Does Fair Value Measurements Present Challenges to External Audits of Private Commercial Banks of Ethiopia?

BY: TESFAYE GETAHUN ABATE

A Thesis Submitted to College of Business and Economics, Department of ACFN, in Partial Fulfillment of the Requirements for the Award of Master of Science in Accounting and Finance

Addis Ababa University

Addis Ababa, Ethiopia

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Statement of Declaration

I the undersigned Tesfaye Getahun declare that the thesis entitled "Does Fair Value Measurements Present Challenges to External Audits of Private Commercial Banks of Ethiopia?" is my Original work and has not been presented for a Degree/Diploma in any other University or institution of higher learning for academic purposes, and all sources of materials used for this research has been duly acknowledge. It also complies with the rules and benchmarks for originality and quality required by the University.

TESFAYE GETAHUN ABATE

Signature: ___________________ Date: ______________

School of Graduate Studies

Addis Ababa University

Advisors' Approval Sheet

This is to certify that Tesfaye Getahun's thesis, "Does Fair Value Measurements Present Challenges to External Audits of Private Commercial Banks of Ethiopia?" complies with rules and benchmarks for originality and quality required by the university and acceptable as a partial fulfillment of the requirements for the award of a master's degree in accounting and finance.

TEKALIGN NEGA (PhD)	________________	____________
Name of Advisor	Signature	Date

School of Graduate Studies

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College of Business and Economics

Examiners Certification

This is to certify that Tesfaye Getahun's thesis, "Does Fair Value Measurements Present Challenges to External Audits of Private Commercial Banks of Ethiopia?" complies with rules and benchmarks for originality and quality required by the university. It was prepared as a partial fulfillment of the requirements for the Degree of Master of Science in Accounting and Finance.

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Name of External Examiner	Signature	Date
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Name of Internal Examiner	Signature	Date

Abstract

Globally, countries and companies are adopting IFRSs in an increasing rate with the hope of improving quality and credibility besides achieving a uniform set of standards for financial reporting. In this line, Ethiopia adopted IFRSs officially in December, 2014 through enactment of Proclamation No. 847/2014. The migration to IFRSs, among others, introduces the extensive use of fair value reporting under IFRSs. Thus, it's proper to ask the implementation of IFRSs in relation to Fair Value Measurements (FVMs). This research approaches the implementation of IFRSs in Ethiopia in the banking sector from the perspectives of external auditors. Given that there is little or no prior knowledge of the topic in the sector the research employed exploratory descriptive design. This research provides an engagement level analysis focus on the external audits of private commercial banks of Ethiopia with the emphasis of FVMs challenges, using concurrent transformative strategy on auditing phases from environmental and task characteristics of challenging FVMs to audit outcomes. Based on seven out of thirty (commonly used) experienced external auditors of descriptive analysis; the challenges of auditing FVMs are significant and/or complex assumptions, high degree of subjectivity, estimation uncertainty, lack of efficient market and valuation process. Estimation Uncertainty, Level 3, Materiality, Profit-After-Tax, and Client-Specialist are positively associated with risk assessments which are, in turn, predictive of client problems identified during the engagement. Specifically, unobserved inputs have a significant effect on banks' model and assumptions. The auditor-client discussions are also related to the risk assessments, but not to the breadth of problems identified and reasonable ranges of value estimation. Unfortunately, the proposed audit adjustment is infrequent; in sum, the key challenging FVMs is the evidence related to the level of fair value hierarchy and/or factors made difficult and/or complex for auditing specific fair value measurement.

Keywords: Fair Value Measurements, Audits, Challenging

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Acronyms

AABE	Accounting and Audit Board of Ethiopia
CIA	Computer Information System
ECEPA	Ethiopia Code of Ethics for Professional Accountants
ECX	Ethiopian commodity exchange
EFT	Electronic Fund Transfer
FSIs	Financial Soundness Indicators
FVMs	Fair Value Measurements
GAAP	Generally Accepted Accounting Principles
IAASB	International Auditing and Assurance Standards Boards
IAPN	International Auditing Practice Note
IAPS	International Auditing Practice Statement
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
ICAEW	Institution of Chartered Accountants in England and wales
IFAC	International Federation of Accountants Committee
IFRS	International Financial Reporting Standards
IMF	International Monetary Funds
ISAC	International Standards Accounting Committee
OFAG	Office of Federal Auditor General
PPE	Property Plant and Equipment

Does Fair Value Measurements Present Challenges to External Audits of Private Commercial Banks of Ethiopia?

CHAPTER ONE

Introduction

1.1. Background of the Study

The adoption of International Financial Reporting Standards (IFRSs) has been caused significant changes for the presentation of financial statements. In particular, IFRS13 has been widely adopted by over 140 jurisdictions; within this climate the Accounting and Auditing Board of Ethiopia (AABE) adopted IFRSs through Financial Reporting Proclamation No. 847/2014 and then IFRS9 applicable for commercial banks became effective on July, 2018 as prescribed by the National Bank of Ethiopia (NBE).

FVMs have become increasingly prevalent in financial reporting at the beginning of the 2000s due to the preferences of investors and hence, fair value is the most preferred basis for valuation than historical cost (Cannon & Bedard, 2017). Fair Value is defined in IFRS13 as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It sets out a framework for measuring fair value, disclosures, and work with other standards within the same concept likely: For Assets the amount by which an asset can be exchanged between knowledgeable, independent parties willing to make such a transaction (IAS-20, 40); For Asset and Liabilities the amount by which it is possible to exchange an asset or settle the obligation in the transaction between well informed, willing to commit such transaction, independent parties (ISA-17,18, 21, 32, 40); For securities-market value of securities in pension plan investments (ISA 24).

Since, IFRS13 is based on the existing prices available in active markets, Ethiopian commercial banks are commonly used level 3 of the hierarchy due to the absence of secondary market and it helps to assess the relative subjectivity of the entity's IFRS13 as far as complexity is always the case. As ICAEW, (2009) argues an increased complexity is an inescapable feature of modern life and raises a number of questions to help prepares and users to get best out of complexities in financial reporting by having a specific responsibility of auditor to consider structure, clarity and overall understandability. The subjectivity inherent in estimating future events, coupled with high degree of measurement uncertainty, makes auditing fair value measurements (FVMs) challenging for auditors (Hsieh & Lin, 2015; Glover, Taylor, and Wu 2016; Cannon & Bedard, 2017).

Additionally, to achieve a global comparability the use of FVM continues on an upward trajectory and present significant challenges, requiring judgment and interpretation in an ever changing world (KPMG, 2017); which will contribute to the estimation uncertainty and requires detail understanding even start from the definitions used by different financial reporting frameworks. The flexible nature of FVM together with the increment of inherently unstable markets interconnectedness, all concerned body frequently questioning the appropriateness of the assumptions used and disclosures to overcome the challenges because no one be complacent about the methodologies used to measure fair value (KPMG, 2017). IASB, (2017) post implementation review also suggests that fair value remains difficult to determine within inactive markets and considering subsequent research and carried out a scoping review of existing academic research and other literature about IFRS13.

Many research works have been carried out on challenges of (external) auditing while measuring fair value and (accounting estimates): research's from diverse backgrounds in terms of audit firm size, international affiliation and global presence (Oyewo, Emebinah, & Savage, 2019); Kumar, Ali, & Sovaniski, (2021) in their working paper; attempt to evaluate in both standards (GAAP and IFRS) and both conclude as; there are many challenges in auditing fair value, but an external auditor can solve these challenges and problems by adopting the suitable standards of auditing. Almost all researcher have been done by comparing different standards, or without considering other factors which influence the finding, but challenges may differ: Accordingly, IAASB's, (2019) argues as the challenges in applying the ISAs differ, depending on a variety of factors (i.e.; first time adoption of ISAs within a particular jurisdiction, the size of the audit practice, the level of resources, the number of audit engagements, and the nature and complexity of the firm's audit clients) and propose the systematic structure of studies, summarized empirical findings, and discussed limitation and research questions help regulators to evaluate managerial discretion in fair value accounting on a more reasonable basis, which was left as challenging after the post implementation review of IFRS13.

In the same vein, Prodanova, Trofimova, Bashina, Kachkova, Ilienkova, & Polyanskaya, (2019) say that, in order to improve the audit of fair value through professional skepticism further research is required by changing the procedures, starting with the analysis of events after the reporting date and ending with the analysis of the internal control over the fair value assessment process. For being the case of these, this study brought new issues in a different look on Impairment losses on loans and receivable; Depreciation and carrying value of PPE and their special effects or challenges presented to the external audits within a consideration of country's under; a high uncertainty, absence of valuation specialist, a highly financial regulated, with the absence of secondary market, in a developing economy and about a specific sector (banking). Therefore, this research presents the description within these features as pertains to IFRS13 and made them more challenging to external audits as most developing countries done related to both IFRS and GAAP.

Thus, the intent of this study is to describe through the private designs of exploratory descriptive to best understand a research problem of IFRS13 in terms of concepts and valuations based on both descriptive analyses, and highlights the most significant challenges presented to external audits on private commercial banks with reference to the International Standards on Auditing (ISAs) along with other useful practical guidance's through engagement level evidence on multi-phase inputs, processes, and outcomes within the audit process. Likewise to provide a more complete picture of the challenges encountered and to supplement the methodology used the study were exploratory descriptive via a serious of sequential questionnaires developed by scholars in many successive previous studies which consists of multiple sections.

Finally, the current studies mainly employ the quantitative research methodology; other possible avenues of future research could consider a mixed method research design in order to enrich the results and extend the knowledge (McDonough, Panaretou, & Shakespeare, 2020). As per recent empirical studies and literature review of the above studies have focus on by considering the audits of many types of firms and/or deficiency in these literatures may exist because topics has not been explored with a particular group, sample, or population, thus this study is focus on the challenges of IFRS13 to external auditors' of private commercial banks in Ethiopia in a more controlled environment by taking into account compressive sampling that were distributed to about 30 respondents, but only 7 respondents who were voluntary and capable to the survey are responded, so by default the selection are random and fair: Studies even outside Ethiopia has no systematically pertains to IFRS13 only or the voice of underrepresented groups have not been heard in published literature; as a result, this research would add value for the standard setters to consider it universally; or for the government, business firms, and audit firms in Ethiopian by enhancing credibility and reviewing the application of IFRSs nationally and will use as a lesson learning for African. For these reasons, together with the challenges of auditing IFRS13 as an input for the supervisory process; thus, it provides details of descriptive evidence organized in relations to phases of auditing.

1.2. Statement of the Problem

There is a misunderstanding and confusion among the professionals about IFRS13; meaning, objectives, concept, and skills requiring for the efficient and effective utilization within their jurisdiction. As evident from the previous, a number of studies carried out in different countries that have stressed on auditing FVMs evidence from the field had given different challenges questioning the audit of FVMs from the perspective of financial reporting as well as auditing in general and point out an attempt to conclude the issues due to many factors (Cannon & Bedard, 2017: Oyewo, Emebinah, & Savage, 2019). Unfortunately, many empirical studies looking at challenges of auditing FVMs from a financial reporting perspective are relatively rare in practice, but the sum total are challengeable for auditors due to their complexity, subjectivity, lack of verifiable data and dependence on management assumptions and valuations techniques (Cannon & Bedard, 2017). The nearest empirical finding correspondingly strengthen prior studies; for instance, Sartawi & Assaf, (2019) result show that the biggest challenge that faces the auditor in auditing FVE is the lack of access to the latest amendments of the IASs for the fair value accounting estimations.

There is also a consensus among the study sample that the absence of active markets for trading some assets is an important challenge for auditors, which requires great effort and a high cost of implementation (Mardan, 2021). For example, Kumar, Ali, & Sovaniski, (2021) argue in their comparative workshop paper the priority challenges facing the external auditors are; FVM process is complex which requires specific expertise knowledge, and subjectivity due use of judgment when cost approach. Similarly, IMF's Staff Country Reports in Ethiopia as of December 2019, points out some gaps need to be addressed for the implementation of IFRSs by commercial banks. Thus, this research adds value to the understanding of IFRS13 implementation through descriptive evidence of private commercial banks from the perspective of external auditors. As far as, the adoption of IFRSs in Ethiopia is a recent phenomenon, there is little or no systemic studies were described by employing an exploratory descriptive design.

Finally, the current studies mainly employ the quantitative research methodology; other possible avenues of future research could consider a mixed method research design in order to enrich the results and extend the knowledge (McDonough, Panaretou, & Shakespeare, 2020). As per recent empirical studies and literature review of the above studies have focus on by considering the audits of many types of firms, auditing in general, particular regions of the nation, and/or advanced economy with emphasis on GAAP, but this study is focus on the challenges of IFRS13 to external auditors' of private commercial banks in Ethiopia in a more controlled environment.

For being the case of these, studies even outside Ethiopia has no systematically pertains to IFRS13 only or the voice of underrepresented groups have not been heard in published literature; as a result, this research would add value for the standard setters to consider it universally; or for the government, business firms, and audit firms in Ethiopian by enhancing credibility and reviewing the application of IFRSs nationally and will use as a lesson learning for African. For these reasons, together with the challenges of auditing IFRS13 as an input for the supervisory process; thus, it provides details of descriptive evidence organized in relations to phases of auditing.

