



A D D I S   A B A B A   U N I V E R S I T Y

**CHALLENGES OF IMPLEMENTING INTERNATIONAL FINANCIAL  
REPORTING STANDARDS (IFRS):  
A CASE OF PRIVATE INSURANCE COMPANIES IN ETHIOPIA**

A Research Submitted to Addis Ababa University School of Graduate Studies  
in Partial Fulfillment of the Requirements for the Degree of Master of  
Accounting and Finance (MSC).

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## **DECLARATION**

I, the undersigned, declare that this project is my original work, prepared under the guidance of Temesgen Worku (PhD). All sources of materials used for this thesis have been duly acknowledged, the researcher further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

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**February, 2019**

# **CERTIFICATE**

This thesis has been submitted to Addis Ababa University, School of Graduate Studies for examination with my approval as university advisor.

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## **Acronyms & Abbreviations**

AABE	Accounting and Auditing Board of Ethiopia
ACCA	Association of Chartered Certified Accountants
AICPA	American Institute of Certified Public Accountants
CPA	Certified Public Accountants
ECSC	Ethiopian Civil Service College
ECX	Ethiopian Commodity Exchange
ECXA	Ethiopian Commodity Exchange Authority
EPAAA	Ethiopian Professional Association of Accountants and Auditors
GAAP	Generally Accepted Accounting Principles
GDP	Gross Domestic Product
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IFAC	International Federation of Accountants
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standard
IFRS for SMEs	International Financial Reporting Standard for Small and Medium-sized Entities
IPSAS	International Public Sector Accounting Standards
IPSASB	International Public Sector Accounting Standards Board
IOSCO	International Organization of Securities Commissions
MNE	Multi-National Enterprises
NBE	National Bank of Ethiopia
OFAG	Office of the Federal Auditor General
ROSC	Reports on Observance of Standards and Codes
SEC	Securities Exchange Commission
SIC	Standards Interpretations Committee
UNCTAD	United Nations Conference for Trade and Development

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## **Abstract**

*International Financial Reporting Standard (IFRS) is designed to serve as a common global language for business affairs so that company accounts are understandable and comparable across the globe. Its relative importance attracted different companies to make IFRS as their corporate financial reporting standard. Despite this widespread acceptance of IFRS, there are serious managerial, education and training, cost, institutional, and technical challenges that companies need to overcome in order to benefit fully from the implementation of IFRS in their jurisdictions. This study is intended to identify the practical challenges of IFRS implementation; the case of private insurance companies in Ethiopia. To achieve this objective, both primary and secondary data were collected from IFRS implementation team members of 16 insurance companies 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 different descriptive statistical tools such as mean and exploratory factor analysis by using SPSS version 23. Finally, the result of the study revealed that lack of attention and commitment of management, poor contribution of education and training, lack of supports from accountancy professional bodies, weak enforcements of regulatory body, and high cost of implementation and weak management support are the major challenges of IFRS implementation by private insurance companies in Ethiopia. Therefore, the insurance companies, regulatory organs and consultants are recommended to improve management involvement, provide workplace trainings, to implement by customizing the standard, to improve cost issues of the standard, and to improve the cooperation of the organs involving in the implementation.*

**Key Words:** IFRS, Implementation, challenges, insurance companies

# CHAPTER ONE

## INTRODUCTION

This chapter presents introduction to about the study that includes background of the study, statement of the problem, objectives of the study, scope and significance of the study

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

The process of international convergence towards a global set of standards started in 1973 when 16 professional accountancy bodies from Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom and the United States of America agreed to form the International Accounting Standards Committee (IASC), which in 2001 was reorganized into the International Accounting Standards Board (IASB) (UNCTAD, 2008). The IASC's aim was to formulate uniform and global accounting standards aimed at reducing the discrepancies in international accounting principles and reporting practices.

The IASB has updated the already existing International Accounting Standards that were issued by its predecessor, IASC and referred to them as International Financial Reporting Standards (IFRS). IFRSs are a single set of high quality understandable standards for general purpose financial reporting which are principles based in contrast to the rules based approach (IASB, 2016).

According to Deloitte IFRS Solutions Center (2008) different countries have adopted International Financial Reporting Standards (IFRS) as the basis for financial reporting due to the benefits of single set of standards throughout the organization that allows

companies to improve controls around financial reporting and to potentially achieve significant cost savings by consolidating people, systems, and processes.

IFRS is also believed to be able to achieve a degree of comparability that will help investors make their decisions while reducing costs of Multi-National Enterprises (MNE) in preparing multiple sets of accounts and reports. However, those countries which adopt IFRS has faced many practical challenges which they overcome by devising various methods including changing their laws and enhancing the awareness of the IFRS among the stakeholders (Radebaugh, Gray, & Black, 2006).

According to NBE (2018), Ethiopia adopted IFRS after issuing the Financial Reporting Proclamation in 2014. The Accounting and Auditing Board of Ethiopia which was entitled to lead the adoption of IFRS in Ethiopia has developed a road map which sets the mandatory IFRS adoption for businesses, governmental organisations and not for profit entities. The adoption was scheduled to start with significant public interest entities, financial institutions and public enterprises owned by federal or regional governments who are expected to adopt the IFRS by 8 July 2017.

Other public interest entities (ECX member companies and reporting entities that meet public interest entities quantitative threshold, two if assets 100 Million, 100 employees, Liability 100 Million, revenue 50 Million) and IPSASs for charities and societies are expected to adopt IFRS/IPSAS by 8 July 2018. All other small and medium sized entities are required to adopt IFRS by 8 July 2019. In light of this therefore, this study has focused on assessing the challenges of implementing IFRS in Ethiopia (NBE, 2018).

## **1.2 Statement of the problem**

In 2007 the World Bank and IMF conducted a joint initiative which mainly focuses on review of corporate sector accounting, auditing, and financial reporting practices and supporting infrastructure in Ethiopia. In the report, the World Bank and IMF suggested that Ethiopia need to have a well-defined financial reporting standards and a professional body that has a legal enforceable right to monitor the accounting and auditing practice in the country (World Bank and IMF joint initiative, 2007).

In 2014, the Ethiopian Government issued Financial Reporting Proclamation which has the objectives of establishing a uniform financial reporting law and establishing a body that undertakes regulatory responsibilities in financial reporting (Proclamation 847/2014, Article 4 and Regulation 332/2014).

Some government and business enterprises claimed that they were adhering to the requirement of IFRS before Ethiopia adopt IFRS as per the Proclamation 847. However, that claim was not certifiable as in the absence of the infrastructure in IFRS implementation (including the shortage of qualified accountants, etc.), the auditors of those entities not fully complying with the International Standards on Auditing (Alemi & Pasricha, 2016).

Currently, the IFRS implementation process has been started in the country and businesses and government entities are employing consultants to help them in the implementation process-including the conversion process which incorporate developing the accounting policy manual, training of staff and the actual conversion of the books for the effects of the adoption of the IFRS vis-à-vis the current accounting practice. The researcher is involved in IFRS conversion project in one private company as team leader of the project and he has a good audit practices in

insurance companies and has good understating of the business model of insurance companies

Previously, there were few studies conducted in Ethiopia's adoption of IFRS. One of the studies conducted by Tesfu (2012) focuses on adoption of International Financial Reporting Standards (IFRS) in Ethiopia including the factors that could influence its adoption, with particular reference to companies which adopted this standard which he did not address the practical challenges faced by Insurance companies.

Hailemichael(2016) conducted his study in the case of financial intuitions but the study took its target population from finance departments /directors as his respondents , which could not give the correct IFRS implementation teams and failed to address the practical challenges faced by Insurance companies.

Tesfu,2012, Mihre 2016, conducted their study was from the cost perspective in inplemtnastion International financial reporting standards and hence, they failed to address the practical challenges faced by IFRS implementation by Insurance companies in Ethiopia. Therefore, this study is designed to assess and identify the challenges that were encountered by private insurance companies in Ethiopia.

### **1.3 Objectives of the Study**

#### **1.3.1 General Objective**

The general objective of this study is to assess the challenges of implementing International Financial Reporting Standards (IFRS) in private insurance companies in Ethiopian.

#### **1.3.2 Specific Objectives**

The specific objectives of this study are:

- i. To assess challenges from management of the private insurance companies in Ethiopia in implementing IFRS;

- ii. To examine the challenge of education and training to implement IFRS in insurance companies in Ethiopia;
- iii. To assess the technical challenges of the IFRS to implement in Private insurance in Ethiopia;
- iv. To analyze the challenges of cost to implement IFRS in private insurance companies in Ethiopia; and
- v. To examine the influence of institutional factors to IFRS implementation.

#### **1.4 Research Questions**

The following research questions are tried to be addressed in this study:

- i. What are challenges from management of the private insurance companies in Ethiopia in implementing IFRS?
- ii. What are the challenge of education and training to implement IFRS in insurance companies in Ethiopia?
- iii. What are the technical challenges of the IFRS to implement in Private insurance in Ethiopia?
- iv. What the challenges related to cost to implement IFRS in private insurance companies in Ethiopia?
- v. What is the influence of institutional factors to IFRS implementation?

#### **1.5 Scope and Limitation of the Study**

The study has examined the challenges to implement IFRS in Ethiopian Insurance companies. Based on the previous studies, this study has focused on the cost to implement, the suitability of the economic, legal and regulatory framework in implementing IFRS, assess the requirements and challenges of implementing IFRS. The study was conducted in Addis Ababa incorporating team of the IFRS in each

insurance company. Moreover, the challenges considered in this study are not exhaustive as there are other challenges in IFRS implementation that are not studied in this specific research. The study has not considered any post implementation challenges. This study is delimited to the insurance companies that currently implementing IFRS.

Because of limited researches that exists on IFRS in Ethiopian context, the study has based on the current body of knowledge and studies conducted in other countries context. In addition, this study has not considered the detailed and specific accounting principles and application of the IFRS.

## **1.6 Significance of the Study**

All companies in Ethiopian are expected to adopt and implement IFRS as mandatory financial reporting standard. This study has assessed challenges of encountering the smooth adoption. The study result will benefit implementing companies and the regulatory body (AABE). Researchers and other any information seekers regarding IFRS implementation process will obtain information from the study and use the findings as an input to their future consideration.

## **1.7 Organization of the Study**

This study has been organized in to five chapters. The first chapter deals with the general introduction and background of the study; chapter two presents the literature review regarding the research area of International Financial Reporting Standards to set out the theoretical foundations for the research; the third chapter outlines the research methodology. The research results are presented in chapter four. The last chapter is about the conclusions and recommendation and wind up the report by highlighting future research areas.

