Assessment of International Financial Reporting Standard Adoption and Financial Reporting Quality: Evidence from Ethiopian Commercial Banks

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Statement of Declaration

I, Momina Motuma, have carried out independently a research work on “Assessments of IFRS Adoption and Financial Reporting Quality: Evidence from Ethiopian Commercial Banks” in partial fulfillment of the requirement of the MSc program in Accounting and Finance with the guidance and support of the research advisor.

This study is my work that has not been submitted for any degree or diploma program in this or any other institution, and that all references materials contained therein have been duly acknowledged.

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This is to certify that the thesis prepared by Momina Motuma, entitled: ‘’*Assessment of International Financial Reporting Standards adoption and Financial Feporting Quality: Evidence from Ethiopian commercial Banks*” and submitted in partial fulfillment of the requirements for the degree of Master of Science in Accounting and Finance complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

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Abstract

This study intends to assess the International Financial Reporting Standard (IFRS) adoption and quality of financial reporting (Relevance, Understandability, Comparability, and Faith Representation) in Ethiopian commercial banks. Accordingly, the study used primary data collected through the questionnaire as the main data collection instrument. Using a purposive sampling method, the study selected a sample of seven (7) commercial banks from a total population of eighteen (*18) commercial banks to conduct a study for the pre and post of IFRS adoption with a total of 160 respondents. To achieves the objectives, the study adopted the qualitative research approach. The primary data were analyzed using descriptive statistics and secondary data from document reviews were interpreted qualitatively. The study used the perceptions of preparers of financial reports (accounting & finance officer, finance managers as well as IFRS implementation team members) in Ethiopian commercial banks to analyze about IFRS adoption and FRQ in commercial banks. The study adopted a qualitative research approach and descriptive research design. The results descriptive analysis shows that; the quality of financial reports which is measured through quality information (relevance, understandability, comparability and faith representation) was improved in Ethiopian commercial banks after the adoption of international financial reporting standards. however, Faithfull representation is not that much happened because of the adoption of international financial reporting standards.*

Besides, the results of the analysis indicate that positive accounting theory is the relevant theory in the Ethiopian banking industry, whereas there is little evidence to support the normative accounting theory. Therefore, banks should consider relevance, comparability, understandability and faith representation to have better financial reports.

Keyword: *IFRS adoption, financial reporting quality, relevance, understandability, comparability, faith representation**,** commercial bank**,** Ethiopia*

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List of Acronyms

AABE	Accounting and Auditing Board of Ethiopia
CBE	Commercial Banks of Ethiopia
CMT	Conservative Method Theory
FRQ	Financial Reporting Quality
FASB	Financial Accounting Standard Board
GAAP	Generally Accepted Accounting Principles
IASB	International Accounting Standards Board
IAS	International accounting standards stating
IFAC	International Federation of Accountants
IFRS	International Financial Reporting standards
IOSCO	International Organization of Securities Commissions
IMF	International Monetary Fund
NBE	National Bank of Ethiopia
NAT	Normative accounting Theory
NSE	Nigerian Stock Exchange
ROSC	Report on the Observance of Standards and Codes
UK	United Kingdom
US	United State

CHAPTER ONE

Introduction

The study focused on providing empirical evidence on IFRS adoption and the financial reporting quality of commercial banks operating in Ethiopia. Ethiopian commercial banks merit being the study subject for the fact that they are among the largest public interest companies with significant economic contributions. Thus, the results of the study have a practical contribution to the management, investors, creditors, and regulators to understand is the adoption IFRS improves financial reporting quality.

This chapter provides general information about the research topic to give some clues to the readers about the study area. The chapter begins with the background of the study then followed by the statement of problems, objectives of the study, significance of the study, scope, limitation, and finally,organization of the paper.

1.1. Background of the study

Accounting Standard is a rule or set of rules, which prescribes the methods by which financial records should be prepared and presented. accordingly, International Financial Reporting Standards (IFRS) are a set of international accounting standards stating and reporting rules that define how business transactions should be recorded and reported and what information a company should disclose in its financial statements. IFRS is developed by the International Accounting Standard Board (IASB) as a global accounting standard for preparing financial reports of companies and firms (Isaac, 2017). IASB is an independent international organization working to improve and standardize the preparation and release of important international financial information. Unlike the US General Accounting and Auditing Principles (GAAP) which rely on rule-based and historical cost, IFRS as a new standard focuses on principle-based and fair value. The proponents of IFRS argue that this standard provides more value relevance than the old one (Ball et al., 2003).

The application of IFRS aims at achieving transparency of the company’s activity, as well as it creates the opportunity to make reasonable managerial decisions, estimate the financial condition and implement forecasts. Due to the active process of globalization in world economic systems, IFRS standards are widely used in the modern financial world. The need for the development of IFRS as a single set of rules for accounting and reporting systems was primarily caused by the establishment of uniform rules on the international financial market. As noted in (Tatiana Dolgikh,2015) the concept of IFRS as the global standards has been publicly supported by many international authoritative organizations, including the group "Big twenty" (G20), the World Bank, the International Monetary Fund (IMF), the Basel Committee, the International Organization of Securities Commissions (IOSCO) and the International Federation of Accountants (IFAC).

The reasons often advanced for the adoption of IFRSs is that it improves financial reporting quality (Aigienohuwa & Ofuan, 2018). Quality financial reporting is of great importance to the users both directly and indirectly as it affects their economic decision making (Ochung, 2017). The quality financial reporting standards also increase the confidence of investors and the general public in financial and non-financial information hence contributing to a country's economic growth and financial stability (Beet et al., 2009). Therefore, IFRS provides international investors with a brand of trust in the quality of financial reporting. That trust in financial reporting is essential if investors are to be encouraged to step in to promote continued economic growth.

The Accounting and Auditing Board of Ethiopia (AABE) was established under financial reporting proclamation no 847/2006 to implement feasible and understandable financial reporting standards and to provide awareness creation training for governmental and non-governmental organizations through designing implementation roadmap. AABE required all financial institutions and public enterprises in Ethiopian country to adopt IFRS from July 1, 2017. The adoption of IFRS in the banking sector is in line with the argument that sector-specific regulatory agencies strengthen financial reporting quality (Michael, 2008).

Ethiopian government requires strongly to attracting investors' in-country by using different methods to develop the economy of the country. Thus, the adoption of IFRS compulsory requires all Ethiopian financial institution banks and public enterprises to realize government requires. Additionally, IFRS will also increase the general level of professional education of accountants and standards-setting bodies and improve their policies and decision making. It will put the foundation to the much-needed domestic capital market to mobilize financial resources for long-term investment. In general, implementation of IFRS contributes to Government efforts of improving good governance and reducing the level of corruption and rent-seeking behaviors (AABE, 2015).

Banks are vital in the development of the economy of every country. It is signifying the powerful force of any economy. Banks also play an intermediary role in mobilizing funds from savers and subsequently lend them to investors-individual/corporations (Rukia, 2018). However, given the role the banking sector plays in the growth and development of every country, there is an enhanced demand for high-quality accounting standards to prove managers and business owners. Particularly the broad range of adoption of universal accounting and reporting standard to whom financial reporting quality of banks are ultimately answerable, from IFRS Foundation and IASB to managers, government and regulators, the quality of financial report of banks plays an important role in the economy. Currently, there are two state-owned and 16 privet commercial banks in Ethiopia. Ethiopian commercial banks merit being the subject of study since they are among the largest public interest companies with significant economic contributions and for the fact that the banking sector is one of an adopter of IFRS in Ethiopia (Abiy, 2014).

Considering that the adoption of IFRS is improving financial reporting quality and the need for high-quality financial statements to the Ethiopian economy, this study aimed to asses IFRS adoption and quality of financial reporting after the adoption of IFRS in Ethiopian commercial banks. The study specifically assesses whether there is higher relevance, increasing understandability and comparability as well as faith representation of financial reports in the adoption period. It also takes a global perspective on the IFRS question concerning quality. Past studies made on the banking industry conducted on benefit and challenges of IFRS. Unlike Past studies, this study set out to assess whether the adoption of IFRS improves financial reporting quality (FRQ) with regarding Ethiopian commercial banks. The study will bring insight for managers, accountants, board members, investors, creditors, regulators and company stakeholders as to knowing what IFRS adoption and financial reporting quality in the banking industry.

1.2. Statements of the problem

The globalization of business required international companies to prepare financial reports in compliance with the accounting standards of each country in which they were active. The requirement for preparing multiple financial reports was costly and difficult for companies. The objective of every financial statement is to provide information about the financial position, performance, and changes in the financial position of an organization that should be useful to a wide range of users making economic decisions. Due to globalization and international trade that exists between countries, financial information must be prepared and presented in a way that can be understood by all users both locally and internationally. This has to lead to the introduction of IFRS to help financial reports to be comparable among firms (Sandra, 2015).

The financial system, including regulations, institutions, and functions, is a key factor for the capital movement in the reality of the global market economy. As the world becomes a globalization village for doing the day to day business transaction, the need for a single set of standards in financial reporting is valuable. However, in Ethiopia, most companies are prepared financial statements for tax purposes and to get a loan from banks. Since their motive is to minimize cost and maximize profit most of them do not want to employ qualified accountants rather they will hire accountants who have limited knowledge in preparing year-end financial reporting for-profit tax purpose and inventory control (Weldekidan, 2009).

The rapid growth of international business and the globalization of capital markets make it necessary to measure the truth and accuracy of financial statements and performance of FRQ in different countries, not just across financial firms". Many countries have made reforms in the past few decades with the introduction of IFRS to their business and accounting communities. It is not clear if these reforms have improved the financial reporting quality in countries, with different accounting standards and enforcement, investor protection and legislation

Banks are the cornerstone of a national financial system, and the biggest model moves to new IFRSs. The national bank Ethiopia demanded the application of IFRS for banks and other financial institutions since 2008 (Solomon 2011; Fikru 2012). This adoption of IFRS in the banking sector is in line with the argument that sector-specific regulatory agencies strengthen financial reporting quality (Michael, 2008). Banks represent one of the supports of economic development. Asa noted in (Adewale & Ibukun, 2018) the financial statements of banks are dependent upon by a large number of stakeholders. the quality of such financial statements is of dominant importance, especially in the beginning of globalization IFRSs were developed to ensure not only uniform standard but good quality of financial reporting.

The government of Ethiopia is committed to increasing investment in its economy towards reaching its development and growth objectives. Capital market development in-country is closely associated with the development of the country's financial reporting standard. Investors in the stock market are one of the users of financial statements who will use the financial information provided as the basis for making investment decisions. Financial accounting standards play an important role in the provision of financial information that meets the quality of reliable, relevant, understandable and comparable. Similarly, strengthening the country's financial architecture will make available quality financial information to facilitate investment decisions and to help reduce the risk of financial crises and corporate failures together with their associated negative economic impacts that have been witnessed in many industrialized and developing countries (ROSC, 2007).

A number of studies were conducted in Ethiopia concerning banking industry as well as adoption of IFRS; but, each study was conducted adoption of IFRS in Ethiopia (Solomon, 2016; Yichilal, 2015), benefits and challenges, associated with the application of IFRS in Ethiopia (Weldekidan, 2009; Fikru 2012; alemgena 2016; Wubayehu, 2017), process, issues and implications of IFRS (Yitayew, 2016) IFRS Adoption Progress in Ethiopia (Alemim, 2016), challenges and prospects of IFRS implementation (Abubeker, 2018) and IFRS adoption Progress in Ethiopia (Teferi, 2016). Related to this subject (Melese, 2016) conducted a study to examine adoption, challenge, perception of IFRS on the quality of financial reporting this studies concentrated on its challenges. There is a lack of prior studies that have assessed empirically IFRS adoption and quality of financial reporting. Additionally, as far as the knowledge of a researcher, specifically, no study has been done on the assessments of IFRS adoption and financial reporting quality after the adoption of IFRS in Ethiopia commercial banks. Therefore, considering this gap and the need for high-quality financial statements in the Ethiopian economy, IFRS adoption and FRQ in Ethiopian commercial banks need to be assessed. The objective of this study is, therefore, to address the opinion of the respondent, the questions. So the study seeks to answer the following research questions.

1.3. Research questions

The study designed the following research questions

- are the international financial reporting standard improve the relevance of financial information
- how the international financial reporting standard improve the understandability of financial information
- how the international financial reporting standard improve the comparability of financial information
- how the International financial reporting standard improve the faithful representation of financial information

1.4. Objectives of the Study

In this section general objective, the specific objective of the study is discussed

1.4.1 General objective

In the context of the problem highlighted above, the main objective of this study is to assess IFRS adoption and the financial reporting quality of Ethiopia commercial banks.

1.4.2 Specific objective

In line with the general objective mentioned above, the specific objectives of the study are to find out the following:

- To assesses the relevance of financial reporting of commercial banks in Ethiopia
- To investigate understandability on financial reporting of commercial banks in Ethiopia
- To examine comparability on financial reporting of commercial banks in Ethiopia
- To analyze faith representation on the financial reporting of commercial banks in Ethiopia.

1.5. Significance of the study

The central purpose of this research study is to found out the assessment of IFRS adoption and financial reporting quality by gathering evidence from Ethiopian commercial banks. The findings of the research add to the existing knowledge on the area of IFRS adoption and financial reporting quality. Specifically, this study is significant in the sense that:

Create meaningful awareness among the concerned body such as the accounting & finance officer, finance managers as well as IFRS implementation team members of commercial banks about the adoption of IFRS for optimal financial reporting quality.

The study finding helps researchers to seek more knowledge about the adoption of IFRS in improving financial reporting quality to round light on qualitative characteristics (relevance, understanding, comparability and faith representation).

The findings are also helpful in building on the already existing literature about assessments of IFRS adoption and financial reporting quality

The policymakers and the government can use the study findings in building and widening the awareness of IFRS adoption to improve financial reporting quality. Further, since the country is starting to adopt IFRS it will be helpful to improve the financial reporting quality of the country companies when monitoring its implementation.

It will provide knowledge that can help investors in Ethiopia, to appreciate the significance of IFRS in improving financial reporting quality while coming up with investment decision.

Local and international investors, policymakers, managers, and accountants must have better information about the adoption of IFRS and financial reporting quality after the adoption of IFRS in Ethiopian commercial banks.