1.3. Research Questions

In light of the above statement of the problem, this study intends to describe the challenges of IFRS13 present to the external audits by employing exploratory descriptive design on a high uncertainty items within a private commercial banking business of Ethiopia.

The study was established to answer the following research questions with respect to IFRS13 challenges from the external auditing perspective guided by phases of auditing:

1. How does the current practice of external audits of IFRS13 present challenges under a high uncertainty?
2. What is the relationship between estimated uncertainty and inherent risk assessments for each fair value measurements?

3. How audit procedures undertaken to obtain client's understanding and reasonable assurance over valuation and evidential planning aspects while performing the control and substantive testing?
4. What are the extents of topics discuss with management and income decreasing adjustment associated with problems identifies regarding the fair value measurements?

1.4. Objective of the Study

The main objective of this study is to discover, or realize the challenges of IFRS13 to external audits of private commercial banks. Currently, the significance of FVMs in financial reporting is gaining motivation and recent directives of NBE's are moving in the trend of full fair value reporting requirement on commercial banks. IFRS13 adoption in Ethiopia is a new concept because the previous standards did not make provision for the treatment of assets and liabilities. This research present the challenges of external auditing on banking business connected with IFRS13 on impairment loses on loans and receivables, and depreciation and carrying value of PPE by take into account applicable auditing standards, practical guidance's, accounting policies, local regulation and the following specific objectives are described in-depth by this research except the use of valuation Specialist:

i. Provide the extents of factors contribute to auditors' perception difficulty for providing FVMs reasonable assurance?
ii. Describe the relationship between estimated uncertainty and inherent risk assessments with respect to auditing fair value measurements?
iii. Determine auditors' decisions to use valuation specialists within the current circumstance?
iv. Analyze auditors' evidential planning decisions, the level of difficulty experienced in performing various procedures, and their yield in terms of problems identified?
v. Identify the challenges of FVM presented on the external auditing outcomes?

1.5. Significance of the Study

This study provides a better understanding by revealing and/or confirming the challenges of IFRS13 on the external audits of private commercial banks and which may instigate the practitioner's to exert their potential to implement IFRS13 to the highest accuracy, and provide useful and timely information to the regulatory body (AABE) on the activities to examine/review and impose administrative sanction in complying with the administrative procedure as lesson learning. Likewise, it intends to recommend possible improvements on the comparability, significance and trust worthiness of financial statements consistent with International Financial Reporting Standards. This may help to overcome the anticipate challenges and present an orientation for those who prepare the financial statements for small and medium sized entities and ECX related sectors by proposing a platform to reduce the operational expenses across different reporting entities in Ethiopia and improve the knowledge of IFRSs in universities and colleges. Again, this study may have an importance by creating awareness about the implementation of IFRS13 and improve the transparency of financial reporting, or it provides lesson learning to any other developing nations which are yet to adopt the standards, as long as IFRSs is a globalized and converged policy across the globe. Finally this study will be a springboard to acquire certain knowledge or add value to the existed literature and intend to discover information gaps/areas for future studies.

1.6. The scope of the Study

It was vital for conducting the study on all significant public interest entitles of external audits in Ethiopia; which have been handled by 'Grade A' auditors as required by jurisdiction. However, due to insufficient quality, capacity constraints, and seeking the flexibility of the data collection and availability, as considers as gap of the research for future study, this study covers only a high uncertainty or risky area in private commercial banking business of Ethiopia. This is due to; they are operating under the same regulatory environment and their IFRS adoption is handled at the same time with the formation of similar adoption strategies as prescribed by the NBE. Thus, it helps to control the research environment more and to avoid the biasness of the data that may create in connection with the difference of above mentioned factors. This study focuses mainly to describe the practical challenges of auditing FVMs on external auditors of 10 audit firms appointed on 16 private commercial banks of Ethiopia. One of the state commercial bank, notably commercial bank of Ethiopia is excluded from the study to prevent from the outliers proactively. The result of the study were based on the data collecting from; 1engagement partner, 4 senior managers, and 2 managers; who are workers' of a "Chartered Certified Accountants and Authorized Auditors" from July 2018 up to July 2021 and well experience in banking businesses.

1.7. Limitation of the Study

As far as the adoption of IFRSs is a recent phenomenon the experiences and/or professional skepticism of the participants are an internal and external validity threats for this research. This research totally depends on primary sources because of the difficulty to obtain auditors' working paper and weakness of banks' annual report. Of course, to aid comparability of financial statements year on year and across different entities it is important that a consistent presentation and classification of items is followed, unless as required by the new and/or revised standards (IAS1.45). It also shows the auditors' report with the respective banks' disclosure is cripple each other. Perhaps, pursuant to Article 349 (1)-2013 of the commercial code of Ethiopia; auditors' may not note any matter they wish to bring the users' attention, which is contrary to IFRSs. In addition, inherent to design, it was difficult to measure the relationship amongst variables in the descriptive study. Limitation inherent to the questionnaires derived from forgotten or memorability bias because auditors' should be required to look back their working to provide reasoned responses. However, this research tried to minimize these limitations by using an existing and less detailed sequential questionnaires used by many previous researches.

1.8. Organization of the Study

As per the strategy of the study; exploratory descriptive design, this study is structured as follows: Chapter 2 reviews the literature of fair value measurements and challenges presented to audits in general to clarify the understanding of its features. First, it presents introduction to provide the reader about the layout and helps them to categorize the chapter as it pertains to auditing FVMs, and then followed by the main parts as per the requirements for good literature review. It includes theoretical and empirical reviews, Gap in literature, and concluded with a conceptual framework.

Chapter 3 develops the methodology and design which includes the sample description, the definition of variables and its specification, and ethical considerations regarding confidentiality and voluntary participation. Chapter 4 covers results and discussion of a compressive analysis for the sample, the (univariate) and/or multivariate results. Then after, chapter 5 of this study summarizes and concludes with the aggregate findings and recommendations in light of research questions, along with issues for future research. Finally, references and some supplementary material are provided in the appendices.

CHAPTER TWO

Literature Review

2. Introduction

The purpose of this literature review is to provide the reader with a general overview of Fair Value measurement challenges presented to external audits particularly as it pertains to IFRS. In recent years, attention has been provided for the auditing profession including; the audit of fair value of assets and liabilities, and its investigation have become the most prominent subjects of accounting in private and public companies. Based on acceptable research streams, the literature review is organized as; Theoretical Review, Empirical Review, Research Gap, and Conclusion & Conceptual Framework.

2.1. Theoretical Review

2.1.1. Definition and Excepted Application Challenges of FVM

According to IFRS13, (2011), IFRS13 is a single source of FVM guidance that clarifies the definition of fair value, provides a clear framework for measuring fair value and enhances the disclosures about FVMs. Thus, it defines as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. IFRS13 also provides a framework that is based on an objective to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (i.e. an exit price from the perspective of a market participant that holds the asset or owes the liability at the measurement date).

IFRS-13 addresses how to measure fair value, but it does not mandate when fair value can or should be used; what should be measured at fair value; and how (or whether) to account for any subsequent changes in fair value (e.g. in profit or loss or in other comprehensive income). It also sets out a framework for measuring fair value, disclosures, and work with other standards within the same concept likely: For Assets the amount by which an asset can be exchanged between knowledgeable, independent parties willing to make such a transaction (IAS-20, 40); For Asset and Liabilities the amount by which it is possible to exchange an asset or settle the obligation in the transaction between well informed, willing to commit such transaction, independent parties (ISA-17, 18, 21, 32, 40: IFRS- 3,4,5); For securities market value of securities in pension plan investments (ISA-24). IFRS 13 applies when another IFRS requires or permits FVMs or disclosures about it. IFRS13 excludes few standards from the scope [i.e. IFRS2- Share based payment, IFRS16- leases, IAS2- net realizable value, and IAS36- value in use] and disclosures in IFRS13 not required for; IAS19-Plan assets, IAS26- Retirement benefit plan investments, and Assets for which recoverable amount is fair value less cost of disposal (IAS36).

Although many accounting pronouncements refer to fair value as a part of financial reporting for a long time, the concept of what exactly is meant by fair value became most prominent in financial reporting in accounting measurements in business combinations. Fair value is a probabilistic market value, which is expected to be obtained on the basis of forecasting of future events, connected with an asset sale or transfer of liabilities. In a perfect world, investors board members, and executive would have full confidence in company's financial statements. They could rely on the numbers to make wise decision based on intelligent estimates of the magnitude, timing, and uncertainty of future cash flows and to judge whether the resulting estimate of value was fairy represented in the current stock price.

Unfortunately, that is not what happens in the real world, for several reasons. First corporate financial statements necessarily depend on estimates and judgment calls that can be widely off the mark, even when make in good faith. Second, standard financial metrics intended to enable comparisons between companies may not judge the value of any particular company, this is especially the case for innovative firms in fast moving economies, giving rise to unofficial measures that come with their own problems. Finally, managers and executives routinely encounter strong incentive to deliberately inject error into financial statement.

The increase in the amount of FVMs in financial reporting creates a challenge for auditors, because FVM often includes inputs that are based on; judgment which results complexity in auditing and other assumptions made by prepares of financial statements. The IAASB (cited in Zyla, 2010) describes some of the challenges that auditors face in obtaining sufficient competent audit evidence to opine as to the conformity of the measurements to accounting standards. Some of the audit to challenges recognized by the IAASB include: FVMs that are expressed in terms of the value of a current conditions prevalent at the measurement date; the need to incorporate judgments and significant assumption that may be made by client in specialists; the availability (or lack thereof) of information or evidence and its reliability; the breadth of assets and liabilities which required to be, applied; The choice and sophistication of acceptable valuation techniques and models; the need for appropriate disclosure about measurement methods and uncertainty, especially in illiquid markets.

2.1.2. Application Challenges in Emerges in Emerging and Transition Economies

During the development of IFRS13, the IASB received information from entitles in emerging and transition economies that had concerns to apply it in their jurisdictions, which commonly includes; the guidance is into detailed enough to allow them on a consistent basis; limited availability of practitioners to apply the guidance; limited access to market data; often few willing buyers and sellers with prices often fluctuate in a short periods of time; models input and assumptions may be new or incomparable across entities because of rapidly developing socio-economic changes; measuring fair value (and preparing the resulting disclosures) could be expressive.

Fair Value measurement as a key measurement base of IFRSs, standard setters; including both IASB and FASB, assume that management can produce estimates of FVs and auditors can take responsibility for their verification. The validity of these assumptions has been progressively challenged within the context of developing countries (Peng & Bewley, 2010): Because the valuations are typically developed by in house valuation which has a root cause of gap in understanding between each profession or the subjective nature of FVMs; it allows too involve a number of variables and assumptions with a range of reasonableness, which increases the difficulty of auditing them as compared to other accounting estimates (Kumarasiri & Fisher, 2011). FVMs require certain assets/liabilities to be valued or revalued at fair value to reveal changes in economic value and received much attention from scholars, practitioners and policy makers because of its complex and controversial nature.

Today, however, companies use fair value in the hope to yield a true picture of current economic reality and consequently, the measure has been creating new challenges because everyone doesn’t agree on what fair value means and the measure inject enormous subjectivity. Thus, the use of fair value in financial reporting is an arguable issue; some argue for its significance (given its consideration of market price), comparability (given that items are measured at the same time), and faithful representation if an objective measurement can be achieved; and other who disagree as it causes volatility and potential misleading reports (Rankin, Stanton, McGowan, Ferlauto, & Tilling 2012).

2.1.3. Fair Value measurements and Financial System in Ethiopia

Ethiopia is currently under extended credit facility arrangements with proposed financial sector reforms by the National Bank of Ethiopia (NBE) to guide economic policies through the underlying accounting and regulatory frameworks for the Financial Soundness Indicators (FSIs) and help to facilitating the international comparability (IMF Stuff Country Reports, 2019). In Spite of the fact, the legal framework for the banking business was last updated with Proclamation 1159/2019.

There are currently 17 licensed commercial banks in Ethiopia, of which 16 are privately owned and one state owned bank, notably the Commercial Bank of Ethiopia (CBE); it has also subsidiaries in Djibouti and South Sudan no foreign ownership of any bank in Ethiopia, Since July these banks have been adopted IFRS9 for the valuation of financial instruments, asset classification, and provisioning requirements in parallel with the NBE's Directive on Asset Classification and Provisioning (No SBB/69/2018) within the absence of secondary market. Of course, Ethiopia had a securities market in the 1960s and 1970s, but the idea to establish a capital market failed to materializes when the new regime came to power in 1974. The country tried to have a securities market currently like agricultural commodity market (ECX) which is owned fully by the government and operated outside the financial market. At this moment the central bank has now drafted the bill to establish the exchange as part of the government's major policy shift toward introducing a capital market.

