1. Summary of the Finding

The results of the study provide important insights on adoption, challenges and perception of international financial reporting standards (IFRS) on the quality of financial reporting of financial institution in Addis Ababa, Ethiopia and the summary of this research finding is as follows

This study is conducted on financial institutions in Addis Ababa, Ethiopia to generate information about the status of adoption, challenges and perception of international financial reporting standards (IFRS) on the quality of financial reporting of financial institution to implement IFRS. The questionnaire of the survey has distributed to headquarter responsible official of all private financial institutions, to those who are responsible for the preparation and assurance of financial statements; these are finance directors, finance managers, and finance division manager.

The respondents who are participated in this survey are gives a direction, from the total of thirty two private financial institutions, only three are using IFRS but from the annual report of institutions eleven are using IFRS in their financial statements presentation.

The study found that the financial institutions in Ethiopia have started using IFRS voluntarily for the preparation of their financial statements since 2002/03 without making all necessary preparedness. However, nationally, Ethiopia has decided to join the IFRS network with a 'big bang' approach to adopt IFRS through enactment of proclamation as of December 5, 2014. The Adoption of IFRS is motivated by both internal and external factors: internally, the demand of professionals, academics and preparers to work with international trends and externally pressure from global audit firms and other international organizations.

The main questions of the survey focused on the points that can serve to identify Ethiopian financial institutions adoption to IFRS, to understand the practical benefits of implementing IFRS, understand the challenges faced by the institutions, and quality of financial reporting.

As a general information the question that can serve to assess and understand the profile of the respondents, the current status & profile of institutions and to understand the awareness of the respondent about IFRS. And from the analysis of survey that in the dependent and independent variables there is significant correlation. Among those the IFRS on the quality of financial reporting has significant correlation with the transparency, accountability and economic efficiency.

The study has analyzed the data collected through document analysis (annual reports, legislations, directives, and other documents), observation of the researcher and distributed self administered questionnaire to finance directors/ managers, auditors and finance officers. Questionnaire data were analyzed using descriptive statistics and data from observation and document reviews have interpreted qualitatively and quantitative (mixed approach) as a support for the descriptive analysis.

The study on the implementation of IFRS in financial institutions mainly shows that implementation of IFRS leads to improved comparability & reliability of financial statements, reduce cost of capital of firms through lower cost of information, greater marketability of shares, and reduced information asymmetry and others.

The survey result shows that the respondents identify various IFRS implementing challenges of institutions that high implementation costs, the complexity of financial reporting, lack of IFRS implementation agent, lack of IFRS implementation guidance, lack of availability of competent specialists, high level training requirement, less familiarity with the IT challenges in handling the implementation of IFRS, lack of proper instructions from regulatory bodies, and problem with IFRS implementation proper plan and absence of commitment & proper plan of financial institutions to implement IFRS and requirements of the existing Tax law amendment are identified as factors that makes to implement IFRS.

5.2. Conclusion

Definitely international financial reporting standards are vital in developing and building detailed quality financial reports that fit in the entity's operations. The study found that Adoption of IFRS purports numerous benefits for Ethiopian financial institutions including, improves the efficiency and effectiveness of financial reporting, provides reliable and comparable financial statements, makes external financing easier, provides greater reporting transparency and enables greater effectiveness of the internal audit. It also provides benefits for investors like providing better information for decision making, increase investors' confidence on financial reports and enhances transparency of companies' reports for investors. IFRS can minimize information asymmetry between employees and management and between the management and shareholders that it helps to reduce uncertainties and better risk management, provides better information for decision making by the institution’s management and promotes cross border investment.

5.3. Recommendations

Based on the study results, the researcher gives the following recommendations

The board members should seriously discharge the historical responsibility vested to them through establishing a noble foundation for accountancy profession in the country. The Board should identify and determine the key dates and the date of transition to IFRS through active participation of all stakeholders through bottom-up approach and effectively communicate these dates to the stakeholders and develop its own IFRS training plan for accounting and finance personnel. Besides, recognizing the importance of professional accountancy institution in developing and enforcing accounting and auditing standards, and monitoring the accountancy professionals, the board should work toward its establishment and provide continuous support to the institution even after its establishment.