1.6. Scopes and limitation of the study

The main objective of the study is to assess the IFRS adoption and financial reporting quality of Ethiopian commercial Banks. Financial reporting quality was measured by, relevance, understanding, comparability and faith representation of financial information. The study delimits its scope only to the banking industry among different types of financial institutions, because of the banking sector is among the largest public interest companies with significant economic contributions and IFRS was used by banks initially among available financial institutions. The main limitation of the study was lack of tolerance among respondents; some of the respondents were returned the questionnaires' distributed to them after the given date of collection and some of them do not return the questionnaires.

1.7. Organization of the Paper

This study is organized into five chapters. chapter one is the introduction, this entails the background of the study including previous studies on the topic, stating the problem, research questions, the objectives of the study, significance of the study, scopes, and limitations of the study and the organization of the study are presented in chapter one.

Chapter two covers a review of the literature includes the theoretical review in its first section which is followed by the review of the previous studies related to the area and conclusion and knowledge gap finally.

Chapter three also deals with the research approach used in the study, research design, the target of the population, sample design, size and sampling techniques, data source and collection techniques, data analysis and finally ethical consideration. chapter four covers results and discussion based on collected data on the issue of the study area. Finally, chapter five presents conclusions and recommendations.

CHAPTER TWO

LITERATURE REVIEW

Introduction

This chapter presents an assessment of the literature review on what has been covered by other researchers. The review aims to capture their views on the subject matter being discussed and is aligned to the theme and objectives of the study. The areas covered under both the theoretical and empirical aspects of the study. This chapter has the following sub-divisions: - theoretical review, empirical review, and conclusion & knowledge gap.

2.1 Theoretical Reviews

The literature shows the existence of different theories related to the adoption of IFRS and financial reporting quality. These theories include positive accounting theory, normative accounting theory, agency theory, stakeholder theory, Stewardship theory, and Conservative method theory

2.1.1 Concept of financial reporting quality

The definition of financial reporting quality is still diverse, but in principle, the definition of financial reporting can be viewed from two perspectives. The first view states that financial reporting quality is closely related to the performance of the company are realized in corporate profits earned in the current year. The second view states that financial reporting quality related to the company's stock performance in the capital market (Fanani, 2009)

Financial reporting quality is a broader concept that not only refers to financial information, but also disclosures, and other nonfinancial information that is usefully attached in the reports for decision making, hence it is the main concern for both present and potential investors (Van Beest et al., 2009). Financial Accounting Standards Board (FASB) Statement of Financial Accounting Concepts No. 1 (1978), states that financial reporting of an entity is aimed to inform current and potential investors the expected firm’s cash flows in making a rational investment decision.

The benefits of standardized and high-quality financial reporting are lower preparation costs, improve measurement and recognized, the high degree of required transparency by regulators, enhanced analytical capabilities and most important of all is an enhancement of informed and efficient investment decisions. Investors, as well as other stakeholders heavily, rely on a company's financial statements. It is an important source of information that is readily available to them at a relatively low cost (Bernard, 2014)

According to (Ball, 2006), the quality of financial reporting, in general, is how financial reporting provides something by the needs and objectives. Financial reporting is said to be high quality if it can provide useful information for the needs of various users of financial reporting, including investors. Financial reporting should be following the economic reality, low manipulation by management, and time to be high-quality financial reporting. By the time quality of financial reporting is seen through the accounting-based attributes, financial reporting information is said to be high (quality) if the profit for the year can be a good indicator for corporate profits in the future (Lev and Thiagarajan, 1993) or strongly associated with operating cash flow in the future (Dechow and Dichev, 2002).

Accordingly, AICPA (1970) defines the purpose of financial accounting and financial statements as "the provision of quantitative financial information about a business enterprise useful to the statement users. The measurement tools are qualitative and enhancing, which considers all qualitative characteristics; hence they determine the decision usefulness of financial reporting information (IASB, 2008). Qualitative characteristics are the "attributes that make the financial information useful and are distinguished as fundamental or enhancing depending on the way they affect the usefulness of information", (IASB, 2008).

The financial reporting fundamental and enhancing characteristics as revised are relevance and faithful representation (IASB, 2008). Relevance is referred to as "the capability of making a difference in the decisions made by the users in their capacity as capital providers", (IASB, 2008). This states that information reported is only useful if it relates to the issues that the users are more concerned about. While faithful representation is achieved only when (the depiction of the economic phenomenon is complete, neutral and free from material error".Thus, the phenomena to be presented are "economic resources, obligations and the transactions and events that change those resources and obligations", (FASB, 1980). Enhancing qualitative characteristics are "complementary to the fundamental qualitative characteristics and constituted understandability, comparability, verifiability and timeliness (Van Beest, et al. 2009; Tasios & Bekiaris, 2012; Stadler & Nobes, 2014).

Financial reporting quality is the precision with which financial reporting conveys information about a firm's operations (Biddle, Hilary & Verdi, 2009). Financial reporting quality encompasses both financial information and non-financial information useful for decision making included in the financial reports (Akeju & Babatunde, 2017). Decision-useful information is information concerning the reporting entity that is valuable to equity investors (present and potential), lenders and other stakeholders in making decisions in their capacity as capital providers and stakeholders (IASB, 2010). Hence, the higher the information uses of the financial report, the higher the quality of the financial report and vice versa. The quality of financial reporting is influenced by the quality of accounting standards and the corresponding regulatory enforcement of the standards, accounting method used by management; and management judgment and estimates in applying the selected substitutes.

2.1.2 Adoption of IFRS in Ethiopia

Ethiopia has made developments to become one of Africa's fastest-growing economies and continues to record impressive economic growth. Thus, implementing high-quality International Financial Reporting Standards is critical to meeting and sustaining Ethiopia's economic growth potential. IFRS provides international investors with a brand of trust in the quality of financial reporting. That trust in financial reporting is essential if investors are to be encouraged to step in to promote continued economic growth (AABE, 2015).

Organizations like banks, insurance companies, and public enterprises will begin using International Financial Reporting Standards IFRS starting the 2018 fiscal year. The institutions had three years to transition to IFRS from GAAP. The system is considered to be the latest financial language enabling local companies to easily communicate with each other globally. Asset revaluation was a critical step in the first stage. Some banks brought consultants and experts from overseas to undertake the process. In the second stage, banks will start using the software before reaching to the reporting stage. Confirm in 2014, the Financial Reporting Proclamation gave five years to the entire business to enter the new system. Companies considered to have a high public interest will report during the 2019 year. The second category which consists of international charity organizations, associations, and other related organizations are also expected to report using the new system in the 2019 fiscal year (Haimanot, 2018).

The Accounting and Auditing Board of Ethiopia (AABE) was established under financial reporting proclamation no 847/2006 to implement feasible and understandable financial reporting standards and to provide awareness creation training for governmental and non-governmental organizations through designing implementation roadmap. AABE requires all financial institutions and public enterprises in Ethiopian countries to adopt IFRS from July 1, 2017. So, all the Ethiopian financial institutions must adopt IFRS and prepare their consolidated financial statements under the new standards. Since the adoption of IFRS directly influences accounting quality, it is necessary to understand whether the adoption of IFRS improved the quality of financial reports in a financial institution (commercial banks).

NBE has a relatively higher discretionary power on setting and enforcing rules and regulations governing the operation of banks. It issued a directive on the finical reporting approach and also checks the quality of independent auditors. However, it couldn't manage to enforce banks to standardize accounting methods, nor get assisted by the independent auditors. The role of NBE on financial reporting quality is, hence, limited to the fact both banks and auditors are found against the standards. It is, therefore, suggested to enhance law enforcement mechanism, revisiting accounting educational and training systems to streamline the process of standardizing financial reporting practice in the banking and another sector in Ethiopia.

According to (Mengesha, 2006; ROSC, 2007; Gizaw, 2011; Fanthun, 2012) and as stated by (Abiy 2014) the importance of uniform professional standards and/or financial reporting regulation are paramount to enhance the quality of accounting information for the fact it makes comparison across companies and overtime feasible. Nevertheless, Ethiopia and most developing countries are less benefited from the accounting and reporting system because either they don't have local standards. As Ethiopia has does not have local accounting and reporting standards, the adoption of IFRS could be a sustainable option to enhance the local accounting and reporting framework and to integrate it with international practice.

The banking sector in Ethiopia adopted IFRS. Since 2008 banks are supposed to follow IFRS (Abiy, 2014). Ethiopian government requires strongly attracting investors' in-country by using different methods to develop the economy of the country. Thus, the adoption of IFRS compulsory requires for all Ethiopian financial institution banks and public enterprises.

To attract foreign investors to the country, implementing IFRS is beneficial. Since business today has turned global, Ethiopia should create a conducive atmosphere for investors, who want to invest in the country for a mutual benefit. Otherwise, the investor prefers to go somewhere else, where IFRS is practiced. This is because if an investor's form another country wants to invest in Ethiopia, investors do not need to go through the financial rules & regulations of the country; since IFRS governs all (actually this has not yet achieved). Having a global set of high-quality financial reporting system which is in line with the required IFRS will help developing countries like Ethiopia to attract funding agencies in the country's development activity (Mesay, 2009).

There is not wide literature available on the adoption of IFRS and financial reporting quality generally in Ethiopia. In this regard, this section reviews only one paper dealing related to this subject. Melese (2016) conducted a study to examine adoption, challenge, and perception of IFRS on the quality of financial reporting of financial institutions in Addis Ababa, Ethiopia. The study examined the challenges and recognizing the benefits of adopting IFRS in financial institutions. Quality of financial reporting has a significant correlation with transparency, accountability, and economic efficiency. The study recommends among others that the National Bank of Ethiopia has to give clear direction through its directives about the implementation of IFRS; the curriculum of accounting should be amended in light of IFRS the board should conduct a study to identify the gaps in systems and processes, develop IFRS accounting manual modifying charts of accounts and provide detailed instructions by taking IFRS requirements into accounts.

However, Yichilal (2015) found that adoption of IFRS maintains numerous benefit for Ethiopian companies including, improves the efficiency and effectiveness of financial reporting, provides reliable and comparable financial statements, makes external financial easier, provides greater reporting transparency, enables greater effectiveness of the internal audit and reduces the cost of capital.

2.1.3 Positive Accounting Theory (PAT)

Positive Accounting Theory is concerned with predicting actions such as the choices of accounting policies by firm managers and how managers will respond to proposed new accounting standards. The term "positive" refers to a theory that attempts to make good predictions of real-world events (Scott, 2003). Positive accounting theory is an attempt to provide some explanation of accounting practice rooted in the purposes of managers. Simply stated, these purposes of managers, as initially described by (Watts & Zimmerman, 1978), are reducible to economic self-interest. That is when choosing accounting procedures managers consider only the effect of the procedures on their wealth; choices are wealth-maximizing given the constraints imposed by other wealth-maximizing agents (e.g., shareholders, bondholders). Further, it is presumed that managers maximize their wealth if they choose those accounting procedures that maximize the value of the firm and/or maximize manager compensation via compensation agreements tied to accounting members. The list of wealth-affecting costs is familiar, e.g., political costs, bookkeeping costs, taxes, contracting costs.

PAT explains "why accounting is, what it is, and why accountants do what they do", and what the effects of this phenomenon on the human and resource users. PAT’s concern lies in the prediction of the behavior of managers in selecting accounting policies and how managers will respond to the application of new accounting standards. Although PAT cannot certainty predict the real events, at least PAT helps in understanding the key factors underlying the behavioral tendencies manager. According to Januarti (2004), although PAT cannot predict with certainty the real events, at least PAT helps in understanding the key factors underlying the behavioral manager tendencies.

PAT view that companies organize themselves most efficiently. The most efficient form of organization for a particular company depends on some factors, such as law and institutional environment, technology and the level of competition in the industry, where these factors determine a set of investment opportunities available to the company and its prospects. For example, how accounting harmonization or IFRS adoption can determine investment opportunities to the company. PAT emphasizes the need for an empirical investigation to determine its accounting policies, how it varies from one company to another depending on the form of the organization and factors that determine opportunities and prospects to the company. The objective of PAT is to understand and predict the choice of accounting policy between different companies.

Ball and Brown (1968) suggested that PAT includes both capital market-based accounting research and research in accounting choices. PAT has been one of the most influential accounting researches. It generated a great deal of empirical research on the association between accounting numbers, stock prices, returns and determinant of accounting choice, thus representing a major shift in accounting standard.

Hassan (2008) argues that positive accounting theory helps to explain how a conflict of interest between managers, shareholders and debt holders influences the corporation’s accounting practices. According to the politico-contractual theory, highly leveraged firms adopt accounting methods that increase their profits. In the same line of ideas (Toukabri, Ben and Julani,2014) argue that firms that undertake specific expenditures putting out their commitment in social responsibilities have a primary objective of change in accounting period results and clauses in their contract debt.

2.1.4 Normative Accounting Theory (NAT)

Normative accounting theory is an accounting theory that plays an important role in the accounting systems used today by finance managers and investors. Normative accounting theory most commonly found in a company's business or marketing plan takes a subjective approach. The practice of this theory is a form of value judgment that can introduce subjective morality into accounting. For example, if a company that increased dividend payments could use some of those funds to improve corporate sustainability measures, a normative accounting statement would indicate how much money should be invested in those measures to sustain corporate growth.

As noted, in (Bernard, 2014) normative theories of accounting are not necessarily based on observation and therefore cannot be evaluated on whether they reflect actual accounting practice or not. The conceptual framework of accounting is an example of a normative theory of accounting which relies on various assumptions about the types or attributes of information useful for decision making. Normative accounting is radically different and much more theoretical. This theory advises policymakers on what should be carried out using a theoretical principle as a basis. it can be said that normative accounting represents more of a logical, deductive process compared to positive accounting as it begins with the accounting theory, deducing down to specific policies, unlike positive theory which commences with precise policies before opening up its scope, generalizing to higher-level principals. Most of the researchers that conducted a study on the determinants of financial reporting quality relied upon agency theory (Bernard).

2.1.5 Agency Theory

Agency theory refers a set of propositions in governing a modern corporation that is typically characterized by a large number of shareholders or owners who allow separate individuals to control and direct the use of their collective capital for future gains These individuals may not always own shares but may possess relevant professional skills in managing the corporation (Ezeagba & Charles, 2017).