According to the reporter, Fasika Tadesse, (2021) the first securities exchange will be establish as a share company through a partnership of the public and private sectors, including foreign investors, to introduce a secondary market in Ethiopia for the first time and will come in handy, in the form of the share company, named the Ethiopian Securities Exchange, the government ownership will not exceed 25pc of the exchange's capital. Her article stories also proposes the formation of Capital market Authority; as the result the capital market is kicked off with stocks and bonds as stated in first chapter of the bill.

2.1.4. Theories, Evaluation, and Principles in Auditing Fair Value measurements

Over the years, a number of theories and models have been used in audit practice. At the beginning of 20^{th} century Alfred Marshall found out the concept of market value by connecting Cost of Production theory and Theory of marginal utility, but theory is neither intended as a substitute for the practical/technical guidelines, nor to undermine the distinguished place of the audit profession. Rather, it aims to reinforce the profession in a more appropriate manner by providing solutions or at least clues to solutions of problems (Mautz & Sharaf, as cited in Habtamu 2016). Therefore, auditing theory helps to explain: - why auditing and the required postulates, concepts are needed; some of the laws that govern the audit process and its activities; the framework provide to us to understanding the relationships and interrelationships between different parties of a firm.

Habtamu, (2016) also mention seven assumptions shortly in his lecture note fundamental to auditing and relates to; accountability, subject matter, independence, evidence, measurement standards, communication, and audit produces. He again explain three hypotheses which have a crucial role for audit: The monitoring hypothesis, which strives to solve problems that arise due to moral hazard and information asymmetry between the agent and the principal; Information Hypothesis (it is an alternative or complement to the monitoring hypothesis) which argues the demand for audited financial statements to provide useful information; and insurance Hypothesis, which focuses on the demands of auditing relates to liability exposure to third parties for losses attributable to defective financial statements.

Based on the underlying assumptions and concepts, scholars instigate for the formation of conceptual theories that helps to reinforce the profession's position by enabling it to respond in a more appropriate manner. According to, Hayes, Dassen, Schilder, & Wallage, (2009) which came out with the first four theories of auditing which sustain as of today are: The policeman theory claims that the auditor is responsible for searching, discovering and preventing fraud in the early 20^{th} century. This theory seems to have lost much of its explanatory power as it is not able to explain the shift of auditing to verification of truth and fairness of financial statements which is the focus of the external auditors. Secondly, the leading credibility theory is to add credibility to the financial statement through fair representation of the economic value ad performance of the organization. Thirdly, the theory of inspired confidence (theory of rational expectation) this demands an assurance by independent auditor.

The fourth fundamental theory is agency theory, which suggests as a reputable auditor is appointed not only in the interest of third parties, but also in the interest of management. Moderators of claimants' theory; which emphasize all vital participants in the organization receive a fair share of the company's income by giving an opinion on the various interests represented in the amounts shown there in. Another relenting theory (a theory seems to have lost/ modified much of its explanatory power like the police man theory by, Porter, (1990)) is quasi-judicial theory; which was considered the auditor as a judge in the financial distribution process.

Even though it has become more prominent recently, fair value has been a standard of measurement in financial reporting for some time, particularly in measuring certain financial assets and liabilities. Prochazka, (2015) provides an account of development of FVMs and argues that modern financial reporting has been shifting towards fair value accounting that historical cost: E.g., a notion of fair value occurred more than 20 times in Restatement and Revision of Accounting issued in 1953; Business Combination (1970); Accounting for Certain Marketable Securities (1975) and Leases (1976). Nevertheless, the usage of fair value as measurement attribute (especially at the reporting date) was marginal until the end of 1980's, but a widespread application of FVM began when the issuance of disclosures about FV of Financial Instruments in 1991.

Theoretically, the notion of FVM is interesting, as it represents what an item owned by the entity is worth if it is sold at the measurement data, rather than its value in the past or the value of an un owned asset (replacement cost) (Whittington, 2015). Fair value is less complicated than other measurement bases that use present values or price indices or value determined by the market, rather than by the reporting entity itself (Majercakova & Skoda, 2015). Likewise, Artemenkov, Lodh, & Nandy (2018) argue the notion of fair value in relation to other bases of valuation within the NORMATIVIST POSTIVIST continuum of economic analysis. Normative theories hint at the possibility of direct estimation based on investment values for each of the parties to a transaction. In the context of professional valuation, theory of bargaining (or CATALLACTIC) relying on the use of modern tools to the decision making theory; which proposes the use of the principle of equal division of gains from trade (economic interests) in the transaction. From the theory of fair exchangeable value, based on the investment values of each party to the transaction and their expected transaction costs should be made endogenous.

Positivist theories, in particular the transactional Asset Pricing Approach theory deserves a wider recognition as an instrument for estimating the fair values of assets, as well as the market value of less liquid assets. Finally the finding shows that, the recognition of the fair value on the basis of national standards of professional valuation especially in developing countries is still being very conservative in recognizing, as previously vitiated by the almost universal confusion of fair values in the professional valuation and accounting measurements senses.

Nowadays, there are many witnesses about the spreading of fair value into almost all financial reporting standards. For instance, the AABE's Financial Reporting Proclamation 847/2014 prescribes under Art 12 the applicable auditing standards to be used by auditors in Ethiopia shall be ISAs which would be issued by the International Federation of Accountants, or IAASB or its successor as; adopted, adapted or amended by the Boards. Thus, AABE has identified fair value as the objective for most measurements at initial recognition and fresh start measurements in subsequent period: which also includes IFRS9 as of July, 2018 applicable for commercial banks.

Fair value is the current price or value of an item; more specifically, it is the amount that the item sold could be fair for both the buyer and seller. Fair value does not relate to products being sold in liquidation; rather it refers to products that are being sold under normal, reasonable conditions because an entity's intention to hold an asset or to settle or otherwise fulfill a liability is not relevant when measuring fair value. Thus, Nissim & Penman, (2008) argue in their paper, principles that bear on the adoption of fair value measurement; these are:

- One to One principle- allows report fair values to the shareholders only when shareholders' welfare is determined solely by exposure to market prices;
- Matching Principle- Fair value applies to aggregated assets and liabilities employed together, strictly applicable at net assets that are involved jointly in a given business plan;
- Information Conservation Principle- Fair value accounting supplies, an alternative to historical cost accounting only when prices are not based on historical cost information;

- No arbitrage Estimation Principle- stands the estimated price should be recognized in accounting only when the observed prices and inputs are imputed from active markets, with no arbitrage or implies estimate; and
- Truing up Principle- taking on the assumption; to be “FAIR”, accounting for fair values trues up against actual transactions

The fair value standards define how fair value should be determined for financial reporting purposes: Osho & Ajetunmobi, (2018), justify the concept of fair value as a theory (i.e. depreciation theory, asset theory, and profitability theory) through IFRS, as a base for reporting financial activities proves that fair value approach is a less opportunity to manipulate accounting data; the changes in reported profit happen with the changes in the assets value and a business can survive during difficult economy, unlike historical method where the same value goes of an asset goes on the budget line every year.

2.1.5. External Audit: meaning, history, Role and Regulator Requirements in Ethiopia

The word “Audit” originates from the Latin word “audit” which means “to hear” (if the owner suspected fraud, he/she can hear the explanations given by the person responsible for that account. That person now is called “Auditor” and the tasks of checking and hearing is now called “auditing” (Hayes, R., Dassen, R., Schilder, A., &Wallage, P., 2009). According to ISA-200 Auditor can be defined as the person or persons conducting the audit, usually the engagement partner or other members of the engagement team, or, as applicable, the firm. Where an ISA expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the term engagement partner rather than auditor is used.

Engagement partner and firm are to be read as referring to their public sector equivalents where relevant. According to the Ethiopian Code of Ethics for Professional Accountants (ECEPA) issued by the Office of the Federal Auditor General (OFAG), 2009: External auditor can be defined as; a professional accountant conducting auditing and related services to the entity but not employed by the entity or by its manager and is independent of the persons who manage the entity. ISA-540 and other relevant standards also define an external auditor as a person who conducts the audit of a bank’s financial statements to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, wheatear due to fraud or error.

In 1944, audit commission was established by Proclamation No. 69/1944 to examine and control of the accounts of the ministry of finance externally, which was subsequently mandated to conduct external audit of other budgetary institutions as well. Thus the history of modern auditing in Ethiopia just about the time the profession has also evolved in Europe and N. America as of 1940s (Kinfu, 1990). This marks the establishment of today's Office of the Federal Auditor General of Ethiopia (OFAG) under Proclamation No. 68/1997, which, amongst other duties, monitors and regulates the accounting and auditing profession in the country; in reference to OFAG there was no controlling body for the service and license given by it and by some regional states' general auditor, then an audit expert at the board adding the regulation @ *Regulation No. 332/2014)* to provide service through the board and regulation will create confidence within the public and attract investment. Since then AABE has clear and realistic statutory objectives which are stated in Section 5 of the Regulation as to: Promote high quality reporting of financial and related information by reporting entities; Promote the highest professional standards among auditors and accountants; promote the quality of accounting and auditing services; Ensure the accountancy profession is uses in the public interest; Protect the professional independence of accountants and auditors (Laxmikantham, 2016).

According to the Commercial Code of Ethiopia, 1960 Art.- 374: the auditors shall have the duties to; audit the books and securities of the company, verify the correctness and accuracy of the financial statements and certify it through report, and carry out such special duties as may be assigned to them: Since under Art. 368; the formation of every share company requires the appointment of auditors to elect one or more auditors and one or more assistant auditors through general meeting. Auditors may not be appointed directors or managers of the company which they audit, nor of one of its subsidiaries or its holding company within three years from the date of the termination of their functions [Art. 370 (2)].

Auditors have also statutory requirement (Art. 376) to inform directors of irregularities or the public prosecutor of any matters which would appear to disclose the commission of an offence. And auditors shall be civil liable to the company or third parties for any fault in the exercise of their duties which occasioned loss under Art 380 or punished under Art 438 or Art 664 of the

Penal Code, as the case may be knowingly gives or confirms untrue report concerning the position of the company or fail to inform the public prosecutor of an offence which he knows to have been committed; which is consistent with many international standards which has been set out after audit scandals.

Currently, AABE not only providing the data needed in align with training to boost the legitimacy of audit reports not nationally, globally and to overwhelming uncontrollable factors in auditing of fair value to a great extent, but also anticipates the challenges that may face while FVMs are being audit which include but not limited to: Inconsistencies may exist between the Financial Reporting Proclamation, and other existing laws that provide some guidelines on preparation of financial statements; Because there may be limited reliable data sources that can be reached by the auditors, testing the validity of fair value estimates is very difficult; Fluctuation in the financial data may lead to deviations from the real conditions; The management may manipulate fair value calculations; The trainings given to the auditors may be inadequate due to the pace of changing environment. Finally, IAASB set out the roles and responsibilities of external auditors to communicate with management and internal audit on risk impacts associated with changes to impacted processes and internal controls; and measure success from a financial reporting perspective in accordance with ISA-540 and AABE recommends to the auditors, financial statement prepares and managements to apply fair values to accounting by anticipating the challenges to solve it faster (Dawit, 2017).

2.1.6. Auditing Fair Value Measurements and Expected Challenges in Banking Business

Many standard setters issue standards on generally accepted auditing practices or standards on auditing and related services and on the form and content of the auditor's reports. Thus, IAPS-1006, (2001) provide practical assistance to auditors to the audit of banks' financial statements specifically to commercial banks. This helps the auditors to provide high quality auditing. Another standard for instance; The Committee of European Banking Supervisors, CEBS, (2008) report on issues regarding the valuation of complex and illiquid financial instruments argues that; external audits with a high quality and ethical standards are important to enhance market confidence around the valuation of bank's annual reports, because banks need to disclose clearly the value of these illiquid assets and the imprecision around the valuations. Therefore, there needs to be sound audit guidance and practice on the audit work to be undertaken in evaluating:

The controls around valuation practices; the identification of appropriate assumptions for the use of modeling techniques; the related disclosures. Unless, Zyla, (2010) recognizes FVMs in the presentation of financial statements adds an additional layer of complexity to the audit of those statements.

IFRS9 contains the requirements for recognition; initial and subsequent measurement (including impairment); reclassification from fair value to amortized cost; de-recognition; presentation; and disclosures. Because these requirements and complex, the external auditor often needs to utilize more complex and wider ranging audit procedures to obtain sufficient and appropriate audit evidence for reasonable assurance that the financial statements are not materially misstated. In adopting significant unobservable inputs, IAPN-1000, (2016/17) sets out specific audit procedures that may be followed in auditing financial instruments measured at fair value and point out certain factors that may make challenges for auditing it which includes: Difficult for both management and the auditor to understand the nature and its risks exposure to entity; Volatile; Difficult to obtain evidence for supporting valuation; Misappropriation of assets, if payments associated with Individual; Insignificant amounts, but significant risks exposure recorded in the financial statements. These factors may cause risks and relevant facts to be obscured, which may affect the auditor's assessment of the risks of material misstatement, and latent risks can emerge rapidly, especially in adverse market conditions.