# **CHAPTER TWO**

## **LITERATURE REVIEW**

### **Introduction**

This chapter deals with the review of related literatures related to International Financial Reporting Standards (IFRS) in general and challenges to implementation of IFRS in particular. The chapter have three sections; theoretical reviews, empirical reviews and conceptual framework. The reviews include understanding IFRS, use of IFRS around the world, approaches to adopting IFRS, advantages and disadvantages of adopting IFRS for financial reporting, practical implications and challenges of adopting IFRS, factors affecting the adoption of IFRS, Ethiopia's accounting practice and the journey to IFRS adoption and lessons learned from other IFRS adopters.

### **2.1 Theoretical Review**

#### **2.1.1 Understanding IFRS**

##### **Financial Reporting:**

The Conceptual Framework of the IASB states that: 'The objective of general purpose financial reporting is to provide information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity' (BPP Learning Media, 2016). These users need information about: the economic resources of the entity; the claims against the entity; and changes in the entity's economic resources and claims.

A complete set of financial statements includes a statement of financial position (formerly known as balance sheet), a statement of comprehensive income (formerly known as income statement), a statement of changes in equity, a statement of cash flows, and accounting policies and explanatory notes (IASB, 2016).

## **The IASB and IFRS:**

The need for a global set of high-quality financial reporting standards has long been apparent. The process of international convergence towards a global set of standards started in 1973 when 16 professional accountancy bodies from Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom and the United States of America agreed to form the International Accounting Standards Committee (IASC), which in 2001 was reorganized into the International Accounting Standards Board (IASB). The IASB develops global standards and related interpretations that are collectively known as International Financial Reporting Standards (IFRS) (United Nations Conference for Trade and Development, 2008).

The International Accounting Standards Board, based in London, began operations in 2001. The IASB is committed to developing, in the public interest, a single set of high quality, global accounting standards that require transparent and comparable information in general purpose financial statements. The IASB is selected, overseen and funded by the IFRS Foundation (formerly called the International Accounting Standards Committee (IASC) Foundation). The IFRS Foundation is financed through a number of national financing regimes, which include levies and payments from regulatory and standard-setting bodies, international organizations and other accounting bodies (accounting firms, private financial institutions and industrial companies, central and development banks, national funding regimes, and other international and professional organizations throughout the world). The Trustees provide oversight of the operations of the IFRS Foundation and the IASB (IASB, 2016).

The IASB has full discretion in developing and pursuing the technical agenda for setting accounting standards, subject to consultation with the Trustees and a public consultation every three years. Approval of International Financial Reporting Standards (IFRSs) and related documents, such as the Conceptual Framework for Financial Reporting, exposure drafts, and other discussion documents, is the responsibility of the IASB. The IASB issues its Standards in a series of pronouncements called International Financial Reporting Standards (IFRS). Upon its inception the IASB adopted the body of

International Accounting Standards (IAS) issued by its predecessor, the Board of the International Accounting Standards Committee. The term ‘International Financial Reporting Standards’ includes IFRS, IAS and Interpretations developed by the Interpretations Committee or the former Standing Interpretations Committee (SIC) (IASB, 2016).

Below is the structure of the IASB

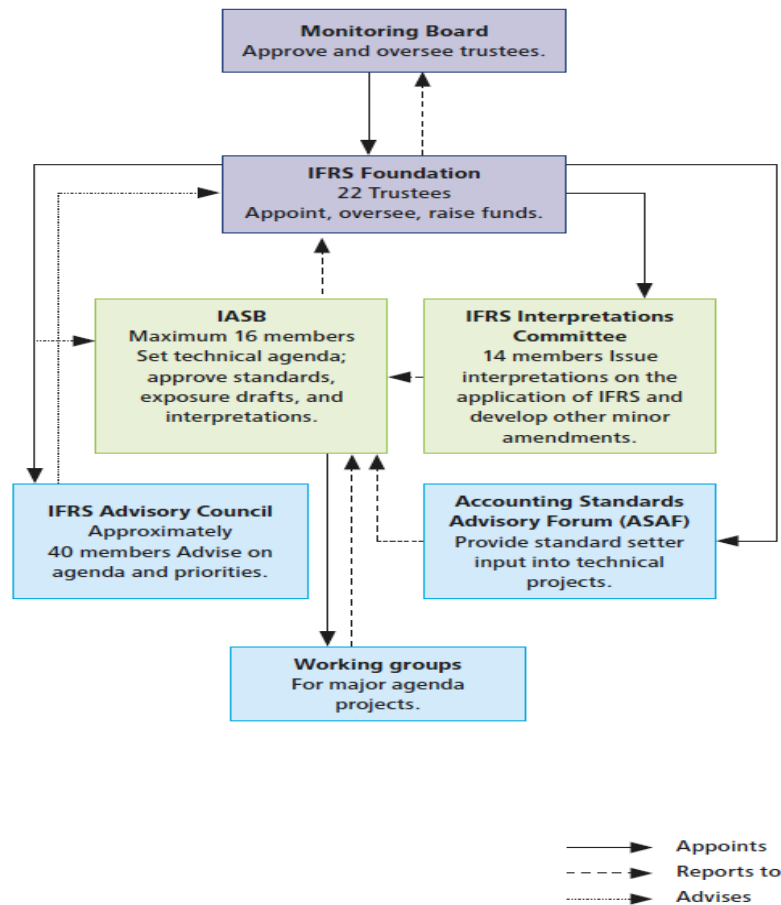


Figure 2. 1: IASB Structure (Source: Deloitte IFRS in your Pocket 2016)

IFRSs set out recognition, measurement, presentation and disclosure requirements dealing with transactions and events that are important in general purpose financial statements. They may also set out such requirements for transactions and events that arise mainly in specific industries (e.g. IAS 41: Agriculture, IFRS 6: Exploration for and Evaluation of Mineral Resources). IFRSs are based on the Conceptual Framework, which addresses the concepts underlying the information presented in general purpose financial

statements. IFRSs are designed to apply to the general purpose financial statements and other financial reporting of profit-oriented entities. IFRS provides general guidance for the preparation of financial statements, rather than setting rules for industry-specific reporting (IASB, 2016).

## **2.1.2 Approaches to Adopting IFRS**

There are two approaches to adopting IFRS: adoption and convergence.

Adoption would mean that the Government (the accounting regulatory body entrusted by the Government) sets a specific timetable when companies would be required to use IFRS as issued by the IASB. Convergence means that the local financial reporting issuing body and the IASB would continue working together to develop high quality, compatible accounting standards over time. More convergence will make adoption easier and less costly and may even make adoption of IFRS unnecessary. Supporters of adoption, however, believe that convergence alone will never eliminate all of the differences between the two sets of standards (i.e. the local GAAP and the IFRS) (AICPA, 2008).

## **2.1.3 Advantages of adopting IFRS**

Multinational companies have to comply with multiple local or statutory reporting requirements that typically involve different standards. As IFRS becomes allowed—or in some cases required—for local or statutory reporting purposes, it provides an opportunity to reduce the number of financial reporting standards used. The ultimate outcome is that a single set of standards is used throughout the organization, which allows companies to improve controls around financial reporting and to potentially achieve significant cost savings by consolidating people, systems, and processes (Deloitte IFRS Solutions Center, 2008).

Growing interest in the global acceptance of a single set of robust accounting standards comes from all participants in the capital markets. Many multinational companies and national regulators and users support it because they believe that the use of common

standards in the preparation of public company financial statements will make it easier to compare the financial results of reporting entities from different countries. They believe it will help investors understand opportunities better. Large public companies with subsidiaries in multiple jurisdictions would be able to use one accounting language company-wide and present their financial statements in the same language as their competitors. Companies may also benefit by using IFRS if they wish to raise capital abroad (AICPA, 2011).

IFRS is believed to be able to achieve a degree of comparability that will help investors make their decisions while reducing costs of Multi-National Enterprises (MNE) in preparing multiple sets of accounts and reports (Radebaugh, Gray, & Black, 2006). Convergence of accounting standards make information more comparable, thereby enhancing evaluation and analysis by users of financial statements and reducing user costs. Internationally converged standards also help maintain credibility of financial reporting to the public and increase the efficiency of auditing that information (www.essay.uk.com).

Another benefit some believe is that in a truly global economy, financial professionals, including CPAs, will be more mobile, and companies will more easily be able to respond to the human capital needs of their subsidiaries around the world (AICPA, 2011).

Convergence is not an end by itself, but it is a means to an end. Adoption of different accounting standards causes difficulties in making relative evaluation of performance of companies. This phenomenon hinders the valuation and consequently the decision making process. There are numerous instances around the world of bad accounting practices leading to corporate failures.

Another significant benefit that is expected to accrue from global convergence of accounting standards relates to facilitating cross-border mergers and acquisitions. Adopting international standards will make this easier by increasing the transparency and credibility of the financial reporting (International Journal of Business and Management, 2009).

The IFRS can help new and small investors by making reporting standards to have better quality and become simpler, putting these investors in a similar position with professional investors, which was not feasible under previous standards. This also entails a reduced risk for these investors when they trade, as the professionals will not be able to take advantage because the nature of financial statements will just be simple to be understood by all (connectusfund.org)

Using a philosophy that is based on principles (the approach of IASB in setting standards), instead of rules (the approach taken by national standards setters, e.g. in the U. S.), will have the goal of arriving at a reasonable valuation with various ways to accomplish tasks. This would give businesses the freedom to adopt IFRS to their specific situations, which will result in financial statements that are more easily read and useful (connectusfund.org).

#### **2.1.4 Disadvantages of Adopting IFRS**

Despite all its benefits mentioned above, adopting IFRS has the following disadvantages:

##### **It requires high costs**

Whether large or small, all businesses would feel the impact if a country adopts IFRS. However, small companies would not have sufficient resources to implement the changes that come with it, not to mention that they would need to train staff or hire accountants or consultants for assistance. They would simply bear more financial burden than their larger counterparts (connectusfund.org). Convergence would generate both transition cost and the process costs of maintaining a standard-setting for global accounting principles. Transition cost that will include the cost of training, retraining and education of accounting professionals and students. Costs of training and re-training would also arise to retrain preparers, users, auditors, students and regulators to apply and interpret the converged global standards ([www.essay.uk.com](http://www.essay.uk.com)).

### **It is prone to manipulation**

As businesses can only use the methods that they wish, this would lead to financial statements show only desired results, which can lead to profit manipulation. While this new set of standards requires changes to how the rules should be applied to be justifiable, it is often possible for businesses to come up with reasons for making such changes. This means that stricter rules should be implemented to ensure all companies will value their statements in a similar fashion (connectusfund.org).

### **It is not globally accepted**

Although many countries have adopted IFRS, there are also significant hold-outs. This means that accounting by foreign companies operating in these countries are facing difficulties because they have to prepare financial statements using such a set of standards and another set of principles that is generally accepted in these countries.