Corporate governance literature views shareholders as the principal and manager as their agent and describes the relationship as a principal-agent relationship. “An agency relationship is defined as one in which one or more persons (the principals) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent (Hill and Jones, 1992)”. Shareholders (principals) delegate tasks to be performed by management (agents) on their behalf to meet their objectives

In agency theory, shareholders expect the agents to act and make decisions in the principal’s interest while on the contrary; the agent may not necessarily make decisions in the best interests of the principals. It focuses on reciprocity (self-interest), and its primary objective is to minimize agency costs. It is an individualistic model with opportunistic behavior (Aigienohuwa & Ofuan, 2018).

Under this agency relationship, both the agents and the principals are assumed to be motivated solely by self-interest. As a result, when principal delegates some decision making responsibility to the agents, agents often use this power to promote their well-being by choosing such actions which may or may not be in the best interests of principals (Barnea, Haugen and Sanbet, 1985; Bromwich, 1992 and Roychowdhury, 2004).

The most important basis of agency theory is that the managers are usually motivated by their gains and work to exploit their interests rather than considering shareholders’ interests and maximizing shareholder value whereas stakeholders act in a relational way to maximize their utility (Toukabri, Ben and Julani, 2014).

The agency relationship leads to the information asymmetry problem because managers can access information more than shareholders (Nermeen, 2014). This will allow the pursuit of self-interest which increases costs to the firm, which could include the costs of the formation of contracts, loss due to decisions being taken by the agents and the costs of observing and controlling the actions of the agents. Leuz, Nanda, and Wysocki (2003) assert that the effects of such behavior are ultimately reflected in the company earnings. Consequently, management has an incentive to manage the company’s reported earnings to meet or beat earnings targets and, thus, to receive any bonuses that may be tied to the company’s earnings (performance-related pay). This creates an information asymmetry in that managers can exercise the discretion they have on accruals, which in turn reduces the relevance and reliability of reported earnings, and the whole financial statements (Leilina, 2015).

The principal and agent both try to maximize their welfare; the existence of such differences in interests is supported by the asymmetric conditions of information sharing between owners and management. Management has access to more information than the owners of the company and this encourages management to manipulate financial statements or engage in earnings management to maximize their interests (Paulina & Indra, 2017).

2.1.6 Stakeholder Theory

Stakeholders are defined as individuals or groups with legitimate interests in procedural and substantive aspects of the activity of the organization. This shows that the stakeholder theory objective viewpoints are to satisfy the interests of each group (the principal and the agent) and not as a means to achieve another goal (Alayemi &Morohunfola, 2017). This legitimacy is established through the existence of an exchange relationship. Stakeholders include stockholders, creditors, managers, employees, customers, suppliers, local communities and the general public (Ezeagba & Charles, 2017).

Stakeholder's theory is a theory of organizational management and business ethics that addresses morals and values in managing the organization. It was originally detailed by Ian Mitroff in his book "Stakeholders of the Organizational Mind", published in 1983 in San Francisco. And similarly, stakeholder theory was described by F. Edward Freeman, a professor at the University of Virginia, in his landmark book, "strategic management: a stakeholder approach." The stakeholder ecosystem, this theory says, involves anyone invested and involves in or affected by the company: employees, environmentalists near the company's plants, vendors, governmental agencies, and more. Freeman's theory suggests that the company's real success lies in satisfying all its stakeholders, not just those who might profit from its stock.

Stakeholder's theory suggests that the purpose of a business is to create as much value as possible for stakeholders. To succeed and be sustainable over time, executives must keep the interests of customers, suppliers, employees, communities, and shareholders aligned and going in the same direction. Innovation to keep these interests aligned is more important than the easy strategy of trading off the interests of stakeholders against each other. Hence, by managing for stakeholders, executives will also create as much value as possible for shareholders and other financiers (www.businessdictionary.com)

Stakeholder's theory looks at the relationship between an organization and others in its internal and external environments. It also looks at how these connections influence how the business conducts its activities. Think of a stakeholder as a person or group that can affect or be affected by an organization. Stakeholders can come from inside or outside of the business. Examples include customers, employees, stockholders, suppliers, non-profit groups, government, and the local community, among many others. In business, the stakeholder is known as the principal and the officers of the company or directors are known as the agent. The core idea of stakeholder theory is that organizations that manage their stakeholder relationships effectively will survive longer and perform better than organizations that don't.

2.1.7 Stewardship Theory

Stewardship theory is a theory that left managers and indeed to act as responsible stewards of the assets they control. The opportunistic pursuit by the management of their self-interest at the expense of the shareholders who can diversify their portfolio in the activities of companies should make it with fair judgment. This reflects the influence of agency theory as part of the growing organizational economic movement. Therefore, such views have been challenged by where the supporters have labeled stewardship theory as a framework which presumes the managers are seeking to maximize organizational performance (Donaldson, 1990a; Donaldson and Davis, 1991).

The adoption of stewardship theory on the financial reporting quality was supported by Chalaki, Didar, & Riahinezhad, 2012; Robb, 2012; Edogbanya, & Kamardin, 2014). Robb (2012) asserted that the need for stewardship theory is assumed to be met within the objective of financial reporting quality, hence investors decision relies on the entities' financial reporting quality where managers entrusted to prepare accordingly. the objective of quality financial reports is to provide information for decision-useful to current and potential providers of finance (Chalaki, et al. 2012)

2.1.8 Conservative Method Theory (CMT)

The principle of conservatism is a pervasive concept in modern accounting theory and is probably a carryover from the days when banks were the primary users of firms' financial statements. Conservatism reflects the idea that, given two equally likely outcomes, a firm should use the accounting method that results in smaller reported income or smaller reported net assets. The accounting concept of conservatism has crossed into the financial analysis arena (Mabruk, 2011). Donnelly (1990) as quoted in Revsine et al., 1999) implies in his Wall street journal that conservative accounting is necessary when he states that “low quality means the bottom line is padded with paper gains such as the profit fattening effect of inflation on a company’s reported inventory values, or gains produced by under depreciation,’ when the company does not write off plant and equipment as fast as their real value is falling.” Bernstein, and Subramanyam (2001) state that “ the quality of conservatively determined earnings is perceived higher because they are less likely to overstate current and future performance expectations compared with those determined aggressively”. Comiskey (1971) concluded his research regarding the effects of changing depreciation policies by stating that "The particular set of accounting alternatives can be thought of as adding a unique ‘quality dimension’ to the earnings. Dhaliwal, et al. (1982) suggests that a switch to straight-line depreciation will lead to materially larger amounts of earnings and equity (i.e., book value) in future years. Their theoretical framework includes the assumption that company managers are concerned with the amount and timing of compensation.

2.2 Empirical Reviews

Many research papers analyzed the adoption of IFRS and the financial reporting quality of accounting information in different countries. In this section, the study presents a review of studies done by others on the subject and their findings on the adoption of IFRS and quality financial reporting. An interesting discussion regarding IFRS adoption (partial or total change from the national accounting standard to international standard) is the one concerning to high quality, understandable and applicable IFRS to be worldwide accepted, according to the proposal of the International accounting standards board (Ball, 2006; IASB, 2005). This discussion becomes even more relevant as the results presented in the literature on IFRS adoption and financial reporting quality is not agreed upon.

Mabruk (2011) have studied the effect of IFRS adoption on the quality of accounting reports of small and medium enterprise in Nairobi County. This study applied accounting quality measures; faithful representation, comparability, timeliness, understandability and value relevance to find out whether the adoption of IFRS has led to improvements in accounting reports quality of SME in Nairobi County. The methodology is based on a prior literature definition of metric of accounting quality mainly testing the relevance of information, timeliness of accounting information, faithful representation of accounting information and value relevance. All collected data were analyzed using qualitative approaches. The selected sample was done through stratified random sampling whereby enterprises were grouped into two, the small enterprise and medium enterprises. To obtain descriptive statistics, the researcher used SPSS statistical analysis software and Microsoft excels software.

Abolaji et al., (2015) conducted a study to examine the effectiveness of IFRS on financial reporting quality of quoted companies in Nigeria. The study involved a sample of 150 respondents. The study used a self-designed questionnaire, descriptive statistics, and chi-square analysis. The study's result shows that IFRS adoption would have significant positive effects on capital markets' stability and efficiency. IFRS adoption would significantly improve the transparency and usefulness of account to investors and significantly improve public confidence in the market and significantly enhanced the uniformity, comparability, and reliability of the financial statements. Based on the findings, it was recommended among others that standard-setter such as the financial reporting council should integrate the knowledge on the adoption of IFRS.

Ali (2016) has studied the relationship of quality of the financial reporting within IFRS; Research on determining the attitude and evaluations, financial information users. The study examined whether IFRS affects the process of financial reports. The study measures the effects and perception of the IFRS on the process of financial reporting on the businesses operating on the Istanbul Stock Exchange (ISE). The study questionnaires survey and data were analyzed via multi regression analysis. The result shows that IFRS benefits a firm's information environment through its effect on sophisticated users of financial analysts and investors. The study's result suggests that financial statements prepared under IFRS assist financial analysts to more accurately forecast financial analysis and therefore allow investors to have more confidence in these forecasts. And also, the study found important and significant indicators for investors, financial information users, researchers, and professional accountants.

Bala (2013) has conducted a study to explore the effect of the adoption of IFRS on the financial reports of Nigerian listed oil and gas entities. The study adopted a mixed-method, selected a sample …companies to study them accounting numbers of listed oil and gas firms from the period of two years (2009-2011) prepared under NG GAAP will be compared with accounting numbers from 2012-2014 prepared under IFRS. The variety of summary statistics like variances, correlation and regression coefficients where applicable, will be used for the analysis. The result of the study used analyzed statistical packages to the conclusion.

Barth et al. (2008) have examined whether the application of International Accounting Standards (IAS) resulted in a higher accounting quality for 21 countries around the world. They concluded that firms applying IAS achieved an improvement in accounting quality between the pre- and post-adoption periods than do similar sample firms applying non-U.S. domestic standards. This was evidenced by fewer earnings management, more timely loss recognition and more value relevance of accounting amounts for the 21 countries applying IAS. In their research paper, Barth et al. (2008) mention that the adoption of IAS reflects combined financial reporting system effects of features, including standards, their explanation, enforcement, and proceedings. The authors could not ensure whether their findings were a result of the change in the financial reporting system.

Beest, Braam and Boelens (2009) study to assess the quality of financial reporting in terms of the underlying fundamental qualitative characteristics (i.e. relevance and faithful representation) and the enhancing qualitative characteristics (i.e. understandability, comparability, verifiability, and timeliness) as defined in 'An improved Conceptual Framework for Financial Reporting' of the(FASB and the IASB,2008). The study examined the mandatory IFRS adoption and financial statement comparability by examining firms domiciled in the UK. The study also concluded that these results are consistent with mandatory IFRS adoption reflecting benefits attributed to improved comparability. The results established that the benefits to IFRS adoption are not limited to countries exhibiting large differences between domestic standards and IFRS, or to firms exhibiting low information quality

Chaya (2015) argues that IFRS implementation becomes an advantageous mechanism not only for the enterprises themselves but also for potential investors, which positively affects the state of the entire financial market. Besides, the preparation of financial statements according to IFRS takes into account the specifics of the activity of the enterprise and improves the quality of the reporting.

Chen, Tang, Jiang, and Lin (2010) show, that an improved accounting quality is attributable to IFRS instead of the change in the management incentives, institutional characteristics of the capital market and business environment in general.

Chim and Anca (2014) conducted a study to examine "Financial Accounting Quality and its Defining Characteristics" The main aim of this qualitative study was to determine the characteristics which the information should possess to be of high quality. These characteristics contribute to the way how the quality of financial accounting is defined. The methodology of this study consisted of reviewing the literature relating to the definition of the accounting quality and attempting to understand how it can be explained. The main conclusions drawn by this research were that (i) the quality of the financial accounting cannot be defined uniquely, and (ii) the financial information is of a good quality when it improves the characteristics incorporated into the conceptual frameworks issued by the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB).

Chua et al., (2012) study the IFRS impact on the accounting quality by focusing on three perspectives: earnings management; timely loss recognition and value relevance. The study finds that the mandatory adoption of IFRS has resulted in better accounting quality than previously under Australian GAAP. The study indicates that the pervasiveness of earnings management by way of smoothing has reduced, while the timeliness of loss recognition has improved post-adoption. Additionally, the study finds that the value relevance of financial statement information has improved especially for non-financial firms.

Hassan and Bello (2013) have conducted a study on the effect of firm characteristics on financial reporting quality of listed manufacturing firms in Nigeria. This study investigated firms' characteristics from the perspective of structure (using firm size and leverage as proxies), monitoring (using board composition and institutional shareholding as proxies) and performance elements (using profitability, liquidity, and growth as proxies). The quality of financial reporting was measured by the modified model of Dechew and Dechev (2002) of listed manufacturing firms in Nigeria. The study adopted a co relational research design with pooled balanced panel data of 24 firms that served as a sample of the study using multiple regression as a tool of analysis. The result reveals that firm characteristics of listed manufacturing firms in Nigeria have impacted significantly their financial reporting quality. Therefore, it is recommended among others that the shareholders of Nigerian listed manufacturing firms should ensure all the seven firm characteristics used in this study and keep on improving to decrease manipulative accounting and increase the quality of financial reporting.

Kargin (2013) investigate pre-and post-adoption periods of IFRS implementation and reported that the post-adoption period has improved accounting information after considering book value, but value relevance of earnings has not been observed.

Lin et al. (2012) examined whether the introduction of IFRS improved accounting information quality in Germany. Their study revealed that IFRS adoption increased earnings management, exhibited less timely loss recognition and displayed less value relevance compared to U.S. GAAP, which indicates a reduction of the accounting information quality in Germany after applying IFRS.