The board should also conduct a study to identify the gaps in systems and processes to gather information needed under IFRS and the currently available information in the country and develop IFRS Accounting manual modifying charts of accounts and detailed instructions taking IFRS requirements into accounts. Practical action should be taken to integrate ISA and IFRS modules into Ethiopian higher institutions’ accountancy education curriculum. Since IFRS are developed having stock market in mind, a stock exchange should also be established in the country if effective implementation and application of IFRS is considered necessary.

National Bank of Ethiopia has preferred to give a clear direction to Ethiopian Banks about the implementation of IFRS through the customary directive;

Since Ethiopia as a country NBE as Banks' supervisor shows initiation and commitment to implement IFRS, Ethiopian financial institutions should set a proper plan for the implementation of IFRS and reflect it in their respective financial statements; and

Ethiopian Banks should search a means to equip and periodically update their staff in the education, expertise, technical capacities and IT challenges in connection with IFRS.

Ethiopian Universities, Colleges and other training institutes should work in this regard and incorporate the concept of IFRS intensely in their academic curriculum;

All expert, practitioner and academicians of Accounting and Finance shall discussed by themselves through their professional associations to create a common and excel understanding about IFRS in Ethiopia;

5.4. Limitation of the Study

The major limitation of the study is that the data was collected from a small convenience sample of staff financial institutions in Addis Ababa i.e. this study only participates those finance directors, finance managers, and finance division manager in the private institutions in Addis Ababa; thus the result may provide different since if we participate other officials in those institutions. Another limitation of this study is that the research focused only on private institutions that is in Addis Ababa and therefore requires further research covering various organizations and institutions taking into consideration the specific conditions in the organizations and institutions. Finally, but not the list the research has been cared only in private institutions due to resource limitation to do.

5.5. Suggestion for Further Study

The present study used only private financial institutions in Addis Ababa; future studies should consider expanding their scope to include governmental and microfinance financial institutions. Further studies related to the study can be conducted especially the effective implementation of IFRS in Ethiopia according to the time table of Accounting and Auditing Board of Ethiopia Roadmap Implementation Task Force.

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Annex -1. Questionnaires

Addis Ababa University
College of Business and Economics
Masters of Science in Accounting and Finance

Questionnaire on "Adoption, challenges and perception of international financial reporting standards (IFRS) on the quality of financial reporting of financial institution in Addis Ababa, Ethiopia**."**

Dear Respondents,

This questionnaire is designed to explore adoption, challenges and perception of international financial reporting standards (IFRS) on the quality of financial reporting of financial institution in Addis Ababa, Ethiopia. This study is conducted in partial fulfillment of the requirements for the Master's degree in Accounting and Finance at Addis Ababa University. Its main objective is to assess the adoption, challenges and perception of international financial reporting standards (IFRS) on the quality of financial reporting of financial institution in Addis Ababa, Ethiopia.

Your response is vital to the outcome of the study and you are requested to completely and objectively answer all questions. The research is going to be carried out based on your responses and other relevant data that could support it. It forms a major part of the research and the information you will enable the researcher to critically analyze adoption, challenges and perception of international financial reporting standards (IFRS) on the quality of financial reporting of financial institution in Addis Ababa, Ethiopia.

Your cooperation to respond genuinely is very important to this study because it represents in the sample. Please answer all questions. Space is provided at the end of the questionnaire for you to add further explanations or comments. I would promise that all information you provide would be strictly confidential.

Please tick **(✓)** or provide your own answers where applicable.

Thank you in advance for your indispensable cooperation to spare invaluable time and energy to complete these questionnaires
Name: Melese Hailemichael MSc student at AAU Telephone:

PART1. General Information

1. Gender

- ○ Male
- ○ Female

2. Age Bracket

- ○ Less than 25 Years
- ○ 25-34 Years
- ○ 35-44 Year
- ○ 45-54 Years
- ○ Over 54Years

3. Educational Background

- ○ Certificate
- ○ Diploma
- ○ BA/BSC Degree
- ○ MSc/ MA
- ○ Other Specify _______________