## **2.1.5 Challenges of Adopting IFRS**

Conversion to IFRS is much more than an accounting exercise. It will affect many aspects of a company's operations, from information technology systems and tax reporting requirements, to internal reporting and key performance metrics and the tracking of stock-based compensation-compensation plans may be based on the local GAAP performance criteria (AICPA, 2011).

The quality of financial reporting depends on the quality of accounting standards as well as the effectiveness of the process by which those standards are implemented. Adequate regulatory and other supports are necessary to ensure proper implementation of standards. Implementation of accounting standards is not an easy task. In spite of convergence, there is no assurance that they will be implemented with same amount of vigor in every jurisdiction (International Journal of Business and Management, 2009).

Convergence of accounting standards with international approach will inevitably raise the questions of rules versus principles. IASB standards are principles-based. Thus the countries that have rules-based standards (like the U. S.) are expected to experience considerable difficulty in converging their standards with IFRS (International Journal of Business and Management, 2009). Although IFRS is not without its rules, it is clear that finance professionals will have less interpretive guidance to use under IFRS. This will require more professional judgment in the determination of accounting outcomes, which poses an organizational challenge – especially for large multinational companies that need to make sure that professional judgment is applied consistently throughout the organization. In response, companies may need to focus on creating a framework for making these judgments (Deloitte IFRS Solutions Center, 2008).

As IFRS grows in acceptance, most accountants, financial statement preparers and auditors will have to become knowledgeable about the new rules. Others, such as actuaries and valuation experts who are engaged by management to assist in measuring certain assets and liabilities, who are not currently taught IFRS and will have to undertake comprehensive training. Professional associations and industry groups have to integrate IFRS into their training materials, publications, testing, and certification programs, and many colleges and universities should include IFRS in their curricula (AICPA, 2011).

The primary reasons of adopting IFRS were built on one perspective that all countries need to prioritize investors over other firms' stakeholders, and all countries have a considerable number of MNE; the perspective which is widely shared by capitalists and neoclassical economists. Consequently, countries that have less developed capital markets and higher concentration of Small and Medium Enterprises (SME) may not be able to reap the optimum benefits of adopting IFRS (Lasmin, 2011).

Despite a belief by some of the inevitability of the global acceptance of IFRS, others believe that their local GAAP (especially the U. S. GAAP) is the gold standard, and that a certain level of quality will be lost with full acceptance of IFRS. Further, certain issuers without significant customers or operations outside their country of jurisdiction may

resist IFRS because they may not have a market incentive to prepare IFRS financial statements. They may believe that the significant costs associated with adopting IFRS outweigh the benefits. Another concern is that worldwide, many countries that claim to be converging to international standards may never get to 100% compliance. Most reserve the right to carve out selectively or modify standards they do not consider in their national interest, an action that could lead to incomparability - the very issue that IFRS seek to address (AICPA, 2011).

The notion of “one set of standards fits all countries” stands on one premise that all countries share common institutional contexts where the relation of the IFRS adoption and its associated economic benefits (such as a higher inflow of Foreign Direct Investment (FDI) and higher Gross Domestic Product (GDP) growth rate) established in a country or a group of countries is also applicable in other regions. However, IFRS that is crafted by developed countries might not be able to induce the same relationship in developing countries because of different socio economy and political-economy environments. Thus, while some countries might enjoy the benefits of IFRS internalization, countries like Botswana, Malawi, Panama, Papua New Guinea, Tajikistan, and Tanzania are among countries that have substantially adopted IFRS but have not experienced significant grow in their FDI inflows and GDP growth. This hints that the process of internationalization of IFRS might not be exclusively related to its corresponding economic benefits (Lasmin, 2011).

According to Mwaura and Nyaboga (2009) Non-existence of functional professional accounting organizations; Complex nature of the IFRS; translating to the native languages, lack of accounting infrastructure with corporate governance and financial reporting practices; and impact of IFRS on the existing corporate and tax law are the main challenges in Africa.

According to Thompson (2016), challenges of implementing IFRS can be overcome by Devised transition plan to IFRS, as well as all implications that come with it, to be effectively communicated and coordinated to all users, preparers, educators and stakeholders; Gradual implementation of IFRS was deemed to be the most effective

strategy; Receive financial help from outside sources for the implementation of the IFRS- such as World Bank and the International Monetary Fund; Amended local laws in order to facilitate IFRS application; and Better coordination between the various organizations during the process of adoption

## **2.2 Empirical Evidence**

In a broader view, a set of accounting standards as part of accounting systems is continuously influenced by several differing institutional factors where that set of standards operates. These factors include culture (e.g. in regards to the implementation of IFRS in the Arab world, it could be complicated to harmonize accounting standards to those of western civilizations- Sanchez (2015)), enterprise ownership and activities, finance and capital markets, economic growth and development, accounting regulation, legal system, social system, political system, accounting profession, accounting education and research, inflation, and international factors put it in a simpler sentence: free market capitalism cannot be universal (Lasmin, 2011).

Ramanna & Sletten (2009) have found in their study that, in addition to the macro-level economic and political factors, it is likely that a country's decision to adopt IFRS is influenced by its internal politics: e.g., the actions of special-interest lobbyists and ideology-driven regulators. They also have the view that a country is more likely to implement IFRS if other countries in its geographical region (and its trade partners in other regions) are IFRS adopters (called it the network effects).

Adopting IFRS can be costly if local governance institutions that include auditor training, auditing standards, enforcement (regulatory and judicial), precedent for the protection of property rights, government corruption, and the role of the press, among others are collectively not compatible with the international standards. The relative quality of extant governance institutions refers to the ability of these institutions to facilitate the efficient allocation of capital in an economy (Ramanna & Sletten, 2009). Ramanna & Sletten (2009) also argue that, in countries where the quality of the existing governance institutions is relatively high, IFRS adoption is likely to be less attractive. High quality institutions represent high opportunity and switching costs to adopting international

accounting standards. The opportunity costs arise because in adopting IFRS, countries forgo the benefits of any past and potential future innovations in local reporting standards specific to their economies. The switching costs arise because countries with well-developed governance institutions are likely to have well developed capital markets, and thus more market participants needing retraining in IFRS. Ramanna & Sletten (2009) also established that the more powerful countries like the United States are less likely to adopt IFRS because they do not want to cede power or control to an international organization.

Thompson (2016) found that education level of a country, existence of a financial market and cultural membership are also factors tied to IFRS adoption. Higher economic growth was found to be a factor as well, as the need for effective communication of information between businesses and shareholders becomes more important. The more complex a country's economy becomes the more complex the accounting systems need to be in order to effectively communicate information.

Gyasi (2013) as cited by Thompson (2016) found that the adoption of IFRS is influenced by internal political and organizational factors, but also external factors. The study found that external agents, including foreign investors, international accounting firms, and international financial organizations play a major role in influencing a country to adopt IFRS.

The study conducted by Edward Chamisa (n.d) as cited by Thompson (2016) confirmed the relevance of a capital market within a country. This study found, predictably, that those who implement a communist system of government are less likely to adopt international standards, as it is not deemed to be relevant to their system (Thompson, 2016).

Leuz & Verrechia (2000) as cited by Zehri & Chouaibi (2013) explained that for German companies, firm size, financing needs (creditors might require compliance with debt covenants based on specific calculations) and financial performance significantly explain the decision of adopting international standards.

Zeghal & Mhedhbi (2006) as cited by Zehri & Chouaibi (2013) concluded that the developing countries enjoying capital markets, advanced education levels and high economic growth rates are most inclined to adopt the IFRS. Zehri & Chouaibi (2013), based on the empirical evidence of their research, concluded that the developing countries most favorable to the adoption of IFRS are those having a high economic growth rate, a high level of education and common law based legal system. The other variables, relevant to their model: culture, the existence of a capital market, the political system and internationality, has turned out to have no significant impact on the decision to adopt IFRS in developing countries.

Shima & Yang (2012) on the other hand tried to explain the adoption of IFRS in relation to the legal system of countries. According to their study, in common law countries, information asymmetry is likely to be resolved by timely and greater public disclosures to shareholders (“shareholder model”), whereas communication in code law countries is more likely to be conducted more privately between major political groups (“stakeholder model”). As a result, accounting standards in common law countries may be similar to IFRS, thus making adoption of IFRS easier and more enforceable

Tilahun (2009) claims that since the establishment of professional bodies like the Ethiopian Professional Association of Accountants and Auditors (EPAAA), Ethiopian Accountancy and Finance Association (EAFA) and Accounting Society of Ethiopia (ASE), extensive work had been done to capitalize the pool of knowledge and experience in the areas of accounting, auditing and finance. Establishing an academic journal to serve as medium of ideas contributed by members and other stakeholders, building good reputation and professionalism, plus most importantly efforts towards adopting/adapting Financial Reporting Standards are some of the work that has been done.

Gizaw (c.2009) reiterates that adopting IFRS will have significant benefits in improving corporate transparency that is required by investors and governments. A strong financial reporting environment is also an important institutional infrastructure for developing a robust stock exchange market. Gizaw also pointed out that currently in Ethiopia, selection

and application of accounting principle for measurement and disclosure of financial transaction is left for company's management and its auditor (if the company has one). Hence, without a uniform guide at a national level to select appropriate accounting policies by the companies, different companies are currently using different accounting rules or principles that ultimately lead to production of different set of financial statements that have different bases for measurement and disclosure of financial transactions. These do not significantly assist users of financial statements for decision making. He also argues for the benefits of adopting IFRS by stating the disadvantage of not to adopt that is countries that use their own national accounting standards or fragmented accounting practices will be at their own peril. Because of risk premium on investors cost of capital, such countries may not be destinations for foreign investments or may be perceived as risky investment destinations. Unless such countries offer huge (unwarranted) incentives to attract capital, the countries may eventually be excluded from consideration by foreign investors.

Gizaw (c.2009) also assessed the advantages and disadvantages of the adoption of IFRS. The most obvious disadvantage of adoption (in contrast to adaptation), in his opinion, is that the standards are not set to serve the Ethiopian economy and cannot fully be expected to be utilized by all the companies at the country's current stage of development. One of the significant advantages for Ethiopia to use the global accounting standards is the Anglo-Saxon orientation of the country's accounting profession. The country's business schools teach and the practicing accountants are qualified on Anglo-Saxon model of accounting. This background will shorten the training that is needed to re-train existing accountants and auditors at least to head start phased implementation of the standards. The other advantage is that the country's accountants, unlike many other developed and developing countries, that were forced to translate the standards to their own working language, Ethiopian accountants are trained using English language as a medium of instruction and the accounting practice in the country is also predominantly English. If the country makes important decision right from the start to adopt the English language version of the standards as its national Financial Reporting Standards as it is, it will save significant resources subsequently in implementing the standards.