Mahmoud (2017) has studied with the aimed at measuring the quality of the interim financial reports using the quality characteristics of the accounting information and its effect on the investment decisions according to IAS 34. To achieve the objectives of his study, a questionnaire was designed that contains three constructs related to the primary qualitative characteristics, the enhancing qualitative characteristics, and the quality of the interim financial reports. The researcher has distributed a questionnaire to a sample consisting of 72 individuals and the study used descriptive statistics to describe the study sample such as the frequencies, arithmetic mean, and standard deviation. Additionally, the one-sample t-test and simple linear regression analysis were employed to test the study hypotheses at the 0.05 level of significance. The main results which the study reached to are that (i) there is the effect of the qualitative characteristics of both the primary and enhancing aspects of the quality of the interim financial reports, and (ii) there is the effect of the interim financial reports on the investment decision making. The study provided several recommendations, most important of which is directing the prepares of the interim financial reports to pay attention to providing the qualitative characteristics for the accounting information in the interim financial reports for their positive effect on the quality of these reports to help the decision-makers in predicting the economic events and building the plans.

Majumder et al., (2012) have conducted a study to explore "Perceptions of Bangladeshi Investors on the Usefulness of Interim Financial Reports". This work provides an insight into perceptions of the Bengali investors of the usefulness of the interim financial reports. These perceptions were solicited by using the questionnaire survey approach. The study provides evidence that the interim financial reports are regarded as more useful than the annual reports. As well, this study found that the Bengali investors depend on the interim financial reports for estimation of the future annual results. Besides, the study found that the earning per share and the prospects of the present year are the most useful disclosure items in the interim financial reports. This study indicates that importance of the interim financial reporting will depend on the kind of investors.

Maryjane (2016 examined whether mandatory adoption of IFRS is associated with improvement in the accounting quality of banks listed on the Nigerian Stock Exchange (NSE). The resulting of the study show that the adoption of IFRS reducing the quality of accounting amount disclosed in the financial statements. The study suggested that universal adoption of IFRS is an essential determinant of financial reporting quality, as many firms across different countries will be using the same set of accounting standards in preparing their financial statements. To improve the quality of financial reporting is one of the objectives of IFRS.

Melese (2016) conducted a study to examine adoption, challenge, and perception of IFRS on the quality of financial reporting of financial institutions in Addis Ababa, Ethiopia. The study focuses on identifying the impact of adopting IFRS on the quality of financial reporting, examining the challenges and recognizing the benefits of adopting IFRS in financial institutions. The paper uses both qualitative and quantitative approaches by taking a sample of 32 out of 35 private banks and insurance companies registered under the National Bank of Ethiopia. The study uses both primary and secondary data sources collected through questionnaire and document review. The study reveals that the quality of financial reporting has a significant correlation with transparency, accountability, and economic efficiency. The study highlights the implementation of IFRS leads to improved comparability & reliability of financial statements to reduce the cost of capital of firms through lower cost of information, greater marketability of shares, and reduced information asymmetry and others. The study recommends among others that the National Bank of Ethiopia has to give clear direction through its directives about the implementation of IFRS; the curriculum of accounting should be amended in light of IFRS the board should conduct a study to identify the gaps in systems and processes, develop IFRS accounting manual modifying charts of accounts and provide detailed instructions by taking IFRS requirements into accounts.

Mutai (2014) conducted a study on the investigated effect of adopting IFRS on the quality of financial reporting of companies listed at Nairobi securities exchange. The study established that there was a direct relationship between the variables (comparability, investment decisions timeliness, measurement and recognition, transparency, financial statement disclosure and the independent variable (quality of financial reporting). the study concludes that the adoption of IFRS by companies listed at Nairobi Securities Exchange has a better-quality financial reporting. The study used a descriptive survey. This enabled the researcher to obtained sizeable and substantial data from the population. The population was the

61companies listed at NSE and sample size of 11 companies each from the eleven categories of NSE. The source of data was the primary data collected using a questionnaire. Data analysis is the process through which primary data is arranged and organized to make sense of giving the required information. Before proceeding, the data collected was examined to check completeness, consistency, and comprehensiveness.

Rahmani and Jabari (2015) conducted a study titled: "A Model for Evaluating the Impacts of Qualitative Characteristics on the Usefulness of Financial Reporting". This study aimed at investigating the impacts of the qualitative characteristics on the usefulness of financial reporting. The study used structural equation modeling (SEM) for analysis of the data. The SPSS was software was employed to test the research reliability, model, and research validity, respectively. Data on a sample of 185 companies over the period 2000 to 2013 were employed. Except for the understandability, the qualitative characteristics did not have any effect on usefulness. On the other hand, conservatism had a negative influence on usefulness. Based on these results, the researchers recommended omitting conservatism from the qualitative characteristics. Besides, taking into consideration that relevance has a higher effect on usefulness than on reliability, it may be concluded that users of the financial statements are looking for suitable information in their decision-making process and reliability of the information is an issue of secondary importance.

Soderstrom and Sun (2007, p. 695) analyzed the researches that were done on the consequences of changes in the accounting standards (IFRS adoption) and found that the determinants of the accounting quality after the adoption of these standards are articulated in three factors: quality of the standards; political and judicial system in the country; financial reporting incentives.

Yasin (2014) has studied the impact of the adoption of international financial reporting standards (IFRS) in preparation for quality financial statements in the beverage manufacturing industry: a case of coca-cola kwanza limited. The general objective of the study was to examine the impacts faced by Coca Cola Company in adopting the IFRSs. He collects data through interviews, questionnaires, discussions, observations and documentary analysis. According to the study findings he recommended that a good number of respondents said that there are challenges in adopting the IFRSs. Although there are challenges in adopting the IFRSs, the researcher discovered it was more important to adopt IFRSs than to concentrate on the challenges facing the manufacturing to adopt it. There should be also training and seminars for the IFRSs' users so they can be more competent in IFRSs. The company should employ more skilled and experienced accountants and IFRSs' users. The users should be familiarized with the language and the concepts used in IFRSs. This will make the users be at easy in writing and reporting the financial statements as required in IFRSs.

Yurisandi & Puspitasari (2015) conducted the study to examine the financial reporting quality before and after IFRS adoption using nice qualitative characteristic measurement. The study used paired-sample tests to analyze data. The financial reporting quality before the IFRS adoption represented by the period 2009-2010.while the financial reporting quality after the IFRS is represented by the period 2012-2013. The researcher concluded that IFRS adoption increases the quality of financial reporting. The result of the study shows that the qualitative characteristics of relevance, understandability and comparability level increased after IFRS adoption. The study used a qualitative approach to measuring financial reporting quality.
Consequently, this study explains the IFRS adoption and the quality of financial reports, by studying the primary qualitative characteristics, the enhancing and fundamental qualitative characteristics.

2.2.1. IFRS adoption and Financial Reporting Quality

International Financial Reporting Standards (IFRS) are the body of prescriptive rules and guidelines with global reach and appeal which provide direction and guidance on how business enterprises in a globalized 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).

International Financial Reporting Standards was developed by an independent standard-setting body as a single set of accounting standards and is playing a significant role in ensuring financial reporting quality in a global market. It is maintained by IASB to be capable to apply on a globally consistent basis by developed, emerging and developing countries. However, investors and other users of financial statements are provided with the ability to compare the financial performance of companies that are publicly listed on the countries' stock exchange irrespective of their international differences.

Jacob & Madu, (2009) found that major countries around the world support IFRS as a body of high-quality accounting standards which increases the firm’s financial reporting practices end accounting transaction difference and attempts the recent global economic crisis. High-quality accounting information influence investors’ behavior concerning make optimal investment decisions and portfolio selection, and companies acquire capital at the cheapest cost (Palea, 2013).

In 2002, the IASB and the FASB showed their commitment towards developing a common set of high-quality accounting standards, which could be used worldwide. As a consequence of the joint project to converge the more principles-based IFRS and the more rules-based GAAP, both boards agreed to develop a new joint Conceptual Framework, which includes the objectives of financial reporting and the underlying qualitative characteristics on which accounting standards ought to be based. This Conceptual Framework represents the foundations of the accounting standards. “The application of objectives and qualitative characteristics should lead to high-quality accounting standards, which in turn should lead to high-quality financial reporting information that is useful for decision making” (FASB, 1999; IASB, 2008). Furthermore, the conceptual framework ought to contribute to the decision making of constituents, when transactions or events occur for which no accounting standards are available.

The International Financial Reporting Standards are playing a crucial role in global financial reporting as they are increasingly being adopted by many countries. The financial reporting formation and adoption of IFRS enable investors, organizations, and governments to compare financial statements from various sources supported by IFRS with more ease. According to the Conceptual Framework, financial statements prepared according to IFRS should have fundamental and improving qualitative characteristics. Fundamental qualitative characteristics include relevance; faithful representation. Improving qualitative characteristics include comparability; verifiability; timeliness; understandability. Fundamental characteristics are binding characteristics of quality reporting of financial information. If the financial statement of the company does not satisfy at least one of them, it cannot be of high quality. Comparability, verifiability, timeliness, and understandability – these four characteristics are intended to enhance the quality of relevant, truthful information submitted.

The concept of "improving quality characteristics" means that these characteristics do not replace the fundamental characteristics. Even if improving characteristics of financial statements are of high level, but at the same time the financial reporting devoids of relevance or true presentation, it may not be of high quality (Jurji, et al., 2016).

The characteristics of the accounting information represent the main characters that enable this information to achieve the goals of the financial reports and there is no specific number of the characteristics of the accounting information such that once they are available the financial reporting is of high quality (Mahmoud, 2017). Applying IFRS has to improve the quality of financial reports and has a clear impact on financial statements and other financial indicators. This can be traced through articles. Financial reporting quality is a key prerequisite for the effective functioning of the economy (Tasios & Michalis, 2012). IFRS financial statements come in various shapes and sizes, but they all have certain features in common. Thus, the qualitative characteristic of the word IFRS financial statements is relevance, reliability, comparability, understandability, verifiability; timeliness (Jurji, et al., 2016).

International Financial Reporting Standards (IFRS) are the body of prescriptive rules and guidelines with global reach and appeal which provide direction and guidance on how business enterprises in a globalized 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).

The financial reports are considered as one of the most important sources through which the stakeholders of the project get the information that they need to help them in taking their different decisions. These reports are considered as the main means of disclosure of financial and non-financial accounting information. According to IASB a key precondition for quality in financial reporting is the adherence to the objective and the qualitative characteristic of financial reporting information. IFRS standards constitute a globally recognized set of standards for the preparation of financial statements by business entities. The use of one set of high-quality standards by companies throughout the world improves the comparability and transparency of financial information and reduces financial statement preparation costs. When standards are applied rigorously and consistently, capital market participants receive higher quality information and can make better decisions (IFRS Foundation, 2017). Thus, the contributions of IFRS and high quality of financial reporting are: enhance relevance, increase understandability, comparability and, increase faith representation of the financial report.

The benefits of standardized and high-quality financial reporting are lower preparation costs, improve measurement and recognized, the high degree of required transparency by regulators, enhanced analytical capabilities and most important of all is the enhancement of informed and efficient investment decisions (Bernard 2014). The primary objective of financial reporting is to provide high-quality financial reporting information concerning economic entities, primarily financial, useful for economic decision making. Providing high-quality financial reporting information is important because it will positively influence capital providers and other stakeholders in making investment, credit and similar resource allocation decisions enhancing overall market efficiency (IASB 2008, FASB 1999). Quality of financial reporting is measured by including both the scores on the fundamental (i.e. relevance and faithful representation) and enhancing qualitative characteristics (i.e. understandability, comparability, verifiability, and timeliness) (Ferdy &Suzanne 2009).

Relevance is the first component of accounting quality that the researcher addresses in this study. Relevance as the quality of accounting information is expressed as being capable of making a difference in a decision by helping users form predictions about the outcome of past, present, and future events, or to confirm or correct expectations. It is closely associated with terms of usefulness and materiality. Relevance illustrates the capability of making decisions by users. As noted in Jurij et al., (2016) Information is relevant if it can affect users reporting during decision-making, wherein financial reporting of companies must not only and not so much represent the impact of events and facts that have occurred but also contain forward-looking information. To this end, the conceptual basis includes the concept of predictive value and confirmatory value. Thus, the information has predictive value if it helps users to assess possible effects of past, present and future events on future cash flows and confirmatory value if it helps users to compare current performance and results from their preliminary estimates. The predictive value and confirmatory value of the financial information are interrelated concepts. Often, the information that has predictive value also has confirmatory value. Thus, the relevance of reporting should be determined by the following criteria: the focus of the reporting to the future; availability of forecast information; the availability of information about the company and the potential risks; disclosure of the information on the influence of important past events on the company.

Information about the economic phenomenon is believed to be truly presented in financial reporting if it has three characteristics: completeness, neutrality and the absence of errors. Completeness means the availability of all the information about the economic phenomenon (including descriptions and explanations necessary), which is required by users for comprehensive understanding. In some cases, a full description can, among other things, include information on the essential facts on the current status of certain assets and description of circumstances that might affect their condition.

Fair value is considered one of the highly significant indicators of relevance. Using Fair Value in an entity, as a basis for measurement, is an indicator of a high level of relevance in financial reporting information (van Beest et al., 2009). Annual reports have a crucial role in determining the level of relevance by disclosing forward-looking information, disclosing information about business opportunities and risks, and providing feedback on how major market events and significant transactions affected entities (van Beest et al 2009).

Jonas and Blanchet (2000) refer to the complementation of financial information by non-financial information when referring to predictive value, and the knowledge that can be obtained of business opportunities and risks, since it provides insight into possible future scenarios for the company. The third item measures the company's use of fair value. Prior literature usually refers to the use of fair value versus historical cost when discussing the predictive value of financial reporting information. It is often claimed that fair value accounting provides more relevant information than historical cost because it represents the current value of assets, instead of the purchase price inter alia (Maines & Wahlen 2006). Additionally, confirmatory value also contributes to the relevance of financial reporting information. (Jonas and Blanchet, 2000) argue that if the information in the annual report provides feedback to the users of the annual report about previous transactions or events, this will help them to confirm or change their expectations.

As noted in Auwal (2015) Value relevance is considered as one of the basic attributes of quality of financial reporting. The finding of the study shows that; there is a positive relationship with financial reporting quality. He concludes that a positive relationship between value-relevance on the financial reporting quality. The following graph shows the relationship between relevance and international financial reporting standards (IFRS) before and after adoption.