4. Your Position in the Company

- ○ Finance Manager
- ○ Deputy Finance Manager
- ○ Other Specify _______________

5. Type of Financial institutions :-

- ○ Bank
- ○ Insurance

6. Does your company use IFRS?

- ○ Yes
- ○ No

If No please Specify ____

7. What is the difficulty you encountered at the first time adoption of IFRS?

- ○ Difficulty in understanding how to implement IFRS
- ○ Lack of regulation
- ○ Lack of regulation on how to implement

Other Specify ____

8. How many years IFRS was introduced in this Company?

- ○ Less than 2 years
- ○ 2-5 years
- ○ 5-10years
- ○ No applicable
- ○ Specify _______________

9. Does your company understands and uses proclamation No. 847/2014 date December 5, 2014 about IFRS on Share Company?

- ○ Yes
- ○ No

If No please Specify ____

10. Did you get through formal training when IFRS was introduced?

- ○ Yes
- ○ No

11. Have you ever attended any seminar concerning IFRS?

- ○ Yes
- ○ No

12. Is the increase in number of your foreign investors as a result of IFRS adoption?

- ○ Yes
- ○ No

PART 2: IFRS Adoption

The scale below will be applicable as Five-point scales ranging from "Strongly disagree" to "Strongly agree" that are: 1 = Strongly disagree, 2 = Slightly disagree, 3 = Undecided, 4 = Slightly agree 5 = Strongly agree

IFRS Adoption		1	2	3	4	5
1.	Do you think the statement of accounting standards your company used partly outdated?					
2.	Statement of accounting standards used in your company is not sufficiently comprehensive enough to become a basis for preparation of high quality financial statements.					
3.	Ethiopian government encourage companies to adopt IFRS					
4.	IFRS is better than GAAP					
5.	In practice IFRS has really improved the reporting practice in your company compare to the GAAP.					
6.	IFRS is difficult or cumbersome.					
7.	The adoption of IFRS has brought about high quality financial statements.					
8.	The adoption of IFRS has brought about transparent financial statements.					
9.	The adoption of IFRS has brought about comparable financial statements.					
10.	IFRS can help the local investors to make better investment decisions compare to the GAAP.					
11.	The cost of adopting IFRS is too high compare to the benefits that will be enjoyed.					
12.	IFRS provides better information for regulators than GAAP					
13.	The adoption of IFRS will result in a positive change or development in human resources.					
14.	The adoption of IFRS will increase transparency and comparability of financial statements					
15.	There is a greater efficiency and decrease in cost of finance under IFRS than in GAAP					
16.	Companies that operates or aims to operates in multiple foreign countries will be under pressure to comply with accounting standard under IFRS than in GAAP					
17.	The adoption of IFRS will promote and increase access to overseas market.					

PART 3: Benefits of the Adoption of IFRS

NB **SD**: Strongly Disagree, **D**: Disagree, **NAD**: Neither Agree nor Disagree, **A**: Agree **SA**: Strongly Agree.

Benefits of IFRS		SD	D	NAD	A	SA
1.	Improves transparency of financial statement					
2.	Improves accountability of financial statement					
3.	Improves efficiency of financial statement					
4.	Improves reliability of financial statement					
5.	Improves relevancy of financial statement					
6.	Improves completeness of financial statement					
7.	Improves comparability of financial statement					
8.	Improves understandability of financial statement					
9.	IFRS provides better information for investors to make a decision					
10.	Improves credibility of financial statement					
11.	Decreases information cost					
12.	IFRS provides better information for management to make a decision					
13.	Ease to integrates IT system					
14.	Ease to consolidated financial reports					
15.	IFRS adoption improves regulation oversight and enforcement					

PART 4: Challenges Faced in the Adoption of IFRS

NB **SD**: Strongly Disagree, **D**: Disagree, **NAD**: Neither Agree nor Disagree, **A**: Agree **SA**: Strongly Agree.

Challenges Faced in the Adoption of IFRS		SD	D	NAD	A	SA
1.	IFRS is sophisticated					
2.	Less number of professional with IFRS					
3.	IFRS has additional Cost					
4.	IFRS has a negative balance of retained earnings					
5.	Conflict between laws and IFRS					
6.	Differences in IFRS‘s implementation process					
7.	Lack of Internal IFRS Experts					
8.	Lack of proper instruction from regulatory bodies					

PART 5: if anything; please State

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