Gizaw (c.2009) proposed that for the medium to long-term, an intensive education is required through revision of accounting syllabuses of universities and colleges for nationwide application of the standards. He further strengthens his argument for the adoption of IFRS by stating that Ethiopian government and businesses can save significant investments on developing alternative national standards to resolve the country's pressing financing reporting problems.

### **2.3 Summary and Research Gap**

The financial reporting process is concerned with providing information that is useful in the business and economic decision-making process. IFRS are meant to facilitate this financial reporting process. The globalization of the financial reporting standards started in 1970s when the International Accounting Standards Committee (IASC) was established in 1973 and started issuing standards that are followed by countries. The adoption of those standards was getting momentum through decades and currently approximately 120 nations and reporting jurisdictions permit or require IFRS or a local variant of them for domestic listed companies. IFRS implementation is not an easy task as it required countries huge amount of resources, and results changes in the laws of the countries who adopt it (BPP Learning Media, 2016; United Nations Conference for Trade and Development, 2008).

The IFRS and the countries adoption processes, challenges, etc. attracted many research through years. However, those researches mainly focus on the adoption processes of the developed nations as they were the pioneers in adoption and the researchers were also from those nations. Recently there were also researches on the adoption of developing nations including Ghana, South Africa, Brazil, India, Libya, Kenya, Ethiopia, etc. (Thompson, 2016; Gyasi, 2009).

In relation to adoption of IFRS by Ethiopia, studies were made by Tesfu (2012) and Mihret (2016). Tesfu's (2012) and Mihret's (2016) studies mainly focused on the benefits of adoption of IFRS and the adoption process. Another study by Hailemichael (2016) was on IFRS adoption specifically to financial institutions in Ethiopia.

Given the fact that Ethiopian businesses, financial institutions and Government organizations have actually started implementing IFRS, this study seems timely as the practical implications can be studied with the companies and government enterprises that have already started the implementation of IFRS.

Growing bodies of literatures reveal that more complex financial reporting requirements resulted in increased implementation costs, shortage of resources with expertise in IFRS, the ability of amendments to regulatory requirements and tax laws and impact on IT systems etc are the main challenges of International Financial Reporting Standards.(Iyoha and Faboyed 2011)

Although various studies have been conducted to assess the adoption of IFRS in Ethiopia most of the studies focuses on the analysis of the data on adoptions and they tried to see its challenges from cost perspectives. They failed to see practical challenges of implementing IFRS in insurance companies by taking the complete set of IFRS implementation teams. Therefore, this study makes an attempt to bridge this gap and elaborate that could influence the implementations of IFRS by Private insurance companies in Ethiopia.

# **CHAPTER THREE**

## **METHODOLOGY**

### **3.1 Research Design**

Designing a study helps the researcher to plan and implement the study in a way that help the researcher to obtain intended results, thus increasing the chances of obtaining information that could be associated with the real situation (Burns & Grove, 2001). This study has used descriptive research design. According to Kothari (2004) descriptive research is a situation or condition at hand in which information is collected without changing operating environment. From different methods of research designs the descriptive research design is accepted based on the purpose of the study. Frequencies, percentages, tables, charts and factor analysis methods were used.

### **3.2 Research Approaches**

This study has used both qualitative and quantitative research approaches. Creswell (2005) explains that the three methods that are commonly implemented in a research are quantitative, qualitative and mixed, where one of them is not better than the others, all of this depends on how the researcher want to do a research of study. Quantitative research decides what to study, asks specific, narrow questions, collects numeric (numbered) data from participants, analyzes these numbers using statistics, and conducts the inquiry in an unbiased, objective manner. Quantitative approach is one in which the investigator primarily uses postpositive claims for developing knowledge, i.e., cause and effect relationship between known variables of interest or it employs strategies of inquiry such as experiments and surveys, and collect data on predetermined instruments that yield statistics data. This approach is implemented by using structured questionnaire. The qualitative approach is implemented by using interview to collect detailed information in the study area.

### 3.3 Population and Sampling Method

#### 3.3.1 Population of the Study

According to Hair, et al (2010) target population is a specified group of people or object for which questions can be asked or observed to collect required data structures and information. This study was conducted by using team members of IFRS implementation are direct participants in the project and who have good experience about the study area. It includes all team members in each insurance company. According to the NBE (2018) there are 16 private insurance companies. The number of team members in each insurance company varies.

	Insurance company	Team members
1	Abay insurance	4
2	Africa insurance	7
3	Awash insurance	6
4	Brihan insurance	5
5	Bunna insurance	6
6	Ethio-life and General	6
7	Global insurance	7
8	Lion insurance	4
9	Lucy insurance	5
10	Nib insurance	7
11	NICE insurance	8
12	Nile insurance	9
13	Nyala insurance	7
14	Oromia insurance	5
15	The United insurance	6
16	Tsehay insurance	5
	<b>Total</b>	<b>97</b>

Source: NBE, 2018

Therefore, target population of the study is **97** IFRS implementation members.

### **3.3.2 Sampling Method**

Since targeted population is small size the, the researcher has used census. This study has not implemented any sampling method and sample size determination techniques.

### **3.3 Data Type and Source**

Both primary and secondary data were used for the study. According to Biggam (2008) primary data is the information that the researcher finds out by him/herself regarding a specific topic. The main advantage with this type of data is that it is collected with the research's purpose in mind. It implies that the information resulting from primary data is more consistent with the research questions and objectives. The primary data were collected from the team members through questionnaire and interview. Secondary data were obtained from published and unpublished materials such as magazines, reports and websites.

### **3.4. Methods of Data Collection and Instruments**

In order to achieve the objectives of the study, the researcher used both quantitative and qualitative research methods through questionnaire and interview respectively. To cover larger target groups than the interview, given the quality and chance of no response, questionnaire was used. Interview was conducted to support data collected with questionnaire and to collect detailed information. The questionnaires were prepared using close-ended method questions; yes/no, and 5 Point Likert-Scale approaches (i.e., from "Strongly Disagree to Strongly Agree"). For the 5-point Likert scale the respondents were asked to indicate their level of agreement with the ratings of Strongly Disagree (1), Disagree (2), neutral (3), Agree (4) and Strongly Agree (5). In fact there is a controversy on the type statistically analysis used to analyze the result of the Likert- Scale data. Some scholars argued that statistics, such as mean and standard deviations, have unclear meanings when applied to Likert -Scale responses because of measurement observers ion, over the years have argued that the median should be used as the measure of central tendency for liker scale data. low , medium, neutral , high and very high.

The questionnaires were designed in English as respondents could read and understand the questions.

### **3.5 Methods of Data Analysis**

The data collected through questionnaire was analyzed using quantitative data analysis techniques. The data collected from respondents was analyzed by using statistical package for social science (SPSS) version 23. For presenting the data different types of descriptive data analysis methods such as frequency, percentage, simple tabulation, mean and standard deviation were used. The challenges of implementing IFRS were explored by using factor analysis method through principal component analysis after VARIMAX rotation.

### **3.6 Validity test**

Validity is defined as how much any measuring instrument measures what it is intended to measure. Bryman & Bell (2003) suggested that the important issue of measurement validity relates to whether measures of concepts really measure the concept. Validity refers to the issue of whether an indicator (or set of indicators) that is devised to gauge a concept really measures that concept. Several ways of establishing validity are: content validity; convergent validity concurrent; predictive validity; construct validity; and convergent validity (Bryman and Bell, 2003). This study addressed content validity through the review of literature and adapting instruments used in previous researches.

### **3.7 Reliability Test**

The level of reliability of the instrument that is the consistency of the variables is checked by the Cronbach's alpha statistics. Cronbach's alpha is an index of reliability associated with the variation accounted for by the true score of the underlying construct (Nunnally, 1978). Cronbach's Alpha can only be measured for variables which have more than one measurement question. Nunnally (1978) has stated that 0.5 is a sufficient value, while 0.7 is a more reasonable Cronbach's alpha.

Table 3. 1Reliability Statistics

Variable	Cronbach's Alpha	N of Items
Management challenge	.952	6
Technical constraints	.911	6
Education and training challenges	.948	5
Cost challenges	.889	5
Institutional constraints	.920	7

Source: Own Survey, 2018

The results were extracted presented in table 3.1 and Cronbach's Alpha values are more than 0.7 implying that constructs are consistent to measure the variables.

### **3.8Ethical Consideration**

Before the data collection, permission from the organizations was requested. During the distribution of the questionnaire, respondents were informed about the purpose and the benefit of the study along with their full right to refuse or accept the participation. The respondents` were told their response would be kept confidential and their identity shall not be exposed. Every person involved in the study was entitled to the right of privacy and dignity of treatment, and no personal harm will be caused to subjects in the research. Information obtained was held in strict confidentiality by the researcher. All assistance, collaboration of others and sources from which information was drawn were acknowledged.

# CHAPTER FOUR

## RESULT AND DISCUSSION

### Introduction

As a part of the study, this chapter presents about the results of data analysis for data collected through structured questionnaire from members of IFRS implementing team in private insurance companies in Ethiopia. The results are presented in tables and figures. This chapter further presents discussion on the results. Descriptive statistics such as frequency, percentage, mean, standard deviation and factor loading were used.

To reach at the aforementioned objectives, 94 questionnaires were distributed. But 81 (86.17%) questionnaires were returned.

### 4.1 Demographic information

This study is conducted by using 81 respondents from IFRS implementation team members by using questionnaire and 3 team leaders by using interview. This section of the study presents demographic information about the respondents of questionnaire in table 4.1 below.

*Table 4. 1 Demographic Information of the respondents*

<b>Variable</b>	<b>Category</b>	<b>Frequency</b>	<b>Percent</b>
Gender	Male	54	66.7
	Female	27	33.3
Age	less than 30	6	7.4
	31-40	51	63.0
	41-50	19	23.5
	above 50	5	6.2
Education	Bachelor's degree	61	75.3
	Master's degree	20	24.7
Experience	below 5	33	40.7
	5-10	39	48.1
	above 10	9	11.1

Source: Survey, 2018

As presented in the table 4.1 above, 54(66.7%) of the respondents were male and remaining 27(33.3%) of the respondents are female suggesting the majority of the team members are male.

51(63%) of the respondents are in the age category of 31 to 40 years and followed by an age category of 41 to 50 years which is 23.5% of the respondents. But only 6.2% of the respondents have age of above 50 years.

Education background of the respondents is summarized as 61(75.3%) of the respondents have bachelor's degree and remaining 20(24.7%) of the respondents have master's degree.

Experience of the team members in the industry shows that 33(40.7%) have less than 5 years and 39 (48.1%) of the respondents have experienced for 5 to 10 years. But only 9(11.1%) of the respondents have an experience above 10 years.

## **4.2 General Information**

### **4.2.1 IFRS Trainings**

The respondents were asked if they took IFRS trainings on all IFRS standards. The result is presented in figure 4.1 below by using pie chart.