Understandability is one of the enhancing qualitative characteristics that will increase when information is presented and classified clearly and sufficiently. It is referred to when the quality of information enables users to comprehend their meaning (IASB, 2008). The financial statements of the company should be understandable to users who have sufficient knowledge of the business and economic activities of the company and analyze financial statements with due diligence and interest. The company shall strive to ensure that the information is presented in a simple, clear and structured manner. In assessing the clarity of its financial statements, the company has to pay attention to how simple and easy to understand the language that was used in the preparation of the notes to the reporting (Jurij et al., 2016). When annual reports are well organized, users can comprehend what their needs are (van Beest et al., 2009). Usage of graphs and tables helps to present information clearly, and the usage of language and technical jargon can be followed easily

An essential quality of the information provided in financial statements is that it is readily understandable by users. For this purpose, preparers are assumed to have a reasonable knowledge of business and economic activities and accounting and willingness to study. The information with reasonable diligence, However, information about complex matters that should be included in the financial statements because of its relevance to the economic decision-making needs of users should not be excluded merely because it may be too difficult for certain users to understand (Academia, 2019).

Comparability can refer to the similarity in inputs of a reporting system (i.e., accounting methods, transaction structures, business model), the similarity in recognized accounting numbers (reported earnings or assets and liabilities), or the similarity in reporting structures and disclosures. Even without necessarily improving reporting quality, IFRS may prove economically beneficial by merely narrowing cross-country differences in financial reports and promoting international trade (George et al., 2016). Comparability information about a reporting entity is more useful if it can be compared with similar information about other entities and with similar information about the same entity for another period or another date. Comparability enables users to identify and understand similarities in, and differences among items (Banji and James, 2013).

Comparability is the concept of allowing users to compare financial statements to determine the financial position, cash flow, and performance of an entity. This comparison allows users to compare across time and among other companies in the same period. As Cheung et al., 2010) remarked Comparability demands that identical events in the two situations will be reflected by identical accounting facts and figures. Different events will be reflected by different accounting facts and figures in a way that quantitatively reflects those differences in a comparable and easily interpretable manner (Cheung et al., 2010). To indicate this point, the notes in financial reports should disclose and explain all the changes in accounting policies and the implications of these changes, not to mention the importance of consistency in applying accounting policies and principles. Also, the current accounting period results can be compared with the ones from previous periods. Lastly, presenting financial index numbers and ratios contributes to the comparison with other organizations (Van Beest et al., 2009).

According to IASB (2008) Comparability does not only refer to the consistency of the use of accounting procedures by a single company, but it also refers to comparability between different companies. When assessing the comparability of annual reports of different companies, the accounting policies used, the structure of the annual report, and the explanation of transactions and other events are of special importance (Jonas & Blanchet, 2000). To users of financial statements, one of the ways by which IFRS impacts financial reporting is by ensuring comparability of financial reports amongst companies either within the same industry, countries or countries. As noted earlier, the comparability of financial reports is one of the ways by which IFRS positively impact on financial reports. Improved comparability is one of the value-adding characteristics of IFRS as contended by most financial reporting pundits, as it will make it less costly for investors to compare and evaluate firms inside and outside industries and countries (Matthew, 2015).

IFRS is aimed at improving reporting quality, increasing financial statement comparability within and across countries, which is expected to reduce information asymmetry among capital market participants, and facilitate cross-border cash flows, especially in terms of foreign equity investments. However, the challenger of accounting harmonization maintains that the characteristics of accounting problems, history, culture and institutional frameworks in a country determine the form and content of accounting standards, and thus, uniform standards could not lead to any positive benefits (Maryam & Modibbo 2016).

The internationalization of accounting standards by many countries is set to significantly change companies' financial reports. Stakeholders have been united in the push towards a common set of international accounting standards. Expected benefits of internationalizing accounting standards include increased comparability and providing financial report users with better quality information on which to base their investment and credit decisions (AASB, 1994). These expectations implicitly assume that the adoption of international accounting standards will lead to improvements in the quality of reported financial information (Onipe et al 2015). The following graph 4.3 shows the overall response rate about comparability and the adoption of IFRS.

Faithful representation is the concept of reflecting and representing the real economic position of the financial information that has been reported. This concept has the value of explaining how well the obligations and economic resources, including transactions and events, are fully represented in financial reporting. Moreover, this quality has neutrality as a sub notion which is about objectivity and balance. Willekens (2008) concluded that the auditors‘ report adds value to financial reporting information by providing reasonable assurance about the degree to which the annual report represents economic phenomena faithfully.‖ Additionally, how business organizations are controlled and directed affects the faithful presentation quality; this is represented as a corporate governance factor when there is extensively disclosed information on corporate governance issues in the annual report (Van Beest, et al. 2009).

The adoption of IFRS is an issue of a global standard among various countries of the world due to the quest for high-quality financial information. Providing high-quality financial reporting information is important because it will positively influence capital providers and other stakeholders in making investment, credit and similar resource allocation decisions enhancing overall market efficiency (IASB, 2013). For corporate information to beneficial, IASB argues that a key prerequisite quality in financial reporting is faithfulness to the objective and the qualitative characteristics of financial reporting information.

As noted in FASB Framework (1989) Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent or could reasonably be expected to represent. Financial reporting is a primary management vehicle for sharing information with stakeholders; therefore statements should faithfully represent the economic substance of events and transactions. Achieving this goal requires the neutral and error-free disclosure of all material (Chia et al 2016).

Financial statements are frequently described as showing a true and fair view of, or as presenting fairly, the financial position, performance, and changes in the financial position of an enterprise. Although this framework does not deal directly with such concepts, the application of the principal qualitative characteristics and appropriate accounting standards normally results in financial statements that convey what is generally understood as a true and fair view of, or as presenting fairly such information. As noted in Maines and Wahlen (2006), however, estimates and assumptions that closely correspond to the underlying economic constructs the standards pursue can enhance faithful representation. Therefore, the researcher focus on items in the annual report that increase the probability of faithfully represented information

Abolaji & A`eolu, (2015) examined the effectiveness of IFRS on financial reporting quality of quoted companies in Nigeria. They used a self-designed questionnaire and by using analysis descriptive statistics and chi-square. The result showed that IFRS adoption would significantly improve public confidence in the market and it will significantly enhance the uniformity, reliability of the financial statements. The relationship between faithful representation and financial reporting standards is summarized in the following graphs.

2.3 Conclusion and Knowledge Gap

The adoption of international financial reporting standards has been the focus of theoretical and empirical accounting research in many countries. Plenty of studies investigated the Adoption of international financial reporting standards and Financial reporting quality in different countries. Only a limited study had been conducted in the area from developing countries as far as researcher knowledge is concerned. Most of the literature reviewed indicates that previous researchers only concentrated on IFRS adoption, Benefits, Challenges and Prospect IFRS in Ethiopian commercial banks. From a survey of relevant literature, it has been found that there are no studies specific to Ethiopia on the link of IFRS adoption and financial reporting quality of commercial banks.

Most of the studies centered and conducted on developed and other developing countries than Ethiopia. For instance, different studies of developing countries were conducted in Nigeria, South Africa, Libya, Ghana, and Bangladesh regarding the IFRS adoption and financial reporting quality. The findings of previous studies indicated different results that the IFRS implementation improved financial reporting quality. In the context of Ethiopia, the related study conducted by Melese (2016) assessed the adoption challenges and perception of IFRS on the quality of financial reporting of financial institutions in Addis Ababa, Ethiopia. The study limits its scope only on investigating the impact of adoption, challenges, and perception of IFRS on the quality of financial reporting of financial institutions in Addis Ababa. To researcher knowledge, no study in Ethiopia has conducted the IFRS adoption and the financial reporting quality after the adoption of IFRS in Ethiopia commercial banks. Because of this, the study will fill the gap by assessing IFRS adoption and financial reporting quality after the adoption of IFRS in Ethiopian commercial banks.

CHAPTER THREE

RESEARCH METHODOLOGY

Introduction

This chapter describes the methods that were used in the collection of data relevant to answering the research questions. It contained Research approaches, research design, target of the population, sample design, size and sampling techniques, data source and collection techniques, data analysis, and lastly, Ethical Consideration

3.1. Research Approach

Research approaches are plans and procedures for research that span the steps from broad assumptions to detailed methods of data collection, analysis, and interpretations. It is a plan proposed to conduct the research, involving the intersection of philosophy, research design and specific methods (Creswell, 2014). There are three common research approaches that every researcher uses when they conduct the study, based on the approach of the problem. Those approaches of research are quantitative, qualitative and mixed. To this study, a researcher used the qualitative research approach based on the nature of data in this study.

Qualitative research adopts a subjective view of knowledge of the real world. Qualitative research is a means for discovering and understanding the meaning of individuals or groups or attributes to a social problem (Creswell, 1997). The purpose of qualitative research is more open-ended where the respondents express their views on issues more than quantitative studies where more close-ended items are used (Creswell, 2005). This method was applied to enable the comparability of pre-IFRS and post IFRS.

3.2. Research Design

This study focused on the assessment of the IFRS adoption and quality of financial reporting in Ethiopian commercial banks. To achieve the above objective the researcher adopted a descriptive design as a principle design. The design enabled the researcher to evaluate adopting IFRS and financial reporting quality of commercial banks in Ethiopian County. The study included the use of qualitative research methodologies in achieving the objectives of the study. This was done through the use of a questionnaire which is an economical, effective and easy way to obtain and analyze data (Bernard, 2014).

3.3 Target Population

The target population is the population to which a researcher wants to generalize the results of the study (Mugenda & Mugenda, 2003). The study population included all the eighteen (18) commercial banks which are registered by the National bank of Ethiopia during the field study period. For this study, the commercial banks were dependent based on those that adopted and reported their financial statements using IFRS.

As of 2016, there are eighteen banks in Ethiopia. These are Abay bank, Addis International Bank, Awash International Bank, Bank of Abyssinia, Birhan International bank, Buna International bank, Commercial Bank of Ethiopia, Cooperative Bank of Oromia, Dashen bank, Debub global bank, Development Bank of Ethiopia Enat bank, Lion International bank, Nib international bank, Oromia International bank, united bank, Wegagen bank, and Zemen bank. However, from all the above-listed banks, Development Bank of Ethiopia and Commercial Bank of Ethiopia are state-owned and the rests are private commercial banks. (www.nbe.et).

3.4 Sample Design, Size and Sampling Techniques

As noted in Jonker and Pennink (2010) it is clear that researchers are typically unable to study the entire population. Therefore, researchers typically study a subset of the population which is known as a sample. A sample is a portion of the population that infers about the population. However, the sample must be representative of the population from which it was selected. The sample design deals with the sample frame, sample size, and sampling technique. Sampling is a technique of selecting a suitable sample to determine the parameters of the whole population. The population is the list of elements from which the sample may be drawn (John, 2007). A sample is drawn to overcome the constraints of covering the entire population with the intent of generalizing the findings to the entire population.

The study employed a purposive sampling technique to select the required sample of banks from the above total population of commercial banks. Purposive sampling is a non-probability sampling that conforms to certain criteria. Accordingly, the researcher employed the judgmental sampling technique which is one of the purposive sampling techniques. Besides, judgmental sampling offers the researcher to deliberately select items for the sample concerning the choice of items as supreme based on the selection criteria set by the researcher. Judgmental sampling is a cross-section of the sample selected by the researcher conforming to some criteria. The selection criteria set by the researcher was first, the required banks have to be adopted IFRS Second, those commercial banks should have prepared their financial statements and annual reports by using IFRS rather than GAAP. Third, those commercial banks should have to train their accounting and finance team. Fourth, those commercial banks should have an IFRS implementation team.

Therefore out of the eighteen banks, the researcher judgmentally selected seven commercial banks; those private banks being studied fit a specific purpose or description that was necessary to conduct the research. Those commercial banks selected as a sample size are namely:-Awash Bank, Commercial Bank of Ethiopia, Cooperative Bank of Oromia, Dashen Bank, Oromia International Bank, United Bank, and Wegagen Bank. This is because since the primary aim of this study is to asses IFRS adoption and financial reporting quality of commercial banks in eth Ethiopia it is better to generalize the banking sector of the country based on data collected from sample banks which were much more experienced in the industry.

Besides, a judgmental sampling technique was used because the researcher set a time frame of the study. Also, it is less time consuming and convenient to use. The study concentrated on their headquarters. The choice of headquarters is because it’s convenient in terms of accessibility, time and financial constraints.

3.5 Data Source and Collection Techniques

In this study, primary data were used. The primary data was collected using questionnaires directly distributed to employees of commercial banks which are targeted as a respondent of the study. This is because the questionnaire has been identified as the best economical means of gathering data from a possibly large number of respondents at a moderate cost.

The questionnaire was prepared in two different formats; the first format was prepared to assess the quality of financial information before the adoption of the international financial reporting standard. And, the second questionnaire was prepared to assess the quality of financial information after adopting international financial reporting standard. Each part of the question has 25 items (see appendix). All items used 5-point Likert scales, such were strongly agreed, agree, neutral, disagree and strongly disagree. The questionnaire was given to the selected respondents and collected later.

Secondary data used for this study were gathered by reviewing banks' annual reports and wide ranges of documents, like articles, journals, related books and reliable web sites for supporting the results of the survey.

3.6 Data Analysis

To achieve the objective of the study the researcher analyzed the secondary data collected from the head office of each respective sampled Ethiopian commercial bank.

Data analysis refers to the process of data immediately after collecting questionnaires from the field, the processing of data to get results, the interpretation and concluding the results obtained (Kothari, 2008). The purpose of data analysis is to draw out meaning from research data collected (Polit & Beck, 2008). The qualitative data were coded and entered into MS Excel Data was then analyzed using descriptive and findings obtained were summarized in frequencies presented in tables and graphs. Descriptive analysis was performed. For background information, descriptive analysis was used and analyzed to provide a profile of respondents. Qualitative data that ought to gather from selected commercial banks analyzed by using a questionnaire. To achieve the objective of the study the researcher assesses the primary data after cleaning, editing and coding collected data from the selected commercial banks, particularly from selected respondents.

3.7 Ethical Consideration

Ethics are norms governing human conduct that have a significant impact on human welfare (Mugenda and Mugenda, 2003). It involves making a judgment about right and wrong behavior. To safeguard the privacy of the respondents and that of the organizations, the researcher provided promise to the respondents that the study was only meant for the academic purpose which means that their responses would remain confidential and only a summary of the data obtained would be used. Moreover, the exercise was voluntary and therefore the respondents were free not to take part. However, before the exercise began, the researcher required approval from the management of the respective entities by presenting the introduction letter from the university as well as a copy of the questionnaire.

