

**ADDIS ABABA UNIVERSITY**  
**COLLEGE OF BUSINESS AND ECONOMICS**  
**DEPARTMENT OF MASTER OF BUSINESS ADMINISTRATION**



**OPPORTUNITIES AND CHALLENGES OF INTERNATIONAL  
FINANCIAL REPORTING STANDARDS IMPLEMENTATION IN  
THE CASE OF COMMERCIAL BANKS IN ETHIOPIA.**

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**Opportunities and challenges of International  
Financial Reporting Standards (IFRS)  
Implementation in the case of Commercial Banks in  
Ethiopia.**

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This is to certify that the thesis prepared by Jote Kenate entitled: Opportunities and challenges of International Financial Reporting Standards (IFRS) Implementation in the case of Commercial Banks in Ethiopia and submitted in partial fulfilment of the requirements for the degree of Master of Business Administration specialized in Finance complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

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## **DECLARATION**

I hereby declare that this thesis is my original work has not been presented for an academic purpose in any other university and that all sources of material used for the thesis have been properly acknowledged.

**Declared by:**

Jote Kenate \_\_\_\_\_ May, 2019

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Date

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## **Abstract**

*The aim of the study is to identify the opportunities and challenges of International Financial Reporting Standards (IFRS) Implementation in the case of Commercial Banks in Ethiopia. The study focuses on assessing the opportunities and challenges of IFRS including the factors that could influence its adoption and post implementation challenges. To achieve these objectives, both primary and secondary data were collected from Accountants, Auditors and IFRS implementation who are working in the commercial Banks in Ethiopia who were selected purposively based on their role and involvement in the implementation Process. Primary data were collected through questionnaire and interview whereas secondary based were collected through documentary evidence and analyzed by using descriptive analysis. The findings suggest that IFRS has cumbersome requirements, difficult to understand apparent technical complexities in IFRS, lack of implementation guidance, difficulty in determining fair value of assets and liabilities, lack of personnel with necessary knowledge and expertise of IFRS, scarcity of experts for consulting, limited access to IFRS education and training program, limited experiences in applying IFRS, lack of top management's commitment and support, lack of trained Auditors to audit under IFRS environment, lack of cooperation among departments , resistance to change, lack of IFRS compatible software packages, difficulty of integrating IFRS with the current accounting system, and IFRS, limited time for preparation and transition before full convergence , high cost of IFRS consulting and auditing, insufficient Availability of Internal data for IFRS conversion are the clearly outstanding challenges encountered by firms upon the mandatory adoption and compliance with IFRS.*

*The finding of open ended questionnaires also suggest that there are weak post IFRS implementation follow up, IFRS is not incorporated in day to day activities since the last reporting date, IFRS-9 not yet implemented by Commercial Banks in Ethiopia except CBE, NBE and Ministry of Revenue were not yet revised its laws in line with the requirement of IFRS*

Key words; IFRS, Challenge, Commercial Banks, Implementation, Adoption

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## **Acronyms and Abbreviations**

AABE	Accounting and Auditing Board of Ethiopia
ACCA	Association of Chartered and Certified accountants
AISG	Accountants International Study Group
CBE	Commercial Bank of Ethiopia
CBN	Central Bank of Nigeria
ECL	Expected Credit Loss
ECX	Ethiopian Commodities Exchange
ECOWAS	Economic Community of West African States
EU	European Union
FASB	Financial Accounting Standard Board
GAAP	General Accepted Accounting Principle
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
IAS	International Accounting Standards
ICAB	Institute of Chartered Accountants of Bangladesh
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
IPSA	International Public Sector Accounting
JSE	Johannesburg Securities Exchange
NBE	National Bank of Ethiopia
NASB	Nigerian Accounting Standards Board
NSE	Nigerian Stock Exchange,
OECD	Organization for Economic Co-operation and Development
UN	United Nations

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## **CHAPTER 1: INTRODUCTION**

### **1.1 Background of the Study**

Globalization of capital markets is an irreversible process hence the need for harmonization of accounting standards in order to help standardize companies' financial statements, especially international investors whose interest span across the globe. Since financial information is the medium of communicating financial transactions, it is important that different countries' accounting standards be harmonized to form a single set of accounting standards, to improve the rate at which investment and credit decisions are taken and aid international comparability of companies' performance both within and outside reporting countries. According to Essien-Akpan (2011), as a result of increasing globalization and therefore competition, it becomes imperative that countries and companies to address issues that will make them become more attractive of investors' capital which is like the proverbial beautiful bride. Adekoya (2011) noted that there are many potential benefits to be gained from the adoption of uniform, mutually recognized and respected international accounting standards, the adoption cut the cost of doing business across the borders by reducing the need for complementary information, make information more comparable, thereby enhancing evaluation and analysis by users of financial statements. Ahmed (2011) also put it differently that users become more confident of the information they are provided with and presumably, this reduces uncertainties, promotes efficient allocation of resources and reduce capital cost.

The evolution of this international convergence towards a global set of accounting standards started in 1973 when 16 professional accounting bodies from major countries comprising UK, Ireland, United States (US), Australia, Canada, France, Germany, Japan, Mexico, Netherlands agreed to form International Accounting Standards Committee (IASC) responsible for the issuing of International Accounting Standards (IAS) until April 2001 when the IASC was re-structured to International Accounting Standard Board (IASB) to develop a uniform set of accounting principles that would be applicable globally and supersede the International Accounting Standards (IAS) which allowed for different treatments of transactions and events, making comparative analysis difficult and to be known as International Financial Reporting Standards (IFRSs) (Ajibade, 2011)

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

Recognizing the importance of high quality financial reporting and its contribution to improved financial management is necessary to attract investment and to exploit International opportunities, the House of People's Representatives of Ethiopia has enacted Financial Reporting (IFRS) Proclamation No. 847/2014 to establish a sound, transparent and understandable financial reporting system which would be applicable to entities in both private and public sectors. Following the financial reporting proclamation, Regulation No. 332/2014 was issued by the Council of Ministers and established the Accounting and Auditing Board of Ethiopia (AABE) by defining the powers and duties of the Board.

In line with the defined powers and duties, AABE is responsible for regulating the profession as well as for issuing a national professional accountancy qualification that is recognized internationally. Among others, its responsibilities include setting accounting and auditing standards and code of conduct to regulate the behaviour of professionals; register and certify professionals and firms to provide such services; review and monitor the work of professionals and firms rendering accountancy and/or audit services and reporting entities; providing professional qualification training, supporting education and continuous professional development programs; enforcing the financial reporting law and taking disciplinary measures on those who do not comply with the provisions of the law and the regulation set by the Government and directives, other relevant policies and guidelines issued by the Board.

Accordingly, AABE has prepared a road map for implementing IFRS in Ethiopia and instructed all stakeholders so as to implement the IFRS in line with the road map.

**Phase 1:**

**(Mandatory Adoption of IFRS):** Significant Public Interest Entities - Financial Institutions and public enterprises owned by Federal or Regional Governments. July 8, 2016 is recommended as the date for adoption of IFRS for all financial institutions and large public enterprises. The choice of July 8, 2016 is anchored on the need to give sufficient period (22 months) over which to effectively transit to IFRS. (AABE Nov. 2015).

### **Phase 2:**

**Other Public Interest Entities (ECX member companies and reporting entities that meet Public Interest Entities quantitative thresholds) and International Public Sector Accounting (IPSA) for Charities and Societies,** All other public interest entities (ECX member companies and reporting entities that meet the qualitative thresholds for PIE) and Charities and Societies are expected to mandatorily adopt IFRS and IPSAs (for Charities and Societies), for statutory purposes, by July 8, 2017. This means that all other public interest entities and Charities and Societies in Ethiopia will statutorily be required to issue IFRS and IPSAs based financial statements respectively for the year ending July 7, 2018. ( AABE Nov. 2015)

### **Phase 3:**

**Small and Medium-sized Entities,** IFRS for SMEs shall mandatorily be adopted as at July 8, 2018. This means that all Small and Medium-sized Entities in Ethiopia will statutorily be required to issue IFRS based financial statements for the year ending July 7, 2019. (AABE Nov. 2015).

As per the road map high public interest entities such as banks shall produce IFRS compliant report by June 30, 2018, this study is meant to identify the key encountered challenges of IFRS adoption and to review the compliance of IFRS framework as the first audited financial reports are prepared and presented using IFRS- frame work in the sector and Post Implementation challenges in Ethiopian Commercial Banks after full adoption of IFRS in June 2018.

## **1.2 Statement of the Problem**

Various studies have been conducted to assess adoption of IFRS in different countries around the world. Most of these studies conducted on the data from developed and industrialized countries. The European Union (EU) took the lead when it mandated all listed companies in the European Union to start the adoption and implementation of the IFRS in their financial reporting since 2005 (Odia.et.al, 2013). According to Beke.J (2010) as cited in (Onalo.et.al, 2014) although it became mandatory for firms listed on capital markets of European and other developed countries to implement IFRS beginning from 2005, only few emerging countries have recently converged with or adopted IFRS as their reporting standards. Hence,

most prior extant studies on the change from local GAAP to IFRS or better state IFRS adoption/convergence focus majorly on European and other developed countries with scarcity of such studies on emerging economies. Lack of empirical studies on the association between changes in accounting standards or IFRS adoption/convergence and accounting quality of financial institutions such as banks in terms of earnings management and value relevance is theoretically and practically insecure giving the functional status of financial institutions particularly banks on economic scenes local or international. Furthermore, financial institutions particularly banks is one sector that is expected to be most affected by changes in accounting standards specifically IFRS adoption or convergence (Olano.et.al, 2014). According to IASB (2014) as cited in (Olano.et.al, 2014) moving to IFRS has had a major impact on the reporting requirements of financial institutions.

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

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

Tesfu (2012) studies the Benefits and Challenges of adopting IFRS in Ethiopia and found that need for training, complexity of IFRS and lack of implementation guidance are the major challenges of IFRS adoption, Mihiret (2016) investigates the Process, Issues and Implications of IFRS Adoption in Ethiopia .The study shows that lack of commitment and low capacity among accounting Professional and lack of coordination of all concerned stakeholders are the major challenges. Hailemichael (2016) studies Adoption, Challenges and perception of International Financial Reporting Standards (IFRS) on the Quality of Financial Reporting of

Financial Institution in Addis Ababa, Ethiopia and finds that there is a strong positive relationship between IFRS adoption and quality of Financial reporting of financial institutions and the study also highlights challenges of IFRS adoption the significant ones are cost of adoption ,IT challenge and lack of implementation agent and guidance , Teshome (2017) investigates Challenges and Prospects of International Financial Reporting Standards (IFRS) implementation in Ethiopia .The investigation shows that need for training, lack of readiness to implement within the time frame set by the board, lack of adequate implementation guidance and lack of enforcement capacity are some of key challenges facing the transition to IFRS. Alemi (2016) conducts a research on IFRS Adoption Progress in Ethiopia and finds that shortage of qualified professionals and lack of preparedness are the major challenges of IFRS adoption. Most of the studies conclude that Transparency and comparability are the major benefits of IFRS adoption.

Fekadu (2018) conducted a research entitled Attitude and Practice of International Financial Reporting Standards in Private Banks of Ethiopia. The study revealed there are certain challenges which have encountered on the part of private banks to adopt IFRS. These challenges were related to lack of training facilities and academic courses on IFRS; inadequate number of accounting professionals; increased impact of fair value measurement use; absence of capital market which affected market value determination; lack of updated regulatory laws; inadequate time allowed for IFRS implementation; and lack of updated Ethiopian commercial Code which could fulfil the requirements of the National Bank of Ethiopia (NBE).

In spite of studies have been conducted on the adoption of IFRS, challenges and prospects in Ethiopia, as per the knowledge of the researcher previous studies have been conducted prior to the financial institutions mandatorily adopt and face the practical challenges. The actual problems regarding the challenges of absence or difficulty of finding source documents and data to satisfy IFRS requirements as well as resources and infrastructure accessible for the adoption has yet to be studied in the context of Ethiopian Commercial Banks. Therefore, this study makes an attempt to bridge this gap and tried to study the opportunities, encountered challenges of IFRS adoption and to review the compliance of IFRS framework as the first audited financial reports are prepared and presented using IFRS- frame work in the sector and Post Implementation challenges in Ethiopian Commercial Banks after full adoption of IFRS in June 2018.

## 1.3 Research Questions

Implementation challenges of IFRS are the major concern in Ethiopia today after three years of its adoption process. Therefore, the following research questions are to be addressed in this study.

**RQ1:** What are the opportunities of implementing International Financial Reporting Standards (IFRS) in the case of Ethiopian commercial Banks?

**RQ2:** What are the encountered challenges in the process of implementing of International Financial Reporting Standards (IFRS) and compliance in the case of Ethiopian Commercial Banks?

**RQ3:** What are other factors affecting the implementation of IFRS? (Commercial Banks readiness, harmonization of local laws with the requirement of IFRS, availability of secondary market for determination of fair value, availability of trained man power and absence of Defined Employee Benefit Valuator (Actuarialist) companies in Ethiopia).

**RQ4:** What are the Post Implementation challenges in Ethiopian Commercial Banks after full adoption of IFRS?

## 1.4 Objectives of the Study

### 1.4.1 General Objectives of the Study

Generally, this study is aimed at to assess the opportunities and encountered challenges of IFRS implementation adoption and compliance and Post Implementation challenges in Ethiopian Commercial Banks after full adoption of IFRS from the Ethiopian banking sector perspective.

### 1.4.2 Specific Objectives of the Study

Specific objectives sought in this study include:

- (i) To identify the opportunities of implementing of International Financial Reporting Standards (IFRS) in the case of Ethiopian commercial Banks.
- (ii) To identify the challenges of implementing International Financial Reporting Standards (IFRS) in the case of Ethiopian commercial Banks.

- (iii) To examine the factor affecting IFRS implementation (Commercial Banks readiness, harmonization of local laws with the requirement of IFRS, availability of secondary market for determination of fair value ,availability of the trained man power and absence of Defined Employee Benefit Valuator (Actuarialist) companies in Ethiopia ).
- (iv) To identify Post Implementation challenges in Ethiopian Commercial Banks after full adoption of IFRS.

## **1.5 Significance of the Study**

Initially, the study benefits Commercial Banks in Ethiopia to use the assessment results of the study and to recommend possible ways out for the sustainability of IFRS. The result of the study also important to other companies implementing IFRS in Ethiopia, the relevant stakeholders as well as regulatory organ in Ethiopia like National Bank of Ethiopian and Ministry of Revenue.

Researchers and students in other developing nations which are yet to adopt the IFRS policy/standards may also find this study relevant as to enhance understanding of stakeholders about the benefits of IFRS adoption and the encountered challenges for internal and external stakeholders as well as the whole nation.

Finally, findings of this study are contribute to the pool of information needed in making relevant economic policies both in Ethiopia and any other country that might find it useful.

## **1.6 Scope of the Study**

This study is examined the implementation challenges of IFRS adoption in Ethiopian Banking sectors from the Accountants point of view. It has covered Accountants in Banking sector divided into three sub-groups, viz. Auditors, Accountants (reporting) and those people working in the other departments (IFRS implementation team). This study also covered three years in terms of period (2016-2018), that is, the period that IFRS implementation is in process in Ethiopian Banking sector.

## **1.7 Limitation of the Study**

The major limitation of the study is that the data were collected from a small convenience sample of employees in the Ethiopian Commercial Banks. In the study, the sample

respondents were those who are working as accounting staff, internal audit staff and IFRS Implementation Team of Ethiopian Commercial Banks. Thus, the results may provide different since if the study did not allow other employees as participants in the commercial banks. Thus, the result may provide different evidence if the study allowed other employees in the commercial banks. Therefore, it has been a problem in generalizing the sample results to other respondents.

## 1.8 Definition of Terms

**i. IFRS:** Means International Financial Reporting Standards. It represent a unified global commitment to developing a single set of high quality, globally accepted accounting standards whose aim is to provide transparent and comparable information that is in the public interest through general purpose financial statements (Herbert, 2010).

**ii. Harmonization:** The term harmonization means “the reconciliation of different accounting and financial reporting systems by fitting them into common broad classifications, so that form becomes standard while content retains significant differences” (Mathews & Perera, 1996).

**iii. Convergence:** Convergence means the process of converging or bringing together international standards issued by the IASB and existing standards issued by national standard setters, with the aim of eliminating alternatives in accounting for economic transactions and events (Odia and Ogiedu, 2013).

## 1.9. Organization of the Paper

The paper is organized into five chapters. The first chapter deals with the introduction part which consists of background of the study, statements of the problem, objectives of the study, research questions, and significances of the study and scope of the study. Second chapter contains a review of the related literature on both theoretical, empirical studies and summary and gap in the existing literature. The research design and methodology is presented in chapter three. Chapter four is the discussion of the results and findings of the study. The final one is chapter five which deals with summary of findings, conclusions and recommendations that are forwarded based on the result obtained.

## CHAPTER 2: LITERATURE REVIEW

### 2.1. Introduction

In the past few years, many developed and developing countries have adopted International Financial Reporting Standards (IFRSs) as their basis for financial reporting. The European Union (EU) took the lead when it mandated all listed companies in the European Union to start the adoption and implementation of the IFRS in their financial reporting since 2005. In fact the year 2005 to 2009 was regarded by the IASB to provide a stable platform for EU companies that started implementation in 2005. Presently over 120 countries are reported to have adopted or converged with IFRS-1.

IFRSs are a set of accounting principles that is rapidly gaining acceptance on a worldwide basis. They are published by the London-based International Accounting Standards Board (IASB). IFRS is more focused on objectives and principle-based. They purport to be a set of rules that ideally would apply equally to financial reporting by public companies worldwide. The adoption of IFRS as issued by the International Accounting Standards Board (IASB) is expected to result in the application of a common set of financial reporting standards within and between countries in Europe and many other countries that require or permit application of IFRS. However, comparability is unlikely to arise from IFRS adoption (Ball, Robin & Wu, 2000, Christensen Lee & Walker 2008, Sanders, 2010). Specifically, Ball (1995, p29) concludes that “internationalization will reduce some or much of the diversity in accounting rules and practices across nations, it will not eliminate it. Nor should it”. Ball (2006) expresses concerns that the application of IFRS will not be uniform and that this will affect the reporting and perception of IFRS quality by users.