This indicates that 64.2% of the respondents took the training but remaining 35.8% of them did not take the training on all standard of IFRS. This suggests that some companies are implementing IFRS without necessary trainings.

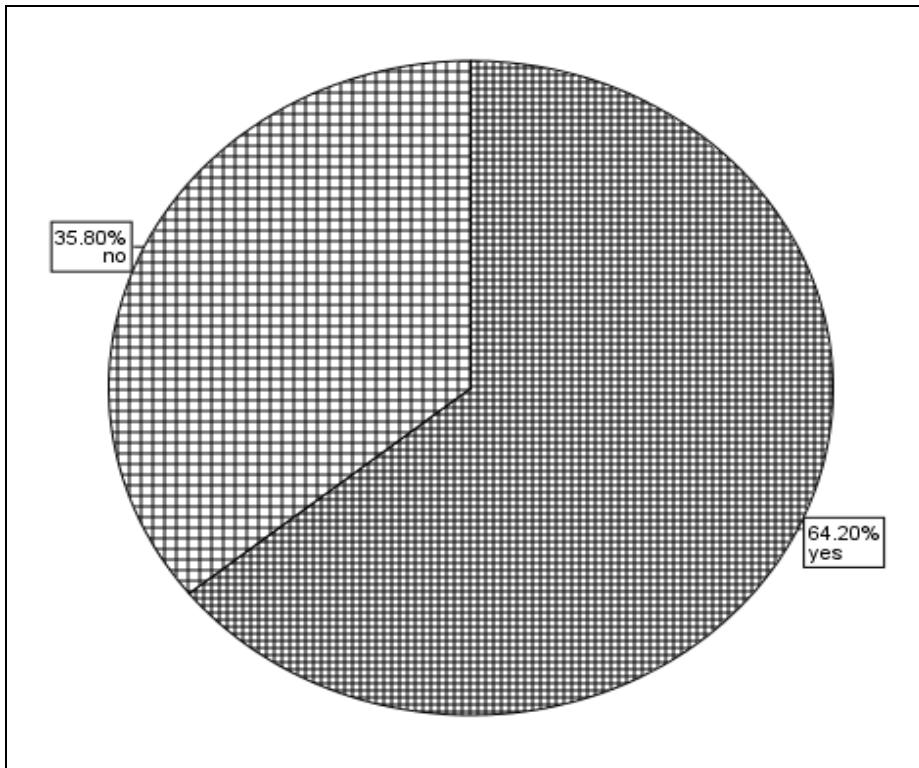
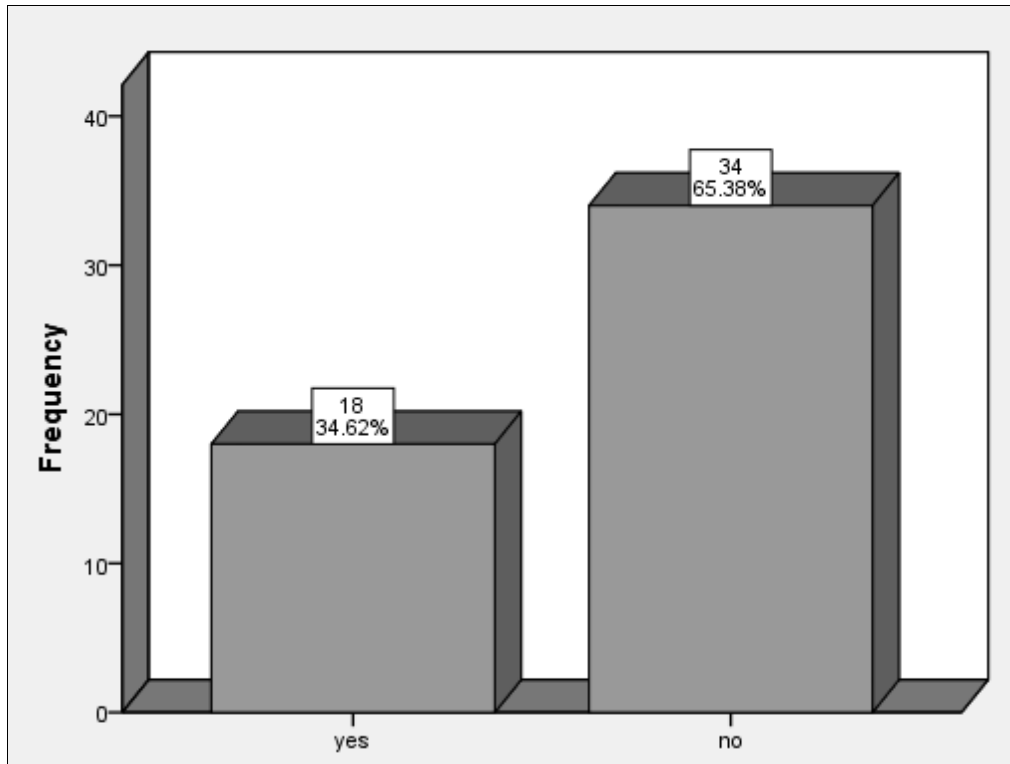


Figure 4. 1 Team members who received all IFRS standard training,

#### **4.2.2 Adequacy of IFRS Implementation Training**

Figure 4.2 below presents the result of the response about adequacy of the training that team members took for IFRS implementation. According to the survey, only 34.6% of the respondents who took the training feel that the training is adequate for the implementation. But majority (65.4%) of the team members indicated that the training is not adequate. Therefore, it is concluded that inefficiency of training and education is a challenge for the practical implementations of IFRS.



**Figure 4. 2 Adequacy of the training**

### **4.3 Descriptive Analysis**

This section of the study presents the descriptive analysis for the data collected to describe the level of the existence of the challenge in the companies by using mean and standard deviation. Each possible challenge identified based previous studies are described by using each statement used to describe the challenges. In this study 5 challenges were assessed in the companies. The challenges assessed in the study are management constraints, education and training constraints, technical constraints, cost constraints, and institutional constraints. Mean value for the responses is computed for the responses collected through Likert scale measurements for the agreement of respondents on the existence of the challenge in their company. Frequency and percentage for each response is annexed (see frequency tables annexed).

To collect detailed information that support findings through questionnaire, interview was conducted with IFRS implementing team leaders of three companies; Awash, NICE and Bunna insurance companies based on level of company size from groups of large, medium and small judgmentally.

### 4.3.1 Management challenges

Challenges from the management on the implementation of IFRS are indicated with different expressions in the table 4.2 below.

*Table 4. 2Management challenges on implementation of IFRS*

<b>Management challenges</b>	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>
Lack of attention to accounting and financial reporting related issues	81	4.0247	1.23466
Lack of cooperation with IFRS implementation project teams	81	4.0123	1.37381
Lack of commitment and understanding on implementation of IFRS	81	4.3704	1.15590
Lacks of regular follow up on the process of IFRS implementation	81	4.0617	1.24846
Lack of knowledge about IFRS and its transitional process	81	3.3210	1.55585
Resistance by different departments while asking cooperation	81	3.6914	1.50534

Source: Survey, 2018

Management cooperation both at top and bottom level is very important for any change implementation in a company. Mean value for the statement that there is lack of attention to accounting and financial reporting related issues are 4.02. This value indicates the respondents agree on this statement and suggests that lack of attention of the management on accounting and financial reporting is becoming the challenge to the implementation of the IFRS in the companies. The standard deviation value, 1.23 for this statement is higher for the data range in Likert scale measurement. This suggests variation of the level of the management attention in the companies.

The mean value for the statement that there is a lack of cooperation of management with IFRS implementation project team is 4.01 indicated that the project implementing team members agree that the management of the companies is not cooperating with the team. The standard deviation for this statement is 1.37 suggesting high variation from the mean value. This finding suggests the high existence of lack of management cooperation for the IFRS implementation.

The study has assessed the level of commitment and understanding of management on implementation of IFRS. The response of the team members is indicated by mean value of 4.37 and standard deviation of 1.16 indicating that there is no commitment and understanding of management on implementation of IFRS. This mean value is highest score in the challenges from management. This suggests that the management is not committed and has no necessary understanding for the implementation of IFRS.

According to the guideline of the IFRS implementation, the involvement of regulating organ in the implementing company is very important for the success of the implementation. This role is mainly undertaken by the management of the company. But the response of the team members indicated that there is lack of regular follow up on the implementation. This is confirmed by the mean value of 4.06 suggesting that the respondents agree that there is no regular follow up from the management of the companies about the status of the implementation. But the standard deviation of 1.25 indicates there is variation from company to company.

As the respondents agree about the lack of knowledge of the management about the IFRS and its transitional process as it is indicated by the mean value of 3.32.

The respondents agree that there is resistance from different departments when cooperation is asked. This is indicated by the mean value of 3.69. this mean is the lowest mean among the challenges identified in the management. It suggests that resistance from management of different department is the least management challenge. The possible reason for this is implementation of IFRS does not need significance involvement of other departments.

The interview was conducted with the team leaders of three companies to support the finding through questionnaire for the challenges from the management of the companies

on IFRS implementation. The interview results are supporting the findings through questionnaire. The responses of the two interviewee indicated that there is lack of attention of management to accounting and financial reporting related issues that the management is focusing on the cost side of the project and their concern is short run profit. The management considers the implementation is the concern of only the implementation team. Additionally, the management have no awareness on the project and the accounting systems because of the lack of the attention to the project. These findings indicate that management is not providing attention to the accounting and financial related issues. Further, the interview result indicates the management has no commitment for the implementation and cooperation with the team because it is considered that it is responsibility of the team. Since decisions on the implementation needs involvement of the management, lack of the attention is extending the schedules.

### 4.3.2 Technical Challenges

Technical challenges in the implementation of IFRS are presented in table 4.3 below with respective mean and standard deviations. At the end of this section findings through questionnaire is supported with interview.

*Table 4. 3 Technical challenges on IFRS implementation*

<b>Technical Challenges</b>	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>
Lack of coherence between the qualification bodies and standard setting bodies	81	4.0741	1.14867
Lack of communications about developments in accounting	81	4.0864	1.09770
Lack of representation in standard setting process	81	3.9877	1.32753
Lack of understanding of IFRS requirements and reasons	81	4.1235	.96673
Selective adoption of IFRS that creates inconsistency in the level of adoption	81	4.2222	1.23491
The targets and deadlines of IFRS implementation has been made before identify the obstacles	81	3.6296	1.57674

Source: Survey, 2018

Responses of team members indicated that there is lack of coherence between the qualification bodies and standard setting bodies. This is indicated by the mean value of 4.07 indicating that the team members agree that there is lack of coherence between qualification bodies and standard setting bodies. This suggests that there is inconsistency of qualification bodies and standard setting bodies. Standard deviation for this practice is 1.15 suggesting the variation of practices in among the companies and perception of the team members. There is lack of coherence between the qualification bodies and standard setting bodies. Finding through interview also indicates that although the insurance companies have implemented the standard, the standard setting bodies have not addressed the issues in the qualification bodies. There is gap between these two organs. Due to this after some level of implementation the standard partially or completely fails.