Chapter Four

Result and Discussion

Introduction

This section aims to discuss the results of the questionnaire in line with the research question as well as the literature on IFRS. This will allow the research to be positioned in terms of its contribution to knowledge. This chapter presents the results and discussion of data collected from primary data. The chapter is organized into three sections. The first section presents the results, discussion of results in the second section and finally, a summary of findings.

4.1. Results

This section aims to explain the results of the analysis performed and compare the results of this study to the existing literature on the issue at hand i.e. the adoption of IFRS and financial reporting quality. Accordingly; Section 4.1.1 Response Rate, Section 4.1.2 presents the demographic characteristics of the respondents.

4.1.1 Response Rate

The total sample size of respondents used in this study were 160 (one hundred sixty) respondents combined from seven selected commercial banks. The target respondents of the study involved accounting practitioners (annual report preparers) specifically among others. Views from accounting practitioners (accounting and finance officer, IFRS implementation member and finance directors/ managers) are exposed to assess IFRS adoption and financial reporting quality. Accounting practitioners are the only target respondents because they are principal preparers of financial statements and knowledgeable or familiar with the adoption of IFRS and financial reporting quality with the adoption of IFRS. Since they are preparer the financial statements of the banks.

The respondents were asked to indicate their opinions on a five-point scale in terms of strongly agree to strongly disagree. A total of 160 questionnaires were administered to respondents. The overall returned questionnaire was 140 questionnaires (87.5%) and the rest of the respondents 20 questionnaires (12.5%) did not return the questionnaire.

4.1.2 Description of Demographic factors of Respondents

The respondent's demographic features included four key features which were the respondents, gender, age, Job (responsibility) and experience bank they worked in.

I. Gender and Age distribution of the respondents

The study also wanted to discover the gender and age of the respondents and the result is shown in the table and chart below.

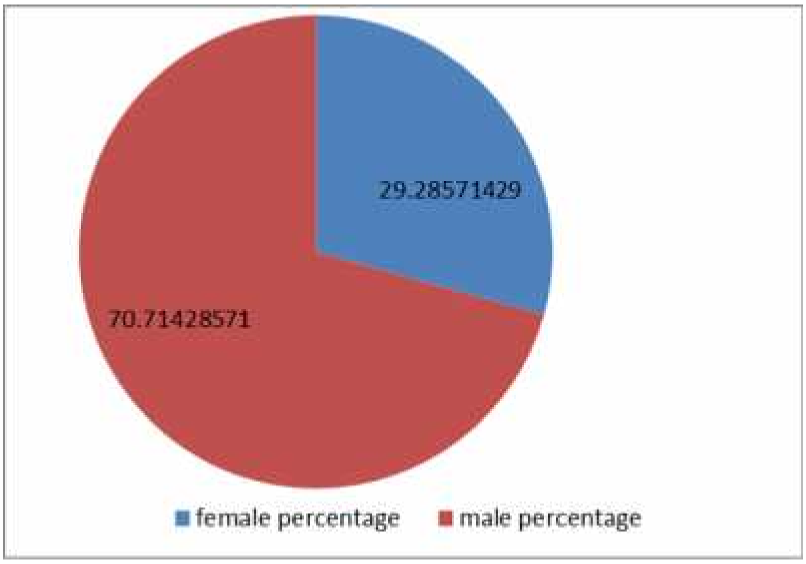
Table 4.1 samples given over gender and age distribution

	Gender			Age				
Variable	male	Female	**Total**	Below25	25-35	36-45	above 45	**Total**
Magnitude	99	41	140	10	88	40	2	140
In percentage	70.7	29.3	100	7.1	62.9	28.5	1.4	100

Source: primary data

The result in table 4.1 illustrates that 99 respondents of 140 were male and while 41 respondents of 140 of the respondent were the females.. the above table similarly indicate that majority of the respodents who gave their suggestions to the questions are between the age of 25-35 years .

Chart 4.1 samples given over the gender of the respondent



Source: primary data

As it is shown in table and chart above out of the 140 respondents returned quaestionaries, 99 representing 70.7% were males whiles 41 representing 29.3 % were females. This show that the majority of the respodents responded the questions to this study are male and female are the minority.

Chart 4.2 Samples given over the age of the respondent

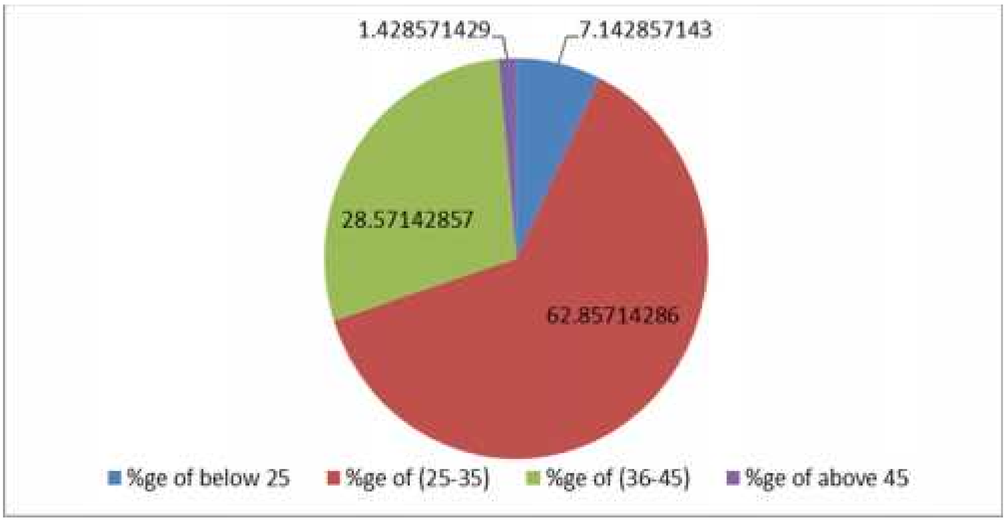


Chart 4.2 illustrates that the majority of the respondents were from 25-35 years. This age group contributed 62.86% of the total respondents. The total percentage of the respondent who were aged 36-45 years were 28.57%, from the age of below 25 years and above 45 years covers 7.14% and 1.43% respectively. From the above pie chart and tables, the massive respondents who gave their suggestions to the questions provided were males and the age of 25-35 years.The overall perception is that most of the respondents were betwen 25-35 years.

II. Job and Age experience of the respondents

Another demographic measure used in this study is the job(employment) of the respondents. the response on the employment of respondents is summarized in the table below

Table 4.2 Job and Experience Distribution of the Respondents

Indicators	Measurement	Response	Percentage
Job	**Finance director**	**7**	**5**
	Accounting and finance officer	89	63.57
	IFRS implementation member	44	31.43
	Total	140	100
Experience	0-5	33	23.57
	5-10	65	46.43
	10-15	28	20
	Above 15	14	10
	Total	140	100

Source: primary data

As it is shown in table 4.2 above the highest percentage of the respondents 89 (63.57%) were accounting and finance officers. 31.43% of the respondent's works were IFRS implementation members while (5%) of the respondents representing 7 of the sample of the respondents were finance directors/ managers. This implies that the majority of respondents involved were accounting and finance officers. Accounting (finance) officer & IFRS implementation members are drivers of financial reporting of the Ethiopian commercial banks. The result shows that the banks have an employee who has the training of IFRS.

Above table 4.2 also demonstrated that the distribution of several years a respondent has worked within the Ethiopian commercial banks, helped the researcher to know the respondent's level of experience and how they have made use of the standard available to the bank to which they belong. As it showed above greater part of the respondents has worked in their various commercial banks between 5 to 10 years making 46.43 %, followed by those who had worked for below 5 years consisting of 23.57 %. Those who worked between 10 to 15 years were about 20% and 10% had above 15 years' experience. This implies that the majority of preparers of financial reports in the Ethiopian commercial banks involved in the study have a good experience.

4.2 Discusion of the Result

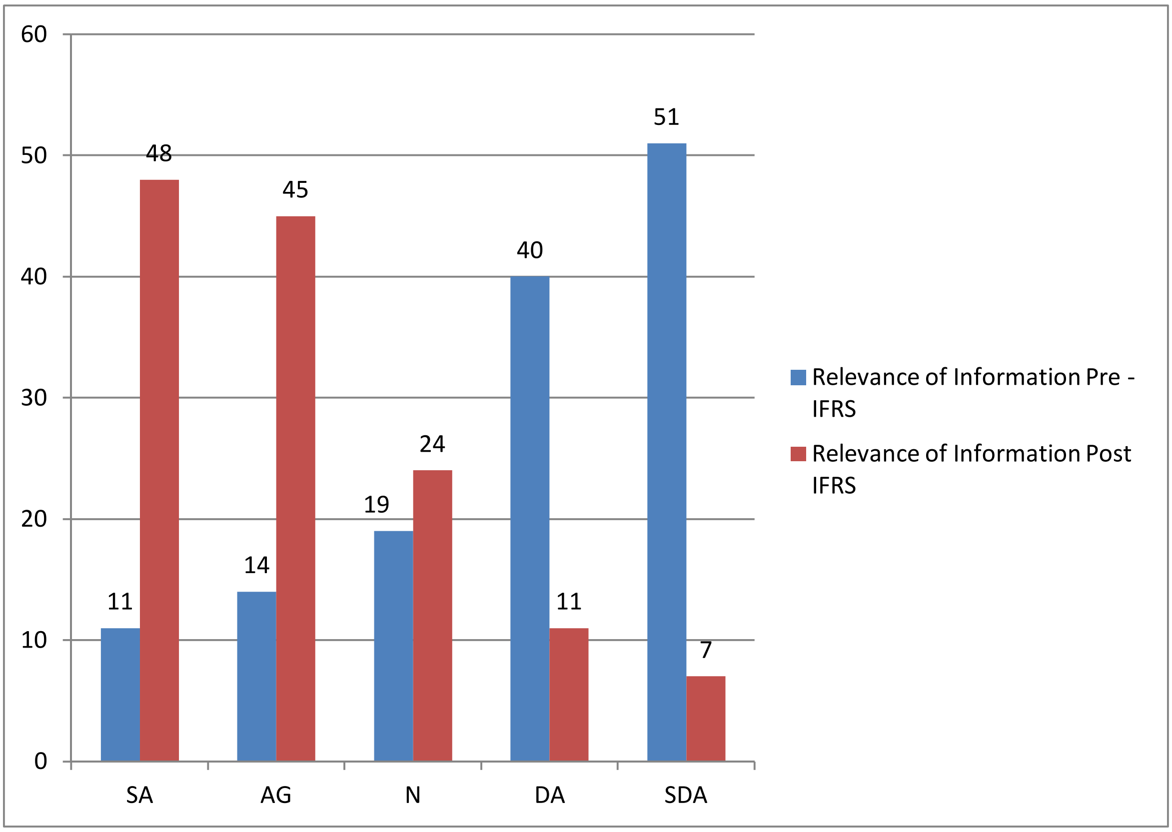
Today, the necessity for producing quality financial reports has received great attention over the world. Providing high-quality financial reporting information is important because it will influence capital providers and other stakeholders in making investment, credit and similar resource allocation decisions enhancing overall market efficiency (IASB, 2013). For corporate information to beneficial, IASB argues that a key prerequisite quality in financial reporting is the adherence to the objective and the qualitative characteristics of financial reporting information. Qualitative characteristics are the quality that makes financial information useful and consists of relevance, comparability, understandability, and faithful representation.

To assess and evaluate the quality of financial reports produced in the two accounting regimes, namely, post and pre-adoption of IFRS researcher used a sample of 160 respondents in Ethiopian commercial banks based on company size (revenue). All commercial banks included in the sample were prepared their annual report using IFRS in 2018.

Under this section, specifically the researcher analysis in detail the description result. The current study shows that the adoption of IFRS improves financial information on financial reports for commercial banks in Ethiopia. As indicated in the bellow graphs the descriptive statistics for the quality of financial reports related to accounting standards. These results suggest that IFRS provides higher financial reporting quality than GAAP for quality measures. Besides, the results show an increase in financial reporting quality after the adoption of IFRS than before in the annual reports of Ethiopian commercial banks. More specifically, the description result indicates that relevance, comparability, and understandability of financial information improved post the adoption of IFRS. The study found that the adoption of IFRS improves the Faithfull representation of the financial information's but faithful representation is not that much happened because of the adoption of IFRS. However, some findings are contrary to the expectations of the researcher, findings that are consistent with the results existing in the literature and findings that are inconsistent with the existing result in the literature. These are discussed one by one as follows

4.2.1 Relevance of financial reporting in Ethiopian commercial banks

Graph 4.1 Respondents response rate for Relevance of financial report.



Source: primary data.

Relevance was considered to be one of the key financial information that can be improved post the adoption of IFRS in Ethiopian commercial banks. The descriptive result above shows that relevance financial reporting, measured by predictive value; feedback value has improved in Ethiopia commercial banks. The result of this study was by the expected result by the researcher and inconsistent with the normative accounting theory that plays an important role in the accounting systems used today by finance managers and investors. A normative accounting statement would indicate how much money should be invested in those measures to sustain corporate growth.