For countries wishing to adopt IFRS Sunder (2010) proposes six bases of decision :contribution to prosperity and wealth of society, inclusion of relevant information from all parts of the economy, stability over time, adaptability to changes in economic environment, robustness against manipulations, and resistance to capture by narrow interest groups. The debates of IFRS adoption is not only about the benefits and costs but also the global financial reporting convergence implications if IFRS were modified as a result of the adoption process. There is the worries of different versions of IFRS and variances in implementation (Nobes, 2006, Ogiedu, 2011) and IFRS merely in labels (Daske, Hail & Leuz, 2008). For instance, Zeff & Nobes (2009, p178) responding to Thomson (2009) that Australia has definitely

adopted IFRSs by argue that “Australian method of implementation is different in major ways from those used in such countries as Israel and South Africa “.Similarly, Nobes & Zeff (2008) examine the reports by 255 companies and their auditors in four European countries and Australia concerning compliance with IFRS. They found that even when they comply with full IFRS, there were no clear audit reports or there were dual reporting in rare cases. The reason adduced was due to requirements by regulation in these countries.

The adoption and implementation of the IFRS in the EU and over 120 other countries is associated with a lot of challenges for countries (developing and developed) which are contemplating IFRS adoption or faced with the problems of whether to and why, when and how to converge or adopt IFRS. On 28 July, 2010 Nigeria sets in motion to adopt IFRS between January 2012 and 2014. All public listed entities were made to mandatorily adopt IFRS on 1st January, 2012.

## **2.2. Conceptual and Theoretical Literature Review**

### **2.2.1. Historical Background of the internationalization of accounting standards**

The first move towards accounting standards convergence was the proposal to create the Accountants International Study Group (AISG) by the professional accountancy bodies in Canada, the United Kingdom and the United States in 1966. This was formed in order to develop comparative studies of accounting and auditing practices in the three nations. The AISG was eventually created in 1967. It published 20 studies until it was disbanded in 1977. Sir Henry Benson put forward the proposal for the setting up of the International Accounting Standard Committee (IASC) at the 40th World Congress of Accountants in Sydney in 1972. After discussions and signature of approval by the three AISG countries and representatives of the professional accountancy bodies in Australia, France, Germany, Japan, Mexico and the Netherlands, the IASC was established in 1973. Sir Henry Benson was the first elected Chairman while Paul Rosen field was the first secretary of the IASC. By the beginning of the 21<sup>st</sup> century in only one of the nine original IASC countries (Germany) did even a relatively small number of listed companies used IASs to report to domestic Investors.

The primary goal of IASC formation was to develop a single set of high quality International Accounting Standards (IASs) to replace national standards. Between 1973 and

2001, the IASC issued 41 standards or IASs before it was replaced by the International Accounting Standards Board (IASB). All listed companies in France, Germany, the Netherlands and the UK and other 21 countries were mandated by the European commission to adopt IASs or the International Financial Reporting Standards (IFRS) from 2005. The Australian government and standard setter had put up an adoption policy of IAS by 2005. The US roadmap for adoption is 2014-2016. Canada and Japan are also considering convergence with IFRS.

A Memorandum of Understanding (MOU) was agreed between the United States Financial Accounting Standard Board (FASB) and the International Accounting Standard Board (IASB), towards the convergence of US GAAP and the IFRS in 2002. In the Norwalk Agreement, both the FASB and IASB pledged their joint commitment towards the development of high quality, compatible accounting standards for both domestic and cross border financial reporting. It is argued that changes made in the US GAAP can be expected to influence the international environment (Tarca, 2004). Gannon & Ashwal (2004) argue that the convergence efforts of the FASB and the IASB already have changed U.S. GAAP and more effects are expected as the efforts to narrow the differences between the IFRS and US GAAP continue.

### **2.2.2 Institutions fostering IFRS Adoption**

On the international front, the World Bank, the International Monetary Fund (IMF), the G8, the G7 Finance Ministers and Central Bank Governors, International Organization of Securities Commissions (IOSCO), Basel Committee on Banking Supervision, the United Nations (UN) and the Organization for Economic Co-operation and Development (OECD) have publicly recommended the adoption of a single set of global accounting standards or the IAS. The US SEC Concept released in 2000 on the International Accounting Standards also encouraged the convergence towards a high quality global financial reporting framework internationally that will enhance the vitality of capital markets. The European Commission saw in 2002 a common set of accounting standards as a critical pillar in building a united capital market in Europe (Mc Creevy, 2006). On the national level many government and tax authorities want a global accounting standards to regulate and tax businesses that operate within their countries. In Nigeria, besides the government's readiness, the Nigerian Accounting Standards Board (NASB) now the Financial Reporting Council (FRC), Nigerian

Stock Exchange, (NSE) and Central Bank of Nigeria (CBN) were among the major agents for IFRS adoption in 2012 .

Basically, a country's accounting and disclosure system is part of its financial system and more generally its institutional infrastructure. This is geared towards the informational and contracting needs of the key parties in the economy and its role in corporate governance and the capital market. Since the accounting system is complementary to other elements in the institutional framework, a fit between them is likely what result in different accounting system and infrastructural regimes across countries (Obazee, 2007). The institutional framework impacts on the form and content of financial reporting (Zeff,1972) and the use of international standard (Nobes & Parker,1998, Zarzeski,1996).Stock exchange requirements form part of the institutional framework which impacts on the use of international standards; others are company's choice of foreign exchange and level of disclosure. Cross-border listing makes reporting with IFRS very necessary for companies listed in stock exchanges under IFRS jurisdictions.

### **2.2.3 Harmonization, Convergence and Adoption of IFRS: The clarification**

The concerns for harmonization of accounting standards and later, convergence in the 1990s with IFRS are due to the globalization of the capital markets. In fact, it is believed that accounting harmonization is necessary for the globalization of capital markets (Quigley, 2007). Investors now seek investment opportunities all over the world. Many business entities continue to expand their operations across national borders. Companies are seeking capital at the lowest cost anywhere. Securities markets are crossing national boundaries (and increasing cross-border capital flow). Merger talks among some of the world's largest stock exchanges continue and the glowing investment transactions via the internet. There is need for transparency in company reports so that investors, lenders and other users of financial information of companies could compare their performance from one country to another. Also there is the need to provide information that are relevant, reliable and understandable to meet the needs of investors, for easy comparability of companies' performance and the decision to buy, hold or sell made easy through reduction or elimination of differences in accounting policies and principles between countries.

The term harmonization means "the reconciliation of different accounting and financial reporting systems by fitting them into common broad classifications, so that form becomes

standard while content retains significant differences” (Mathews & Perera, 1996, p. 322). Convergence means the process of converging or bringing together international standards issued by the IASB and existing standards issued by national standard setters, with the aim of eliminating alternatives in accounting for economic transactions and events. The ultimate objective of convergence is to achieve a single set of internally consistent, high quality global accounting standards, issued by the IASB and adopted by all the national standard setters (IASB, 2003).

The need for global convergence of accounting standard or for an international standard setter is to:

- (i) recognize the growing need for international accounting standards.
- (ii) ensure no individual standards setter has a monopoly on the best solutions to accounting problems.
- (iii) ensure no national standard setter is in a position to set accounting standards that can gain acceptance around the world.
- (iv) clarify that there are many areas of financial reporting in which a national standards setter finds it difficult to act alone.

Convergence is the process by which standard setters across the globe discuss accounting issues drawing on their combined experiences in order to arrive at the most appropriate solution. Obazee (2007) suggests that convergence could be either by adoption (a complete replacement of national accounting standards with IASB’s standards) or by adaptation (modification of IASB’s standards to suit peculiarities of local market and economy without compromising the accounting standards and disclosure requirements of the IASB’s standards and basis of conclusions). Convergence was meant to bring standards like the US GAAP and IFRS closer or harmonize them; to produce identical standards. According to SEC (2010), there are two approaches to IFRS adoption around the world: convergence and endorsement approaches. SEC (2010) classifies jurisdictions which do not adopt IFRS as issued by the IASB as following the convergence approach.

They keep their local standards but make effort to converge with IFRS over time e.g. China. Endorsement approach is where jurisdictions incorporate individual IFRSs into their local standards e.g. countries in the EU. But adoption of IFRS means full scale implementation or usage of IFRS without any variation. Convergence may facilitate adoption over a transition period but it is not substitute for adoption. Therefore countries must resist the temptation of

converging and go for full IFRS adoption. IFRS adoption is believed to have the most significant impact on accounting and financial reporting functions, enhance greater transparency and disclosures in financial statements etc (Ball, 1995, 2006; Epstein, 2009, Adam, 2009). However, clear empirical evidences of the economic consequences from mandatory adoption of IFRS have been limited (Daske et al,2008).

#### **2.2.4 Benefits of IFRS Adoption**

It is advocated that adoption of IFRS will lead to: greater transparency and understand ability, lower cost of capital to companies and higher share prices (due to greater confidence of investors and transparent information), reduced national standard-setting costs, ease of regulation of securities markets, easier comparability of financial data across borders and assess investment opportunities, increased credibility of domestic markets to foreign capital providers and potentials foreign merger partners, and to potential lenders of financial statements from companies in less-developed countries. It will also facilitate easier international mobility of professional staffs across national boundaries. For the multinational companies, it will help them to fulfil the disclosure requirement for stock exchanges around the world (Armstrong, Barth, Jagolizer & Riedl , 2007., Covrig, Defond & Hung 2007, Daske et al 2008). Other benefits include: the lower susceptibility to political pressures than national standards, continuation of local implementation guidance for local circumstances and the tendency for accounting standards to be raised to the highest possible quality level throughout the world. (Choi, et al, 1999; Alfredson et al,2004). The net market effect of convergence is a function of two effects. The first is the direct informational effect - whether convergence increases or decreases accounting quality. The second is the expertise acquisition effect or whether investors become experts in foreign accounting, which depends on how costly it is to develop the expertise. Therefore, ex ante net market effect of convergence is uncertain.

Armstrong et al (2007) found that investors expected net benefits to IFRS adoption in Europe associated with increases in information quality, decreases in information asymmetry, more rigorous enforcement of the standards, and convergence. They find (1) an incrementally positive reaction for firms with lower quality pre-adoption information, which is more pronounced in banks, and with higher pre-adoption information asymmetry, consistent with investors expecting net information quality benefits from IFRS adoption (2) an incrementally negative reaction for firms domiciled in code law countries, consistent with investors'

concerns over enforcement of IFRS in those countries and (3) a positive reaction to IFRS adoption events for firms with high quality pre-adoption information, consistent with investors expecting net convergence benefits from IFRS adoption. Gordon (2008) listed the benefits from adaptation of IFRS over the world to include: better financial information for shareholders and regulators, enhanced comparability, improved transparency of results, increased ability to secure cross-border listing, better management of global operations and decreased cost of capital.

### **2.2.5 IFRS and Accounting Quality**

The adoption of IFRS around the world is occurring rapidly to bring about accounting quality improvement through a uniform set of standards for financial reporting. However, accounting quality is a function of the firm's overall institutional setting, including the legal and political system of the country in which the firm resides (Bhattacharjee & Islam, 2009). Land & Lang (2002) document that accounting quality has improved worldwide since the beginning of the 1990s, and suggest that this could be due to factors such as globalization and anticipation of international accounting harmonization. IFRS is contingent on at least two factors. First, improvement is based upon the premise that change to IFRS constitutes change to a GAAP that induces higher quality financial reporting. For example, Barth, Landsman, & Lang (2006) find that firms adopting IFRS have less earnings management, more timely loss recognition, and more value relevance of earnings, all of which they interpret as evidence of higher accounting quality. Second, the accounting system is a complementary component of the country's overall institutional system (Ball, 2001) and is also determined by firm's incentives for financial reporting.

Existing literatures document improvements in accounting quality following voluntary IFRS adoption (e.g., Barth et al 2008; Gassen & Sellhorn, 2006., Hung &Subramanyam,2007) to reduce information asymmetry between managers and shareholders and it can be evidenced by proper assets and earnings management, lower cost of capital, and high forecasting capability by the investors about firm's future earnings. Barth et al. (2006) suggest that accounting quality could be improved when alternative accounting methods used by managers to manage earnings are eliminated. They compare earnings management for firms that voluntarily switch to IFRS with firms that use domestic accounting standards. They find that after IFRS adoption, firms have higher variance of changes in net income, a higher ratio

of variance of changes in net income to variance of changes in cash flows, higher correlation between accruals and cash flows, lower frequency of small positive net income, and higher frequency of large losses. Barth, Landsman & Lang (2008) also find from international sample of firms that voluntarily adopted IFRS up to 2003 exhibits lower levels of earnings management and more timely loss recognition than a matched sample of firms using local GAAP. As an extension of these findings, Daske et al. (2008) focus on the heterogeneity in the consequences of voluntary IFRS adoption and find that on average capital markets respond modestly to voluntary IFRS reporting. Overall the evidence on the association between voluntary IFRS adoption and accounting quality is mixed, although papers applying more recent data generally find relatively better accounting quality among the firms that adopt IFRS (Christensen et al, 2008). A common feature of these studies is that, much of the previous studies on IFRS compliance relates to voluntary adopters, which by definition suffer from selection bias (Ashbaugh, 2001). This raises the question as to whether we can attribute the improved quality to the application of IFRS per se. That is, does the application of IFRS have an incremental effect on accounting quality, or is the observed quality improvement a result of other changes implemented simultaneously by the adopting firms?

In a concurrent study, Daske et al. (2008) examine the capital market effects of mandatory IFRS adoption. They find evidence that is consistent with reduced information asymmetry in association with mandatory IFRS adoption. They argue that the effect could be driven by network effects rather than accounting quality improvements. In a similar spirit, Lee et al. (2008) argue that if IFRS matters, then firms in countries that had lower disclosure quality and dependence on equity financing prior to mandatory IFRS should experience a greater impact after mandatory adoption. However, using implied cost of equity capital as indicator, they find no effect among such countries even after two years under the new accounting standards. Other factors associated with financial reporting quality include the tax system, ownership structure, the political system, capital structure) and capital market development (Ali & Hwang, 2000).

### **2.2.7 IFRS and Value Relevance of Accounting Information.**

Negash (2008) examine the IAS adoption effect on the Johannesburg Securities Exchange (JSE) listed firms using a version of the Ohlson model (book value plus earnings and dividends). He applied a four- year window period to examine the value relevance of accrual

accounting information in pre liberalization (pre IAS adoption period of 1989-1993) and post IAS adoption period (1998-2004). The study had a liberalization (integration) perspective and concluded that when scale effects were controlled the difference in panel regression r-squares vanished; suggesting that the value relevance of accounting information did not improve in the post IAS adoption period. Furthermore, the results indicated that the relationship between year-end equity prices and accrual accounting variables could no longer be explained by linear models.

Barth, Landsman and Lang (2008) develop a comprehensive index for financial reporting quality. It is composed of: (1) earnings management (including earnings smoothing) indicators, (2) timely recognition of losses, and (3) value relevance of accrual accounting information. Barth, Landsman, Lang & Williams (2008) examine these indicators using cross country data, pooled regression, control variables and matched samples, in pre IAS adoption and post IAS adoption periods. They concluded that IAS adoption has been associated with lower earnings management, more timely recognition of large losses and more association between equity prices and book value and earnings/returns. Earnings management was defined following Durtschi and Easton (2004), Brown and Higgins (2001) and Healy and Wahlen (1999). A number of papers emerging from economies and Euro zone countries have documented that firms manipulate their financial statements to show small increases in profits or avoid reporting losses (Kinnunen & Koskela, 2003; Rabin & Negash,2007).

### **2.2.8 Challenges of IFRS Adoption**

The principal impeding factors in the adoption process of IFRS in Europe, America and the rest of the world are not necessarily technical but cultural issues, mental models, legal impediments, educational needs and political influences (Obazee, 2007). According to Rong-Ruey Duh (2006), the implementation challenges include: timely interpretation of standards, continuous amendment to IFRS, accounting knowledge and expertise possessed by financial statement users, preparers, auditors and regulators, and managerial incentive (Ball, Robin & Wu 2000). The historical differences in accounting thought, context, ethos and practice in the broad divides: Anglo-Saxon, Continental Europe and Southern American (Nobes,1983., Ball,1995) make harmonization and moving from one tradition to another difficulty.

Although IFRS has the potentials to facilitate cross-border comparability, increase reporting transparency, decrease information costs, reduce information asymmetry and thereby increase the liquidity, competition and efficiency of markets (Ball 2006, Choi & Meek 2005), Armstrong et al.,(2007) and Soderstrom & Sun (2007) have found that cultural, political and business differences may also continue to impose significant obstacles in the progress towards a single global financial communication system because a single set of accounting standards cannot reflect the differences in national business practices arising from differences in institutions and cultures. The perception of IFRS quality by users is critical to IFRS adoption. For instance, in a recent survey by McEnroe & Sullivan (2011), individual investors felt satisfied with the current US accounting model and do not desire movement towards IFRS adoption. Similarly, Winney et al (2010) found that small businesses in the US were not prepared for IFRS because they do not see benefits in switching from GAAP to IFRS.

Others serious challenges to IFRS adoption include:

1. *IASB funding, staffing and governance structure, consistent adoption*

Adopters need assurance of IASB true independence with stable funding, expert staffing, appropriate governance to ensure standards setting process is free from undue influence and politicization maneuvers.

This will ensure IASB legitimacy and assure the confidence of market participants and adopting nations around the world (Saudagaran,2006).

*Dominance of the developed countries and Political lobbying*

The developed countries want to dominant the IASB structure and standards setting process to the detriments of the developing countries. There is also strong lobbying and opposition by these groups to IASB's standards (Ball, 1995, Nobes & Zeff,2008).

2. *Consistent adoption, application and regulatory review*

Presently most IFRS adoptions are in labels ( Daske et al ,2007) and with various versions which are

Inconsistent with IASB's prescription (Ball,2006).Besides there are lots of uneven applications, breeding different IFRS versions (Tsakumis et al, 2009).Nobes (2006) has indicated the motivations and opportunities for different IFRS to continue. There must a coordinated regulatory review and enforcement mechanism to facilitate consistent application. The complexity of certain IFRSs and tax orientation of most nations have been identified as the two most significant impediments to convergence (Larson & Street,2004).