Another technical challenge assessed by the study is communication about the development in accounting. The respondents indicated that there is lack of communications about developments in accounting with mean score of 4.09. This suggests that the companies are not updating themselves with the development in the accounting principles. Similar to this finding, interview result indicates that companies in Ethiopia in general and insurance industries in particular are not updated about changes internationally in accounting development. Using older accounting systems made the adoption of the standard difficult.

Representation of companies in standard setting is assessed by the study. Response for this described by mean value of 3.99 and standard deviation of 1.33. The mean value indicates respondents agree that there is lack of representation in standard setting process. Similarly, the interview result suggests that the companies are not represented in the standard setting process. The companies are not represented in the standard setting. This is resulting on miss of important points.

Another description used to explain the technical challenge is level of understanding of IFRS requirements and reasons. The mean value of this expression is 4.12 indicating that IFRS implementing team members agree that there is lack of understanding of IFRS

requirements and reasons by team and other stakeholders. The interview result also confirms that IFRS requirements are not easily understandable. The broader nature of the standard made it not easily understandable. It makes easy issues complicated and complex. These findings suggest that IFRS requirements and reasons are not easily understandable.

According to different finding in previous studies selective adoption of IFRS creates inconsistency in the level of adoption and it is among the challenges of the implementation of IFRS. The mean value of responses the selective adoption of IFRS is 4.22 suggesting the team members agree that selective adoption of IFRS is creating inconsistency in the level of adoption. This challenge is the main challenge among the technical challenges. The interview result is similar to findings through questionnaire. The selective adoption became challenge to the implementation of IFRS because the adopted standard does not best fit the reporting system of the industry. The interviewees suggest the standards to be customized after adopting the standard. But the it has no room for customization.

The moderate challenge among the technical challenges is fixing the targets and deadlines before identify the obstacles which is indicated by the mean value of 3.63.

The finding based on questionnaire and interview results about the technical challenges indicate that there is selective adoption, lack of understanding about IFRS requirements and reasons, lack of communication about the development of the accounting, inconstancy of qualification bodies and standard setting bodies, and lack of representation in standard setting process in implementation of IFRS.

### **4.3.3 Education and Training Challenges**

The other challenge assessed by the study about the implementation of IFRS is education and training challenges and the descriptive analyses for different expressions of this challenge are presented in table 4.4 below by using mean and standard deviation. This category of challenges only one expression has mean value above 4.00 and 3 expressions are moderately existing two expressions with mean of 3.55 and one expression with mean of 3.6.

*Table 4. 4 Education and Training Challenges on implementation of IFRS*

<b>Education and Training Challenges</b>	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>
The numbers of qualified professional accountants are inadequate	81	3.6049	1.72249
Lack of qualified people to provide training in profession/workplace	81	3.8519	1.18439
Lack of coherence between educational programs and professional programs	81	3.5556	1.25499
Limited access to training material, seminars and workshop for working professionals	81	4.0988	1.34727
Limited training on IFRS prior to its implementation	81	3.5556	1.36015

Source: Survey, 2018

Adequacy of qualified professional accountants is assessed by the study. The result of the assessment described by the mean value of 3.6 that indicates the respondents moderately agree that the number of qualified professional accountants is inadequate. This suggests that the professional accountants in the area of IFRS implementation are inadequate to facilitate the implementation. The higher standard deviation value of 1.72 indicates higher variation of agreement about the adequacy of the professional accountants.

Similar to the finding through questionnaire interview result indicates although there are number of certified accountants in the country especially in Addis Ababa, professional accounts and auditors in the area of IFRS implementation are very few and they have no adequate skill in this area. This suggests that there is shortage of professional accountants in the area of IFRS implementation that became challenge to the IFRS implementation in private insurance companies. The result in table 4.4 above indicates that there is lack of qualified people to provide training in workplace. This is indicated by mean value of 3.85 indicating that team members agree that there is lack of qualified people to provide

training in profession. This suggests that there is shortage of on job training providers that became challenge to proper implementation of IFRS in private insurance companies in Ethiopia. The interview result indicates there are different institution that give training on IFRS but they have no experience of providing workplace training. The paper based trainings became value less when the companies start the implementation. Majority of trainings are unnecessary because they are not supporting the actual implementations.

The limited access to training material, seminars and workshop for working professionals is the main educational and training challenge that is described by mean value of 4.1. The respondents agree that access to training material, seminars and workshop for working professionals is limited. The interview result further suggests expensiveness of training material and its inaccessibility and lack of seminars and workshop for working professionals become challenge to the implementation. One of the interviewee explained that the company has trained the team members in abroad because there is no adequate training material, seminars and workshop for professional in the country.

#### **4.3.4 Cost challenges**

Economic costs of implementing IFRS are assessed by the study and the result is presented in the table 4.5 below. The study assessed 5 expressions for this challenge but the responses indicated that only 2 challenges are practiced and one challenge moderately exists.

*Table 4. 5 Cost Challenges on Implementation of IFRS*

Cost challenges	N	Mean	Std. Deviation
Cost of external consultants is high	81	4.1481	1.07367
Cost of auditing and compliance standards is high	81	3.3704	1.56879
Cost of adjustment of information systems is high	81	3.6296	1.32707
Cost of updating accounting system is high	81	3.3580	1.02845
Cost of purchasing IFRS guiding materials and staff training is expensive	81	3.8889	.98742

Source: Survey, 2018

The high cost of the external consultant is explained by mean value of 4.15 indicating the respondents agree that cost of external consultants is high. The interview result also indicates the cost the companies pay for external consultant is very high. The companies are comparing the benefits they earn from implementing the standard and the cost to implement. In this stage, the companies are not sure about how much they will be benefited but the cost they pay is surely that makes them not to implement. The external consultant is for the insurance industry not for the single company.

The second main challenge among the cost challenges is expensive cost of purchasing IFRS guiding materials and staff training. This is indicated by mean value of 3.89 suggesting that the team members agree that cost of purchasing IFRS guiding materials and staff training is expensive. Interview result also indicates similar finding to finding through questionnaire. As it is indicated in the education and training challenges section, the companies are sending professional with very high costs and paying too much to purchase the training materials. The shareholders and top management are not willing to pay this amount. This has resulted on pending of implementation.

Result for responses of high cost of auditing and compliance standards and cost of updating accounting system is indecisive with mean values of 3.3704 and 3.3580 respectively. But the respondents moderately agree that Cost of adjustment of information systems is high with mean value of 3.63.

### **4.3.5 Institutional Challenges**

Institutional challenges to implement IFRS are presented in the table 4.6 below with their respective statistical values that explain their level of existence based on the response of the IFRS implementing team members. Mean and standard deviation are used to analyze the responses. Seven expressions were assessed under institutional challenge. All challenges are found existing in the companies.

*Table 4. 6 Institutional Challenges to implement IFRS*

<b>Institutional challenges</b>	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>
Lack of coherence between existing local laws and IFRS	81	4.1235	1.09980
Lack of the readiness by the organization and entities of IFRS implementation.	81	3.7901	1.45530
Lack of coherence in the regulatory systems of the country (government and other regulatory structures.	81	3.7778	1.39642
Lack of an extensive and ongoing support from professional accountancy associations	81	3.6790	1.30218
Lack of strong accountancy body limits the option of getting technical capacity building trainings	81	3.6667	1.26491
There is no effective monitoring and process review by regulatory organ	81	3.8025	1.24920
The IFRS transition road map is not realistic and not takes into account the capacity and readiness of the nation in general the entities in particular	81	4.0988	1.18959

Source: Survey, 2018

The lack of coherence between existing local laws and IFRS is the main challenge among the institutional challenges. This is described by the mean value of 4.12 indicating that the respondents agree that there is lack of coherence between existing local laws and IFRS. This suggests that there is inconsistency of local laws and IFRS. The interview result used to support this finding indicates that the local laws are not updated according IFRS such as tax law and NBE directives are not in line with IFRS standards. For exempling valuing system is not modified in the local laws but many organizations are implementing IFRS.

Another important institutional challenge in implementation of IFRS is lack of the readiness by the organization and entities of IFRS implementation. This challenge is

described by mean value of 3.79 and standard deviation of 1.46. The mean value indicates that the respondents agree that there is lack of the readiness by the organization and entities of IFRS implementation. The interview result indicates similar practice. The skills of the entities are not better than the skills of implementing company. The entities order to implement but they do not provide any assistance how to implement.

As it is indicated by the mean value of 3.78 for the response from team members, there is lack of coherence in the regulatory systems of the country. The respondents moderately agree that there is lack of coherence between the government and other regulatory organs. As the interview result indicated, there is variation with regulations of AABE and Ministry of Revenue.

Responses for the challenge that there is lack of an extensive and ongoing support from professional accountancy associations; and lack of strong accountancy body limits the option of getting technical capacity building trainings moderate mean values of 3.68 and 3.67 respectively indicating moderate existence of the challenge. The interview result indicates that implementation of the IFRS in insurance industry conducted by foreign consulting company.

The monitoring and process review by regulatory organ is not conducted in the IFRS implementation in the companies. The response for this is described by the mean value of 3.8 indicating the respondents agree that there is no effective monitoring and process review by regulatory organ. This suggests that regulatory organ is not monitoring and reviewing the process. The interview result also indicates regulating organs are not monitoring the implementation except expecting the completion report at the end of fiscal year.

The second most important institutional challenge is unrealistic IFRS transition road map that do not take the capacity and readiness of the nation in general and the entities in particular into account. This is indicated by mean value of 4.1 indicating the IFRS transition road map is not realistic and not takes into account the capacity and readiness of the nation in general the entities in particular.

## 4.4 Exploratory Factor Analysis

This is a statistical technique that is used to reduce data to a smaller set of summary variables and to explore the underlying theoretical structure of the phenomena. It is used to identify the structure of the relationship between the variables and the respondent.

The assumption used in Factor analysis are ; variables should be metric, sample size must be more than 200 or 5 observation per variables, and homogenous samples.

Factor analysis was applied to identify key challenges. The factor analysis was computed by using principal component analysis extraction method. Kaiser-Meyer-Olkin (KMO) Measure of Sampling Adequacy and Bartlett's Test of Sphericity are used as an assumption to conduct further analysis. KMO above 0.5 is assumed significant that the factors used in the analysis are uncorrelated and explains the latent variable.

### 4.4.1 Summary of Factor Analysis and Tests of Assumptions

Factor analysis is conducted to identify the key challenges in implementing IFRS. Summary of Factor Analysis and Tests of Assumptions are presented in table 4.7 below.