2.2. Empirical Review

While there are many empirical studies looking at FVMs from a financial reporting perspective emphasizing on the auditing of fair values and problems auditor's face when dealing with them in practice are relatively rare, even in developed countries: For instance, Abdullatif, (2016) reviews the studies on Enron's accounting practices and auditing challenges in different periods regarding FVEs in his literature as auditor's had: appear without due skepticism; extensively use Level 3 with client in house valuation and results misstatements in reported figures; and uses independent estimates from unreliable third parties and willing to recognize gains, but not losses, resulting from mark to market accounting (Benston & Hartgraves, 2002; Benston, 2006; Gwilliam & Jackson, 2008).

So far, many studies have been conducted by comparing historical cost with fair value and conclude fair value accounting provides more relevant information by reducing information asymmetry across traders: however, FVEs with high uncertainty and substantial discretion may increase the complexity and difficulty of the audit (Hsieh & Lin, 2015): Gulin & Hladika, (2016) also make situation inference, but the use of fair value is more appropriate than historical cost accounting when the markets of a certain assets are liquid even with in the financial crisis. Moreover, another study provide evidence that auditors face serious challenges while auditing FVEs, which includes; lack of technical knowledge, verifiability and its ascertainment is more complex and time consuming exercise than historical cost; the techniques used to ascertain fair value differ from industry to industry among other reasons (Appah & Ogiriki, 2018).

Even though, several detailed empirical studies that examines on auditing FVMs show problems that face of auditors are relative rare; there complexity, difficulty, and types are different from nation to nation, industry to industry, and among auditors. Murphy & Smith, (2017) in their empirical study explain, audits of FVMs are challenging because the valuations are typically developed by management (or third party retain by them) using significant professional judgment and other qualitative inputs, which results a gap in understanding with Auditors or among each profession. Since valuation is naturally a forward looking exercise that involves estimates subject to additional scrutiny and application of judgment, and not everyone will agree upon the estimates and judgment calls made in arriving at those estimates (Chamberlain, as cited in Murphy & Smith 2017).

However, their study concludes that due to a collaborative effort within the valuation profession (required by a new framework for valuation professionals), that gap may significantly narrow. The study also says FVMs by their nature are more subjective because there are a number of variables and potential assumptions involved in each with a range of reasonableness, which increases the difficulty of auditing; and the greatest challenge for auditors is not only the valuation specialist which coming up with different conclusions from the same data, but also the ideal data set does not exist (Harms, as cited in murphy & Smith 2017). Chamberlain, (2017) reinforces his idea as; the challenge is to adequately document the work that was performed, including what was known or knowable at the valuation data (e.g., limited client records or analyses and a limited valuation analysis instead of a comprehensive).

The FVMs are challengeable for auditors due to their complexity, subjectivity, lack of verifiable data and dependence on management assumptions and valuations techniques, (Cannon & Bedard, 2017). The nearest empirical finding correspondingly strengthen the existence of challenges; for instance, Sartawi & Assaf, (2019) result show that the biggest challenge in auditing FVE is the lack of access to the latest amendments of the IASs and the impact of the audit risks (absence of active markets, significant distortions, difference in FVM, and lack of specialized experts).

The issue is also recognized by standard setter itself, *IAASB's, (2019*) in their discussion paper, at engagement level of auditing less complex entities identify as: (A) outside the control of the IAASB's [Language and basic approach to the standards, length of the standards, Documentation, Lack of clarity as to what needs to be done or why, Not enough guidance within / outside of the ISAs, ISAs noted as particularly problematic]. In addition, the study in developing nation show lack of audit evidence reliability and access to recent amendments are the major ones; whereas, management uncooperativeness is the minor, but the absence of active markets is a common challenge among the studies, which requires great effort and a high cost of implementation (Marda, 2021).

Finally, fair value is the subject of a separate standard (IFRS13), which contains the basis of assessment and information about the estimates and describes as complex methodology in the work of economists. Accordingly, Kumar, Ali, & Sovaniski, (2021) identify two problematic areas in their comparative workshop paper in auditing of FVEs; Firstly, it requires specific expertise knowledge like civil engineering, while the cost approach associated with subjective judgment and irrelevant data, fair value estimates may easily be manipulated. Secondly, no matter how the estimation is done elaborately, fair value done not reflect the reality while the market fluctuates especially during the crisis.

2.2.1. Application Consideration for Auditing Banking Business in Ethiopia

Following the changes in Financial Reporting Standards; Ethiopia has adopted IFRSs and, where applicable, IASs for the preparation of financial statements including the quarterly reports that are used for compiling FSIs. Hence, Ethiopia sets out proclamation's, regulation's, and directive's to maintain the requirements; For instance, loans are classified as nonperforming if the past due for 90 days or more, banks can make a rebuttable presumption when loans are past due for more than 90 days.

The minimum provisioning requirements prescribed by the NBE's Directive No. SBB/69/2018 for performing loans are 1 and 3 pc on outstanding amount are classified as "Pass" and "Special Mention" (30 days past due) respectively; and 20, 50 and 100 pc on the outstanding amount of loans net of collateral are classified as substandard (90 days past due), "doubtful" (180 days past due) and loss (360 days past due) respectively. Financial instruments are valued at amortized cost or fair value through profit and loss/other comprehensive income (FVTPL/FVOIC) in accordance with IFRS9. A level-3 measurement approach is commonly used in Ethiopia due to the absence of secondary financial markets for trading debt securities and equity participations; its minimum provisioning requirements are similar with loan under the same directive. Equity investments which were previously measured at nominal value under IAS39 are measured at FV under IFRS9; AABE would be responsible for ensuring adherence to IFRS/IAS.

Although, IMF's Staff Country Report as of December, 2019 find that the source data for compiling FSIs for commercial banks and broadly consistent, but it shows two gaps that need to be address: (A) The sectorization of loans and deposits or financial instruments should not be disaggregated, which would improve the presentation of the financial statements and (B) Several discrepancies across the different call reports that need to be addressed, notably (Income and expense statement and detailed breakdown of income and expenses do not always reconcile; Provisioning figures in the call reports and balance sheet do not match Components of regulatory capital and risk weighted assets do not align with their value on the balance sheet; letter of credit on the assets and liabilities of the balance sheet cannot always be off set).

As far as, Ethiopia is a highly financial regulated country, all matters related to it must be oblige by the guidance's or directives provided by the NBE's. For example, the NBE's issued; Risk Based internal Audit Directive No SBB/76/2020 which prescribes a bank shall: [Adopt risk based internal audit methodology and ensure that its importance is understood throughout the bank; Establish internal audit function directly responsible to the board on all matters related to the performance of its mandate; with sufficient independence and authority as well as structure and staffing commensurate with the size and complexity of the bank; Develop an internal audit charter that articulates, among others; the purpose, accountability, independence and objectivity, authority and responsibility in a manner that promotes effective performance of internal audit function as stipulated under article 5 of this Directive] as a general requirements to improve the effectiveness of internal control and enhance corporate governance of a bank and being supplemental to the risk based supervision and soundness of the banking system.

2.3. Gap in Literature

Gap in the literature are missing pieces or insufficient information in the research literature. These are areas that have scope for further research because they are unexplored, under explored, or outdated. Gaps could be: population or sample; size, type, location etc. the gap in literature is a place where something relevant to the field of study is not yet known. It's important to note that just because something hasn't been studied doesn't mean that it's strictly a gap in literature. There must be a clear reason why it is worth of research (Tippins, 2020).

Many research works have been carried out on challenges confront to (external) auditing when measuring fair value and (accounting estimates), but there is a misunderstanding and confusion among professionals or researchers due to the multi dimension nature of fair value; for instance, Kumarasiri & Fisher, (2011) argue that the measurement involves a number of variables and assumptions which increases the difficulty of auditing as compared to other accounting estimates: In contrast, Majercakova & Skoda, (2015) conclude that fair value is less complicated that other measurement bases that use present values or price indices or value determined by the market, rather than by the reporting entity itself. Whereas, Osho & Ajetunmobi, (2018), indicated that fair value approach is a less opportunity to manipulate accounting data that historical method even during in difficult economy.

Further studies, Oyewo, Emebinah, & Savage, (2019) state in their finding from diverse backgrounds in terms of audit firm size, international affiliation and global presence; Kumar et al. 2021 attempt in both standards (GAAP and IFRS), but both concludes' the auditor can solve these challenges and problems by adopting the suitable standards of auditing. Also, Mardan, (2021) in his study mention two fundamental challenges for external auditors; these are lack of access to recent amendments to IASs, and audit risk measured at higher rather in many cases, including; the absence of active markets, the present of significant misstatements, and the difference in the basis for measuring FV. Nevertheless, many researches have been done by comparing different standards, or without considering other factors which influence the finding.

Accordingly, IAASB's, (2019) argues as challenges depending on a variety of factors like; the size of the audit practice, the level of resources, the number of audit engagements undertaken by an auditor, and the nature and complexity of the firm's audit clients. Moreover, IFRS 13-BC37, (2011) addresses the issue when fair value should be used as a measurement basis in IFRSs is controversial. Some of the disagreement are: (A) which assets and liabilities should be measured (e.g. whether fair value should be restricted to assets and liabilities with quoted prices in active markets that the entity intends to sell or transfer in the near term); (B) when those items should be measured (e.g. whether the measurement basis should change when markets have become less active); and (C) where any changes should be recognized. Therefore, the systematic structure of studies, summarized empirical findings, and discussed limitations and research questions help regulators to evaluate managerial discretion in fair value accounting on a more reasonable basis, which was left as challenging after the post implementation review of IFRS 13 as (IAASB, 2019) discusses.

Others also point out the gaps: To improve the audit of the FVMs via professional skepticism by changing to audit the reasonableness of management's valuation: Further, they suggest random nature of respondents rather than the self-select to permit causal inference is critical for assessing the generalizability through alternative explanations for their findings in a controlling environments (Cannon & Bedard, 2017); and by changing the current study mainly employed the quantitative research methodology, future research could consider a mixed method research to extend the knowledge, especially regarding the limitation towards full compliance with Fair value Disclosures (McDonough, R., Panaretou, A., & Shakespeare, C., 2020).

As per recent empirical studies and literature review of the above studies have focus on by considering the audits of many types of firms and/or particular regions of the nation, but this study focus on the challenges of IFRS13 to external auditors of private commercial banks in Ethiopia by considering random sampling. Besides, studies even outside Ethiopia has no systematically pertains to IFRS13 only and/or this study will help to hear the voice of underrepresented group in the publishing literature. In spite of the fact that, this research will add value for the standard setters to consider it universally; or for the government, business and audit firms in Ethiopian and also it may instigate the concerned bodies to improve quality of financial information by enhancing credibility and reviewing the application of IFRSs nationally and will use as a lesson learning for African.

2.4. Conclusion and Conceptual Framework

Revisions to standard setters' conceptual frameworks may well lead to future financial reporting standards that will increase the uncertainty attaching to financial statements and the range of possible outcomes they reflect. The move to treat relevance as the primary qualitative characteristic of financial reporting information and to downplay reliability may mean that preparers and auditors will have to deal with more uncertainty in the future. Those who strongly believe that this trend is damaging predict that global capital markets will come to regret the loss of reliability as a primary qualitative characteristic further down the line but here, users of financial statements must be the arbiters. The role of auditors and the way they audit will play a part in the views of users, so users need to understand what audit can be/ cannot achieve (ICAEW, 2009).

That's why, the duties of an external auditor who conducts the audit of a bank's financial statements requires to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with IFRSs, and to report on the financial statements, and communicate based on auditor's findings. External auditors play a vital role in maintaining market confidence in audited financial statements. In the case of the banking industry, this public role is particularly relevant to financial stability given banks' financial intermediation function within the economy as a whole. Audit quality is the key to the effectiveness of such public role. In addition, the external auditor has a duty to report directly to the supervisor (or, where not permitted, indirectly through the bank) on matters of material significance arising from the audit of the bank.

Auditing standards serve as guidelines for and measures of the quality of the auditor's performance. ISAs are considered to be minimum standards of performance for auditors. Hence, other applicable standards specifically for commercial banks still useful for external auditors to enhance public confidence, such standards are: Basel committee on banking supervision;

international auditing practice note; international auditing practice statements; international standard on assurance engagements; banking supervisors and external auditors; the audit of international commercial banks.

According to the lecture note, Laxmikantham, (2016) all other relevant 36 ISAs; in particular for their application to Ethiopia context in line with Financial Reporting Proclamation #847/2014: IAS 200; IAS 240; IAS 300; IAS 500; IAS 700; IAS 705 are fundamental in auditing: More specifically, as per IAPN-1000 the following ISAs are relevant to audits of financial instrument (ISA-540, ISA-315, ISA-330, ISA-500). In point of fact, auditing profession usually affected by the operating guidance's or rules set by IFAC, IAASB, IESBA, IOSCO, IASB, INTOSAI, and EU- 8the Directive on Statutory Audits because some of the international organizations like IMF and World Bank require to use such standards for effective and efficient operation systems. For these reasons, together with the challenges of auditing fair value measurements as an input in the supervisory process; supervisors have a keen interest to identify challenges which external auditors faces during bank audits. This study provides descriptive evidence organized by the outcomes in relation to phases of auditing:

To ensure the questions importance and relevance to practitioners, regulators, and researchers, this study uses a serious of sequential questionnaires used by Cannon & Bedard, 2017 with few modification to coincide with the study purpose and in responding to the assessed risks of material misstatement in accordance with ISA-540, the questionnaires hold one or more of the following procedures;

1. Test how management made the accounting estimate and the data on which it is based (including valuation techniques used by the entity in its valuations).
2. Test the operating effectiveness of the controls over how management made the accounting estimate, together with appropriate substantive procedures.
3. Develop a point estimate or a range to evaluate management's estimate.
4. Determine whether events occurring up to the date of the auditor's report provide audit evidence regarding the accounting estimate.