### *3. Compliance issues and enforcement mechanisms*

There have been varying levels of compliance with IFRS despite claims by companies that their financial statements complying with IFRS. Equally disturbing is auditors failed to express opinion on IFRS compliance or non-compliance (Cairns, 2001). A major challenge is enforcement mechanisms of IFRS especially in jurisdictions with weak institutions and enforcement agencies.

### *4. Cultural and structural changes in the various institutions in a country*

The challenges face in adopting IFRS in terms of changing culture and developing systems of regulation and accountability are quite enormous. There are cultural, language, regulatory and accounting profession challenges as well as demands for greater accountability and wider political participation and embracing of necessary political reforms faced by countries in adopting IFRS. In fact embracing globalization and adopting IFRS has challenges as it makes necessary reforms to a country's regulatory, legal and economic structures and adaption of its culture to the West. There is increased need for training and education for investors, accountants, auditors, preparers and users of financial reports etc, development of IFRS curricula at the university and other levels, adjustment of the accounting training and education to incorporate IFRS. The legal system must be conversant with the new IFRS standards as it applies to tax issues and other applications of laws. The adoption of IFRS must involve the strengthening of the various institutions which will enhance its effective implementation such as: preparers (managers) and enforcers (auditors (status, independence, training, compensation, tough judgment), legal systems and courts, regulators, accounting boards, ownership structure/block shareholders, politicians, law-makers, analysts, rating agencies, accounting professional bodies, tax authorities and capital market regulators), corporate governance structure, the press, public, educational institutions and business schools, financial market (structure, depth and intermediation) etc (Ball,2006).

#### **2.2.9 Developing a strong institution framework for IFRS Adoption**

A large pool of researches , mainly dwelling on compliance, implementation issues , market-based, the consequences of the implementation, have been conducted on IFRS adoption using data from countries where IFRS has been adopted or started implementation. Areas investigated include relevance of accounting data , accounting reporting quality in pre and post IFRS adoption, impact on cost of capital and market liquidity, market reactions to IFRS adoption, impact on group accounting and the net profit and equity of companies, comparison

between local and IASB/IFRS (at least Deloitte and Deloitte has conducted extensive, comparative studies of many countries), economic consequences and capital market outcomes of voluntary or mandatory disclosures and adoption etc ( Barth et al.2008 ; Daske, Hail, Leuz & Verdi 2007; Negash,2008; Epstein,2009,Negash,). Leuz & Wysocki (2008:71-72) suggest that reporting quality is shaped by numerous factors in countries' institutional environments and interactions between these elements. Also, Irvine & Lucas (2006:13) has called for research to examine challenges involved in actually implementing IFRS in emerging economies. Along this line, Hail, Leuz & Wysoki (2009) highlight unique institutional features of U.S. markets to assess the potential impact of IFRS adoption on the quality and comparability of U.S. reporting practices, ensuing capital market effects, and potential costs of switching from U.S. GAAP to IFRS. They show that decision to adopt IFRS mainly involves a cost-benefit trade off between (1) recurring, albeit modest, comparability benefits for investors, (2) recurring future cost savings that will largely accrue to multinational companies, and (3) one-time transition costs borne by all firms and the U.S. economy as a whole, including those from adjustments to U.S. institutions. Daske, Hail, Leuz & Verdi (2007) also examine the impact of IFRS adoption in 26 countries on market liquidity, cost of equity capital and Tobin's q. They find that, on average, market liquidity and equity valuations increase around the introduction of mandatory IFRS in a country. However, these market benefits exist only in countries with strict enforcement regimes and institutional environments that provide strong reporting incentives.

Daske et al. (2008) and Platikanova & Nobes (2007) have argued that capital market benefits from IFRS depend on countries' institutional environments. Malriat (2009) argues that the best results in IFRS adoption have been seen in countries with strict enforcement regimes and institutional structures that provide strong reporting incentives. These countries are more likely to have discernable capital-market effects when using IFRS reporting. A "serious" commitment to IFRS has shown larger cost of capital and market liquidity benefits compared to adopting IFRS as a "label. Weak institution structures result in polarised non-compliance with IFRS especially in developing and transitional economies (Street et al., 2000; Street & Gray, 2001; Abd-Elsalam & Weetman, 2003 ) The inappropriateness of IFRS in developing and transitional countries has reflected in the high level of non-compliance with these standards (Abayo et al., 1993, Solas, 1994; Street et al., 1999,Street et al., 2000; Street & Gray, 2001; Abd-Elsalam & Weetman, 2003).The reasons adduced include shortage of accountants and skill gap. Irvine & Lucas (2006) argue that emerging economy such as

United Arab Emirate in embracing globalization and adopting IFRS, will need to develop appropriate regulatory systems to overcome cultural issues relating to secrecy and fraud. It is argued that developing countries and emerging economies, in pursuing the global economic benefits offered by the adoption of IFRS, face challenges in adapting their regulatory infrastructure and culture to western-oriented accounting standards.

Solas (1994) examined the extent of financial information disclosure by Jordanian companies according to the requirements of IFRS. He concluded that disclosure was at unacceptable level. Using a world sample of companies, Street & Gray (2001) found a significant extent of non-compliance with IFRS in France and Africa. The objective of their research was to examine the financial statements and footnotes of a worldwide sample of companies referring to the use of International Accounting Standards (IAS), to explore further the extent of noncompliance, and most importantly to provide information about the factors associated with noncompliance. They find a significant extent of noncompliance with IAS and that key factors associated with levels of compliance include listing status, being audited by a Big 5+2 firm, the manner of reference to IAS, and country of domicile. The decision of the Egyptian government to mandate an immediate implementation of IFRS in 1997 allowed neither the listed companies nor the accounting profession adequate time to adapt to the 'new' standards. The result was low non-compliance with their requirements by the listed companies (Kholeif, 2008, Abd-Elsalam & Weetman 2003) due to relative unfamiliarity with IFRS requirements and non-availability of an authoritative translation or language effect. This made listed companies in Egypt 'selective in their choice of what to comply with.

Sucher & Jindrichovska (2004) consider the issues that arise when implementing new accounting regulations like IFRS reporting in Czech Republic such as the method of implementation, the scope of IFRS, particular issues with local accounting practice and IFRS, the issue of enforcement of compliance with IFRS and its relationship with audit, the link between IFRS reporting and taxation and the provision of education and training as well as a review of the state of preparedness of local groups.

Armstrong et al (2007) found that investors expected net benefits to IFRS adoption in Europe associated with increases in information quality, decreases in information asymmetry, more rigorous enforcement of the standards and convergence. Despite the lofty benefits being envisaged from IFRS adoption by countries all over the world including Nigeria, a critical

issue that needs consideration is the weak institutional framework. Ball (2006) argues that implementation is the Achilles heel of IFRS and the possibility of uniform application of IFRSs across different jurisdictions has been questioned because of differences in compliance and enforcement mechanisms and different cultural and institutional contexts (Ball, 2006., Nobes,2006., Larson & Street, 2004., Soderstrom & Sun, 2007., Zeff, 2007)

#### **2.2.10 IFRS Adoption and Implementation in Ethiopia**

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

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

#### **2.2.11 Trends of IFRS Application in Ethiopia**

According to the analysis of the annual reports of financial institutions in Ethiopia, an institution in Ethiopia has started to use IFRS in their financial reporting for the first time in 2002/03. The first organizations that used the term IFRS for the first time in their annual report in Ethiopia are government owned entities such as Commercial Bank of Ethiopia, Construction and Business Bank and Ethiopian Insurance Corporation. (Teferi and Dr. J.S. Pasricha, 2016) The analysis of the proclamations, regulations and directives, however, indicated that there was no national or regional law that required companies to adopt and implement IFRS in Ethiopia. Even in 2008, Article 23(1) of the Proclamation to Provide for Banking Business (Proclamation No. 592/2008) stipulates that “the National Bank may direct

banks to prepare financial statements in accordance with the international statements standards, whether their designation changes or they are replaced, from time to time.” This showed that Ethiopian Government was not interested to adopt IFRS officially in 2008 when the proclamation was enacted and postponed the adoption for another time. Similarly after four years Article 26(1) of a Proclamation to provide for Insurance Business Proclamation No. 746/2012 stipulated “the National Bank may direct insurers to prepare financial reports in accordance with international reporting standards, regardless of the change.” Even though IFRS is not officially adopted at national level, auditors indirectly enforce the same upon management of the organizations who have little or no accounting knowhow about accounting standards. This fact was succinctly explained by one of the higher CEO of Audit firm in Ethiopia as follows:

#### **2.2.12 Awareness Made During IFRS Adoption at Financial Institution Level**

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

### **2.2.12 Motivating Factors for Adopting IFRS in Ethiopia**

In Ethiopia's context it was found that there are different factors that motivate the adoption of IFRS in Ethiopia which can be divided into internal and external factors. From internal factor, the most motivating factor is the absence of national accounting standards in the country. Agreeing with what is argued for by academics, practitioners pointed out additional reasons stating that while debate was going on among different stakeholders, another pressure comes from external forces. The most external pressure, according to them, comes from, lenders and donors, international correspondent organizations, World Bank and IMF, International Audit Firms( such as Earnest and Young, KPMG International, and Deloitte) , Association of Chartered and Certified accountants (ACCA) through its affiliate offices and Ethiopian graduates who are working as professional auditors in Ethiopia and pushing companies to use IFRS.

### **2.2.13 Enactment of the Financial Reporting Proclamation**

The enactment of a Proclamation to Provide for Financial Reporting (Proclamation no. 847/2014) is the current development in the accounting, auditing and financial reporting history in Ethiopia. Before the promulgation of this proclamation, there is no single organized body responsible for regulating the accounting and auditing professions and financial reporting.

Practices in Ethiopia and very minor provisions have been issued in various separate laws that are not found in a single place and issued by various regulatory body. The government of Ethiopia issued this proclamation (No.847/2014) to achieve the following objectives as stated in Article 1 of the proclamation: to establish a sound, transparent and understandable financial reporting system applicable to entities in both private and public sectors; to have a uniform financial reporting law that enhances transparency and accountability by centralizing the hitherto decentralized financial reporting structures of Ethiopia; to support various building blocks of the economy and to reduce the risk of financial crisis, corporate failure and associated negative economic impacts; and to ensure that the provision of financial information meets internationally recognized reporting standards. The newly enacted Proclamation (proclamation No. 847/2014) has eight Chapters where the eighth part of the

proclamation comprises provisions that deal with miscellaneous issues (such as conflict of interest, confidentiality, power of the Council of Minister to issue Regulations and that of Board to issue directives, Transitory Provisions and repealed and inapplicable laws). The board shall be accountable to the Ministry of Finance and Economic Development (Art.3/2/ of Regulation 332/2014). According to the Article 5 of the 332/2014, the board shall have the following objectives:

Promoting high quality reporting of financial and related information by reporting entities;

- ❖ Promoting the highest professional standards among auditors and accountants;
- ❖ Promoting the quality of accounting and auditing services;
- ❖ Ensuring that the accounting profession is used in the public interest; and
- ❖ Protect the professional independence of accountants and auditors.

#### **2.2.14 Establishment of the Board**

The first financial reporting Federal state regulatory body is established for the first time in Ethiopia by regulation entitled” Council of Ministers Regulation to Provide for the Establishment and to Determine the Procedure of the Accounting and Auditing Board of Ethiopia (Council of Ministers Regulation No. 332/2014) pursuant to Article 4(1) of the Financial Reporting Proclamation No. 847/2014. Accordingly, provision of Article 3(1) of this regulation describes that “The Accounting and auditing Board of Ethiopia (hereafter the ‘Board’) is hereby established as an autonomous government organ having its own legal personality.” Accounting and Auditing Board of Ethiopia consists of 12 members which includes one representative from different Ministries. The analysis of the board composition, as indicated in the table, shows that 66 (58% plus 8 %) of the board members are from regulators, 17% are from professionals, and the remaining 17 % are representing preparers and users as they are represented by the union of traders.

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

**Source:** Accounting and Auditing Board of Ethiopia

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

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

### **2.2.15 Roadmap to IFRS Implementation in Ethiopia**

Although some reporting entities in Ethiopia says they are already using IFRS for their financial statements, during the world bank 2007 review of financial statements that focused on issues of presentation and disclosure (not issues of recognition and measurement which are not detectable through a review of financial statements requirements) on sample of 35 financial statements from Financial institutions, public enterprises, Share Company and NGOs revealed that there were significant differences between the actual accounting practices and IFRS requirements and concluded that the actual accounting practice in Ethiopia differ from IFRS. The reference to IFRS by such entities prior to the national mandatory requirement date shall be referred herein as “voluntary” adoption and treated accordingly. Such claim by reporting entities and their auditors shall be scrutinized strictly and any infraction shall be dealt with firmly. The following three phases stated to adopt IFRS in Ethiopia (AABE 2015). Phase 1: Significant Public Interest Entities and all Financial Institutions and public enterprises owned by Federal or Regional Governments at July 8, 2016 is recommended as the date for adoption of IFRS for financial institutions and large public enterprises. The choice of July 8, 2016 is anchored on the need to give sufficient period (22 months) over which to effectively transit to IFRS.

### **2.3. Empirical evidence**

Bhattachajee.et.al (2009) Conducted a study on Problems of Adoption and Application of International Financial Reporting Standards (IFRS) in Bangladesh .The aim of the study is to examine the adoption and application of IFRS with specific reference to the role of IFRS for quality accounting information, problems regarding the adoption and application of IFRS in the context of Bangladesh by reviewing various journals , research papers and diagnostic study reports and news paper articles and concludes that Agency problem between management and shareholders , reduce the cost of investors of processing financial information, reduce accounting diversity , improve risk-sharing and lowers cost of capital. The study highlights the challenges of adopting IFRS as the wholesale importation of the highly sophisticated rules like IASs is not suitable for less sophisticated economic and regulatory structure of Bangladesh, ambiguity of role and responsibility of the Securities and Exchange Commission (SEC) and the Institute of Chartered Accountants of Bangladesh

(ICAB) and only enforcement mechanism will not help the procedure if some firms are forced to adopt IFRS against their will.

Thappa (2012) has examined Challenges, the impact of IFRSs in Indian banking Industry and the various phases of implementation of IFRSs in the banking sector in India. The paper also highlights on the challenges ahead in the implementation of IFRS in Indian banking sector and the possible ways to address the challenges. The study is basically based on the secondary data gathered from related literature published in the journals, newspaper, books, statements, reports. The nature of study is qualitative, descriptive and analytical. Finally the paper concludes that IFRSs in Indian Banking Industry would bring many benefits to the industry along with some challenges like changes to the existing law, skilled manpower, increasing cost.

Ogiedu (2013) examined IFRS Adoption: Issues, Challenges and Lessons for Nigeria and other Adopters by reviewing the literatures on the adoption of IFRS .The paper deals with some of the issues and challenges associated with IFRS adoption and finds that Weak institutional framework and uniform application of IFRSs across different jurisdictions are the major challenge among others. Some of the suggestions of the study are; Continual training of auditors, regulators, analysts and other users, introduction of an awareness program by government, allocation of adequate resources, careful planning and extensive public education, a legal and regulatory and institutional support with strong management systems. Finally the study concludes that various stakeholders' involvement in the development plans and effective communications are vital for successful IFRS adoption.

Demaki (2013) attempted to study Prospects and Challenges of International Financial Reporting Standards to Economic Development in Nigeria. IFRS will position Nigerian companies in the global market place as well as ensure transparency, accountability and integrity in financial reporting in Nigeria which is a prerequisite for the attraction of investment that will promote economic development. It will provide international investors the ability to make well- informed, useful and meaningful comparison of investment portfolio in Nigeria and other countries. Multinational companies with the aid of IFRS financial statement provide for easy consolidation of financial statements. It promotes better management control systems. IFRS statements are easier to comply with the financial requirements of overseas stock. It also facilitates ease of cross border transactions and trading within the region through common accounting practice especially in underdeveloped regions

of the world like the Economic Community of West African States (ECOWAS). It will help to facilitate compilation of meaningful data on the performance of enterprises within the ECOWAS and other regions of the world. It will assist Nigeria in attracting international investors as the adoption of IFRS financials promotes easy monitoring of overseas investments. Transparency and better accountability in government Ministries, Departments and Agencies (MDA) will be promoted through the IFRS adoption in the public sector accounting and management of resources. It will also lead to increase in government revenue as a result of transparency and integrity in reporting. Easier access to capital is also facilitated through IFRS. Despite the aforementioned envisaged benefits there are still challenges. There is the urgent need to improve the level of public awareness especially among investors and regulatory authorities in Nigeria. There is also chronic shortage of professionals that are competent to implement the IFRS within the given time frame as contained in the schedule of the Nigerian roadmap for its adoption (i.e. January 2012 -January 2014).

Michael (2013) has conducted a research on the Application and Challenges of International Financial Reporting Standards in Nigeria. The study used the content analysis method by reviewing available literature sourced from textbooks, Journals, Newspaper and other official document on International Financial Reporting standards that are relevant to Nigeria to highlight challenges. The result of study reveals that the transition to IFRS will bring a significant change to tax accounting methods, taxable profits and tax liabilities, lack of IFRS awareness and knowledge, absence of conversion management and outline of conversion plan. Finally the study suggests that the syllabi in respect of accounting courses in higher educational institutions should incorporate the provisions of the standards, the understanding of IFRS should also be introduced to the students of the tertiary institutions. Emphasis on training of practitioners on the field should be extended to students as some of them may not be able to meet the training fees. Therefore it is necessary that lecturers are well equipped to train the students. Laws that are inconsistent with the IFRS have to be amended.

Olano.et.al.(2014) investigated the relationship between International Financial Reporting Standards and the quality of banks financial statement information by using data from banks audited financial statements and capital market performance report and employing views for analyses. The study concludes that not only IFRS adoption is associated with high accounting quality evidenced there are factors beyond the fundamentals - capital market fraud- which determine stock market valuation. Finally the study recommends the global adoption of IFRS,

Particularly for emerging economies and Nigeria banking sector should embrace best corporate governance practices.