*Table 4. 7 Summary of Factor Analysis and Tests of Assumptions*

<i>Variable</i>	<i>Items</i>	<i>KMO</i>	<i>Bartlett</i>		
			$\chi^2$	<i>df</i>	<i>sig</i>
Management	6	.796	683.422	15	.000
Technical	6	.831	405.824	15	.000
Education and Training	5	.809	429.481	10	.000
Cost	5	.660	519.927	15	.000
Institutional	7	.872	405.227	21	.000
<i>Total</i>	29				

Thus, for 29 items of 5 variables were performed for communalities and rotated components matrices. The coefficients of Kaiser-Meyer Olkin (KMO) against all latent variables were more than 0.50 (i.e. Minimum = 0.660 and Maximum = 0.872). Bartlett's Coefficient against all latent variables was found significant at  $p = 0.01$ . This suggests all components used in the study are not correlated and can be used for further analysis.

## 4.4.2 Total Variance

Factor solution with Eigen value greater than 1 was considered for analysis by using Varimax Rotation method that makes the interpretation of factor analysis makes easier when compared other rotation methods. In addition, this method is used because there is no complex variable in the principal component analysis. Table 4.8 below presents the result of total variance in challenges of implementing IFRS.

*Table 4. 8 Total Variance Explained*

Component	Initial Eigenvalues			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	14.453	49.838	49.838	6.649	22.929	22.929
2	5.134	17.704	67.543	6.147	21.197	44.126
3	2.271	7.829	75.372	5.740	19.793	63.919
4	1.710	5.897	81.270	4.899	16.892	80.811
5	1.290	4.447	85.717	1.423	4.905	85.717

Source: Survey, 2018

The analysis produced five factors which indicate the key challenges in implementation of IFRS in private insurance companies in Ethiopia. The factor analysis confirmed that the key challenges measured five dimensions that explained 85.717% of variance in the challenges of the IFRS implementation.

## 4.4.3 Factor Analysis

Factor loading values explain how closely the variables are related to each one of the factors. All items are strongly loaded to these five factors with lowest factor loading of 0.622. this suggests that all challenges indicated in the study significantly affect the implementation of IFRS in the companies. High cost of external consultants, lack of qualified people to provide training in profession/workplace, lack of coherence between the qualification bodies and standard setting bodies and lack of coherence in the regulatory systems of the country (government and other regulatory structures are key

challenges in affecting implementation of IFRS in private insurance companies in Ethiopia (see annex factor loading).

# **CHAPTER FIVE**

## **SUMMARY OF MAJOR FINDINGS, CONCLUSION AND RECOMMENDATION**

### **5.1 Summary of Major Findings**

This study was conducted with an objective identifying the challenges to implementation of IFRS in private insurance companies in Ethiopia. Team members of IFRS implementation in the companies were used as respondents. 81 respondents for questionnaire and 3 respondents for interview involved in the study as source of primary data. Based on previous literatures, five constraints were developed with different challenges in the categories. These constraints were management constraints, technical constraints, education and training constraints, cost constraints, and institutional constraints.

The descriptive statistics of mean was mainly used to identify the existence of the challenges. The result about management challenge indicates that lack of commitment and understanding on implementation of IFRS is main challenge among the management challenges with mean value of 4.37 and followed by lack of regular follow up on the process of IFRS implementation with mean value of 4.06.

The second challenge category in the study was technical challenges. Selective adoption of IFRS is main challenge that creates inconsistency in the level of adoption with mean value of 4.22. Lack of understanding of IFRS requirements and reasons is the second main challenge among the technical challenges with mean value of 4.12.

Education and training challenges were assessed by the study. Limited access to training material, seminars and workshop for working professionals with mean value of 4.1 is the main education and training challenge that affect the implementation of IFRS. Lack of qualified people to provide training in profession/workplace is the second main education and training challenge with mean value of 3.85.

Cost challenges include cost of external consultants, cost of auditing and compliance standards, cost of adjustment of information systems, cost of updating accounting system,

and cost of purchasing IFRS guiding materials and staff training. Among these challenges high cost of external consultants is main problem with mean value of 4.15 and followed by expensive cost of purchasing IFRS guiding materials and staff training.

Institutional challenges include lack of coherence between existing local laws and IFRS, lack of the readiness by the organization and entities of IFRS implementation, lack of coherence in the regulatory systems of the country, lack of an extensive and ongoing support from professional accountancy associations, lack of strong accountancy body limits the option of getting technical capacity building trainings, ineffective monitoring and process review by regulatory organ, and unrealistic IFRS transition road map. Lack of coherence between existing local laws and IFRS is the main institution challenge with mean value of 4.12. unrealistic IFRS transition road map is the second main institutional challenge with mean value of 4.1.

The factor analysis conducted to identify key challenges of implementing IFRS indicates that all items are strongly loaded with lowest factor loading of 0.622. High cost of external consultants, lack of qualified people to provide training in workplace, lack of coherence between the qualification bodies and standard setting bodies and lack of coherence in the regulatory systems of the country are key challenges in affecting implementation of IFRS in private insurance companies in Ethiopia.

## **5.2 Conclusions**

The study concludes that IFRS implementation for Insurance company in Ethiopia was challenging. The study also concludes that in adequate skill in IFRS , technical know-how to the standards, as a result of lack of management dedications, education and professional bodes are the main implementation challenges being encountered by the implementing insurance companies in Ethiopia. Unless the challenges are properly addressed , the subsequent periods reporting activities will be challenging.

## **5.3 Recommendations**

Based on the conclusions drawn, following recommendations are provided to the IFRS implementation stakeholders especially the insurance companies, regulatory organs.

- The management of the insurance companies has to provide attention about the implementation of IFRS. It has to be committed and has to understand the importance and processes of IFRS implementation. The regulatory organ and consulting companies have to create awareness to the management through trainings and meetings. There has to management follow up for the implementation and cooperation with the implementing team.
- The consulting organ and training providers have to create technical skills for the implementing team before the project is started about the adoption of the standard. The insurance companies are recommended to customize the standard instead of adopting the standard.
- Since there is a limited access to training material, seminars and workshop for working professionals and lack of qualified people to provide training in workplace are main problems, the regulatory organs have to work with workplace training providers and higher institutions.
- Since the cost of external consultants and expensive cost of purchasing IFRS guiding materials and staff training are the main cost challenges, the regulatory organ is recommended to develop strong local consultants especially by government and competitive firms.
- Since there is lack of coherence between existing local laws and IFRS, the local laws have to be reviewed according to the standard; IFRS transition road map must be reviewed based on the capacity of the organization and accounting development of the country.

#### **5.4 Recommendation for further studies**

This study was conducted with an objective of identifying challenges to implementation of IFRS in insurance companies in Ethiopia. Since this study is limited to only insurance companies further studies are recommended to include other sectors to reach at stronger conclusions. This study has used only the insurance companies despite different organs involving in the implementation. Therefore, further studies are recommended to include different stakeholders in the process of IFRS implementation

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# APPENDICES

## **Questionnaire**

**Addis Ababa University**

**College of Business and Economics**

Dear Respondent,

I am student in Addis Ababa University Masters in Business Administration (MBA) Program. As a requirement for partial fulfillment of Degree of Master of Accounting and Finance (MSC) I am conducting research with the title of ‘Challenges of Implementing International Financial Reporting Standards (IFRS) in Private insurance companies in Ethiopia’.

No personality identifiable information is being collected from you and all information you provide will be combined with other respondents’ data and analyzed in aggregate. Responses will be kept Confidential at all times and used only for academic purpose.

I thank you in anticipation of your cooperation and for taking your valuable time!

Kind regards,

Feleke Negash

## **Section 1: General Information**

### **1. Gender**

Male

Female

### **2. Your age in years**

Below 30

31 to 40

41 to 50

Above 50

### **3. Your highest education level**

Diploma

Bachelor's degree

Masters and Above

### **4. Work experience in the company**

Below 5 years

5 to 10 years

Above 10 years

### **5. Did you get training on all IFRS standards?**

Yes

No

**If your answer is 'Yes' for the Question No.5, is the IFRS training adequate for implementation of IFRS?**

Yes

No

## Section 2: Challenges to implementation of IFRS

To what extent do you agree with the existence of the following practices? (please indicate your responses in the respective boxes): where SD = strongly disagree, D= disagree, N = neutral, A = Agree and SA = Strongly agree

<b>Management constraints</b>	<b>SD</b>	<b>D</b>	<b>N</b>	<b>A</b>	<b>SA</b>
Lack of attention to accounting and financial reporting related issues					
Lack of cooperation with IFRS implementation project teams					
Lack of commitment and understanding on implementation of IFRS					
Lacks of regular follow up on the process of IFRS implementation					
Lack of knowledge about IFRS and its transitional process					
Resistance by different departments while asking cooperation					

<b>Education and Training constraints</b>	<b>SD</b>	<b>D</b>	<b>N</b>	<b>A</b>	<b>SA</b>
The numbers of qualified professional accounts are inadequate					
Lack of qualified people to provide training in profession/workplace					
Lack of coherence between educational programs and professional programs					
Limited access to training material, seminars and workshop for working professionals					
Limited training on IFRS prior to its implementation					

<b>Technical constraints</b>	<b>SD</b>	<b>D</b>	<b>N</b>	<b>A</b>	<b>SA</b>
Lack of coherence between the qualification bodies and standard setting bodies					
Lack of communications about developments in accounting					
Lack of representation in standard setting process					
Lack of understanding of IFRS requirements and reasons					
Selective adoption of IFRS that creates inconsistency in the level of adoption					
The targets and deadlines of IFRS implementation has been made before identify the obstacles					

<b>Cost Constraints</b>	<b>SD</b>	<b>D</b>	<b>N</b>	<b>A</b>	<b>SA</b>
Cost of external consultants is high					
Cost of auditing and compliance standards is high					
Cost of adjustment of information systems is high					
Cost of updating accounting system is high					
Cost of purchasing IFRS guiding materials and staff training is expensive					
Lack of financial resource					

<b>Institutional constraints</b>	<b>SD</b>	<b>D</b>	<b>N</b>	<b>A</b>	<b>SA</b>
Lack of coherence between existing local laws and IFRS					
Lack of the readiness by the organization and entities of IFRS implementation.					
Lack of coherence in the regulatory systems of the country (government and other regulatory structures.					
Lack of an extensive and ongoing support from professional accountancy associations					
Lack of strong accountancy body limits the option of getting technical capacity building trainings					
There is no effective monitoring and process review by regulatory organ					
The IFRS transition road map is not realistic and not takes into account the capacity and readiness of the nation in general the entities in particular					

**Lack of attention to accounting and financial reporting related issues**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid strongly disagree	6	7.4	7.4	7.4
disagree	1	1.2	1.2	8.6
neutral	21	25.9	25.9	34.6
agree	10	12.3	12.3	46.9
strongly agree	43	53.1	53.1	100.0
Total	81	100.0	100.0	