These procedures are the base of this study regardless of the auditor's preference or the auditor's may requires a combination of testing how management valued the impairment losses on loans and receivable, depreciation and carrying value of PPE and the data on which it is based, and testing the operating effectiveness of controls, are an effective and efficient audit approach. In other cases, model based valuations with a more extensive use of unobservable inputs may require by auditor's : However, currently commercial banks of Ethiopia requires risk based approach as prescribed by National Bank of Ethiopia (NBE) via Risk Based Internal Audit Directive No SBB/76/2020. Therefore, based on the research questions:

First, the researcher measured the extent of estimation uncertainty with reference to the above related guidance's (commonly Level-3 in Ethiopia in associate with high uncertainty): For instance; ISA-300 Planning and ISA 315 (Revised) Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment, amplify the principle primarily in the context of recurring audits; ISA-504 define estimated uncertainty as the susceptibility of an accounting estimate and related disclosures to an inherent lack of precision in its measurement and acknowledge that estimated uncertainty contributes to valuation complexity and audit risk; and ISA-2—In Considering the objective and scope of the audit and the extent of responsibilities, in align with IAPS-1006, the auditor needs to assess the staff, and/or his own skills and competence to conduct the engagement. In making such an assessment, the auditor should consider the following factors: The availability of sufficient expertise for auditing banking business activities; the adequacy of expertise relevant to Computer Information System (CIS) and Electronic Fund Transfer (EFT) systems used by the bank; the adequacy at the number of domestic and international locations of the bank at which audit procedures are likely to be required.

In the second risk assessment phase of the audit, despite the concentration of risk assessment procedures: ISA-315-requires the auditor to understand; the economic and regulatory environment prevailing for banking business and the market conditions existing in Ethiopia. While Planning ISA-300, states plans should be made to cover, among other things; performing risk assessment including internal control and assessing the level of audit risk which includes the risk of material misstatements. If not, ISA-402 requires further procedures to understand the controls relating to services provided by the service organization.

[Thirdly], this study analyzes auditor's evidential planning decisions: ISA-540, generally states the procedures for which the auditors' substantive tests of the FVM may involve; testing management's significant assumptions, the valuation model, and the underlying data; and developing a point estimates or range for corroborative purposes, or reviewing subsequent events and transactions. In responding to the assessed risks of material misstatement, as required by ISA-330 the auditor report provide audit evidence regarding in developing a point estimate or a range to evaluate management's point estimate: ISA-560 also requires when subsequent events are expected to occur and provide audit evidence that confirms or contradicts the accounting estimate, it may be necessary for the auditor to perform other audit procedures, if there are unobservable inputs. ISA-560 additionally discusses the objectives of the auditor; to obtain sufficient appropriate audit evidence; and respond appropriately to facts that becomes known to the auditor after the date of the auditor's report, that, had they been known to the auditor at that date, may have caused the auditor to amend the auditor's report.

Finally, it considers the sum of audit outcomes, which is the main concern of the descriptive evidence related to topic adjustment while measuring fair value as pertains to; the extent of problems identify, high uncertainty, inherent and control risk assessments, using the work of a valuation specialist, and developing a point estimate, or ranges. A matter giving rise to a modified opinion in accordance with ISA-705 (Revised), or a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with ISA-570 (Revised). More specifically, this study undertake based on outcomes with respect to phases of auditing in align with a visual diagram as follows;

1. The environmental and task characteristics of challenging fair value measurements.
2. The role of estimated uncertainty in inherent risk assessments for these fair value measurements.
3. Decision to use the work of a valuation specialist
4. Auditors' evidential planning decisions, difficulties experienced in performing them, and problems identified and
5. Auditors' extents of audit outcomes refer or show that most probably the challenges encounter while measuring fair value.

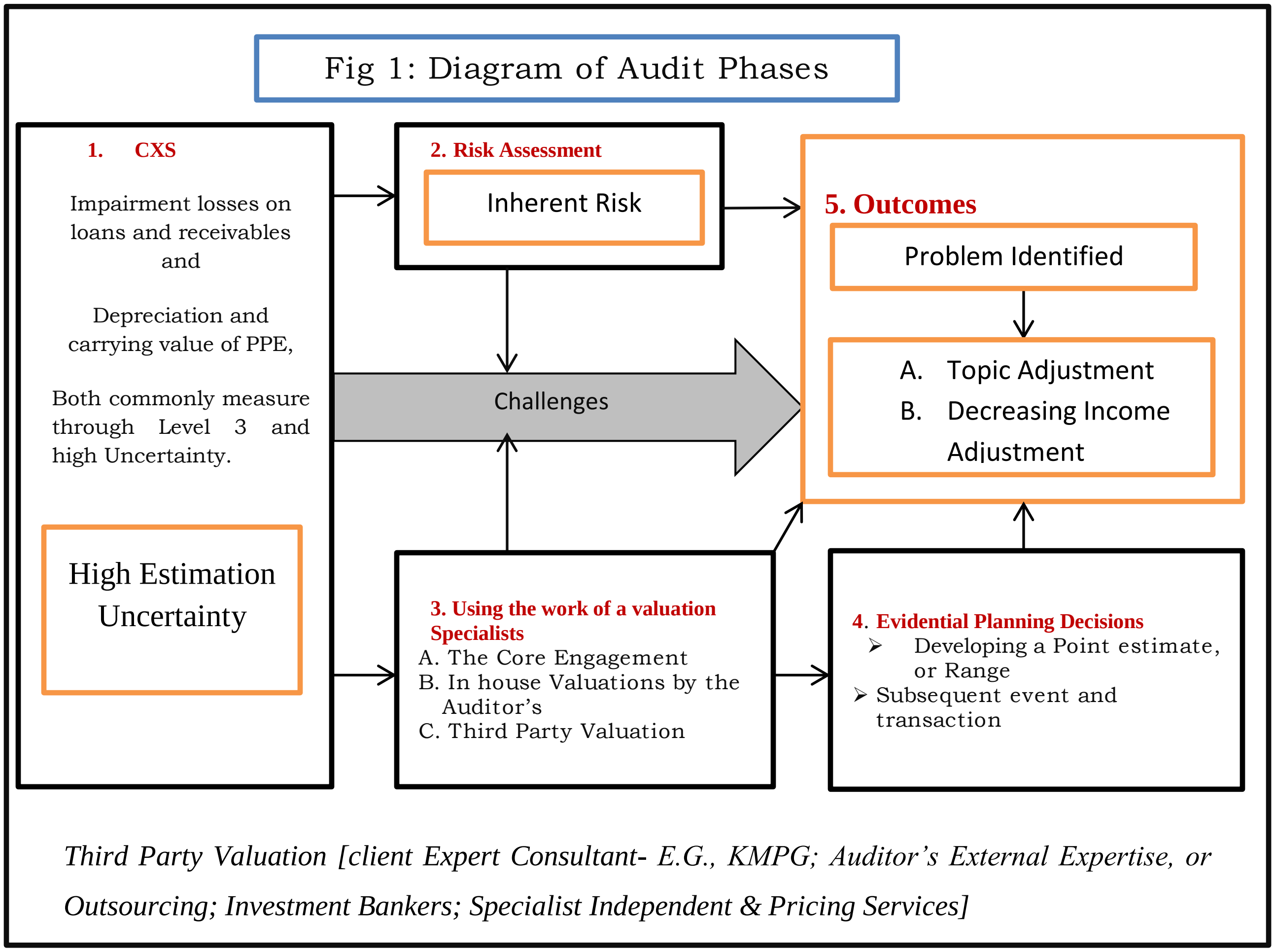
Fig 1: Diagram of Audit Phases
1. CXS
Impairment losses on loans and receivables and
Depreciation and carrying value of PPE,
Both commonly measure through Level 3 and high Uncertainty.
High Estimation Uncertainty
2. Risk Assessment
Inherent Risk
Challenges
5. Outcomes
Problem Identified
A. Topic Adjustment
B. Decreasing Income Adjustment
3. Using the work of a valuation Specialists
A. The Core Engagement
B. In house Valuations by the Auditor's
C. Third Party Valuation
4. Evidential Planning Decisions
Developing a Point estimate, or Range
Subsequent event and transaction
Third Party Valuation [client Expert Consultant- E.G., KMPG; Auditor's External Expertise, or Outsourcing; Investment Bankers; Specialist Independent & Pricing Services]

CHAPTER THREE

Research Methodology and Design

This section of the research is tried to explain the research approach, research design and methods of; data sources, sampling, data analysis, reliability and validity of the result, and ethical considerations [i.e.; confidentiality, privacy, voluntary participation, informed consent]. This section is designed mainly on the reference of (Creswell, 2009).

3.1. Research Approach

With the development and perceived legitimacy of both qualitative and quantitative research; a mixed methods, employing the combination of both has gained popularity. This is because synergy provides an expanded and broadens understanding of research problems by incorporating both methods, or to use one approach for better understanding, explanation, or building on the results from the other approach. It also advances the reasons for using multiple forms of data collection and analysis (Creswell, 2009). Based on these underlying facts, this study collect both forms of data at the same time and then integrates the information in the interpretation of the overall results. It helps to embed one smaller form of data within another larger data collection in order to analyze different types of questions (the qualitative addresses the process while the quantitative, the outcomes).

3.2. Research Design

This study adopts exploratory descriptive design as it embraces the use of primary data for both types of data to identify the challenges of fair value measurements present to external audits of private commercial banks for a period of July 2018 up to July 2021. Specifically, the design involves concurrent collection of data with the intersection of qualitative with quantitative data to emphasis exploratory descriptive design guided by phases of auditing as stated in a conceptual or theoretical framework. These phases of auditing are also mirrored within the purpose or research questions of the study as of: Phase 1 concern environmental and task characterizes of challenging FVMs that contribute to auditors' perception of difficulty in providing reasonable assurance; to understand the extent of estimation uncertainty by describing its level relative to materiality and the nature of these valuation and the factors that made them challenging and/or complex to audit.

In Phase 2- this research determine how estimation uncertainty affects the auditors' inherent risk assessment in actual audit engagements on Impairment losses on loans & receivable and Depreciation & carrying value of PPE and, it finds the relationship with respect to Uncertainty, Level3, Materiality, Client-Specialist, and Profit-After-Tax with Inherent-Risk. In Phase 3, it analyzes auditors' evidential planning decisions, the level of difficulty experiencing in performing various procedures, and their outcome in terms of problem identified.

In Phase 4, it also provides a detailed view of the final phase of the audit including identification of specific problems, discussion of those issues with the client personnel, proposal of an audit adjustment and booking proposed adjustments. Lastly, this research describes specific problems identified during the engagement as audit procedures and its relationship in discussing a possible an audit adjustment.

3.3. Research Method

3.3.1. Source, Methods, and Data Collection and Its Variables

The sources of data for the study were based on mainly from primary data collected from external auditors of private commercial banks for a period of July 2018 up to July 2021, after the adopt of IFRS9 by commercial banks in Ethiopia. The variables brought in this study represent the measure of fair value outcomes in relation to each phase of auditing engagement that are already identified by previous studies: These are; measure of uncertainty (high uncertainty and Level-3), risk variables (inherent and control risks), auditors' evidence gathering efforts (valuation specialist and developing a point estimate or range) and other indicators. This research bases the concurrent strategy of inquiry through sequential questionnaires used by previous studies that best provides and considers the understanding of a research problem extensively during pre-survey. First of all, this research considered/undertook a pre-survey assessment in order to generalize the results and to modify questionnaires' with the intent to specify the type of information collecting in advance of a population and then, in a second phase, focuses on a survey with both closed ended and open ended responses.

3.3.2. Target Population, Sampling Technique and Sample Size

It was vital for conducting the study on all significant public interest entitles of external audits in Ethiopia; which have been handled by 'Grade A' auditors as required by jurisdiction. Currently, there are 151 renewed 'Grade A' audit firms capable to appoint as external auditors. However, due to insufficient quality, capacity constraints, and seeking the flexibility of the data collection and availability IFRSs may not apply to all public interest entities, only banks started to apply and only 10 firms are assigned as external auditors' for 16 private commercial banks in Ethiopia as required by jurisdiction too, since to provide reasonable assurance the auditors engaged at the corporate level of banks and major branches and commonly 3 individuals are engaged.