Tesfu (2012) in a study regarding IFRS adoption in Ethiopia tried to see the adoption of IFRS in Ethiopia. The study focused on the factors, Prospects and challenges of IFRS adoption in Ethiopia. To answer the research question and achieve the objectives, both primary and secondary data were collected through questionnaire, interview and the review of related authorized document. The respondents which were selected from those companies adopted IFRS includes finance officers and accountants. The result shows that Cost of adoption, need for training, complexity of IFRS, Lack of adequate implementation guidance. Increase volatility of earnings, tax driven nature of previous standards, Problem with Fair value use of IFRS was the main challenges of IFRS adoption. Moreover the findings revealed that due to the benefits outweighs the problems IFRS should have been adopted earlier in Ethiopia. The benefits of effective and efficient financial reporting for companies, IFRS lead to improved comparability and reliability of financial statements, enhanced transparency through disclosure of information, enhanced investor confidence, improved regulatory oversight and greater credibility for the accounting profession.

Hailemichael (2016) conducted a research on the Adoption, Challenges and Perception of IFRS on quality of financial reports of Financial Institutions in Addis Ababa: Ethiopia. The study focus 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 institution. The paper uses both qualitative and quantitative approach by taking a sample of 32 out of 35 private banks and insurances companies registered under National Bank of Ethiopia. The study uses both primary and secondary data source collected through questionnaire and document review. The study reveals that high implementation costs, the complexity of financial reporting, lack of IFRS implementation agent, lack of IFRS implementation guidance, lack of availability of competent specialists, high level training requirement, less familiarity with the IT challenges in handling the implementation of IFRS, lack of proper instructions from regulatory bodies, and problem with IFRS implementation proper plan and absence of commitment & proper plan of financial institutions to implement IFRS and requirements of the existing Tax law amendment are the challenges. Quality of financial reporting has significant correlation with the transparency, accountability and economic efficiency. The study highlights implementation of IFRS leads to improved

comparability & reliability of financial statements reduce cost of capital of firms through lower cost of information, greater marketability of shares, and reduced information asymmetry and others. The 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.

Alemi (2016) conducted a research entitled IFRS Adoption Progress in Ethiopia. The aim of the paper is to assess the IFRS adoption progress in Ethiopia and investigate factors that motivate Ethiopia to adopt IFRS, advantages and challenges ahead of IFRS adoption in Ethiopia . Both primary which is collected through open-ended interview and secondary data collected using document analysis techniques from the annual reports of companies reporting under IFRS, and proclamations and regulations that deal with financial reporting issues in Ethiopia. The result of the study revealed some companies in Ethiopia have started using IFRS voluntarily since 2002/03 without making necessary preparedness but nationally; IFRS is adopted officially in December, 2014 through enactment of Proclamation. Adoption of IFRS in Ethiopia may provide opportunities such as high commitment from the government in terms of issuing proclamation and regulation, willingness to incorporate IFRS in Accounting Curricula of Universities, establish regulatory body, making logistic and financial support to the Accounting and Audit Board of Ethiopia, enhanced dependability on financial statements, enhanced comparability and Foreign Direct Investment and easy access to finance. The result of the study also highlights challenges of adopting IFRS these include knowledge gap in IFRS among preparers, professionals, users, and academics, shortage of qualified professionals ,resistance from organizations who are benefited from the existing accounting and auditing system, knowledge gap in the management of corporate organization, cost of IFRS materials since they are available in foreign currencies and regularly updated , training cost due to trainers are from abroad which also require payment in foreign currency and absence of Professional institutions .

Fekadu (2018) conducted a research entitled Attitude and Practice of International Financial Reporting Standards in Private Banks of Ethiopia. The aim of the paper is to assess the overall level of awareness/knowledge, attitude and practice of IFRS adoption in the private

banks of Ethiopia. The study uses both primary and secondary data source collected through questionnaire and interview questions. The result of the study revealed there are certain challenges which have encountered on the part of private banks to adopt IFRS. These challenges were related to lack of training facilities and academic courses on IFRS; inadequate number of accounting professionals; increased impact of fair value measurement use; absence of capital market which affected market value determination; lack of updated regulatory laws; inadequate time allowed for IFRS implementation; and lack of updated Ethiopian commercial Code which could fulfil the requirements of the National Bank of Ethiopia (NBE).

#### **2.4. Summary and Gap in the Existing Literature**

With the advent of globalization, global capital markets have witnessed rapid expansion, diversification and integration. This has brought about a shift away from local financial reporting standards to global standards. Because of the advantages it provides for countries, multinational companies and regulators, many countries adopt International Financial Reporting Standards. Adoption of International Financial Reporting Standards has a number of benefits for a range of stakeholders such as, effective and efficient financial reporting for companies ( Tesfu,2012), improved comparability (Thappa,2012), (Alemi,2016) , reliability of financial statements, enhanced transparency (Teshome,2017), enhanced investor confidence (Odia.et.al,2013), improved regulatory oversight and opportunity for accounting professionals (Thappa,2012).

Although IFRS adoption renders many benefits it poses many challenges. Various literatures revealed challenges in the process of IFRS adoption. Need of amendment to regulatory requirement and tax laws, high implementation cost, more complex financial reporting requirements, shortage of IFRS specialist and tight dead line are the major challenges. Financial institutions particularly banks is expected to be most affected by changes in accounting standards specifically IFRS adoption or convergence (Olano.et.al, 2014). According to IASB (2014) as cited in (Olano.et.al, 2014) moving to IFRS has had a major impact on the reporting requirements of financial institutions.

Most of existing studies on IFRS adoption focus mainly on European and other developed countries with paucity of such studies on emerging economies. Several studies have

addressed issues related to accounting harmonization in Europe and its impact on comparability and transparency of financial statements (Thappa, 2012). Relatively few studies have been conducted on the data from developing countries. In spite of studies have been conducted on the challenges and prospects of IFRS previously in Ethiopia, as per the knowledge of the researcher prior studies does not address the scope in terms of encountered challenges of IFRS adoption and compliance of IFRS frame work and post Implementation challenges after full adoption of IFRS. Therefore, this study makes an attempt to bridge this gap and tries to study the opportunities, encountered challenges of IFRS adoption and to review the compliance of IFRS framework as the first audited financial reports are prepared and presented using IFRS- frame work in the sector and Post Implementation challenges in Ethiopian Commercial Banks after full adoption of IFRS in June 2018.

## **CHAPTER 3: RESEARCH METHODOLOGY**

This section has focused on the research design, population and sample, Sampling technique and sample size, Sources of data and instrument of data collection as well as method of data analysis.

### **3.1 Research Design**

The study was conducted through a mixture of exploratory and descriptive being one of the few empirical studies in this area. It has adopted a survey approach with the use of questionnaires which has been designed to elicit opinions about the perception or knowledge of IFRS implementation challenges and Post Implementation challenges in Ethiopian Banking sector from Accountants, Auditors and IFRS implementation team point of view.

### **3.2 Type and Sources of Data**

Both primary and secondary types of data have been used in this study. The instrument have been used in gathering the primary data- the main source were questionnaire and interview whereas the secondary information has been obtained from the previous studies conducted by different researchers on opportunities and challenges of IFRS implementations in banking sectors in Ethiopia.

### **3.3 Target Population of the Study**

Nowadays, there are 16 private banks and 2 government owned banks in Ethiopia in the Fiscal Year of 2018/19. Geographically, this study was encircled to head offices of all banks in Addis Ababa. This is because the IFRS implementations in these banks are managed at head quarter of each bank. The target population of this study was selected purposively from the total employees working in the department or work category staff members who were working in the following departments of all commercial banks: Accounts and Finance, Auditing Departments and IFRS implementation project as the representative samples to the population of groups who have the technical, professional and practical knowledge of IFRS.

**Table-1 Distribution of Population who were working at Accounts and Finance Department, Audit Department and IFRS implementation Project of Commercial Banks in Ethiopia.**

S/N	Research Area	Accounts and Finance staff as of January 31,2019	Internal Audit Staff as of January 31,2019	IFRS Implementation Team January 31,2019	Total Accounts and Finance, Internal Audit and IFRS Implementation Team as of January 31,2019.
1	Awash Bank	30	40	12	82
2	Dashen Bank	52	42	6	100
3	Wegagan Bank	15	28	6	49
4	Bank of Abyssinia	30	28	5	63
5	United Bank	12	13	5	30
6	Nib International Bank	23	27	5	55
7	Cooperative bank of Oromia	4	25	5	34
8	Lion International Bank	29	17	8	54
9	Zemen Bank	6	7	5	18
10	Oromia International Bank S.C	13	15	6	34
11	Bunna International Bank	7	30	5	42
12	Berhan International Bank	10	12	2	24
13	Debub Global Bank Share Co	6	8	5	19
14	Abay Bank S. C.	18	15	10	43
15	Addis International Bank	5	6	5	16
16	Enat Bank S.C.	12	4	5	21
17	Development of Bank of Ethiopia	38	29	5	72
18	Commercial Bank of Ethiopia	30	13	13	56
	<b>Total</b>	<b>340</b>	<b>359</b>	<b>113</b>	<b>812</b>

**Source:** Compiled by the author, February 2019

In order to draw the representative sample of respondents in the study, multi-stage stratified proportionate random sampling design was used. By so doing, those members of the target population had equal chance of being selected and to be included in the study. Thus, it is possible to generalize the results of this study is not only limited to groups of randomly selected, but also to those professionals within specific conditions and contexts. Generally, the distribution of the target population is indicated in Table 1 above.

The target sample respondents were Accountants, Auditors and IFRS implementation team from Ethiopian Banking Sector.

### 3.4 Sample Size

There are several approaches to determine the sample size. This includes a census for small population, imitating a sample size of similar studies, using published tables, cut off point in terms of percentage and applying formulas to calculate a sample size. To determine the required sample size from the target population for this study, Yamane's formula (1967) was used. Out of the 812 persons in the target population, a total of 108 representative samples were drawn. The researcher employed the following assumptions while calculating the sample size:

- ❖ 95% confidence level
- ❖ e (the level of precision) = ±9% (0.09) significance level
- ❖ N= Target population size of 812, and
- ❖ n= Sample size

Where,  $n=N/(1+Ne^2)$

$$n=812/(1+812*0.0081)= 812/(1+ 6.5772)$$

$$n=812/(1+ 6.5772)$$

$$n=812/ 7.5772=107.16$$

$$n=108$$

### 3.5 Sampling Technique

Two different sampling techniques- Stratified and simple random sampling has been used in this study. Proportionate stratified sampling technique has been used in dividing the population into strata (groups); Accountants, Auditors and IFRS implementation team. While Simple random sampling will then be used to draw sample from each stratum in order to guide against bias (to ensure fair representation of population elements

Table 2 shows the distribution of sample in each banks in Addis Ababa, Ethiopia.

**Table-2**

S/N	Research Area	Accounts and Finance staff as of January 31,2019	Internal Audit Staff as of January 31,2019	IFRS Implementation Team January 31,2019	Total Accounts and Finance, Internal Audit and IFRS Implementation Team as of January 31,2019.	Sample			
						Staff of Accounts and Finance	Staff of Internal Auditor	Staff of IFRS Implementation Team	Total
1	Awash Bank	30	40	12	82	4	5	2	11
2	Dashen Bank	52	42	6	100	7	5	1	13
3	Wegagan Bank	15	28	6	49	2	4	1	7
4	Bank of Abyssinia	30	28	5	63	4	3	1	8
5	United Bank	12	13	5	30	2	1	1	4
6	Nib International Bank	23	27	5	55	3	3	1	7
7	Cooperative bank of Oromia	4	25	5	34	1	3	1	5
8	Lion International Bank	29	17	8	54	4	2	1	7
9	Zemen Bank	6	7	5	18	1	1	0	2
10	Oromia International Bank	13	15	6	34	2	2	1	5
11	Bunna International Bank	7	30	5	42	1	4	1	6
12	Berhan International Bank	10	12	2	24	1	2	0	3
13	Debub Global Bank Share Co	6	8	5	19	1	1	1	3
14	Abay Bank S. C.	18	15	10	43	2	2	1	5
15	Addis International Bank	5	6	5	16	1	1	1	3
16	Enat Bank S.C.	12	4	5	21	2	0	1	3
17	Development of Bank of Ethiopia	38	29	5	72	5	4	1	10
18	Commercial Bank of Ethiopia	30	13	13	56	4	2	2	7
	Total	340	359	113	812	45	48	15	108

Source: Compiled by the author, February 2019

### 3.6 Instrument of Data Collection

This study used both primary and secondary data. Primary sources of data include interview and questionnaire, whereas secondary information was generated through a review of relevant documents.

### 3.6.1 Questionnaire

The structure of the questionnaire is adopted, without major modification from previous researches conducted on opportunities and challenges of International Financial Reporting standards implementation in the case of Commercial Banks. Source: International Journal of Accounting and Financial Reporting author (Joseph Yaw Dwommor Nov. 2017).

Pilot study of the questionnaire was achieved by investigation sample, which consisted of 15 questionnaires. These questionnaires were distributed to purposively selected IFRS Project Managers, Accountants and Auditors who were working in the commercial Banks in Ethiopia. According to the researcher view they had a strong practical experience in accounting and finance sector to properly understand the IFRS adoption in Ethiopia. Their sufficient experiences and educational qualification are a suitable indication for pilot study.

Questionnaires were distributed to Accountants, Auditors, and IFRS implementation Team in the samples that are deemed to be knowledgeable about IFRS and could provide important perspective on its implementation. The response is expected to help understand the factors that could explain the implementation of IFRS in Ethiopia, the opportunities and the encountered challenges, compliance and Post implementation challenge of IFRS in the case of commercial Banks in Ethiopia. The research evidence was gathered by using both close-ended and open-ended questionnaires. Mixed questionnaires have many merits; the most important of this advantage is its considerable flexibility (McNabb, 2005).

### 3.6.2 Interview

Semi structured interview with 12 IFRS project Managers of commercial banks in Ethiopia were conducted namely Mr. Worku Lemma- IFRS Project Manager from Oromia International Bank S.C. Mr. Daniel Lemma- IFRS Project Manager from Awash Bank, Mr. Kinde Abebe- IFRS Project Manager from Wugagen Bank, Mr. Dessalegn Ayehu- IFRS Project Manager from Abay Bank, Mr. Thomas Dessalegn IFRS Project Manager from Berhan Bank, Mr. Mesfin Beyene IFRS Project Manager from Addis International Bank, Mr. Henock Yilma- IFRS Project Manager from Enat Bank, Filera Dinku- IFRS Project Manager from Cooperative Bank of Oromia, Mr. Kasaye Kiedane -IFRS Project Manager from Lion International Bank, Samson Amidsa-IFRS Project Manager from Commercial Bank of

Ethiopia, Mr. Mekibib Shumet -IFRS Project Manager from Bunna International Bank and Mr. Lemma Alemayehu- IFRS Project Manager from Zemen Bank. The interview made with the IFRS Project Manager of commercial Banks in Ethiopia is covered about 66.67% and purposive sampling method was used for the selection of the interviewee.

Questions in the interview checklist were constructed based on the review of literature.

In the process of preparing, testing and using the instruments, the following procedures have been followed.

- i. The questionnaires and the interview guides were developed based on literature review relevant to the issue and the specific objectives.
- ii. Both tools were judged for their validity using professionals in the area.
- iii. In the final study, the questionnaires and interview were administered both by the researcher.

### **3.6.3 Document Review**

The review of documents helped the researcher to understand the key facts of the organizations. The documents were reviewed by referring most recent information from authorized documents and different reports. Annual reports, legislations, directives and other documents related to the implementation and importance of IFRS were used. The document reviews were used to triangulate the data collected by the questionnaires and interviews.

## **3.7 Method of Data Analysis and Interpretation**

To analyse the quantitative data descriptive statistics were used. When these data were analyzed, the researcher employed frequency distributions, measures of central tendency (e.g. mean and median), measures of variability (e.g. minimum, maximum, standard deviation, and inter-quartile range, Q3), For this purpose, the Statistical Package for Social Sciences version 20 (SPSS 20) software is used. The quantitative data collected using the structured questionnaire were first verified, coded and then entered in the Variable Template of the Software to make ready for analysis. Data collected from the interview and reviews of documents are interpreted qualitatively. In analysing the data from interviews, narrative approaches including quotations from respondents have been used.

The parameters employed to describe the variables being studied were measured by five point likert scale. The scale consists of the level of the agreements or disagreements of the respondents ranging from strongly disagree to strongly agree. The levels are comprising ordinal values as follows: 1=Strongly Disagree on the statement (SD), 2=Disagree on the statement (D) , 3=undecided (UD), 4= agreed on the statement (A), 5=Strongly Agreed on the statement (SA).

In fact there is a controversy on the type of statically analysis (parametric or non-parametric) used to analyze the results of the likert scale data. Some scholars argued that Statistics, such as means and standard deviations, have unclear meanings when applied to Likert scale responses because of these observations, experts over the years have argued that the median should be used as the measure of central tendency for Likert scale data, Similarly, other experts have contended that frequencies (percentages of responses in each category) (Gail M. and Anthony R.). Gardner and Martin (2007) and Jamieson (2004) reveled that Likert data is of an ordinal or rank order nature and hence only non-parametric tests will yield valid results (as cited Murray.J, 2013).

On the other hand, Norman (2010) using real scale data found that parametric tests such as Pearson correlation and regression analysis can be used with Likert data without fear of “coming to the wrong conclusion” (as cited Murray.J, 2013).Pell (2005) agreed that parametric tests can be conducted on the summed scores of Likert scale data provided that the assumptions are clearly stated and the data is of the appropriate size and shape. A research conducted by Murray (2013), entitled “Likert Data: What to Use, Parametric or Non-Parametric concluded that parametric and non- parametric tests conducted on Likert scale data do not affect the conclusions drawn from the results (Murray, 2013).In the same vein, Norman (2013) explained that parametric tests are sufficiently robust to yield largely unbiased answers that are acceptably close to “the truth” when analyzing Likert scale responses (as cited Murray.J, 2013).