**Lack of cooperation with IFRS implementation project teams**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	6	7.4	7.4	7.4
	disagree	13	16.0	16.0	23.5
	agree	17	21.0	21.0	44.4
	strongly agree	45	55.6	55.6	100.0
	Total	81	100.0	100.0	

**Lack of commitment and understanding on implementation of IFRS**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	6	7.4	7.4	7.4
	neutral	8	9.9	9.9	17.3
	agree	11	13.6	13.6	30.9
	strongly agree	56	69.1	69.1	100.0
	Total	81	100.0	100.0	

**Lacks of regular follow up on the process of IFRS implementation**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	6	7.4	7.4	7.4
	disagree	8	9.9	9.9	17.3
	agree	28	34.6	34.6	51.9
	strongly agree	39	48.1	48.1	100.0
	Total	81	100.0	100.0	

**Lack of knowledge about IFRS and its transitional process**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	19	23.5	23.5	23.5
	disagree	9	11.1	11.1	34.6
	neutral	2	2.5	2.5	37.0
	agree	29	35.8	35.8	72.8
	strongly agree	22	27.2	27.2	100.0
	Total	81	100.0	100.0	

**Resistance by different departments while asking cooperation**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	13	16.0	16.0	16.0
	disagree	6	7.4	7.4	23.5
	neutral	11	13.6	13.6	37.0
	agree	14	17.3	17.3	54.3
	strongly agree	37	45.7	45.7	100.0
	Total	81	100.0	100.0	

**Lack of coherence between the qualification bodies and standard setting bodies**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	7	8.6	8.6	8.6
	neutral	8	9.9	9.9	18.5
	agree	31	38.3	38.3	56.8
	strongly agree	35	43.2	43.2	100.0
	Total	81	100.0	100.0	

**Lack of communications about developments in accounting**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	disagree	8	9.9	9.9	9.9
	neutral	21	25.9	25.9	35.8
	agree	8	9.9	9.9	45.7
	strongly agree	44	54.3	54.3	100.0
	Total	81	100.0	100.0	

**Lack of representation in standard setting process**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	8	9.9	9.9	9.9
	disagree	1	1.2	1.2	11.1
	neutral	20	24.7	24.7	35.8
	agree	7	8.6	8.6	44.4
	strongly agree	45	55.6	55.6	100.0
	Total	81	100.0	100.0	

**Lack of understanding of IFRS requirements and reasons**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	disagree	1	1.2	1.2	1.2
	neutral	30	37.0	37.0	38.3
	agree	8	9.9	9.9	48.1
	strongly agree	42	51.9	51.9	100.0
	Total	81	100.0	100.0	

**Selective adoption of IFRS that creates inconsistency in the level of adoption**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	8	9.9	9.9	9.9
	disagree	1	1.2	1.2	11.1
	neutral	3	3.7	3.7	14.8
	agree	22	27.2	27.2	42.0
	strongly agree	47	58.0	58.0	100.0
	Total	81	100.0	100.0	

**The targets and deadlines of IFRS implementation has been made before identify the obstacles**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	7	8.6	8.6	8.6
	disagree	26	32.1	32.1	40.7
	agree	5	6.2	6.2	46.9
	strongly agree	43	53.1	53.1	100.0
	Total	81	100.0	100.0	

**The numbers of qualified professional accounts are inadequate**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	14	17.3	17.3	17.3
	disagree	19	23.5	23.5	40.7
	strongly agree	48	59.3	59.3	100.0
	Total	81	100.0	100.0	

**Lack of qualified people to provide training in profession/workplace**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	5	6.2	6.2	6.2
	disagree	1	1.2	1.2	7.4
	neutral	30	37.0	37.0	44.4
	agree	10	12.3	12.3	56.8
	strongly agree	35	43.2	43.2	100.0
	Total	81	100.0	100.0	

**Lack of coherence between educational programs and professional programs**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	5	6.2	6.2	6.2
	disagree	14	17.3	17.3	23.5
	neutral	17	21.0	21.0	44.4
	agree	21	25.9	25.9	70.4
	strongly agree	24	29.6	29.6	100.0
	Total	81	100.0	100.0	

**Limited access to training material, seminars and workshop for working professionals**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	11	13.6	13.6	13.6
	disagree	1	1.2	1.2	14.8
	agree	26	32.1	32.1	46.9
	strongly agree	43	53.1	53.1	100.0
	Total	81	100.0	100.0	

**Limited training on IFRS prior to its implementation**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	6	7.4	7.4	7.4
	disagree	17	21.0	21.0	28.4
	neutral	13	16.0	16.0	44.4
	agree	16	19.8	19.8	64.2
	strongly agree	29	35.8	35.8	100.0
	Total	81	100.0	100.0	

**Cost of external consultants is high**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	disagree	11	13.6	13.6	13.6
	neutral	8	9.9	9.9	23.5
	agree	20	24.7	24.7	48.1
	strongly agree	42	51.9	51.9	100.0
	Total	81	100.0	100.0	

**Cost of auditing and compliance standards is high**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	13	16.0	16.0	16.0
	disagree	20	24.7	24.7	40.7
	neutral	2	2.5	2.5	43.2
	agree	16	19.8	19.8	63.0
	strongly agree	30	37.0	37.0	100.0
	Total	81	100.0	100.0	

**Cost of adjustment of information systems is high**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	disagree	28	34.6	34.6	34.6
	neutral	7	8.6	8.6	43.2
	agree	13	16.0	16.0	59.3
	strongly agree	33	40.7	40.7	100.0
	Total	81	100.0	100.0	

**Cost of updating accounting system is high**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	disagree	20	24.7	24.7	24.7
	neutral	25	30.9	30.9	55.6
	agree	23	28.4	28.4	84.0
	strongly agree	13	16.0	16.0	100.0
	Total	81	100.0	100.0	

**Cost of purchasing IFRS guiding materials and staff training is expensive**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	5	6.2	6.2	6.2
	neutral	14	17.3	17.3	23.5
	agree	42	51.9	51.9	75.3
	strongly agree	20	24.7	24.7	100.0
	Total	81	100.0	100.0	

**Lack of coherence between existing local laws and IFRS**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	3	3.7	3.7	3.7
	disagree	5	6.2	6.2	9.9
	neutral	11	13.6	13.6	23.5
	agree	22	27.2	27.2	50.6
	strongly agree	40	49.4	49.4	100.0
	Total	81	100.0	100.0	

**Lack of the readiness by the organization and entities of IFRS implementation.**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	10	12.3	12.3	12.3
	disagree	10	12.3	12.3	24.7
	neutral	5	6.2	6.2	30.9
	agree	18	22.2	22.2	53.1
	strongly agree	38	46.9	46.9	100.0
	Total	81	100.0	100.0	

**Lack of coherence in the regulatory systems of the country (government and other regulatory structures.**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	6	7.4	7.4	7.4
	disagree	16	19.8	19.8	27.2
	neutral	5	6.2	6.2	33.3
	agree	17	21.0	21.0	54.3
	strongly agree	37	45.7	45.7	100.0
	Total	81	100.0	100.0	

**Lack of an extensive and ongoing support from professional accountancy associations**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	6	7.4	7.4	7.4
	disagree	12	14.8	14.8	22.2
	neutral	13	16.0	16.0	38.3
	agree	21	25.9	25.9	64.2
	strongly agree	29	35.8	35.8	100.0
	Total	81	100.0	100.0	

**Lack of strong accountancy body limits the option of getting technical capacity building trainings**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	6	7.4	7.4	7.4
	disagree	11	13.6	13.6	21.0
	neutral	13	16.0	16.0	37.0
	agree	25	30.9	30.9	67.9
	strongly agree	26	32.1	32.1	100.0
	Total	81	100.0	100.0	

**There is no effective monitoring and process review by regulatory organ**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	8	9.9	9.9	9.9
	disagree	5	6.2	6.2	16.0
	neutral	9	11.1	11.1	27.2
	agree	32	39.5	39.5	66.7
	strongly agree	27	33.3	33.3	100.0
	Total	81	100.0	100.0	

**The IFRS transition road map is not realistic and not takes into account the capacity  
and readiness of the nation in general the entities in particular**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid strongly disagree	6	7.4	7.4	7.4
disagree	3	3.7	3.7	11.1
neutral	8	9.9	9.9	21.0
agree	24	29.6	29.6	50.6
strongly agree	40	49.4	49.4	100.0
Total	81	100.0	100.0	

**Rotated Component Matrix<sup>a</sup>**

	Component					
	1	2	3	4	5	6
Cost of external consultants is high	.922					
Lack of communications about developments in accounting	.825					
Lack of knowledge about IFRS and its transitional process	.780					
Lack of representation in standard setting process	.745					
Cost of adjustment of information systems is high	.736					
Resistance by different departments while asking cooperation	.731					
Lack of understanding of IFRS requirements and reasons	.715					
Cost of updating accounting system is high	.641					
Lack of qualified people to provide training in profession/workplace		.874				
Cost of purchasing IFRS guiding materials and staff training is expensive		.839				
Limited access to training material, seminars and workshop for working professionals		.822				
Limited training on IFRS prior to its implementation		.758				
Lack of coherence between educational programs and professional programs		.746				

The targets and deadlines of IFRS implementation has been made before identify the obstacles		.737			
The numbers of qualified professional accounts are inadequate		.721			
Cost of auditing and compliance standards is high	.602	.713			
Lack of coherence between the qualification bodies and standard setting bodies			.877		
Selective adoption of IFRS that creates inconsistency in the level of adoption			.848		
Lacks of regular follow up on the process of IFRS implementation			.803		
Lack of commitment and understanding on implementation of IFRS			.799		
Lack of attention to accounting and financial reporting related issues			.715		
Lack of cooperation with IFRS implementation project teams			.604		
Lack of coherence in the regulatory systems of the country (government and other regulatory structures.				.878	
Lack of the readiness by the organization and entities of IFRS implementation.				.850	
There is no effective monitoring and process review by regulatory organ				.819	

Lack of an extensive and ongoing support from professional accountancy associations				.809	
The IFRS transition road map is not realistic and not takes into account the capacity and readiness of the nation in general the entities in particular				.781	
Lack of coherence between existing local laws and IFRS				.705	
Lack of strong accountancy body limits the option of getting technical capacity building trainings				.667	
Continuous professional development is not well monitored					.881
Implementation costs are too high					.880
Absence of involvement of regulatory bodies (including auditors) makes enforcement difficult					.821
IFRS is complex and therefore too difficult to enforce					.821
Lack of adequate technical resources makes the enforcement difficult					.709
The preparation & transition period is not adequate for conducting the IFRS transition process					.692

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 7 iterations.