For the study, all sixteen private commercial banks external auditors in Ethiopia were a target population by expecting a comprehensive sampling to draw an accurate picture indirectly to all external auditors currently labeled as Grade A in Ethiopia. The researcher distributed the questionnaires in online/in person and nagged them for more than six months. However, due to many cases the respondents finally either completely refused or non-responded; only 7 respondents, who are volunteers and committed were responded on time. Therefore, the sampling technique is by default random and fair as recommended by many researchers.

3.3.3. Method of Data Analyses and Interpretations

To describe the challenges of IFRS13 present to external audits of private commercial banks the study was used numeric information to gather on a scale of instruments or text information recorded and reported are analyzed by using descriptive analysis to identify the challenges most strongly present to the audits of FVMs. Then this study also made interpretations of the statistical results, or interpret the themes or patterns that emerge from the data.

3.4. **Validity and Reliability**

As an emerging field of study; mixed methods study, consider how validity might be different for a quantitative or a qualitative study. Validity issues in mixed methods research may relate to the types of strategies. These may related to; sample selection, sample and size, follow up on contradictory results, bias in data collection, inadequate procedures, or the use of conflicting research questions. The study reliability was the internal consistency related to the scores of items on an instrument and found to be highly consistent by using Cronbach's Alpha measures'. That's why, this study used an existing questionnaires developed and informed by theory, auditing standards, advices of professionals from the participating firms, and prior successive related researches. Of course, the study instrument was slightly modified during the pre-survey and it was become important to reestablish validity and reliability, because the original validity and reliability might not hold for the new instrument. However, the modified parts do not affect either the analysis or interpretation of the data, thus this research used as the existing questionnaires used by, Cannon & Bedard, (2017) and their reliability after achieving an inter-rater agreement of 85.5 percent on an initial sample of observations independently coded by both authors was established through Cohen's Kappa, and was found to be an adequate level (Cohen's Kappa of 95.8, p, 0.001). The validity was established through traditional forms (*i.e., content validity, concurrent & convergent validity, construct validity*) and found to be an adequate level (*i.e., the score of value is found @http://dx.doi.org/10.2308/accr-51569.s01*).

3.5. Ethical Considerations

Academic writing, as a part of research and science, potentially has various purposes and seeks to document and communicate knowledge in a written form. Knowledge can be generated through various means such as experience, intuition, tradition and science (Kerlinger, as cited in Monippally & Pawar 2010). While science is a means of generating knowledge, it also includes documentation of scientifically generated knowledge, since; science can be viewed as a distinctive approach to knowledge generation as well as a collection or body of existing scientific knowledge. Accordingly, this research considered confidentiality of information and privacy of the respondents as well as disclosing voluntary participation and informed consent starting from pre-survey.

CHAPTER FOUR

Data Analysis and Interpretation

Following the completion of data collection, the data were edited and entered in to SPSS version 26 for analysis and interpretation purposes. The data were analyzed using descriptive statistical method which commonly includes Mean (percentage), Median and Standard deviations that are used to summarize and give condensed picture of the collected data.

The instrument employed to describe the variables being studied were a series of questionnaires which contain numeric information to gather on a scale of instruments or text information recorded and reported, commonly dichotomy. Therefore, the data analysis of this research has been conducted by using the above statistical measures and its results are interpreted with the respective measures as deemed necessary and provide an overview of challenges of FVMs presented to external audits on private banking business guided by phases of auditing.

4.1. Environmental and Task Characteristics of Challenging FVMs

Table 1: Respondents Role on the Engagement

	F	Year Engaged	Types of FVMs	Percentage
Engagement Partner	1	2018/19	Impairment	14.3
Senior Manager	4	2020/21	Impairment	57.1
Manager	2	2018/19	PPE	28.6
Total	7			100

Sources: Own Survey, 2022

As shown in Table 1, this research obtained information on 7 experiences of external auditing on the challenges of FVMs, of which about 57.1 percent represent the most recent engagement and showing that the sample totally comprises private commercial banks supervised by National Bank of Ethiopia which explicitly describes client characteristics and the most frequent types of FVM (TFVMs) experienced best by the auditors at the highest level are only impairment Losses on Loans & Receivables and Depreciation & Carrying Value of PPE (71.4 and 28.6 percent, respectively); about 60 percent of FVMs are classified as Level 3 as described in IFRS13_73 and the mean Profit After Tax is 4.14 on the scale from 1 (Less than Br. 250 million) to 5 (Above 1 billion birr) as stated in Table 2 below. It also shows that the mean Uncertainty is 1.71 on the scale of 1 to 5 and 57.1 percent have estimated uncertainty are less than the value of approximate materiality, and 14.3 percent are at the highest; level greater than or equal to four times materiality, which means that management's estimate may be more likely to lie within the auditor's estimated uncertainty range even when this range exceeds materiality and, thus, seem as reasonable as other estimates. So this research suggests that estimated uncertainty inherent in some estimates may be factors complex to audit, unobserved inputs associated with the types of FVM, but the prevalence of estimated uncertainty exceeding materiality is not the major concern.

Table 2: Major Variables with Its Descriptive Statistics

Variables	Measurement	Mean [Percent]	S.D	Median
Inherent Risk	Inherent risk associated with the FVM [Scale from 1-low to 11=high]	7.33	4.59	9.5
Uncertainty	Degree of estimation uncertainty: = 1 if less than materiality = 2 if approximately equal to materiality = 3 if 2-3x materiality = 4 if 4-5x materiality = 5 if greater than 5x materiality	1.71 [57.1] [28.6] - [14.3] -	1.11	1
Level 3	Fair value hierarchy described in [IFRS13. 72-73]. = 1 if Level 1 = 2 if Level 2 = 3 if Level 3	2.40 [20] [20] [60]	0.89	3
Materiality	The relative materiality: = 1 if less than materiality = 2 if approximately equal to materiality = 3 if 2-3x materiality = 4 if 4-5x materiality = 5 if greater than 5x materiality	2.14 [42.9] [14.3] [28.6] [14.3] -	1.21	2
Control Risk	Control risk associated with the FVM [scale from 1-low to 11=high]	6.67	4.23	8
Client Specialist	Bank valuation specialist = 1 if valuation specialist employed by the client = 2 if a third-party specialist engaged by the client = 3 if no valuation specialist was consulted	1.57 [57.1] [28.6] [14.3]	0.78	1
Profit After	Bank profit after tax	4.14	1.22	5

Tax	= 1 if less than Br. 250 million = 2 if Br. 250 million = Br. 500 million = 3 if Br. 501 million – Br. 750 million = 4 if Br. 751 million – Br. 1 billion = 5 if above 1 billion birr	- [14.3] [14.3] [14.3] [57.1]		
Ranges of Values	= 1 if the ranges of fair values estimate were developed, & 0 otherwise	[57.1]	-	-
Problem Sum	The sum of number of categories in which the auditor detected client problems	1.85	0.9	2
Topic Adjustment	= 1 if an audit adjustment discussed with the management & 0 otherwise	[28.57]	-	-
Decreasing Aud.-Adj.	= 1 if an audit adjustment fully or partially booked & 0 otherwise	[14.29]	-	-

Sources: Own Survey, 2022

For further clarifications, participants also indicated the factors that could contribute to the complexity and/or difficulty of auditing FVMs; the most frequent factors (Table 3) are: “number of significant and/or complex assumptions associated with the process” (71.4 percent) and “high degree of subjectivity associated with these assumptions and factors used in the process; high degree of uncertainty associated with the future occurrence or outcome of events underlying the assumptions; and lack of efficient markets (57.1 percent)”; and followed by lack of objective data or enough guidance when highly subjective factors are used and economic volatility (42.9 percent); “the length of the forecast period; the choice and sophistication of acceptable valuation techniques and models, or imprecision around the valuations (28.6 percent)”; and lack of expertise for auditing banking business activities and lack of appropriate disclosure about measurement methods and uncertainty (14.3 percent).

Almost all factors have a similar logic with IAPS-1006; the bank characteristics which need to be recorded at fair values in the financial statements to establish appropriate valuation and risk management procedures. The effectiveness of these procedures depends on the appropriateness of the methodologies and mathematical models selected, access to reliable current and historical market information, and the maintenance of data integrity.

Based on the open ended question to obtain an understanding of the bank’s process for determining FVMs 3 respondents out of 7 were taken more or less the same steps as required by the frameworks. For instance, one respondent said; [The valuation process was outsourced to external experts by the bank. Therefore, we performed the following procedures in understanding the process and the figures arrived:

- Obtain experts report and assess reasonableness of assumptions and methods and document the same,
- Assess competency, expertise and objectivity of the firm/individual and document the same,
- Extract and document key assumptions made by the experts and the relevant market information,
- Test the arithmetical accuracy,
- Check for the proper recognition of the items,
- Ensure the balances agree to the accounting records and the prior period audit working papers]

Table 3: Factors made it difficult and/or complex to audit by Percent

significant and complex assumptions	71.4
A high degree of subjectivity	57.1
A high degree of uncertainty	57.1
Lack of efficient markets	57.1
Lack of objective data	42.9
Economic volatility	42.9
The length of the forecast period	28.6
Choice & sophistication of acceptable valuation	28.6
Lack of expertise	14.3
Lack of appropriate disclosure	14.3

Sources: Own Survey, 2022

4.2. Estimation Uncertainty and Risk Assessments

Table 2, shows that mean Inherent-Risk for sample FVMs is 7.33 on an 11 point scale from 1 low to 11 high and its SD and median are 4.59 and 9.5 respectively, which describes as a moderate risk. Almost half of participants (50 percent, appendix C-2) report relied on at least some controls surrounding the FVM process for purposes of altering the nature, timing, or extent of substantive audit procedures. This part first presents a multivariate analysis containing only major variables to illustrate the size and distribution of inherent risk with uncertainty, level3, materiality, control risk, client specialist and profit after tax by using various measures, all variables are defined in Table 2.

Inherent Risk Assessments: Table 2 presents results of major variables to describe external auditing challenges associated with inherent risk assessments for FVMs. The fair value hierarchy as per described in [IFRS13. 72-73] and its associated analysis indicates a mean of 2.4 with a median 3 [*which means unobservable inputs(60 percent) have a significant effect on the bank's market model, assumptions, and could be an intervening variable*].The analysis also indicated that about 85.7 percent (with a mean of 1.71 and 1.11 Sd.) of FVMs with ranges of estimation uncertainty approximately less than or equal to materiality and 66.7 percent rate inherent risk within the low/moderate range (9.5 or lower on the 11 point scale). Thus, it may reflect the client's asserted value ordinarily would not be considered to be a misstatement as long as it is within the range of reasonable estimates; if there is a case, it's caused by mainly unobserved inputs and other factors than estimation uncertainty.

Similarly, 57.1 percent of the bank's annual profit after tax were above 1 billion birr with a median of 5 and 1.22 standard deviation, this describes the banks have strong internal management control, which is supported by the measurement of control risk obtained by statistics as of moderate risk expected rationally (on an 11 point scale, the mean and median are 6.67 and 8 respectively and control risk could be a moderating variable).

Thus, results found that Inherent-Risk positively associated with the estimation Uncertainty (*but not a major factor or spurious*), which have a similar logic with ISA 540 [(ISA 540) acknowledge that estimation uncertainty contributes to valuation complexity and audit risk]; this creates new professional norms to expect that auditors shall assess moderate inherent risk when the inputs are unobserved associated with the types of FVM and consider it into their decision processes as contrary to most developing countries done.

4.3. Evidential Planning Decisions

In practice the auditors may not follow the phases of auditing, but all procedures/steps must hold common contents and the final outputs are the same, provision of reasonable assurance; hypothetically following the above steps, auditors plan evidential procedures to select from several options, including: (1) testing management's assumptions, model, and data; (2) developing procedures for presenting ranges of values. The result found that auditors frequently use all substantive procedures allowed by standards and provide further evidence describing the frequency of specific tests used for challenging FVMs, who performed the test (engagement team or specialist), the extent of challenges encountered, and the extent to which the procedure provided evidence of client problems.

Thus, Table 4 shows that auditors report substantive testing of management's model, assumptions and underlying data for all FVMs are 71.4 percent; almost all information about substantive procedures were done by the members of the core engagement team. In contrast, the core engagement team more commonly depends on testing of substantive procedures done by a valuation specialist employed by the client and a third party valuation specialist engaged by the client (both accounts 85.7 percent; appendix C-2).

Table 4: Audit Procedures Performed on Fair Value Measurements by Percent

Who performed the procedures?	Substantive testing of those N=5 71.4%			Procedures for Presenting Ranges of Values of those n=4 57.1%
	Model	Assumptions	Underlying Data	
A valuation specialist employed by your firm	0	0	0	0
A third party valuation specialist engaged by your firm	0	0	0	0
Member(s) of the core engagement team	71.4	100	100	75
Where significant Challenge Encountered?	60	40	20	25
Did the results identify any significant problems?	33.33	50	20	25

Sources: Own Survey, 2022

Table 4 also shows higher rates of challenges encountered when testing the model and assumptions (60 and 40 percent, respectively), relative to testing underlying data (20 percent). This is not surprising given the more subjective nature of the models and assumptions or as third party used by the clients, were sometimes, unwilling to provide the necessary detail regarding the valuations; while the underlying data are often easier for auditors to verify. More client problems are identified by testing the assumptions (50 percent) and model (33.33 percent), relative to testing the data (20 percent), suggesting that a holistic approach to auditing the valuation leads to a better understanding of underlying problems.