Hence, the data analysis of this research has been conducted by using Frequencies, percentages, means, Medians, modes and standard deviation as deemed necessary. The results of the analysis are interpreted by taking the mean value of the response of the respondents.

## CHAPTER FOUR- FINDINGS AND DISCUSSIONS

### 4.1 Introduction

This section presents those data gathered from both primary and secondary sources. The gathered data have been analyzed presented and interpreted using different descriptive data analyzing tools. Data from questionnaire were analyzed firstly and then followed by interview and observations by the researcher.

Table 4.1 : Questionnaire Response Rate

Questionnaire	Questionnaire in No	Questionnaire in %
Distributed	108	100
Collected	102	95
Uncollected	5	5
Net Used	102	95

*Source: Computed from Primary Data Source\_ March 2019*

The table 4.1 above indicates number of questionnaire distributed, collected, uncollected, discarded and net used that have been filled correctly by the respondents. 108 questionnaires were distributed to Accountants, Auditors and IFRS implementation Team members who are working in the commercial Banks in Ethiopia in which 95% were responded, 5 % were not responded, and 95 % have been correctly filled out by the respondents. This return rate is believed to be sufficient to arrive at conclusions from the collected data.

#### Cronbach's Alpha Reliability

Cronbach's alpha is a measure used to assess the reliability or internal consistency of a set of scale or test items. So, Cronbach's alpha coefficient has been performed in order to determine whether any questions needed to be removed prior to the final analysis. Cronbach's alpha coefficient ( $\alpha = \frac{N-r}{1+(N-1)r}$ ) is where N is the number of items and r is the average inter-item correlation among the items (Nichols, 1999). The more homogeneous the items in the scale are, the higher the Cronbach's alpha will be. Generally, "a value that approach to 0.90 is high and the scale can be considered reliable." (Gross-Portney and Watkins,p. 577). Hence, Cronbach's alpha reliability for this study is found to be **0.925** which shows high reliability of the instrument used. It is presented in the table below.

**Table 4.2: Reliability Statistics**

Cronbach's Alpha	N of Items
.925	40

Source: Survey results

### **4.3 Socio-demographic Characteristics of the Respondents**

As depicted in the Table 4.3, the majority (88.2 percent) of the respondents are male while female respondents accounted for the remaining 11.8 percent. Hence, there is, as usual, gender disparity in the provision of employment opportunities in the banking business sector of the country.

With regard to the educational level of respondents, the majority of the respondents have first degree (52.9 percent) followed by Masters Degree and others comprising 46.1 percent and 1 percent respectively.

When we look at the Job positions of respondents, out of total respondents 43.1 percent of them are Accountants, 39.2 percent of the respondents are Auditors and the remaining 17.6 percent of the respondents were IFRS implementation Team. This implies the information gathered for this study was collected from the concerned working unit of Ethiopian Commercial Banks and the researcher believe that the information we get from those personals working on the stated posts are truthful and appropriate for the study.

In terms of experience in Ethiopian Commercial Banks, 3.9 percent of the respondents have experience less than 5 years, 43.1 percent of them have 6 to 10 years, 30.4 percent of them have 11 to 15 years, 6.9 Percent of them have 16 to 20 years and 15.7 percent of them have over 20 years experience.

The above result has an implication that, majority of the respondent has understanding of the banks history and have enough experience to forward relevant recommendation.

**Table 4.3 Socio-Demographic Characteristics of the Respondents**

Demography of the Respondents			
Demography		Respondents in number	Percentage
Sex	Male	90	88.2
	Female	12	11.8
Total		<b>102</b>	<b>100</b>
Education Level	Bachelor's degree	54	52.9
	Master's degree	47	46.1
	Others	1	1
Total		<b>102</b>	<b>100</b>
Job Position	Accountant	44	43.1
	Auditor	40	39.2
	IFRS Implementation Team	18	17.6
Total		<b>102</b>	<b>100</b>
Job Experience	Less than 5 Years	4	3.9
	6 to 10 years	44	43.1
	11 to 15 years	31	30.4
	16 to 20 years	7	6.9
	Over 20 years	16	15.7
Total		<b>102</b>	<b>100</b>

*Source: Computed from Primary Data Source of the Study\_ March 2019*

**Table 4.4 List of Commercial Banks in Ethiopia**

S/No	Name of Banks	Frequency	Percent
1	Abay	5	4.9
2	DGB	3	2.9
3	Ennat	3	2.9
4	LIB	7	6.9
5	NIB	7	6.9
6	OIB	5	4.9
7	United	4	3.9
8	Wegagen	6	5.9

9	Zemen	3	2.9
10	DBE	10	9.8
11	Addis	3	2.9
12	Awash	9	8.8
13	Abyssinia	7	6.9
14	Berhan	2	2
15	Bunna	6	5.9
16	CBE	8	7.8
17	CBO	2	2
18	Dashen	12	11.8
	Total	102	100

*Source: Computed from Primary Data Source of the Study\_ March 2019*

As it can be seen from the above table, data for this research was collected from Accountants, Auditors and IFRS implementation team who are working at commercial banks operating in Ethiopia. This is, therefore, the researcher believes that the collected data is holistic and its recommendation for the findings will work for all commercial banks operating in Ethiopia.

#### **4.4 Adoption and practices of International Financial Reporting Standards (IFRS) in Commercial Banks in Ethiopia**

Another research question in the study was a transition date or compliance date of IFRS. Out of the total respondents, 80 (78%) of them stated that their respective bank adopting IFRS since 01 July 2016 except CBE as the bank is adopting IFRS since 01 July 2014. Commercial Banks in Ethiopia started implementing IFRS less than 3 years ago from the date of data collection in this study. Hence, the commercial Banks in Ethiopia have short period of experience in implementing and reporting their financial statements using the international financial reporting standards.

Specifically, commercial Banks in Ethiopia that had previously used different financial reporting standards which were identified GAAP (83, 79%) and local GAAP (10, 9%). Thus, GAAP in its variety forms have been used by the Ethiopian commercial banks while preparing and reporting their financial reports to concerned organizations at different levels.

In the same framework, the same respondents were further asked to compare and contrast the previous reporting standards employed in those commercial banks with IFRS. Nevertheless, the empirical evidence uncovered mixed type of responses. A total of 79 (77%) of the

respondents preferred IFRS to GAAP in its local and/or international formats, but 23 (22%) contended that they could not clearly state their preference.

The respondents were asked to state the main reason for the preference of IFRS. Accordingly, Majority of the respondents were stated reliability, transparency, comparability and comprehensiveness.

The above result has an implication that, majority of the respondents have positive attitude to the adoption of IFRS when compared with those previous reporting standards like GAAP.

#### 4.5 IFRS Related Variables

The parameters used to describe variables for this study also measured by five point Likert scale comprising the level of agreements or disagreements of the respondents. The levels and their ordinal values are: 1=Strongly Disagree on the statement (SD) 2=Disagree on the statement (D) 3= Undecided /Neutral on the statement (N), 4= agreed on the statement (A), 5=Strongly Agreed on the statement (SA). Each statement has been analyzed by taking the percentages of respondents choosing each response options, the mean and standard deviation of the summed score of an individual's response to all items comprising the variable considered for the study has been taken to evaluate and conclude that the opportunities, challenges encountered in IFRS adoption and compliance towards the IFRS implementation in the case of Commercial Banks in Ethiopia.

#### 4.6 Analysis of Opportunities in convergence with IFRS

One of the concerns of this study was to identify the opportunities of implementing International Financial Reporting Standards. The details of the data collected along with analysis are depicted hereunder.

**Table 4.5 Opportunities in Convergence with IFRS (Adoption of IFRS improved the efficiency of financial reporting and others)**

s/n	Attributes	Frequency	Percent	Mean	Std. Deviation
1	Adoption of IFRS improved the efficiency of financial reporting	Disagree	4	3.9	
		Undecided/Neutral	13	12.7	
		Agree	40	39.2	

		Strongly Agree	45	44.1	4.24	0.82
		Total	102	100		
2	Financial statements prepared in line with requirement of IFRS are reliable and comparable	Undecided/Neutral	1	1	4.56	0.52
		Agree	43	42.2		
		Strongly Agree	58	56.9		
		Total	102	100		
3	It provided greater reporting transparency	Agree	38	37.3	4.62	0.49
		Strongly Agree	62	60.8		
		Total	100	98		
		Missing System	2	2		
		Total	102	100		
4	Adoption of IFRS enhanced transparency of banks through better reporting	Undecided/Neutral	3	2.9	4.59	0.55
		Agree	36	35.3		
		Strongly Agree	63	61.8		
		Total	102	100		
5	IFRS improved internal control effectiveness	Undecided/Neutral	10	9.8	4.34	0.65
		Agree	47	46.1		
		Strongly Agree	45	44.1		
		Total	102	100		
Mean score of Opportunities in Convergence with IFRS (Adoption of IFRS improved the efficiency of financial reporting and others)		Disagree	1	1	4.47	0.606
		Undecided/Neutral	5	5		
		Agree	41	40		
		Strongly Agree	55	54		
		Missing System	0	0		
		Total	102	100		

Source : Survey results

As it can be seen from the above table, Majority of the respondents (83 %) have agreed or strongly agreed that adoption of IFRS improved the efficiency of financial reporting with mean value of 4.24 and standard deviation of 0.82 , 4 % of the respondents were disagree and 13% of the respondents were neutral, 99 % of the respondents have agreed or strongly agreed that financial statements prepared in line with requirement of IFRS are reliable and comparable with mean value of 4.56 and standard deviation of 0.52, 1% of the respondent

were neutral, 98% of the respondents have agreed or strongly agreed that IFRS provided greater reporting transparency with mean value of 4.62 and standard deviation of 0.49, 2% of the respondents were not gave their view, 97% of the respondents have agreed or strongly agreed that adoption of IFRS enhanced transparency of banks through better reporting with mean value of 4.59 and standard deviation of 0.55, 3 % of the respondents were neutral and 90 % of the respondents have agreed or strongly agreed that IFRS improved internal control effectiveness with mean value of 4.34 and standard deviation of 0.65 and 10 % of the respondents were neutral.

The above result has an implication that, majority of the respondents have a view of adoption of IFRS improved the efficiency of financial reporting and others with a mean score value of 4.47 and standard deviation of 0.60.

**Table 4.6 Opportunities in Convergence with IFRS (IFRS promoted cross border investment and others)**

s/n	Attributes	Frequency	Percent	Mean	Std. Deviation	
<b>1</b>	IFRS promoted cross border investment	Disagree	1	1	4.34	0.7
		Undecided/Neutral	10	9.8		
		Agree	44	43.1		
		Strongly Agree	47	46.1		
		Total	102	100		
<b>2</b>	IFRS improved management information for decision making	Undecided/Neutral	8	7.8	4.39	0.64
		Agree	43	42.2		
		Strongly Agree	45	44.1		
		Total	96	94.1		
		Missing System	6	5.9		
		Total	102	100		
<b>3</b>	IFRS enhances national economic development	Disagree	1	1	3.98	0.75
		Undecided/Neutral	26	25.5		
		Agree	48	47.1		
		Strongly Agree	26	25.5		
		Total	101	99		
		Missing System	1	1		
		Total	102	100		
<b>4</b>	IFRS useful for shareholders	Disagree	1	1	4.45	0.64
		Undecided/Neutral	5	4.9		
		Agree	43	42.2		

	and creditors	Strongly Agree	53	52		
		Total	102	100		
<b>5</b>	IFRS improved Professional development of accountancy	Agree	39	38.2	4.62	0.49
		Strongly Agree	63	61.8		
		Total	102	100		
Mean score of Opportunities in Convergence with IFRS (IFRS promoted cross border investment and Others)		<b>Disagree</b>	<b>1</b>		<b>4.36</b>	<b>0.64</b>
		<b>Undecided/Neutral</b>	<b>10</b>			
		<b>Agree</b>	<b>43</b>			
		<b>Strongly Agree</b>	<b>47</b>			
		<b>Missing System</b>	<b>1</b>			
		<b>Total</b>	<b>102</b>			

Source : Survey results

As it can be seen from the above table, majority of the respondents (89 %) have agreed or strongly agreed that IFRS promoted cross border investment with the mean value of 4.34 and standard deviation of 0.7 and 1 % of the respondents were disagree and 10 % of the respondents were neutral, 86% of the respondents have agreed or strongly agreed that IFRS improved management information for decision making with mean value of 4.39 and standard deviation of 0.64 and 8% of the respondents were neutral and 6% of the respondent were not gave their view, 73 % of the respondents have agreed or strongly agreed that IFRS enhances national economic development with mean value of 3.98 and standard deviation of 0.75 and 26 % of the respondents were neutral, 94% of the respondents have agreed or strongly agreed that IFRS useful for shareholders and creditors with mean value of 4.45 and standard deviation of 0.64 and 1 % of the respondents were disagree and 5 % of the respondents were neutral and all of the respondents have agreed or strongly agreed that IFRS improved Professional development of accountancy with mean value of 4.62 and standard deviation of 0.49.

The above result has an implication that, majority of the respondents have a view of adoption of IFRS promoted cross border investment and others with a mean score value of 4.36 and standard deviation of 0.64.

## 4.6 Analysis of Challenges encountered in the process of IFRS adoption and compliance

The main concern of this study was to investigate and identify key challenges of commercial banks in Ethiopia encountered in the process of adopting and complying with IFRS. The details of the data collected along with analysis are depicted hereunder.

**Table 4.7 Challenges encountered in the process of IFRS adoption and Compliance (IFRS has cumbersome requirements and others)**

s/n	Attributes	Frequency	Percent	Mean	Std. Deviation	
1	IFRS has cumbersome requirements	Strongly Disagree	1	1	4.09	0.75
		Disagree	4	3.9		
		Undecided/Neutral	5	4.9		
		Agree	62	60.8		
		Strongly Agree	25	24.5		
		Total	97	95.1		
		Missing System	5	4.9		
		Total	102	100		
2	Difficult to understand apparent technical complexities in IFRS	Strongly Disagree	2	2	3.87	0.9
		Disagree	10	9.8		
		Undecided/Neutral	6	5.9		
		Agree	64	62.7		
		Strongly Agree	19	18.6		
		Total	101	99		
		Missing System	1	1		
		Total	102	100		
3	Difficulty in correctly applying IFRS to local realities	Disagree	1	1	3.97	0.9
		Undecided/Neutral	26	25.5		
		Agree	48	47.1		
		Strongly Agree	26	25.5		
		Total	101	99		
		System	1	1		
		Total	102	100		
4	Lack of implementation guidance	Strongly Disagree	1	1	3.94	0.87
		Disagree	7	6.9		
		Undecided/Neutral	13	12.7		
		Agree	54	52.9		
		Strongly Agree	24	23.5		
		Total	99	97.1		
		Missing System	3	2.9		
		Total	102	100		

<b>5</b>	Difficulty in determining fair value of assets and liabilities	Strongly Disagree	1	1	4.29	0.93
		Disagree	7	6.9		
		Undecided/Neutral	5	4.9		
		Agree	35	34.3		
		Strongly Agree	51	50		
		Total	99	97.1		
		Missing System	3	2.9		
		Total	102	100		
Mean score of Challenges encountered in the process of IFRS adoption and Compliance (IFRS has cumbersome requirements and Others)	Strongly Disagree	<b>1</b>	<b>1</b>	<b>4.03</b>	<b>0.87</b>	
	Disagree	<b>6</b>	<b>6</b>			
	Undecided/Neutral	<b>11</b>	<b>11</b>			
	Agree	<b>53</b>	<b>52</b>			
	Strongly Agree	<b>29</b>	<b>28</b>			
	Missing System	<b>2</b>	<b>2</b>			
	Total	<b>102</b>	<b>100</b>			

Source : Survey results

As it can be seen from the above table, out of the total respondents (85%) have agreed or strongly agreed that IFRS has cumbersome requirements with mean value of 4.09 and standard deviation 0.75 and 4 % of the respondents were disagree, 1% of the respondents were strongly disagree, 5 % of the respondents were neutral and 5 % of the respondents were not gave their opinion, 83% of the respondents have agreed or strongly agreed that difficult to understand apparent technical complexities in IFRS with mean value of 3.87 and standard deviation of 0.75 and 2% of the respondents were strongly disagree, 10 % of the respondents were disagree and 6 % of the respondents were neutral, 73% of the respondents have agreed or strongly disagreed that difficulty in correctly applying IFRS to local realities with mean value of 3.97 and standard deviation of 0.9 and 1% of the respondents were disagree, 26% of the respondents were neutral and 1% of the respondents were not gave their opinion, 78% of the respondents have agreed or strongly agreed that lack of implementation guidance with mean value of 3.94 and standard deviation of 0.87 and 1 % of the respondents were strongly disagree, 7% of the respondents were disagree, 13 % of the respondents were neutral and 3% of the respondents were not gave their opinion, 86 % of the respondents have agreed or strongly disagreed with the difficulty in determining fair value of assets and liabilities with mean value 4.29 and standard deviation of 0.93 and 1% of the respondents were strongly disagree, 7% of the respondents were disagree, 5% of the respondents were

neutral and 3% of the respondents were not gave their opinion. Therefore, from the above data, the researcher can concluded that, Commercial Banks in Ethiopia were encountered the above challenges upon adoption of IFRS and compliance with IFRS.

The above result has an implication that, majority of the respondents have a view IFRS has cumbersome requirements and others with a mean score value of 4.03 and standard deviation of 0.87 were challenges encountered in the process of IFRS adoption and Compliance of IFRS.