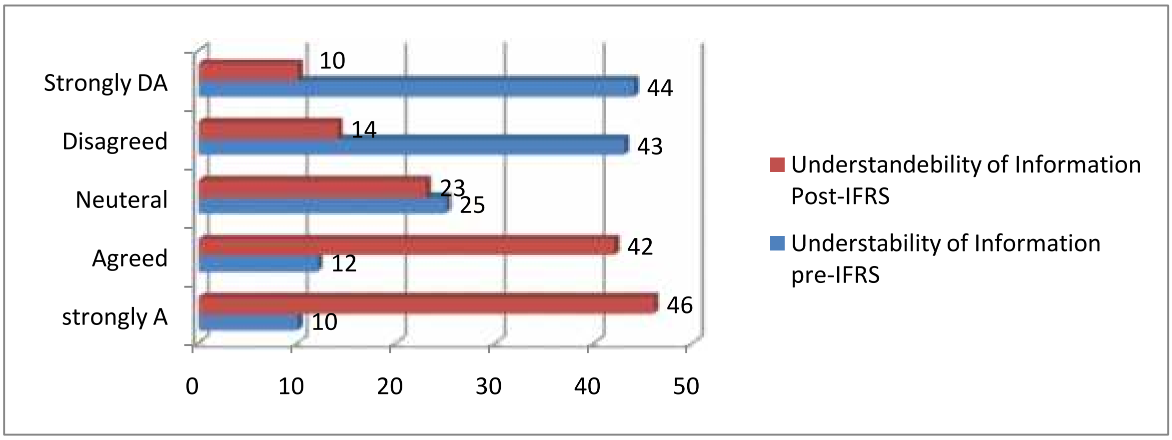
The above graph represents that the overall responsibility for the relevance of financial reporting is given for a period of pre and post-adoption of international financial reporting standards. The adoption of international financial reporting standards improves the relevance of financial information when it is compared to the pre-adoption quality of financial information. This can be evidenced by the rate of responses that responded about the adoption of international financial reporting standards in improving the relevance of accounting information. The overall response rate shows that; 48 (strongly agreed) and 45 (agreed) numbers of the respondents were agreed on IFRS adoption in improving financial reporting quality (relevance), while on the other hand, 11 (strongly agreed) and 14 (agreed) numbers of respondents agreed on that; the relevance of financial information was better before adoption of international financial reporting standards.

From this, the researcher concludes that the adoption of international financial reporting standards improves the relevance of financial information (relevance) by a greater frequency of 68 response rates. This implies that; the relevance of financial information is improved with the adoption of international financial reporting standards.

Relevance was assessed by analyzing whether the reports disclose forward-looking information in terms of business opportunities and risks; whether the company uses the fair value as a measurement basis and whether the reports provide feedback information on how various market events and significant transactions affected the company.

4.2.2 Understandability of financial reporting in Ethiopian commercial banks

Graph 4.2 Respondents response rate for understandability of financial report.



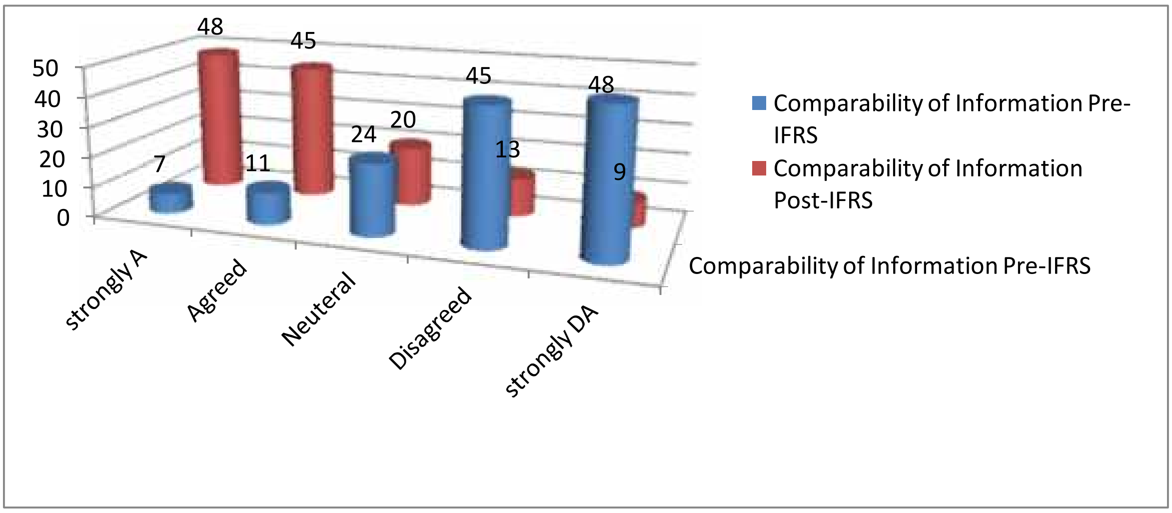
Source: primary data

As indicated in the above graph 4.2 the Understandability of financial information pre and post international financial reporting standards were analyzed. The above graph shows that; 46 respondents strongly agreed and 42 respondents agreed on the adoption of IFRS in improving the understandability of financial information and this can be evidenced from overall response rate of respondents.while,10 respondents strongly agreed and 12 respondents agreed number of respondents have disagreed on the improvement of financial reporting understandability after adoption of IFRS.

The data collected revealed that 88 respondents were agreed on the adoption of international financial reporting standards in improving the understandability of financial information. On the other hand, 22 of the respondents were agreed that the understandability of financial information was better pre-adoption of international financial reporting standards. In this case, only 66 respondents show their support for the adoption of international financial reporting standards in improving the overall understandability of the financial information. From this, it is possible to conclude that; the adoption of international financial reporting standards improves the overall understandability of financial information. The finding of the study was consistent with the study established by (Yurisandi and Puspitasari, 2015); which suggests that the understandability of financial reports was increased after IFRS adoption.

4.2.3 Comparability of financial reporting in Ethiopian commercial banks

Graph 4.3 Respondents response rate for comparability of financial report



Source: primary data.

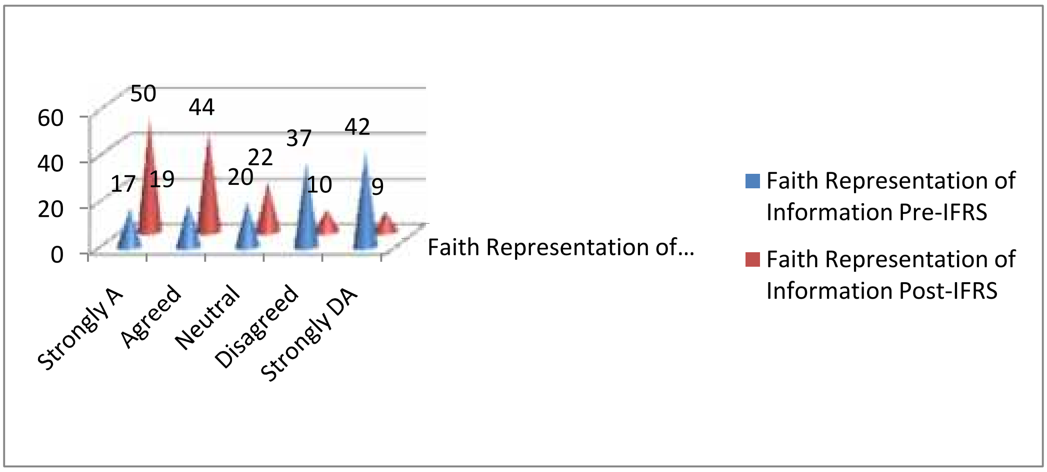
Comparability of financial reports is one of the ways by which IFRS impact on financial reports. This study attempts to quantitatively measure the extent to which financial reports prepared pre and post of IFRS adoption can be compared. Accordingly, in the above graph 4.3, the overall comparability of financial information was compared as pre and post-adoption of international financial reporting standards.

The result of data collected shows that; the comparability of financial information was improved as the adoption of international financial reporting standards in commercial banks in Ethiopia. 48 numbers of respondents were agreed on the improvement of comparability of financial statements as the adoption of international financial reporting standards. While, 7 respondents were agreed that; the comparability of financial information was better pre-adoption of international financial reporting standards; so, based on the number of data collected and observations made by the researcher, it is possible to conclude that; the comparability of financial information is improved after adoption of international financial reporting standards.

The evidence of data collected shows that; adopting international financial reporting standards improves the comparability of financial information was supported by a greater response rate of 42. The finding of the study was consistent with the study established by (Onipe et al 2015), which implies that adoption of international financial reporting standards will lead to improvements in the comparability of reported financial information.

4.2.4 Faithful Representation of financial reporting in Ethiopian commercial banks

Graph 4.4 Respondents response rate for Faithfull representation of financial report.



Source: primary data.

Graph 4.4 indicated that the data collected with this regard expose the faithfulness of financial information that was improved after the adoption of international financial reporting standards. From the data collected 50 numbers of respondents were agreed on the improvement of Faithfull representation of financial information after the adoption of international financial reporting standards. While on the other hand, 17 numbers of respondents were agreed that; the faithfulness of financial information was better before the adoption of international financial reporting standards. The number of respondents who replied on improving faithfulness of financial information after implementation IFRS is was greater by a frequency of 33. From this, the researcher concluded that the adoption of international financial reporting standards improves the Faithfull representation of the financial information’s but the level of responses implies that change in Faithfull representation is not that much happened because of the adoption of international financial reporting standards.

To assess the faithful representation, the study investigated on whether the annual reports explained the assumptions and estimates clearly; whether the financial report explained the choice of accounting principles clearly; whether the financial report highlights the measures in a balanced way when discussing the financial results; whether the financial report includes an unqualified auditor’s report and whether the annual report extensively discloses information on corporate governance issues.

4.3 Summary of findings

To summarize, this chapter discussed the results of the descriptive analysis results and then presented the discussions of these results using the appropriate method. Accordingly, the chapter presented the results of the questions of the IFRS adoption and financial reporting quality assessed empirical results provide detailed discussions on sample descriptive analysis to assess the adoption of IFRS and financial reporting quality pre and post.

Descriptive analysis was also used to describe the financial reporting quality among Ethiopian commercial banks. The results show that relevance, understandability, comparability, and faithful representation are the most important quality information of financial reporting in commercial banks in Ethiopia respectively.

The findings of this study are consistent with several previous kinds of literature, although there are differences in the method used in this study compared with previous studies. Research conducted by (Ta and Liu, 2014) found that the quality of financial reporting has increased in the period after the convergence to IFRS. Another research conducted by (Barth, et.al. 2008 and Rajihie, 2014) also found that companies that applied IAS have a higher quality of financial reporting compared to companies that do not apply IAS.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATION

Introduction

The purpose of this chapter is to present the conclusions and recommendations of the study. Accordingly, the chapter is organized into two parts, the first part presents the conclusions of the study and the second part presents the recommendations provided based on the findings of the study.

5. 1 Conclusions

Globally, the use of the IFRS in financial reporting is the requirement for many countries, primarily due to the influence of investors/shareholders' demand, cost minimization in financial reporting, and global competition. However, the question of whether such a global transition towards a single set of accounting standards has been meeting by the accepted benefits of higher accounting quality and comparability remains unanswered. To contribute to this important topic I have investigated whether IFRS adoption in the seven Ethiopian commercial banks improves the quality of financial reporting. This research finds that under IFRS, an increase in quality due to an increase in relevance comparability, understandability, faith representation.

Financial reporting is central to economic activities. Recently there is an increasing interest in research on financial reporting quality. However, the characteristics of financial reporting quality are not well understood in the current accounting literature because the meaning of quality in accounting is rather different from those in many other fields. Furthermore, different accounting regulations are one of the main causes and consequences of a variety of quality levels in financial reporting. Wide research has attempted to identify this information; however, the findings of prior empirical studies have provided varying evidence related to the IFRS adoption and on financial reporting quality. Furthermore, the majority of these studies have been conducted in developed countries and developed regulatory frameworks.

This study investigated the change in financial reporting quality between the pre and post IFRS adoption in Ethiopian commercial banks using the qualitative characteristics of commercial banks in Ethiopian. The result shows that there is a difference in the quality of financial reporting between pre and post IFRS adoption in commercial banks in Ethiopian. Financial reporting quality increased in the post-IFRS adoption across the four qualitative features of relevance, faithful representation, comparability, and understandability examined.

This research aims to evaluate whether there are any increases in financial reporting quality after the adoption of IFRS using the accounting information, the study result concluded that IFRS adoption increased the quality of financial reporting in Ethiopian commercial banks. The result shows that the financial reporting quality after the adoption of IFRS was higher than the financial reporting quality before the IFRS adoption. The result showed that the qualitative characteristics of relevance, understandability. Comparability and faith representation level increased after IFRS adoption.

To achieve the objective of the study, the study adopted a descriptive research design and qualitative research approach. Furthermore, purposive sampling techniques were used to select several sampled commercial banks from the total population of the Ethiopian commercial banks. More specifically, primary data was used to asses IFRS adoption and financial reporting quality. The primary data was collected through questionnaires and, the questionnaire was prepared in two different formats. The first format contains the question which indicates financial reporting quality before the adoption of international financial reporting standard and the second format includes the question which indicates the quality of financial reporting after the adoption of international financial reporting standard. To achieve the objective of the study 160 questionnaires' were distributed to respondents and 140 of them were returned, 5 of them were returned but not completed they wrote their demographic only and the remaining 20 was unreturned.

The argument on the findings of the study can be concluded that the adoption of IFRS has a notable influence on the financial reporting quality of commercial banks in Ethiopia. The finding of the study suggests relevance, understandability, comparability and faith representation improved in Ethiopian commercial banks after the adoption of international financial reporting standards. The results also, confirm that positive accounting theory is a related theory in the Ethiopian banking industry.

5.2 Recommendation

From the evidence gathered by this study, the researcher concluded that the quality of financial reports of Ethiopian banks is decided to be moderate by users of accounting information in Ethiopia, taking into consideration the reporting qualities of understandability, relevance, comparability, faith representation. Consequently, the study recommends that Ethiopian commercial banks should attempt to achieve higher reporting quality of their financial reports.

From the result, it is noted that Ethiopian commercial banks showing adoption of IFRS may have a higher quality financial report than US GAAP. It is therefore recommended that finance directors, accounting, finance officers and IFRS implementation teams shall consider intensive investigation on the accounting information conveyed by quality commercial banks which will result in low accounting information.

view of the above, it is recommended that Ethiopia should exercise concern in convergence with IFRS as there improve relevance, comparability, understandability and faith representation of Ethiopian commercial banks. The adoption of IFRS is expected to improve financial reporting quality and accounting information on financial reports. So, it show in comparing both standards especially in improving financial information like commercial banks of Ethiopia who just adopt international financial reporting standard the Ethiopian government requires strongly to attracting investors' in the country by using different methods to develop the economy of the country the adoption of IFRS compulsory requires for all Ethiopian financial institution banks and public enterprises to attract the investors.

Accounting and the auditing board of Ethiopia should incorporate the teaching of this standard into all levels of accounting education for proper awareness of the standard to improve quality financial reporting.