Additionally, Table 4 shows that procedures for presenting ranges of values are developed by the auditors are 57.1 percent of FVMs, with relatively high involvement from member of the core team (75 percent); Challenges in developing a reasonable range of values were encountered for 25 percent of FVMs, and similarly significant client problems identified in 25 percent. In sum, results imply the auditor’s very frequent use of all approaches and overwhelmingly focus on testing management’s model and assumptions rather than testing the underlying data and developing reasonable ranges of values. Further, those procedures performed alone by the core teams tend to have higher yield in terms of ability to identify client problems, but in the real world due to the absence of valuation specialist in Ethiopia and/or when the FVM is obtained from, or determined by valuation specialist employed/engaged by client; this may not be true, auditors may face difficulty in appropriately valuing FVMs.

Finally, based on the close ended questions, auditor’s encountered higher rates of challenges when testing the model and assumptions (60 and 40 percent, respectively), as a consequence 3 respondents out of 7 observations were taken specific steps to substantively test the valuation model and significant assumption. The following steps are common:

- Understanding and documenting underlying assumptions and management's rationale in arriving at fair values.
- Understanding the relationship between management assumptions and measurement. Inputs may include "management assumptions" that are classified as "unobservable," meaning that someone outside of the bank would be unable to confirm this information with publicly available data.

- Evaluating changes in fair value approaches and methods
- Understanding valuation professionals' qualifications
- Reviewing valuation professionals' work and determine whether the specialists considered various valuation methods relevant to the type of valuation performed and understand and challenge as to the appropriateness

4.4. Audit Outcomes

This research provides a detailed view of the final phase of the audit, including identification of specific problems, discussion of those issues with client personnel, proposal of an audit adjustment, and booking proposed adjustments. While the survey requested information on all audit adjustments, the purpose of the research were mainly focus on income decreasing adjustments (i.e., potential areas of disagreement) that would form the basis of discussion with management, but this research do not produce the results due to insignificant data (only 1 out of 7 observations), which leaves room for further research.

Problems Identification

Evidence on the nature of FVM is scarce, the issues identified by auditors are important; this study discloses descriptive evidence on the specific nature of problems identified by a sample of challenging FVM engagements. Table 5 presents the frequencies of identification of specific problem types. Problems were most often identified in the appropriateness of management method/model (57.1 percent) and significant management assumption (42.9 percent), followed by Overall control environment; Expertise and experience of those determining FVMs; Role of IT in the valuation process; Documentation supporting management assumptions; Controls over the consistency, timeliness, and reliability of model inputs; The number of audit engagement, effort, and timing (each equally contribute 28.6 percent).

The following problems are less frequent, but very important in terms of audit risk, such as: Monitoring controls over FVMs; Controls over the process used to determine FVMs; Extent to which the entity engages or employs a specialist; Process used to develop and apply management assumptions; and Requires the introduction of extra work in valuing the FVM (each contribute 14.3 percent). However, crosstab comparisons show that each problem identified is not associated with discussion of a possible audit adjustment with management (28.6 percent) and with booking a decreasing audit adjustment (14.3 percent). These results imply that many types of problems do not cause much concern to auditors, and these concerns may be resolved through discussion with management (42.9 percent extensive discussion with management, appendix C-2).

Table 5: Problems Identified During the Course of Audit by Out Come in terms of percentage

Problem Identified	Over all	Topic Adjustment		Income Decreasing Adjustment	
		Yes n=2	No n=5	Yes n=1	No n=6
Appropriateness of management method/model	57.1	15.1			
Significant management assumptions	42.9	11.1			
Overall control environment	28.6	10.3			
Documentation supporting management assumptions	28.6	10.3			
The number of audit engagement, effort, & timing	28.6	7.9			
Expertise and experience of those determining FVMs	28.6	7.1			
Role of IT in the valuation process	28.6	7.1			
Controls over the consistency, timeliness, and reliability of model inputs	28.6	4.8			
Process used to develop and apply management assumptions	14.3	6.3			
Requires the introduction of extra work	14.3	6.3			
Monitoring controls over FVMs	14.3	6.3			
Controls over the process used to determine FVMs	14.3	4.0			
Extent to which the entity engages or employs a specialist	14.3	3.2			

Sources: Own Survey, 2022: There are not enough (less than 2) multiple response groups available for pairing this table. Percentage is based on responses.

Discussion, Proposal, and Booking of Audit Adjustments

Following problem identification, the auditor expected to decide to discuss a possible audit adjustment with client personnel in order to gain information on their perspectives and justification for their assurances. The auditor then considered whether to propose an adjustment and, if so, for what amount. Following negotiation with the client the adjustments are either be booked (in full or in part) or waived. This research organizes the discussion of results by factors affecting these decisions.

Table 6: Proposed Audit Adjustment

	Frequency	Percent	Valid Percent
Yes	2	28.6	28.6
Increase	1	14.3	50
Decrease	1	14.4	50
Partially booked	2	28.6	100
Effect of change on NI of the report	2	28.6	100

Sources: Own Survey, 2022

Table 5 presents audit outcomes from discussion with management, to proposal of audit adjustments, to ultimately booking those adjustments. Auditors discussed a potential audit adjustment with management (28.6 percent), and an adjustment was proposed in 2 (28.6 percent or a valid percent of 100). In a sample 7 (14.3) percent of proposed adjustments were income decreasing (income increasing) not statistically sufficient even at minimum. Proposed decreasing (increasing) adjustments were partially booked for 2 (100) valid percent/28.6 percent of FVMs also not statistically larger. Thus, auditors in this research sample proposed relatively few adjustments, but those that were proposed were more likely to be booked.

The qualitative data on Table 3 suggest that the number of significant and complex assumptions associated with the process; a high degree of subjectivity associated with the assumptions and factors used in the process; a high degree of uncertainty associated with the future occurrence or outcome of events underlying the assumptions used; and lack of efficient markets can contribute to low adjustment proposal rates. Those and other similar responses suggest that the complexity and unobserved inputs underlying FVMs make it difficult to justify proposing and/or booking an adjustment. However, it is important to note that both the management and auditors face difficulty in appropriately valuing FVMs. Although the FVM may necessarily be valued correctly, the range of reasonably possible values may be large or outside the range of reasonable estimates.

Discussion with Management about Topic Adjustment

In this final part a more condensed interpretation of analysis is presented and describes factors associated with the auditor's decision to discuss a potential topic adjustment with management. As already defined all the variables in Table 2, the result also suggests the association of the risk variables about discussing adjustment with management and it supports the Inherent-Risk association, but rejects the significance of developing Reasonable Ranges of Values related to auditors evidential gathering effort, since core engagement team almost doesn't encounter any significant challenges in performing these audit procedures (14.3 percent, appendix C- 2).

Finally, the result presents hardly the determination on the effect of the breadth of problems identified during the audit too. Table 5 compares the result of each category of problems identified with topic adjustment and decreasing income adjustment by crosstabs manually and it shows the discussion an adjustment with management is not significantly associated with the number of problem areas identifies (the maximum association is 15.1 percent to the appropriateness of management method/model), or had no effect on the discussion of FVM adjustment with management. Generally, these results suggest that the key factor in supporting the auditor's decision to discuss about topic adjustment with management in a sample of challenging FVMs is the evidence that the auditor has accumulated, related to the level of fair value hierarchy and/or factors made difficult and/or complex to auditing specific fair value measurement.

CHAPTER FIVE

Conclusions and Recommendations

Of course, the results are not necessarily generalizable to all audit engagements, or even those with some elements of FVM, but rather to those that are the estimation of impairment losses is subject to uncertainty, which has increased in the current economic environment, and highly sensitive to factors such as the level of economic activity, unemployment rate, property price trends, and interest rates. One of the key finding is that estimation uncertainty in challenging FVMs on average 1.71 or 50 percent of the observations are less than the materiality threshold, but the relative materiality of FVM in terms balance on average 2.14 or 50 percent of the observations are more than the materiality. In these situations, a case based study is needed to study further why some auditors might asses risk at less/more than the materiality threshold in terms of balance and estimation uncertainty in engagement with challenging FVMs.

This research indicates the main contributions to high uncertainty are; number of significant and/or complex assumptions associated with the process, high degree of subjectivity associated with these assumptions and factors used in the process, high degree of uncertainty associated with the future occurrence or outcome of events underlying the assumptions, and lack of efficient markets. This shows some of the respondent's inability to perform the required audit procedure over FVM because banks currently used third party expert consultants and the valuation specialist used by the engagement totally from core teams.

Even if, the researcher assured confidentiality and anonymity further research is needed relative to the auditors' awareness and professional skepticism of FVM to train the next generation of auditors'. Of course, the auditor's responsibility is to obtain a high level reasonable assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Therefore, the researcher recommends; AABE as a supervisory body must collaboratively work with regulators and similar external oversight parties in the production of indigenous qualified valuation specialist in different sectorizations or heart felt working on IFRSs, because changes in management process may have a significant impact on the financial statements and/or as assets of the bank at these areas are huge risk of loss.

Regarding the evidential planning decision for challenging FVMs, all substantive procedures required by the standards are employed in a high proportion of engagements, but its test of the client model, assumption and underlying data as well as presenting reasonable range of value are done by the core engagements. However, breadth of client problems identified, reasonable range of value, and control risk are not associated with the discussion of topic adjustment.

Being in hesitation of the fact, Ethiopia currently requires regulatory reforms to safeguard the integrity of external audit profession, including by enhancing audit quality and focus on accountability toward the users of the financial statements and the public. Since their contribution to governance and controls are sometimes viewed as an additional line of defense; they do not embrace modern governance structure that provide for audit oversight.

Finally, this research also recommend for conducting the study in the long run on all significant public interest entitles of external audits in Ethiopia; which have been handled by 'Grade A' auditors as required by jurisdiction. Since, currently due to insufficient quality and capacity constraints IFRSs does not fully adopted by these entities, thus seeking the flexibility of the data collection and availability is difficult. Alternatively, it's useful for conducting further research in different proxies based on 'questionnaires and phases of auditing' prescribed by international auditing practice statement (IAPS-1006); audits of the financial statements for banks, to maintain the standards and comparability of financial reports internationally via lesson learning.

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Appendices

A. Permission to Use a Survey

Permission to use a survey instrument3
Yahoo/Inbox

Hide original message

On Friday, June 17, 2022, 06:33:55 AM PDT, Bedard, Jean <jbedard@bentley.edu> wrote:

I answered your prior message, noting that the instrument is available online so you are certainly able to use it, but perhaps you can't access it? I am attaching the supplement to the TAR paper, which contains the questions and counts of responses.
While I can share the instrument, I no longer give research advice as I retired three years ago.

Jean C. Bedard
Professor Emerita
Bentley University
175 Forest Street
Waltham, MA 02452

From: Tesfaye Abate <tesis72@yahoo.com>
Date: Friday, June 17, 2022 at 9:48 AM
To: Bedard, Jean <JBedard@bentley.edu>
Subject: Permission to use a survey instrument

You don't often get email from tesis72@yahoo.com. Learn why this is important

Dear Prof. Jean Bedard

Date: 19/5/2022

Resend

I am a post graduate student in Addis Ababa University interested in using a survey instrument developed by Canoun and you, Published Online via DOI: 10.2308/accr-51569: American Accounting Association and The Accounting Review Vol. 92, No. 4, July 2017, pp. 81–114 to find out "Auditing Challenging Fair Value Measurements: Evidence from the Field". Currently I am undertaking research paper entitled on "Does IFRS13 (FVMs) present challenges to the external audits of private commercial banks?" based on the research gaps provided by many previous studies in different proxies. I am wondering if your survey would be a good fit and if so, would you grant me a permission to use it?