**Table 4.8 Challenges encountered in the process of IFRS adoption and Compliance (Difficulty in making a good choice where IFRS is not specific and others)**

s/n	Attributes	Frequency	Percent	Mean	Std. Deviation	
1	Difficulty in making a good choice where IFRS is not specific	Strongly Disagree	13	12.7	3.64	0.91
		Undecided/Neutral	25	24.5		
		Agree	44	43.1		
		Strongly Agree	16	15.7		
		Total	98	96.1		
		Missing System	4	3.9		
		Total	102	100		
2	Lack of personnel with necessary knowledge and expertise of IFRS	Disagree	3	2.9	4.28	0.71
		Undecided/Neutral	6	5.9		
		Agree	52	51		
		Strongly Agree	41	40.2		
		Total	102	100		
3	Scarcity of experts for consulting	Disagree	3	2.9	4.24	0.76
		Undecided/Neutral	11	10.8		
		Agree	46	45.1		
		Strongly Agree	41	40.2		
		Total	101	99		
		System	1	1		
		Total	102	100		
4	Limited access to IFRS education and training program	Disagree	10	9.8	4.02	0.89
		Undecided/Neutral	9	8.8		
		Agree	52	51		
		Strongly Agree	31	30.4		
		Total	102	100		
5	Limited experiences in applying IFRS	Disagree	2	2	4.27	0.65
		Undecided/Neutral	5	4.9		
		Agree	58	56.9		

		Strongly Agree	37	36.3		
		Total	102	100		
Mean score of challenges encountered in the process of IFRS adoption and Compliance (Difficulty in making a good choice where IFRS is not specific and others)		Strongly Disagree	3	3	4.09	0.78
		Disagree	4	4		
		Undecided/Neutral	11	11		
		Agree	50	49		
		Strongly Agree	33	33		
		Missing System	1	1		
		Total	102	100		

Source : Survey results

As it can be seen from the above table, 60 % of the respondents have agreed or strongly disagreed with the difficulty in making a good choice where IFRS is not specific with mean value of 3.64 and standard deviation of 0.91 and 13 % of the respondents were strongly disagree, 25 % of the respondents were neutral and 4 % of the respondents were not gave their opinion, 91 % of the respondents have agreed or strongly agreed that lack of personnel with necessary knowledge and expertise of IFRS with mean value of 4.28 and standard deviation of 0.71 and 3 % of the respondents were disagree and 6 % of the respondents were neutral, 87% of the respondents have agreed or strongly agreed that Scarcity of experts for consulting of IFRS with mean value of 4.24 and standard deviation of 0.76 and 3 % of the respondents were disagree, 11 % of the respondents were neutral and 1% of the respondents were not gave their opinion, 81 % of the respondents have agreed or strongly agreed that limited access to IFRS education and training program with mean value of 4.02 and standard deviation of 0.89 and 10 % of the respondents were disagree and 9% of the respondents were neutral, 95% of the respondents have agreed or strongly agreed that limited experiences in applying IFRS with mean value of 4.27 and standard deviation of 0.65 and 2% of the respondents were disagree and 5% of the respondents were neutral. Therefore, from the above data, the researcher can concluded that, Commercial Banks in Ethiopia were encountered the above challenges upon adoption of IFRS and compliance with IFRS.

The above result has an implication that, majority of the respondents have a view of difficulty in making a good choice where IFRS is not specific and others with a mean value of 4.09 and standard deviation of 0.78 were challenges encountered in the process of IFRS adoption and Compliance of IFRS.

**Table 4.9 Challenges encountered in the process of IFRS adoption and Compliance (Lack of top management’s commitment and support and Others)**

s/n	Attributes	Frequency	Percent	Mean	Std. Deviation	
1	Lack of top management’s commitment and support	Strongly Disagree	2	2	3.55	1.05
		Disagree	16	15.7		
		Undecided/Neutral	28	27.5		
		Agree	34	33.3		
		Strongly Agree	21	20.6		
		Total	101	99		
		Missing System	1	1		
	Total	102	100			
2	Lack of commitment to transparency	Strongly Disagree	2	2	3.39	1.01
		Disagree	20	19.6		
		Undecided/Neutral	29	28.4		
		Agree	37	36.3		
		Strongly Agree	13	12.7		
		Total	101	99		
		Missing System	1	1		
	Total	102	100			
3	Lack of trained Auditors to audit under IFRS environment	Disagree	2	2	4.2	0.7
		Undecided/Neutral	11	10.8		
		Agree	54	52.9		
		Strongly Agree	35	34.3		
		Total	102	100		
4	Lack of cooperation among departments	Strongly Disagree	1	1	3.75	1.01
		Disagree	14	13.7		
		Undecided/Neutral	19	18.6		
		Agree	43	42.2		
		Strongly Agree	25	24.5		
		Total	102	100		
5	Resistance to change	Strongly Disagree	2	2	3.71	1.01
		Disagree	13	12.7		
		Undecided/Neutral	20	19.6		
		Agree	45	44.1		
		Strongly Agree	22	21.6		
		Total	102	100		
Mean score of challenges encountered in IFRS adoption and Compliance (Lack of top management’s commitment and support and Others)	Strongly Disagree	1	1	3.72	0.96	
	Disagree	13	13			
	Undecided/Neutral	21	21			
	Agree	43	42			
	Strongly Agree	23	23			
	Missing System	0	0			
	Total	102	100			

Source : Survey results

As it can be seen from the above table, 54 % of the respondents have agreed or strongly agreed that lack of top management’s commitment and support in the process of IFRS implementation with mean value of 3.55 and standard deviation of 1.05 and 2% of the respondents were strongly disagree, 16 % of the respondents were disagree and 28% of the respondents were neutral ,49 % of the respondents have agreed or strongly agreed that lack of commitment to transparency in the process of IFRS implementation with mean value of 3.39 and standard deviation of 1.01 and 2 % of the respondents were strongly disagree, 20% of the respondents were disagree and 29% of the respondents were neutral, 87% of the respondents have agreed or strongly agreed that there is lack of trained Auditors to audit under IFRS environment with mean value of 4.2 and standard deviation of 0.7 and 2% of the respondents were disagree and 11% of the respondents were neutral, 68 % of the respondents have agreed or strongly agreed that Lack of cooperation among departments in the process of IFRS implementation with mean value of 3.75 and standard deviation of 1.01 and 13 % of the respondents were disagree and 19 % of the respondents were neutral, 66 % of the respondents have agreed or strongly agreed that resistance to change is one of the challenges encountered in IFRS adoption and compliance with mean value of 3.71 and standard deviation of 1.01 and 2 % of the respondents were strongly disagree, 12 % of the respondents were disagree and 20% of the respondents were neutral.

The above result has an implication that, majority of the respondents have a view of lack of top management’s commitment and support and Others with a mean score value of 3.72 and standard deviation of 0.96 were challenges encountered in the process of IFRS adoption and Compliance.

**Table 4.10 Challenges encountered in the process of IFRS adoption and Compliance (Lack of IFRS compatible software packages and Others)**

s/n	Attributes	Frequency	Percent	Mean	Std. Deviation	
1	Lack of IFRS compatible software packages	Strongly Disagree	1	1	4.17	0.86
		Disagree	6	5.9		
		Undecided/Neutral	6	5.9		
		Agree	50	49		

		Strongly Agree	38	37.3		
		Total	101	99		
		Missing System	1	1		
		Total	102	100		
<b>2</b>	Difficulty of integrating IFRS with the current accounting system	Disagree	8	7.8	3.93	0.8
		Undecided/Neutral	12	11.8		
		Agree	61	59.8		
		Strongly Agree	21	20.6		
		Total	102	100		
<b>3</b>	Weak regulatory enforcement	Strongly Disagree	1	1	3.65	0.96
		Disagree	13	12.7		
		Undecided/Neutral	25	24.5		
		Agree	43	42.2		
		Strongly Agree	19	18.6		
		Total	101	99		
		Missing System	1	1		
		Total	102	100		
<b>4</b>	Significant differences between the regulatory requirement and IFRS	Disagree	6	5.9	3.97	0.79
		Undecided/Neutral	15	14.7		
		Agree	56	54.9		
		Strongly Agree	24	23.5		
		Total	101	99		
		Missing System	1	1		
		Total	102	100		
<b>5</b>	Limited time for preparation and transition before full convergence	Strongly Disagree	2	2	3.8	0.97
		Disagree	11	10.8		
		Undecided/Neutral	14	13.7		
		Agree	51	50		
		Strongly Agree	22	21.6		
		Total	100	98		
		System	2	2		
		Total	102	100		
Mean score of challenges encountered in the process IFRS adoption and Compliance (Lack of IFRS compatible software packages and Others)		Strongly Disagree	<b>1</b>	<b>1</b>	<b>3.90</b>	<b>0.88</b>
		Disagree	<b>9</b>	<b>9</b>		
		Undecided/Neutral	<b>14</b>	<b>14</b>		
		Agree	<b>52</b>	<b>51</b>		
		Strongly Agree	<b>25</b>	<b>24</b>		
		Missing System	<b>1</b>	<b>1</b>		
		Total	<b>102</b>	<b>100</b>		

Source : Survey results

As it can be seen from the above table, 86 % of the respondents have agreed or strongly agreed that lack of IFRS compatible software packages with mean value of 4.17 and standard deviation of 0.86 and 1% of the respondents were strongly disagree, 6 % of the respondents

were disagree, 6 % of the respondents were neutral and 1 % of the respondents were not gave their opinion, 80% of the respondents have agreed or strongly agreed that there is difficulty of integrating IFRS with the current accounting system with mean value of 3.93 and standard deviation of 0.8 and 8 % of the respondents were disagree and 12 % of the respondents were neutral, 61 % of the respondents have agreed or strongly agreed that there is Weak regulatory enforcement with mean value of 3.65 and standard deviation 0.96 and 1% of the respondents were strongly disagree, 13 % of the respondents were disagree and 25 % of the respondents were neutral, 78 % of the respondents have agreed or strongly agreed that there is Significant differences between the regulatory requirement with mean value of 3.97 and standard deviation of 0.79 and IFRS 6% of the respondents were disagree and 15% of the respondents were neutral and 72 % of the respondents have agreed or strongly agreed that there is limited time for preparation and transition before full convergence with mean value of 3.8 and standard deviation of 0.97 2% of the respondents were strongly disagree, 11 % of the respondents were disagree, 13% of the respondents were neutral and 2% of the respondents were not gave their opinion.

The above result has an implication that, majority of the respondents have a view of lack of IFRS compatible software packages and Others with a mean score value of 3.90 and standard deviation of 0.88 were challenges encountered in the process of IFRS adoption and Compliance.

**Table 4.11 Challenges encountered in the process IFRS adoption and Compliance (High cost of IFRS consulting and auditing and others)**

s/n	Attributes	Frequency	Percent	Mean	Std. Deviation	
1	High cost of IFRS consulting and auditing	Disagree	9	8.8	3.92	0.9
		Undecided/Neutral	18	17.6		
		Agree	46	45.1		
		Strongly Agree	28	27.5		
		Total	101	99		
		Missing System	1	1		
		Total	102	100		
2	Involves a great deal of work	Strongly Disagree	1	1	4.18	0.78
		Disagree	3	2.9		
		Undecided/Neutral	8	7.8		
		Agree	53	52		
		Strongly Agree	35	34.3		

		Total	100	98		
		Missing System	2	2		
		Total	102	100		
<b>3</b>	High cost of training	Disagree	13	12.7	3.89	0.97
		Undecided/Neutral	15	14.7		
		Agree	44	43.1		
		Strongly Agree	30	29.4		
		Total	102	100		
<b>4</b>	Cost of altering information systems and software	Disagree	2	2	4.12	0.75
		Undecided/Neutral	17	16.7		
		Agree	49	48		
		Strongly Agree	33	32.4		
		Total	101	99		
		Missing System	1	1		
		Total	102	100		
<b>5</b>	Insufficient Availability of Internal data for IFRS conversion	Strongly Disagree	2	2	4.03	0.97
		Disagree	9	8.8		
		Undecided/Neutral	7	6.9		
		Agree	50	49		
		Strongly Agree	34	33.3		
		Total	102	100		
Mean score of challenges encountered in the process of IFRS adoption and Compliance (High cost of IFRS consulting and auditing and others)	Strongly Disagree	<b>1</b>	<b>1</b>	<b>4.03</b>	<b>0.87</b>	
	Disagree	<b>7</b>	<b>7</b>			
	Undecided/Neutral	<b>13</b>	<b>13</b>			
	Agree	<b>48</b>	<b>47</b>			
	Strongly Agree	<b>32</b>	<b>31</b>			
	Missing System	<b>1</b>	<b>1</b>			
	Total	<b>102</b>	<b>100</b>			

Source : Survey results

As it can be seen from the above table, 73% of the respondents have agreed or strongly agreed that there is high cost of IFRS consulting and auditing with mean value of 3.92 and standard deviation of 0.9 and 9% of the respondents were disagree and 18% of the respondents were neutral, 86% of the respondents have agreed or strongly agreed that IFRS involves a great deal of work with mean value of 4.18 and standard deviation of 0.78 and 3% of the respondents were disagree, 8% of the respondents were neutral and 2% of the respondents were not gave their opinion, 72% of the respondents have agreed or strongly agreed that IFRS entails high cost of training with mean value of 3.89 and standard deviation of 0.97 and 13% of the respondents were disagree and 15% of the respondents were neutral, 80% of the respondents have agreed or strongly agreed that there is Cost of altering information systems

with mean value of 4.12 and standard deviation of 0.75 and 2% of the respondents were disagree , 17% of the respondents were neutral and 1% of the respondents were not gave their opinion and 82% of the respondents have agreed or strongly agreed that there is insufficient availability of Internal data for IFRS conversion with mean value of 4.03 and standard deviation of 0.97 and 2% of the respondents were strongly disagree, 9% of the respondents were disagree and 7% of the respondents were neutral.

The above result has an implication that, majority of the respondents have a view of high cost of IFRS consulting and auditing and others with a mean score value of 4.03 and standard deviation of 0.89 were challenges encountered in the process of IFRS adoption and Compliance.

#### 4.7 Analysis of Other factors affecting IFRS implementation

Other Factors affecting IFRS implementation in the case of commercial Banks in Ethiopia have analyzed and presented as depicted hereunder.

**Table 4.12 Other Factors affecting IFRS Implementation**

s/n	Attributes	Frequency	Percent	Mean	Std. Deviation	
1	Absence of secondary market for fair value determination as per the requirement of IFRS impacted the IFRS implementation	Disagree	2	2	4.5	0.67
		Undecided/Neutral	4	3.9		
		Agree	37	36.3		
		Strongly Agree	59	57.8		
		Total	102	100		
2	There is lack of coherence between local laws and IFRS	Disagree	3	2.9	4.2	0.72
		Undecided/Neutral	9	8.8		
		Agree	54	52.9		
		Strongly Agree	35	34.3		
		Total	101	99		
		System	1	1		
		Total	102	100		
3	Availability of competent specialists	Strongly Disagree	4	3.9	4.02	1.02
		Disagree	6	5.9		
		Undecided/Neutral	9	8.8		
		Agree	47	46.1		
		Strongly Agree	35	34.3		

		Total	101	99		
		System	1	1		
		Total	102	100		
4	There is lack of proper readiness in commercial banks for IFRS implementation	Disagree	20	19.6	3.53	1
		Undecided/Neutral	26	25.5		
		Agree	38	37.3		
		Strongly Agree	18	17.6		
		Total	102	100		
5	Absence of Defined Employee Benefit Valuator(Acturalist) companies in Ethiopia	Disagree	4	3.9	4.28	0.83
		Undecided/Neutral	12	11.8		
		Agree	37	36.3		
		Strongly Agree	49	48		
		Total	102	100		
Mean score of Other Factors affecting IFRS Implementation		Strongly Disagree	1	1	4.11	0.85
		Disagree	7	7		
		Undecided/Neutral	12	12		
		Agree	43	42		
		Strongly Agree	39	38		
		Total	102	100		

Source : Survey results

As it can be seen from the above table, 94 % of the respondents have agreed or strongly agreed that absence of secondary market for fair value determination as per the requirement of IFRS impacted the IFRS implementation with mean value of 4.5 and standard deviation of 0.67 and 2% of the respondents were disagree and 4% of the respondents were neutral, 87% of the respondents have agreed or strongly agreed that there is lack of coherence between local laws with mean value of 4.2 and standard deviation of 0.72 and IFRS 3% of the respondents were disagree, 9 % of the respondents were neutral and 1 % of the respondents were not gave their opinion, 80% of the respondents have agreed or strongly agreed that there is availability of competent specialists for IFRS implementation with mean value of 4.02 and standard deviation of 1.02 and 4% of the respondents were strongly disagree, 6% of the respondents were disagree , 9% of the respondents were neutral and 1% of the respondents were not gave their opinion, 55% of the respondents have agreed or strongly agreed that there is lack of proper readiness in commercial banks for IFRS implementation with mean value of 3.53 and standard deviation of 1 and 20% of the respondents were disagree and 25% of the respondents were neutral and 84% of the respondents have agreed or strongly agreed that

absence of defined Employee Benefit Valuator (Actuarialist) companies in Ethiopia factors affecting IFRS implementation with mean value of 4.11 and standard deviation of 0.85.

The above result has an implication that, majority of the respondents have a view of absence of secondary market for fair value determination as per the requirement of IFRS impacted the IFRS implementation, lack of coherence between local laws and IFRS, availability of competent specialists, lack of proper readiness in commercial banks for IFRS implementation and absence of Defined Employee Benefit Valuator(Actuarialist) companies in Ethiopia with a mean score value of 4.03 and standard deviation of 0.89 were other challenges encountered in the process of IFRS adoption and Compliance.

## **4.8 Analysis of Open Ended Questionnaires**

Questionnaires were distributed to Accountants, Auditors and IFRS Implementation team who are working at Ethiopian Commercial Banks based on sample basis to understand the factors that could explain the implementation of IFRS in Ethiopia, opportunities, encountered challenges and compliance in the process of IFRS implementation. The research evidence was gathered by using open-ended questionnaires are analysed and interpreted as depicted hereunder.

### **4.8.1 Post IFRS implementation follow up**

Out of the total respondents, 38 ( 37% ) of the respondents have explained that there are weak post IFRS implementation follow up since the last reporting period i.e. June 30,2018. The quarter report and semi-annually report for the fiscal year of 2018/2019 were prepared in line with the former reporting format and 27 (26%) of the respondents have explained that IFRS training were given to the selected staffs of the banks to create an awareness and to smoothen the sustainability of IFRS Implementation.

### **4.8.2 Recognition and Measurement of all transaction on day to day activities as per IFRS requirement since the last reporting date**

Out of the total respondents, 54 (53%) of the respondents have explained that recognition and measurement all transaction on day to day activities as per the requirement of IFRS since

July 01,2018 were not started and the system of the banks were not compatible with the requirement of IFRS.