It is therefore recommended from this study that the CBE and Accounting and auditing board of Ethiopia (AABE) should work together to harmonize both standards as to improved financial reporting quality in commercial banks. Finally, the adoption of IFRS compliant set of financial statements responsible for improved financial reporting quality by improving financial information of financial reports.

Since the regulatory authorities have the responsibility of ensuring that state entities follow the laid down procedures and regulations, they need to ensure that all public entities conform to the appropriate controls, functional audit committees and full adoption of international public accounting standards where quality reporting is adhered to improving financial information of financial reports

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APPENDICES 1

Appendix.3 to asses International Financial Reporting Standard (IFRS) adoption and quality of financial reporting

Letter to the Respondents

Momina Motuma

Addis Ababa

Dear Respondent,

Request for Research Data

My name is Momina Motuma, I am currently studying for my Master's Degree at Addis Ababa University. I am currently doing my research thesis to be able to complete my Course. I am specializing in accounting options and will therefore to asses International Financial Reporting Standard (IFRS) adoption and quality of financial reporting in Ethiopian commercial banks.

You have been identified as one of the people that could be of assistance with the research and thus request your participation in the research. Essentially; you will be required to complete a questionnaire. You will remain anonymous and your responses will be treated with the utmost confidentiality. Your response is vital to the outcome of the study. The research is going to be carried out based on your responses and other relevant information that could support it. Your cooperation to respond honestly is very important to this study because it represents in the sample. Please answer all the questions**.** . Space is provided at the end of the questionnaire for you to add any other effect of IFRS adoption and comments. Your information will be used only for research purposes and the responses will be kept confidential.

Demographic profile

1. Name of your bank: …………………………………….

2. Gender: □female □male

3. Age Bracket: □Less than 25 Years,□25-35Years,□36-45 Year,□Above 45

4. Your job/ responsibility in your bank: □finance director/manager,□ accounting and fiancé officer□ IFRS implementation member

5. Experience: □0-5, □5-10, □10-15, □above 15

PART ONE: Demographic profile

1. Name of your bank: …………………………………….

2. Gender: □female □male

3. Age Bracket: □Less than 25 Years,□25-35Years,□36-45 Year,□Above 45

4. Your job/ responsibility in your bank: □finance director/manager,□ accounting and fiancé officer□ IFRS implementation member

5. Experience: □0-5, □5-10, □10-15, □above 15

PART TWO: To asses IFRS adoption and quality of financial reporting in commercial banks in Ethiopia before IFRS adoption.

Please complete the questionnaire according to your experience in your job, in the Ethiopia banks by putting (√) in the suitable box:

	Questionnaires	Strongly agree	Agree	Neutra l	Disagre e	Strongly disagree
Factor (1)Relevance						
1	The annual reports prepared before the adoption of IFRS disclose forward-looking information that helps in forming expectations and predictions concerning the future of the company					
2	The annual reports prepared before the adoption of IFRS disclose information in terms of business opportunities and risks complement the financial information					
3	The company use fair value for valuation instead of the historical cost before adoption of IFRS					
4	The financial information prepared before the adoption of IFRS help companies to confirm the exact profitability levels of the business					
5	The financial reports prepared before adoption of IFRS are presented annually as required by regulatory bodies of accounting					
6	The financial report prepared before the adoption of IFRS show undue delays in the presentation of financial reports					
7	The annual report prepared before the adoption of IFRS provide feedback information on how various market events and significant transactions affected the company					
	Factor (2) Understandability					
1	The financial report prepared before the adoption of IFRS presented in a well-organized manner					
2	The notes to the balance sheet and the income					

	statement are sufficiently clear before adoption of IFRS					
3	The financial information provided before the adoption of IFRS Cleary state the sources and level of expenditure that can easily be understood					
4	The business assets are easy to know in terms of value and nature before the adoption of IFRS					
5	The presence of graphs and tables clarify the presented information Cleary before the adoption of IFRS					
6	The use of language and technical jargon is easy to understand and follow in the annual report before the adoption of IFRS					
7	The annual report prepared before the adoption of IFRS include a comprehensive glossary					
	Factor (3): Comparability					
1	The notes to changes in accounting policies explain the implications of the change before the adoption of IFRS?					
2	The notes to revisions in accounting estimates and judgments explain the implications of the revision before the adoption of IFRS?					
3	The company's previous accounting period's figures are adjusted for the effect of the implementation of a change in accounting policy or revisions in accounting estimates before adoption of IFRS?					
4	The results of current accounting period are compared with results in previous accounting periods before adoption of IFRS?					
5	The information in the annual report prepared before the adoption of IFRS is comparable to information provided by other organizations?					
6	The annual report presented before the adoption of IFRS show financial index numbers and ratios?					
	Factor (4): Faith Representation					
1	The annual report prepared before the adoption of IFRS explain the assumptions and estimates made clearly; valid arguments provided to support the decision for certain assumptions and estimates in the annual report					
2	The annual report prepared before the adoption of IFRS explain the choice of accounting principles clearly					
3	The annual report prepared before the adoption IFRS highlights the positive and negative events in a balanced way in discussing the annual results					

4	The annual report prepared before the adoption of IFRS is easy for auditors to give their audit opinion?					
5	The annual report prepared before the adoption of IFRS extensively disclose information on corporate governance issues					

PART TWO: Assessment of IFRS adoption and quality of financial reporting in commercial banks in Ethiopia after IFRS adoption.

Please complete the questionnaire according to your experience in your job, in the Ethiopia banks by putting (√) in the suitable box:

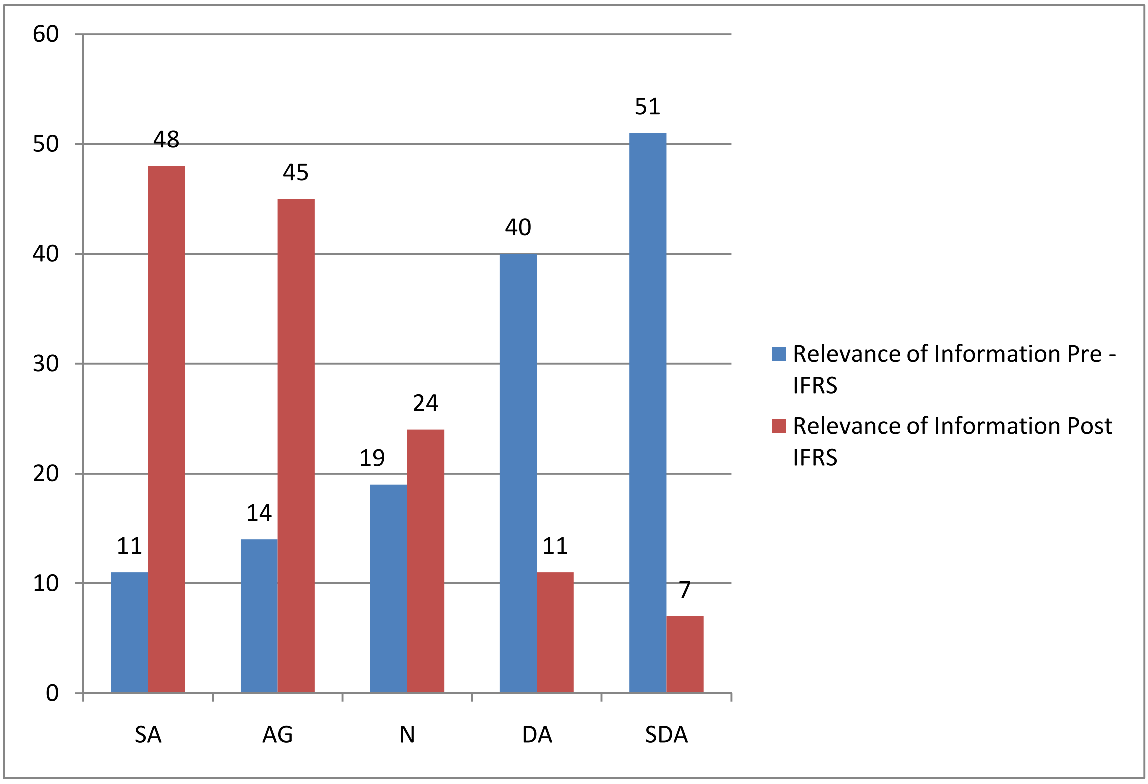
	Questionnaires	Strongly agree	Agree	neutral	disagree	Strongly disagree
Factor (1)Relevance						
1	The annual reports prepared under IFRS disclose forward-looking information that helps in forming expectations and predictions concerning the future of the company					
2	The annual reports prepared under IFRS disclose information in terms of business opportunities and risks complement in the financial information					
3	The company use fair value for valuation instead of historical cost after the adoption of IFRS					
4	The financial information prepared under IFRS help companies to confirm the exact profitability levels of the business					
5	The financial reports prepared under IFRS are presented annually as required by regulatory bodies of accounting					
6	The financial report prepared under IFRS show undue delays in the presentation of financial reports					
7	The annual report prepared under IFRS provide feedback information on how various market events and significant transactions affected the company					
	Factor (2) Understandability					

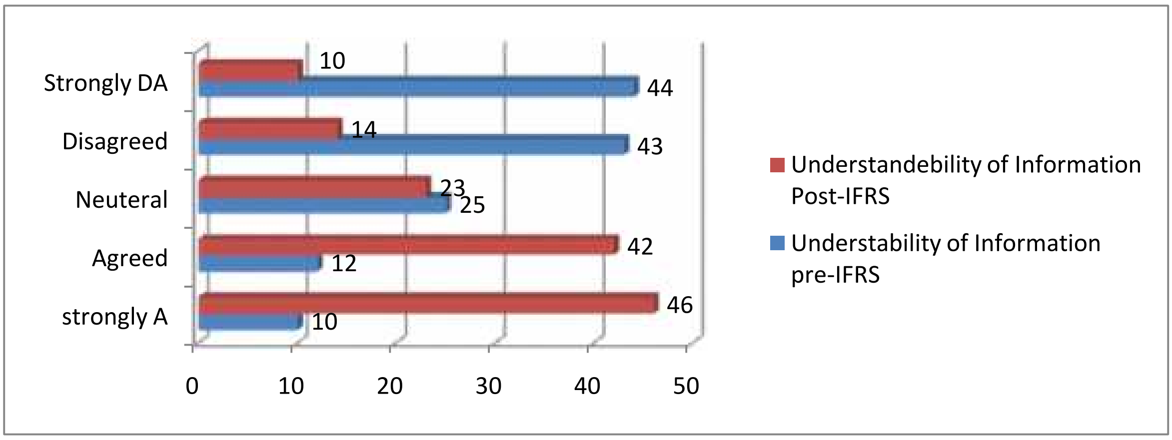
1	The financial report prepared under IFRS presented in a well-organized manner					
2	The notes to the balance sheet and the income statement are sufficiently clear after adoption of IFRS					
3	The financial information provided through IFRS Cleary state the sources and level of expenditure that can easily be understood					
4	The business assets are easy to know in terms of value and nature after the adoption of IFRS					
5	The presence of graphs and tables clarify the presented information Cleary after the adoption of IFRS					
6	The use of language and technical jargon is easy to understand and follow in the annual report after the adoption of IFRS					
7	The annual report prepared under IFRS include a comprehensive glossary					
	Factor (3): Comparability					
1	The notes to changes in accounting policies explain the implications of the change after the adoption of IFRS					
2	The notes to revisions in accounting estimates and judgments explain the implications of the revision after the adoption of IFRS					
3	The company's previous accounting period's figures are adjusted for the effect of the implementation of a change in accounting policy or revisions in accounting estimates after adoption of IFRS					
4	The results of current accounting period are compared with results in previous accounting periods after adoption of IFRS					
5	The information in the annual report prepared under IFRS is comparable to information provided by other organizations					

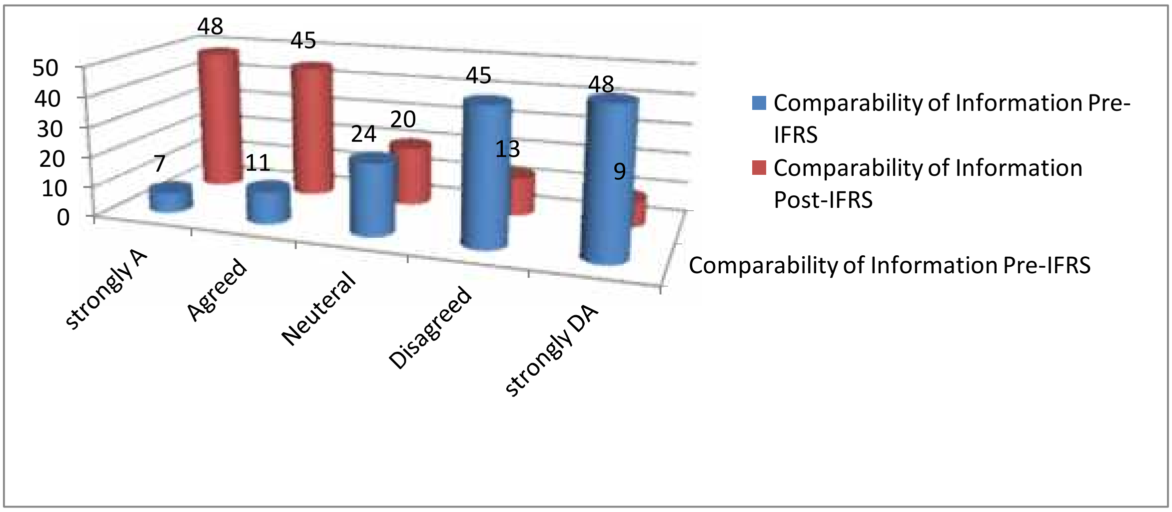
6	The annual report presented under IFRS show financial index numbers and ratios					
	Factor (4): Faith Representation					
1	The annual report prepared under IFRS explain the assumptions and estimates made clearly; valid arguments provided to support the decision for certain assumptions and estimates in the annual report					
2	The annual report prepared under IFRS explain the choice of accounting principles clearly					
3	The annual report prepared under IFRS highlight the positive and negative events in a balanced way in discussing the annual results					
4	The annual report prepared under IFRS is easy for auditors to give their audit opinion					
5	The annual report prepared under IFRS extensively disclose information on corporate governance issues					

Appendix 2

Regression result







Graph 4.2.4 Respondents response rate for Faithfull representation of financial report.