#### **4.8.3 Implementation of IFRS-9**

Out of the total respondents, 67 (66%) of the respondents have mentioned that implementation of IFRS-9 were not started being the process of hiring the consultant were not finalized. On the other hand, 7 (88%) respondents from CBE were mentioned that CBE has hired International consultant (KPMG East Africa) for IFRS-9 implementation and accordingly, CBE has prepared its financial statement as per the requirement of IFRS-9 for financial instruments for the period ended June 30, 2018. On 24 July 2014, the IASB issued IFRS-9 *Financial Instruments*. The Standard has a mandatory effective date for annual periods beginning on or after 1 January 2018, with earlier application permitted. Hence, the implementation date for IFRS-9 for Ethiopian Commercial banks was 01 July 2018.

#### **4.8.4 Revision of NBE directives in line with requirement IFRS**

The respondents were asked to express their view as to whether National Bank of Ethiopia has revised its Directives in line with the requirement of IFRS or not yet revised and if not yet revised what type of mechanisms are used by Ethiopia Commercial Banks to address the gap between the requirement of National Bank of Ethiopia and IFRS especially on loan loss provisioning. Accordingly, one-fourth of the respondents have explained that National Bank of Ethiopia is not yet revised its directives in order to align with the requirement of IFRS. To address the gap, Commercial Banks in Ethiopia creates regulatory risk reserve account to comply with NBE directives. The Regulatory risk reserve is a non-distributable reserves required by the regulations of the National Bank of Ethiopia to be kept for impairment losses on loans and receivables in excess of IFRS charge as derived using the incurred loss model.

Where the loan loss impairment determined using the National Bank of Ethiopia guidelines is higher than the loan loss impairment determined using the incurred loss model under IFRS, the difference is transferred to regulatory risk reserve and it is non-distributable to the owners of the Bank.

Where the loan loss impairment determined using the National Bank of Ethiopia guidelines is less than the loan loss impairment determined using the incurred loss model under IFRS, the

difference is transferred from regulatory risk reserve to the retained earnings to the extent of the non-distributable reserve previously recognized.

#### 4.8.5 Revision of tax law in line with the requirement of IFRS

The respondents were asked to express their view as to whether Ministry of Revenue has revised its tax law in line with the requirement of IFRS or not yet revised and if not yet revised what type of mechanisms are used by Ethiopia Commercial Banks to address the gap between the requirement of tax law and IFRS. Accordingly, one-fifth of the respondents have explained that Ministry of Revenue is not yet revised the tax law in line with the requirement of IFRS. To address the gap, the commercial banks in Ethiopia have done reconciliation and determined the business profit tax based on taxable profit and deferred tax for those items as per the requirement of the tax law after sorely discussed with the issue at Ethiopian Bankers Association Level.

#### 4.9 Analysis of Information collected by Interview

For the purpose of exploring the challenges of Post IFRS implementation, the researcher was conducted unstructured interview with 12 IFRS project Managers of Ethiopian Commercial Banks. All the interviews were conducted from March 10 to 20, 2019. The interview data were analysed on the basis of narration.

##### 4.9.1 Expected Challenges whilst implementing IFRS-9

**Data and modelling.** Much more data is required under IFRS 9 than IAS 39. Not just historical data, but risk data too. The IFRS project Managers have concerned about meeting data requirements to support Expected Credit Loss (ECL) modelling. As per the interview data, The Project Managers believe that substantial data gaps in ECL estimation will be expected. Finding the necessary resources, whether in-house or external, to build the ECL model is also a significant concern for banks urgently working toward the year end closing.

**Systems infrastructure.** IFRS 9 will require complicated calculations to be done within short timescales and using a large amount of data. In turn, this requires a robust and flexible systems

infrastructure. But a number of banks are finding that preparing the systems infrastructure for IFRS-9 is proving tough - and that even where short-term solutions have not yet been identified.

**Profit volatility.** The Project Managers will expect an increase in total statement of financial position of credit allowances because of IFRS 9. In turn, the profit of commercial Banks will be affected as the essence of IFRS-9 is based on forward looking information unlike to IAS-39 Incurred based model.

#### **4.9.2 Involvement of Key Departments;**

As per the interview data, the involvement of key departments in the IFRS implementation and sustainability processes were weak. Additionally, top Management of the commercial banks perceived that IFRS will be managed by Accounts and Finance Department. However, the implementation and sustainability of IFRS will need coordination of different departments as per their respective organizational structure of each Commercial Banks.

#### **4.9.3 Compliance Level**

As per the Interview data, quality and compliance of the Financial Statements of Commercial Banks prepared for the Period Ended June 30,2018, pending the responses of the another regulatory body (AABE) that has not come yet, the External Auditors of each Bank have confirmed the financial statements are prepared in compliance with IFRS requirements.

## **CHAPTER FIVE -SUMMARY OF MAJOR FINDINGS, CONCLUSIONS AND RECOMMENDATION**

### **5.1. Introduction**

This chapter presents summary of findings, conclusions and recommendations of the results. It has three parts; the first part presents conclusions of the study. The second part presents recommendations and finally, the last part presents possible future research areas.

### **5.2. Summary of Major Findings**

The majority (88.2 percent) of the respondents are male. On top of this, majority of the respondents have Masters Degree (52.9 percent) followed by first degree (46.1 Percent) so this enhance the IFRS sustainability.

The average work experience of the respondents were more than 10 years and this contribute to 53 % this is good indication that long term work experience enhances IFRS sustainability , however the more employees stay in one system for long period they are prone to resistance to change so this negatively affect the adoption of IFRS.

A respondent from Commercial Banks in Ethiopia that had previously used different financial reporting standards which were identified GAAP (83, 79%) and local GAAP (10, 9%). A total of 79 (77%) of the respondents preferred IFRS instead of GAAP in its local and/or international formats, but 23 (22%) contended that they could not clearly state their preference. Additionally, Majority of the respondents are stated reliability, transparency, comparability and comprehensiveness are the main reason opted for IFRS.

93% of the respondents, on average, assured that adoption of IFRS improved the efficiency of financial reporting, financial statements prepared in line with requirement of IFRS are reliable and comparable, it provided greater reporting transparency, adoption of IFRS enhanced transparency of banks through better reporting, IFRS improved internal control effectiveness, IFRS promoted cross border investment, IFRS enhances national economic development, IFRS improved management information for decision making, IFRS useful for shareholders and creditors and IFRS improved Professional development of accountancy.

In this study, In absolute terms more of the cases either agree or strongly agree that IFRS has cumbersome requirements (85%), difficult to understand apparent technical complexities in IFRS(83%), difficulty in correctly applying IFRS to local realities (73%), lack of implementation guidance (78%), difficulty in determining fair value of assets and liabilities (86%), difficulty in making a good choice where IFRS is not specific (60%), lack of personnel with necessary knowledge and expertise of IFRS (91%), scarcity of experts for consulting (87%), limited access to IFRS education and training program(81%), limited experiences in applying IFRS(95%), lack of top management's commitment and support (54%), lack of trained Auditors to audit under IFRS environment(87%), lack of cooperation among departments (68%), resistance to change (66%), lack of IFRS compatible software packages (86%), difficulty of integrating IFRS with the current accounting system(80%), weak regulatory enforcement (61%), Significant differences between the regulatory requirement and IFRS (78%), limited time for preparation and transition before full convergence (72%), high cost of IFRS consulting and auditing (73%), involves a great deal of work (86%), cost of altering information systems and software(72%), cost of altering information systems and software (80%), insufficient Availability of Internal data for IFRS conversion (82%) were encountered challenges upon the mandatory adoption and compliance with IFRS.

In this study, majority of the respondents either agree or strongly agree that absence of secondary market for fair value determination as per the requirement of IFRS impacted the IFRS implementation (96%) with mean value of 4.5 and standard deviation of 0.67 , there is lack of coherence between local laws and IFRS ( 87%) with the mean value of 4.2 and Standard deviation of 0.72, availability of competent specialists (80%) with the mean value of 4.2 and Standard deviation of 0.72 , there is lack of proper readiness in commercial banks for IFRS implementation (55%) with mean value of 3.53 and standard deviation of 1 , absence of Defined Employee Benefit Valuator (Actuarialist) companies in Ethiopia (84%) with mean value of 4.28 and standard deviation of 0.72 are factors affecting IFRS implementation.

Qualitative data from open ended questionnaires revealed that 38 ( 37% ) of the respondents have explained that there are weak post IFRS implementation follow up since the last reporting period i.e. June 30,2018. The quarter report and semi-annually report for the fiscal year of 2018/2019 were prepared in line with the former reporting format, 54 (53%) of the respondents have explained that recognition and measurement all transaction on day to day

activities as per the requirement of IFRS since July 01,2018 were not started and the system of the banks were not compatible with the requirement of IFRS, 67 (66%) of the respondents have mentioned that implementation of IFRS-9 were not started being the process of hiring the consultant were not finalized. On the other hand, 7 (88%) respondents from CBE were mentioned that CBE has hired International consultant (KPMG East Africa) for IFRS-9 implementation and accordingly, CBE has prepared its financial statement as per the requirement of IFRS-9 for financial instruments for the period ended June 30, 2018. National Bank of Ethiopia not yet revised its Directives in line with the requirement of IFRS and Ministry of Revenue also not yet revised its tax law in line with the requirement of IFRS.

Qualitative data from interview revealed that **Data and modelling, Systems infrastructure and Profit volatility** are the key challenges expected whilst implementing IFRS-9. Moreover, the involvement of key departments in the IFRS implementation and sustainability processes were weak and the Financial Statements of Commercial Banks prepared for the Period Ended June 30,2018 in line with the requirement IFRS but subject to review by AABE.

### 5.3. Conclusion

International financial reporting standards are vital in developing and building detailed quality financial reports that fit for Banks operation. The study found that adoption of IFRS declares numerous benefits for commercial bank of Ethiopia including, improves the efficiency of financial reporting, improves reliability and comparability of Financial statements, it provides greater reporting transparency, enhances transparency of banks through better reporting, improves internal control effectiveness. It also promotes cross border investment, enhances national economic development, improves management information for decision making, improves Professional development of accountancy and useful for shareholders and creditors.

The findings suggest that IFRS has cumbersome requirements, difficult to understand apparent technical complexities in IFRS, difficulty in correctly applying IFRS to local realities, lack of implementation guidance, difficulty in determining fair value of assets and liabilities, difficulty in making a good choice where IFRS is not specific , lack of personnel with necessary knowledge and expertise of IFRS, scarcity of experts for consulting, limited access to IFRS education and training program, limited experiences in applying IFRS, lack of top management's commitment and support, lack of trained Auditors to audit under IFRS

environment, lack of cooperation among departments , resistance to change, lack of IFRS compatible software packages, difficulty of integrating IFRS with the current accounting system, weak regulatory enforcement, Significant differences between the regulatory requirement and IFRS, limited time for preparation and transition before full convergence , high cost of IFRS consulting and auditing, involves a great deal of work , cost of altering information systems and software, cost of altering information systems and software, insufficient Availability of Internal data for IFRS conversion are the clearly outstanding challenges encountered by firms upon the mandatory adoption and compliance with IFRS.

The findings also suggest that the other factors affecting IFRS implementation may be explained by five factors namely; absence of secondary market for fair value determination as per the requirement of IFRS impacted the IFRS implementation, there is lack of coherence between local laws and IFRS, availability of competent specialists, there is lack of proper readiness in commercial banks for IFRS implementation, and absence of defined employee benefit valuator (actuarialist).

The finding of open ended questionnaires also suggest that there are weak post IFRS implementation follow up, IFRS is not incorporated in day to day activities since the last reporting date, IFRS-9 not yet implemented by Commercial Banks in Ethiopia except CBE, NBE and Ministry of Revenue were not yet revised its laws in line with the requirement of IFRS.

The findings of interview with IFRS project Managers suggest that **Data and modelling, Systems infrastructure and Profit volatility** are the key challenges expected whilst implementing IFRS-9. Moreover, the involvement of key departments in the IFRS implementation and sustainability processes are weak and the Financial Statements of Commercial Banks prepared for the Period Ended June 30, 2018 in line with the requirement IFRS is not yet reviewed by AABE.

#### 5.4 Recommendations

Based on the finding of the study the following recommendations are formulated.

- ☞ As the adoption of International Financial Reporting standards are vital in developing and building detailed quality financial reports, Accounting and Auditing Board of Ethiopia

should push those companies not yet implementing IFRS for strict implementation of IFRS as per the road map as the developing and building of quality financial reports would bring a benefit for companies in particular and for country at large.

- ☞ To enhance knowledge and expertise of accounting practitioners in IFRS, academic and professional accounting program, courses and modules should be revised to reflect the change in reporting standards in the curriculum. This will eliminate the situation where people are trained in GAAPs or local standards and will practice with IFRS.
- ☞ The external environment of the companies especially, availability of support systems and services (compatible software, experts serves, national guidance, regulatory support) is an important factor in IFRS adoption and compliance. It is therefore, crucial for governments prior to opting for full compliance with IFRS to ensure that the local environment is prepared to support companies in adoption and compliance.
- ☞ To alleviate the challenge of absence of secondary market for fair value determination as per the requirement of IFRS, Ethiopian Government should give a priority to establish stock market in Ethiopian so that banks easily get the fair Value of Financial Instruments and others objectively. Otherwise, Commercial Banks in Ethiopia will faced a challenge of complying of IFRS as per the requirement of IFRS as issued by IASB.
- ☞ To address the issue of absence of defined employee benefit valuator (acturalist) companies in Ethiopia, Accounting and Auditing Board of Ethiopia should invite acturalist companies from anywhere else and arrange a holistic training for commercial Banks in Ethiopia and others to certify Accountants who are working at Commercial Banks in Ethiopia and to do by themselves in line with the requirement of standards in order to smoothen the sustainability of IFRS and to reduce cost which is to be paid in foreign currency to acturalist companies operating out of Ethiopia.
- ☞ Commercial Banks in Ethiopia should start all initial and subsequent recognition of transaction in line with the requirement of IFRS instead of doing IFRS conversion at the end of the reporting Period to manage the reliability and compliance of IFRS by considering applicability of IFRS in day to day activities by using IT systems.

- ☞ National Bank of Ethiopia should be reviewed its directives with the objective of identifying those in conflict with IFRS and amended and harmonized to conform to the demands of IFRS especially for Loan Loss provisioning. On top of this, NBE should take the leading role in coordinating and supervising the implementation and sustainability Process of IFRS-9 by availing macro economic variables which enables the banks to compute ECL and the market rate for determining the fair value of the staff's loans given below the market rate for the computation of fair value of the loan.
  
- ☞ Ministry of Revenue should review the impact of IFRS on the tax and give a clear view for the prepares of the financial statements to enjoy the benefit of IFRS as IFRS is avoiding the concept of profit smoothing which is a headache of tax authorities due to lack of proper recognition and measurement of transactions in transparent and reliable manner.
  
- ☞ In the months ahead, Ethiopian Commercial Banks in Ethiopia who are behind on their IFRS 9 implementation projects will need to work closely with consultants and vendors in order to find tactical solutions to meet the deadline. Once compliance is achieved, there will still be time to look at IFRS from a strategic perspective, and to use the momentum that the project generates to find internal efficiencies.
  
- ☞ To overcome the impact of IFRS-9 Implementation on the income of commercial Banks in Ethiopia, Banks should expected to tighten their credit appraisal processes, expected to closely monitor the “**watch-list**” category of assets that are likely to slip into the category of “**under-performing or credit impaired**” to avoid assets being classified into “**stage 2 or 3**”. In addition, Commercial Banks should make all efforts to ensure that the assets classified into stage 1 as of last reporting date do not migrate to stage 2 or 3 owing to the Lifetime ECL impact.
  
- ☞ The top management of commercial banks should coordinating multi-disciplinary efforts including Accounting and Finance, Credit Management, Risk Management, Internal Audit, Facility Management, Information Technology and the related resources to ensure the sustainability of IFRS as IFRS implementation and sustainability should required significant multi-disciplinary experts and time. Additionally, the management should

define the key responsibilities of each departments as well as timeline for the execution of each standards..

- ☞ Accounting and Auditing Board of Ethiopia should timely reviewed the financial statements of commercial Banks in Ethiopia to give a feedback regarding the compliance of IFRS requirements as the feedback enables the banks to take corrective actions whilst preparing its financial statements for the period ended June 30,2019.

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## APPENDICES

### APPENDIX A: QUESTIONNAIRE

ADDIS ABABA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

MBA PROGRAM SPECIALIZATION IN FINANCE

**Opportunities, encountered Challenges and compliance in the process of International Financial Reporting Standards (IFRS) Implementation in the case of Commercial Banks in Ethiopia.**

Dear Respondents;

I am writing my thesis that seeks to survey your opinion on the Opportunities and encountered Challenges in the process of International Financial Reporting Standards (IFRS) Implementation in the case of Commercial Banks in Ethiopia. All information provided will be treated as strictly confidential and answers will be released only as summaries in which no individual respondent will be identified. I am very grateful for your time and effort when answering this questionnaire.

#### ***PART- 1: Demographic Background***

Please kindly tick (✓) your answer in the appropriate boxes or respond by writing if required.

1. Gender:

Female  Male

2. Field of Study

Technical / vocational certificate (Diploma)

Bachelor's degree

Master's degree

Other (specify) \_\_\_\_\_

3. Working Experience:

- Less than 5 years
- 6 to 10 years
- 11 to 15 years
- 16 to 20 years
- Over 20 years

4. Your Bank Name -----

5. Current position in your organization \_\_\_\_\_

**Part- 2: Adoption and practices of International Financial Reporting Standards (IFRS) in your company.**

6. Please specify as transition date or compliance date of IFRS \_\_\_\_\_

7. Before the adoption of IFRS, What reporting standards/practice had your company used?

Please mention the previous standard/practice \_\_\_\_\_

8. If you compare the previous standard to the IFRS, which one is more preferable?

Please underline your answer (A) previous standard/practice (B) IFRS

9. What are the main reasons for your preference of IFRS?

Please state your reasons:

(I) \_\_\_\_\_

(II) \_\_\_\_\_

(III) \_\_\_\_\_

(IV) \_\_\_\_\_

**Part-3 : Your perception towards Challenges and Opportunities of International Financial Reporting Standards(IFRS) Implementation in your bank.**

In this section the researcher is seeking your specific perceptions toward Challenges and Opportunities of International Financial Reporting Standards (IFRS) Implementation in your bank. Please kindly indicate the appropriate scale for your opinion by ticking (√) on the spaces that indicate your choice from the options that ranging from (SA-Strongly Agree, A-Agree, UD- Undecided, DA- Disagree, and SDA- Strongly Disagree)

A) To which extent you agree with following *opportunities* in convergence with IFRS:

S.No		SA	A	UD	DA	SDA
1	Adoption of IFRS improved the efficiency of financial reporting					
2	Financial statements prepared in line with requirement of IFRS are reliable and comparable					
3	It provided greater reporting transparency					
4	Adoption of IFRS enhanced transparency of banks through better reporting					
5	IFRS improved improves internal control effectiveness					
6	IFRS promoted cross border investment					
7	IFRS improved management information for decision making					
8	IFRS enhances national economic development					
9	IFRS useful for shareholders and creditors					
10	IFRS improved Professional development of accountancy					

2) To which extent you agree with following *challenges* encountered in the process of IFRS adoption and compliance.

S.No		SA	A	UD	DA	SDA
1	IFRS has cumbersome requirements					
2	Difficult to understand apparent technical complexities in IFRS					
3	Difficulty in correctly applying IFRS to local realities					
4	Lack of implementation guidance					
5	Difficulty in determining fair value of assets and liabilities					
6	Difficulty in making a good choice where IFRS is not specific					
7	Lack of personnel with necessary knowledge and expertise of IFRS					
8	Scarcity of experts for consulting					
9	Limited access to IFRS education and training program					
10	Limited experiences in applying IFRS					
11	Lack of top management's commitment and support					
12	Lack of commitment to transparency					
13	Lack of trained Auditors to audit under IFRS environment					
14	Lack of cooperation among departments					
15	Resistance to change					
16	Lack of IFRS compatible software packages					
17	Difficulty of integrating IFRS with the current accounting system					







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**APPENDIX B: INTERVIEW GUIDE**  
**ADDIS ABABA UNIVERSITY**  
**COLLEGE OF BUSINESS AND ECONOMICS**  
**MBA PROGRAM SPECIALIZATION IN FINANCE**  
**INTERVIEW QUESTIONS**

1. What are the expected challenges whilst implementing of IFRS-9?
2. What are the status of involvement of key departments in the IFRS implementation and sustainability processes?
3. What are the status of the quality and compliance of the Financial Statements of Commercial Banks prepared for the Period Ended June 30, 2018?

**APPENDEX-C Reliability Statistics and Frequency Distribution Analysis**

**Reliability Statistics**

Cronbach's Alpha	N of Items
.925	40

**Frequency Table**

**Gender of Respondents**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Female	12	11.8	11.8	11.8
Valid Male	90	88.2	88.2	100.0
Total	102	100.0	100.0	

**Education Level of Respondents**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Bachelor's degree	54	52.9	52.9	52.9
Valid Master's degree	47	46.1	46.1	99.0
Valid Other (PhD)	1	1.0	1.0	100.0
Total	102	100.0	100.0	

**Work Experience of Respondents**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Less than 5 Years	4	3.9	3.9	3.9
Valid 6 to 10 years	44	43.1	43.1	47.1
Valid 11 to 15 years	31	30.4	30.4	77.5
Valid 16 to 20 years	7	6.9	6.9	84.3
Valid Over 20 years	16	15.7	15.7	100.0
Total	102	100.0	100.0	

**Your Bank Name**

	Frequency	Percent	Valid Percent	Cumulative Percent
Abay	5	4.9	4.9	4.9
DGB	3	2.9	2.9	7.8
Ennat	3	2.9	2.9	10.8
LIB	7	6.9	6.9	17.6
NIB	7	6.9	6.9	24.5
OIB	5	4.9	4.9	29.4
United	4	3.9	3.9	33.3
Wegagen	6	5.9	5.9	39.2
Zemen	3	2.9	2.9	42.2
Valid DBE	10	9.8	9.8	52.0
Addis	3	2.9	2.9	54.9
Awash	9	8.8	8.8	63.7
Abyssinia	7	6.9	6.9	70.6
Berhan	2	2.0	2.0	72.5
Bunna	6	5.9	5.9	78.4
CBE	8	7.8	7.8	86.3
CBO	2	2.0	2.0	88.2
Dashen	12	11.8	11.8	100.0
Total	102	100.0	100.0	

**Current Position in Your Organization**

	Frequency	Percent	Valid Percent	Cumulative Percent
Accountant	44	43.1	43.1	43.1
Auditor	40	39.2	39.2	82.4
Valid IFRS Implementation Team	18	17.6	17.6	100.0
Total	102	100.0	100.0	

**Adoption of IFRS Improved the Efficiency of Financial Reporting**

	Frequency	Percent	Valid Percent	Cumulative Percent
Disagree	4	3.9	3.9	3.9
Undecided/Neutral	13	12.7	12.7	16.7
Valid Agree	40	39.2	39.2	55.9
Strongly Agree	45	44.1	44.1	100.0
Total	102	100.0	100.0	

**Financial Statements Prepared in line with Requirement of IFRS are Reliable and Comparable**

	Frequency	Percent	Valid Percent	Cumulative Percent
Undecided/Neutral	1	1.0	1.0	1.0
Valid Agree	43	42.2	42.2	43.1
Strongly Agree	58	56.9	56.9	100.0
Total	102	100.0	100.0	

**It provided greater reporting transparency**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Agree	38	37.3	38.0	38.0
Strongly Agree	62	60.8	62.0	100.0
Total	100	98.0	100.0	
Missing System	2	2.0		
Total	102	100.0		

**Adoption of IFRS enhanced transparency of banks through better reporting**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Undecided/Neutral	3	2.9	2.9	2.9
Valid Agree	36	35.3	35.3	38.2
Valid Strongly Agree	63	61.8	61.8	100.0
Valid Total	102	100.0	100.0	

**IFRS improved management information for decision making**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Undecided/Neutral	10	9.8	9.8	9.8
Valid Agree	47	46.1	46.1	55.9
Valid Strongly Agree	45	44.1	44.1	100.0
Valid Total	102	100.0	100.0	

**IFRS promoted cross border investment**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Disagree	1	1.0	1.0	1.0
Valid Undecided/Neutral	10	9.8	9.8	10.8
Valid Agree	44	43.1	43.1	53.9
Valid Strongly Agree	47	46.1	46.1	100.0
Valid Total	102	100.0	100.0	

**IFRS improved management information for decision making**

		Frequency	Percent	Valid Percent	Cumulative Percent
	Undecided/Neutral	8	7.8	8.3	8.3
Valid	Agree	43	42.2	44.8	53.1
	Strongly Agree	45	44.1	46.9	100.0
	Total	96	94.1	100.0	
Missing	System	6	5.9		
Total		102	100.0		

**IFRS enhances national economic development**

		Frequency	Percent	Valid Percent	Cumulative Percent
	Disagree	1	1.0	1.0	1.0
	Undecided/Neutral	26	25.5	25.7	26.7
Valid	Agree	48	47.1	47.5	74.3
	Strongly Agree	26	25.5	25.7	100.0
	Total	101	99.0	100.0	
Missing	System	1	1.0		
Total		102	100.0		

**IFRS useful for shareholders and creditors**

		Frequency	Percent	Valid Percent	Cumulative Percent
	Disagree	1	1.0	1.0	1.0
	Undecided/Neutral	5	4.9	4.9	5.9
Valid	Agree	43	42.2	42.2	48.0
	Strongly Agree	53	52.0	52.0	100.0
	Total	102	100.0	100.0	

**IFRS improved Professional development of accountancy**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	39	38.2	38.2
	Strongly Agree	63	61.8	100.0
	Total	102	100.0	

**IFRS has cumbersome requirements**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	1	1.0	1.0
	Disagree	4	3.9	4.1
	Undecided/Neutral	5	4.9	5.2
	Agree	62	60.8	63.9
	Strongly Agree	25	24.5	25.8
	Total	97	95.1	100.0
Missing	System	5	4.9	
Total		102	100.0	

**Difficult to understand apparent technical complexities in IFRS**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	2	2.0	2.0
	Disagree	10	9.8	9.9
	Undecided/Neutral	6	5.9	5.9
	Agree	64	62.7	63.4
	Strongly Agree	19	18.6	18.8
	Total	101	99.0	100.0
Missing	System	1	1.0	
Total		102	100.0	

**Difficulty in correctly applying IFRS to local realities**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	2	2.0	2.0	2.0
	Disagree	7	6.9	6.9	8.9
	Undecided/Neutral	9	8.8	8.9	17.8
	Agree	57	55.9	56.4	74.3
	Strongly Agree	26	25.5	25.7	100.0
	Total	101	99.0	100.0	
Missing	System	1	1.0		
Total		102	100.0		

**Lack of implementation guidance**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	1	1.0	1.0	1.0
	Disagree	7	6.9	7.1	8.1
	Undecided/Neutral	13	12.7	13.1	21.2
	Agree	54	52.9	54.5	75.8
	Strongly Agree	24	23.5	24.2	100.0
	Total	99	97.1	100.0	
Missing	System	3	2.9		
Total		102	100.0		

**Difficulty in determining fair value of assets and liabilities**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	1	1.0	1.0	1.0
	Disagree	7	6.9	7.1	8.1
	Undecided/Neutral	5	4.9	5.1	13.1
	Agree	35	34.3	35.4	48.5
	Strongly Agree	51	50.0	51.5	100.0
	Total	99	97.1	100.0	
Missing	System	3	2.9		
Total		102	100.0		

**Difficulty in making a good choice where IFRS is not specific**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	13	12.7	13.3	13.3
	Undecided/Neutral	25	24.5	25.5	38.8
	Agree	44	43.1	44.9	83.7
	Strongly Agree	16	15.7	16.3	100.0
	Total	98	96.1	100.0	
Missing	System	4	3.9		
Total		102	100.0		

**Lack of personnel with necessary knowledge and expertise of IFRS**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	3	2.9	2.9	2.9
	Undecided/Neutral	6	5.9	5.9	8.8
	Agree	52	51.0	51.0	59.8
	Strongly Agree	41	40.2	40.2	100.0
	Total	102	100.0	100.0	

**Scarcity of experts for consulting**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	3	2.9	3.0	3.0
	Undecided/Neutral	11	10.8	10.9	13.9
	Agree	46	45.1	45.5	59.4
	Strongly Agree	41	40.2	40.6	100.0
	Total	101	99.0	100.0	
Missing	System	1	1.0		
Total		102	100.0		

**Limited access to IFRS education and training program**

	Frequency	Percent	Valid Percent	Cumulative Percent
Disagree	10	9.8	9.8	9.8
Undecided/Neutral	9	8.8	8.8	18.6
Valid Agree	52	51.0	51.0	69.6
Strongly Agree	31	30.4	30.4	100.0
Total	102	100.0	100.0	

**Limited experiences in applying IFRS**

	Frequency	Percent	Valid Percent	Cumulative Percent
Disagree	2	2.0	2.0	2.0
Undecided/Neutral	5	4.9	4.9	6.9
Valid Agree	58	56.9	56.9	63.7
Strongly Agree	37	36.3	36.3	100.0
Total	102	100.0	100.0	

**Lack of top management's commitment and support**

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	2	2.0	2.0	2.0
Disagree	16	15.7	15.8	17.8
Valid Undecided/Neutral	28	27.5	27.7	45.5
Agree	34	33.3	33.7	79.2
Strongly Agree	21	20.6	20.8	100.0
Total	101	99.0	100.0	
Missing System	1	1.0		
Total	102	100.0		

**Lack of commitment to transparency**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	2	2.0	2.0	2.0
	Disagree	20	19.6	19.8	21.8
	Undecided/Neutral	29	28.4	28.7	50.5
	Agree	37	36.3	36.6	87.1
	Strongly Agree	13	12.7	12.9	100.0
	Total	101	99.0	100.0	
Missing	System	1	1.0		
Total		102	100.0		

**Lack of trained Auditors to audit under IFRS environment**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	2	2.0	2.0	2.0
	Undecided/Neutral	11	10.8	10.8	12.7
	Agree	54	52.9	52.9	65.7
	Strongly Agree	35	34.3	34.3	100.0
	Total	102	100.0	100.0	

**Lack of cooperation among departments**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	1	1.0	1.0	1.0
	Disagree	14	13.7	13.7	14.7
	Undecided/Neutral	19	18.6	18.6	33.3
	Agree	43	42.2	42.2	75.5
	Strongly Agree	25	24.5	24.5	100.0
	Total	102	100.0	100.0	

**Resistance to change**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	2	2.0	2.0	2.0
Disagree	13	12.7	12.7	14.7
Undecided/Neutral	20	19.6	19.6	34.3
Agree	45	44.1	44.1	78.4
Strongly Agree	22	21.6	21.6	100.0
Total	102	100.0	100.0	

**Lack of IFRS compatible software packages**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	1	1.0	1.0	1.0
Disagree	6	5.9	5.9	6.9
Undecided/Neutral	6	5.9	5.9	12.9
Agree	50	49.0	49.5	62.4
Strongly Agree	38	37.3	37.6	100.0
Total	101	99.0	100.0	
Missing System	1	1.0		
Total	102	100.0		

**Difficulty of integrating IFRS with the current accounting system**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Disagree	8	7.8	7.8	7.8
Undecided/Neutral	12	11.8	11.8	19.6
Agree	61	59.8	59.8	79.4
Strongly Agree	21	20.6	20.6	100.0
Total	102	100.0	100.0	

### Weak regulatory enforcement

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	1	1.0	1.0	1.0
	Disagree	13	12.7	12.9	13.9
	Undecided/Neutral	25	24.5	24.8	38.6
	Agree	43	42.2	42.6	81.2
	Strongly Agree	19	18.6	18.8	100.0
Total		101	99.0	100.0	
Missing	System	1	1.0		
Total		102	100.0		

### Significant differences between the regulatory requirement and IFRS

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	6	5.9	5.9	5.9
	Undecided/Neutral	15	14.7	14.9	20.8
	Agree	56	54.9	55.4	76.2
	Strongly Agree	24	23.5	23.8	100.0
Total		101	99.0	100.0	
Missing	System	1	1.0		
Total		102	100.0		

### Limited time for preparation and transition before full convergence

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	2	2.0	2.0	2.0
	Disagree	11	10.8	11.0	13.0
	Undecided/Neutral	14	13.7	14.0	27.0
	Agree	51	50.0	51.0	78.0
	Strongly Agree	22	21.6	22.0	100.0
Total		100	98.0	100.0	
Missing	System	2	2.0		
Total		102	100.0		

**High cost of IFRS consulting and auditing**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	9	8.8	8.9	8.9
	Undecided/Neutral	18	17.6	17.8	26.7
	Agree	46	45.1	45.5	72.3
	Strongly Agree	28	27.5	27.7	100.0
	Total	101	99.0	100.0	
Missing	System	1	1.0		
Total		102	100.0		

**Involves a great deal of work**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	1	1.0	1.0	1.0
	Disagree	3	2.9	3.0	4.0
	Undecided/Neutral	8	7.8	8.0	12.0
	Agree	53	52.0	53.0	65.0
	Strongly Agree	35	34.3	35.0	100.0
	Total	100	98.0	100.0	
Missing	System	2	2.0		
Total		102	100.0		

**High cost of training**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	13	12.7	12.7	12.7
	Undecided/Neutral	15	14.7	14.7	27.5
	Agree	44	43.1	43.1	70.6
	Strongly Agree	30	29.4	29.4	100.0
	Total	102	100.0	100.0	

**Cost of altering information systems and software**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	2	2.0	2.0	2.0
	Undecided/Neutral	17	16.7	16.8	18.8
	Agree	49	48.0	48.5	67.3
	Strongly Agree	33	32.4	32.7	100.0
	Total	101	99.0	100.0	
Missing	System	1	1.0		
Total		102	100.0		

**Insufficient Availability of Internal data for IFRS conversion**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	2	2.0	2.0	2.0
	Disagree	9	8.8	8.8	10.8
	Undecided/Neutral	7	6.9	6.9	17.6
	Agree	50	49.0	49.0	66.7
	Strongly Agree	34	33.3	33.3	100.0
	Total	102	100.0	100.0	

**Absence of secondary market for fair value determination as per the requirement of IFRS impacted the IFRS implementation**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	2	2.0	2.0	2.0
	Undecided/Neutral	4	3.9	3.9	5.9
	Agree	37	36.3	36.3	42.2
	Strongly Agree	59	57.8	57.8	100.0
	Total	102	100.0	100.0	

**There is lack of coherence between local laws and IFRS**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	3	2.9	3.0	3.0
	Undecided/Neutral	9	8.8	8.9	11.9
	Agree	54	52.9	53.5	65.3
	Strongly Agree	35	34.3	34.7	100.0
	Total	101	99.0	100.0	
Missing	System	1	1.0		
Total		102	100.0		

**Availability of competent specialists**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	4	3.9	4.0	4.0
	Disagree	6	5.9	5.9	9.9
	Undecided/Neutral	9	8.8	8.9	18.8
	Agree	47	46.1	46.5	65.3
	Strongly Agree	35	34.3	34.7	100.0
Total		101	99.0	100.0	
Missing	System	1	1.0		
Total		102	100.0		

**There is lack of proper readiness in commercial banks for IFRS implementation**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	20	19.6	19.6	19.6
	Undecided/Neutral	26	25.5	25.5	45.1
	Agree	38	37.3	37.3	82.4
	Strongly Agree	18	17.6	17.6	100.0
	Total	102	100.0	100.0	

**Absence of Defined Employee Benefit Valuator(Acturalist) companies in  
Ethiopia**

	Frequency	Percent	Valid Percent	Cumulative Percent
Disagree	4	3.9	3.9	3.9
Undecided/Neutral	12	11.8	11.8	15.7
Valid Agree	37	36.3	36.3	52.0
Strongly Agree	49	48.0	48.0	100.0
Total	102	100.0	100.0	