I appreciate for your time

Thank You

Tesfaye Getahun, Ethiopia

B. Questionnaires

Addis Ababa University **College of Business and Economics** **MSC Program** The purpose of the questionnaires is to collect data for the thesis being conducted. Directions: Below is a set of sequential questionnaires designed to describe challenges of IFRS13: Fair Value Measurements, presented to the external Audits of private commercial banks. Please answer each statement below by shading a yellow text highlight color that deal with a choice(s) and describe the open ended response of each item specify there to. Don't panics be as open and honest as you can; there is no right or wrong answers. Thank you I appreciate for your time
Information about the Client Engagement
1. What was your role on the engagement? o Engagement Review Partner o Engagement Partner o Senior Manager o Manager o Senior o Valuation Specialist o Staff [Specify if possible_______________]
2. In what types of FVM you are experienced to engage at best? *Choose only one you experienced best* o Impairment losses on loans and receivables o FVTOCI- financial instruments & its impairment o Defined benefit plans o Depreciation and carrying value of PPE o Impairment of non-financial assets o Income taxes o Development cost
3. Please describe the specific nature, or sectorization of your selected types of FVM? [describe, if possible to specify _______________]
4. Is your client supervised by National Bank of Ethiopia? o Yes o No
5. What was the annual profit after tax of the bank at the time of this experience? **[Profit after Tax]** o Less than Br. 250 million o Br. 250 million- Br. 500 million o Br. 501 million - Br. 750 million o Br. 751 million - Br. 1 billion o Above 1 billion birr

6. When did this fair value measurement experience take place? o The most recent audit engagement of 2020/21 o During 2019/20 o During 2018/19
The Specific Fair Value Measurement
7. What factors made it difficult and/or complex to audit? o The length of the forecast period o The number of significant and complex assumptions associated with the process o A high degree of subjectivity associated with the assumptions and factors used in the process o A high degree of uncertainty associated with the future occurrence or outcome of events underlying the assumptions used o Lack of objective data or enough guidance when highly subjective factors are used o Lack of efficient markets o Economic volatility o Inherent complexity and volatility of the environment in which banks operate. o Lack of expertise for auditing banking business activities o Lack of adequacy of expertise relevant to Computer Information System (CIS) and Electronic Fund Transfer (EFT) systems used by the bank o Lack of adequacy of resources and/or inter-firm arrangements to carry out the work necessary at the number of domestic and international locations o The breadth of assets & liabilities o The choice & sophistication of acceptable valuation techniques & models, or imprecision around the valuations o Lack of appropriate disclosure about measurement methods & uncertainty o Legal and other requirements (against provisions prescribed by the NBE) o Commercial consideration o The nature & complexity of the firm's audit clients o The risk associated with cash flows o Assumptions made in prior periods, if appropriate o The plans of the entity, including what management expects o Other [specify____________________]
8. Using the fair value hierarchy described in [IFRS13. 72-73], this fair value measurement would be classified as____? **[Level 3]** o Level I o Level II o Level III
9. What was the relative materiality of this fair value measurement, in terms of the balance of the item you experienced? **[Materiality]** o Less than materiality o Approximately equal to materiality o 2-3x materiality o 4-5x materiality o Greater than 5x materiality

10. How large was the degree of estimation uncertainty (i.e., the possible range of values) associated with this fair value measurement? **[Uncertainty]** ○ Less than materiality ○ Approximately equal to materiality ○ 2-3x materiality ○ 4-5x materiality ○ Greater than 5x materiality
Information about Audit Procedures
11. What steps were taken to obtain an understanding of the bank's process for determining FVMs? [open-ended specify here_______________]
10. Did the engagement team consult a valuation specialist for this fair value measurement? If so, please indicate who specifically was consulted (mark all that apply) **[Auditors Specialist]** ○ A valuation specialist employed by your firm ○ A third-party valuation specialist engaged by your firm ○ N/A – No valuation specialist was consulted
12. Did the bank consult a valuation specialist for this fair value measurement? If so, please indicate who specifically was consulted (mark all that apply): **[Client Specialist]** ○ A valuation specialist employed by the client ○ A third-party valuation specialist engaged by the client ○ N/A – No valuation specialist was consulted Did this specialist(s) help the bank to develop its valuation method/model? ○ Yes ○ No
13. Were any aspects of the valuation process proprietary? ○ Yes ○ No (If yes), what steps were taken to obtain reasonable assurance over this aspect of the valuation? [Open-ended specify here________________]
14. What is your judgment of control risk associated with this fair value measurement process? **[Control Risk]** ○ [scale from 1-low to 11=high] specify your scale here______________
15. Were any of the controls surrounding this fair value measurement process relied upon for purposes of altering the nature, timing or extent of substantive audit procedures? ○ Yes ○ No (If yes), which controls were relied on? [Open-ended specify here____________] (If no), why were controls not relied upon? [Open-ended specify here_________]
16. Did the engagement team encounter significant challenges in performing the control testing? ○ Yes ○ No (If yes), what was the nature of those challenges?[open-ended specify here_____]
17. What is your judgment of inherent risk associated with this fair value measurement? **[Inherent Risk]** ○ [Scale from 1-low to 11=high] specify your scale here____________
Information about Substantive Procedures
18. Was management's valuation model substantively tested?

○ Yes ○ No (If yes), what specific steps were taken to substantively test the valuation model? [Open-ended specify here_______________] (If yes), who performed these audit procedures? ○ A valuation specialist employed by your firm ○ A third-party valuation specialist engaged by your firm ○ Member(s) of the core engagement team (If yes), did the core engagement team and/or the valuation specialist encounter any significant challenges in performing these audit procedures? ○ Yes ○ No (If yes), did the results of these audit procedures identify any significant problems with management's significant assumptions? ○ Yes ○ No
19. Were management's significant assumptions substantively tested? ○ Yes ○ No (If yes), what specific steps were taken to substantively test these significant assumptions?[Open-ended specify here__________________] (If yes), who performed these audit procedures? ○ A valuation specialist employed by your firm ○ A third-party valuation specialist engaged by your firm ○ Member(s) of the core engagement team (If yes), did the core engagement team and/or the valuation specialist encounter any significant challenges in performing these audit procedures? ○ Yes ○ No (If yes), did the results of these audit procedures identify any significant problems with management's significant assumptions? ○ Yes ○ No
20. Were the underlying data used by management substantively tested? ○ Yes ○ No (If yes), what specific steps were taken to substantively test the underlying data? [Open-ended specify here_____________] (If yes), who performed these audit procedures? ○ A valuation specialist employed by your firm ○ A third-party valuation specialist engaged by your firm ○ Member(s) of the core engagement team (If yes), did the core engagement team and/or the valuation specialist encounter any significant challenges in performing these audit procedures? ○ Yes ○ No

(If yes), did the results of these audit procedures identify any significant problems with the underlying data used by management? ○ Yes ○ No
21. Were ranges of fair values estimate developed? **[Procedures for Presenting Ranges of Values]** ○ Yes ○ No (If yes), what specific steps were taken to develop Ranges of values? [Open-ended specify here a reasonable ranges you developed________________] (If yes), who performed these audit procedures? ○ A valuation specialist employed by your firm ○ A third-party valuation specialist engaged by your firm ○ Member(s) of the core engagement team (If yes), did the core engagement team and/or the valuation specialist encounter any significant challenges in performing these audit procedures? ○ Yes ○ No (If yes), did the results of these audit procedures identify any significant problems? ○ Yes ○ No
22. During the course of the audit, in which of the following areas were problems identified? (Please mark all that apply) **[Problems Identify]** ○ Management intent in determining fair value measurements ○ Controls to prevent management override ○ Overall control environment ○ Monitoring controls over fair value measurements ○ Appropriateness of management method/model ○ Controls over the process used to determine fair value measurements ○ Expertise and experience of those determining fair value measurements ○ Role of IT in the valuation process ○ Extent to which the valuation process relies on a service organization ○ Extent to which the entity engages or employs a specialist ○ Significant management assumptions ○ Documentation supporting management assumptions ○ Process used to develop and apply management assumptions ○ Integrity of change controls and security procedures for valuation models ○ Controls over the consistency, timeliness, and reliability of model inputs ○ The presence of significant misstatement ○ The number of audit engagement, effort, & timing ○ Requires the introduction of extra work ○ Extensive government pressure to provide high-quality audits ○ Other [please specify here_____________]
23. Were any control deficiencies identified as a result of tracing back from a misstatement detected in this fair value measurement? ○ Yes

○ No
Information about Completing the Audit
24. What was the extent of discussions with management regarding this fair value measurement? ○ [scale from 1=No Discussion to 11=Extensive Discussion] specify your scale here____________
25. Please indicate which of the following topics were discussed with management regarding this fair value measurement (please mark all that apply): **[Topic Adjustment]** ○ The valuation process ○ Controls surrounding the valuation process ○ Models used in the valuation process ○ Management's assumptions ○ Management's inputs ○ Footnote disclosures about the fair value measurement ○ Documentation surrounding the valuation process ○ Potential adjustments to the fair value measurement ○ Evidence of a failure of the control environment or flaws in the internal control process ○ Other [please specify here________]
26. Was an audit adjustment proposed for this fair value measurement? ○ Yes ○ No (If yes), would the proposed audit adjustment increase or decrease its value? ○ Increase ○ Decrease (If yes), the proposed adjustment was ultimately: **[Income Decreasing Adjustment]** ○ Fully booked ○ Partially booked ○ Waived (If so), does the proposed adjustment was shown the effect of changes in fair values on net income of the report? ○ Yes ○ No
Thank you very much again…… I wonder your patience. May god bless you Please save your work and send directly to the student researcher via tesis72@yahoo.com OR to your respective audit partner email account. I can be reached at: +251911570328 Tesfaye Getahun

C. Descriptive Statistics Produced by SPSS

1. Frequency Table: Factors made it difficult and/or complex to audit

The length of the forecast period

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	5	71.4	71.4	71.4
	Yes	2	28.6	28.6	100.0
	Total	7	100.0	100.0	

The number of significant and complex assumptions associated with the process

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	2	28.6	28.6	28.6
	Yes	5	71.4	71.4	100.0
	Total	7	100.0	100.0	

A high degree of subjectivity associated with the assumptions and factors used in the process

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	3	42.9	42.9	42.9
	Yes	4	57.1	57.1	100.0
	Total	7	100.0	100.0	

A high degree of uncertainty associated with the future occurrence or outcome of events underlying the assumptions used

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	3	42.9	42.9	42.9
	Yes	4	57.1	57.1	100.0
	Total	7	100.0	100.0	

Lack of objective data or enough guidance when highly subjective factors are used

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	4	57.1	57.1	57.1
	Yes	3	42.9	42.9	100.0
	Total	7	100.0	100.0	

Lack of efficient markets

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	3	42.9	42.9	42.9
	Yes	4	57.1	57.1	100.0
	Total	7	100.0	100.0	

Economic volatility

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	4	57.1	57.1	57.1
	Yes	3	42.9	42.9	100.0
	Total	7	100.0	100.0	

Lack of expertise for auditing banking business activities

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	6	85.7	85.7	85.7
	Yes	1	14.3	14.3	100.0
	Total	7	100.0	100.0	

The choice & sophistication of acceptable valuation techniques & models, or imprecision around the valuations

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	5	71.4	71.4	71.4
	Yes	2	28.6	28.6	100.0
	Total	7	100.0	100.0	

Lack of appropriate disclosure about measurement methods & uncertainty

		Frequency	Percent	Valid Percent	Cumulative Percent

Valid	No	6	85.7	85.7	85.7
	Yes	1	14.3	14.3	100.0
	Total	7	100.0	100.0	

2. Frequency Table: Percentage of responses

What was your role on the engagement?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Engagement Partner	1	14.3	14.3	14.3
	Senior Manager	4	57.1	57.1	71.4
	Manager	2	28.6	28.6	100.0
	Total	7	100.0	100.0	

In what types of FVM you are experienced to engage at best?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Impairment losses on loans and receivables	5	71.4	71.4	71.4
	Depreciation and carrying value of PPE	2	28.6	28.6	100.0
	Total	7	100.0	100.0	

What was the annual profit after tax of the bank at the time of this experience?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Br. 250 million- Br. 500 million	1	14.3	14.3	14.3
	Br. 501 million - Br. 750 million	1	14.3	14.3	28.6
	Br. 751 million - Br. 1 billion	1	14.3	14.3	42.9
	Above 1 billion birr	4	57.1	57.1	100.0
	Total	7	100.0	100.0	

When did this fair value measurement experience take place?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	The most recent audit engagement of 2020/21	4	57.1	57.1	57.1
	During 2018/19	3	42.9	42.9	100.0
	Total	7	100.0	100.0	

What was the relative materiality of this fair value measurement, in terms of the balance of the item you experienced?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than materiality	3	42.9	42.9	42.9
	Approximately equal to materiality	1	14.3	14.3	57.1
	2-3x materiality	2	28.6	28.6	85.7
	4-5x materiality	1	14.3	14.3	100.0
	Total	7	100.0	100.0	

How large was the degree of estimation uncertainty (i.e., the possible range of values) associated with this fair value measurement?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than materiality	4	57.1	57.1	57.1
	Approximately equal to materiality	2	28.6	28.6	85.7
	4-5x materiality	1	14.3	14.3	100.0
	Total	7	100.0	100.0	

Did the engagement team consult a valuation specialist for this fair value measurement?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No valuation specialist was consulted	7	100.0	100.0	100.0

Did the bank consult a valuation specialist for this fair value measurement?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	A valuation specialist employed by the client	4	57.1	57.1	57.1
	A third-party valuation specialist engaged the client	2	28.6	28.6	85.7
	No valuation specialist was consulted	1	14.3	14.3	100.0
	Total	7	100.0	100.0	

Using the fair value hierarchy described in [IFRS13. 72-73], this fair value measurement would be classified as____?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Level 1	1	14.3	20.0	20.0
	Level 2	1	14.3	20.0	40.0
	Level 3	3	42.9	60.0	100.0
	Total	5	71.4	100.0	
Missing	System	2	28.6		
Total		7	100.0		

Did this specialist(s) help the bank to develop its valuation method/model?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	6	85.7	100.0	100.0
Missing	System	1	14.3		
Total		7	100.0		

Were any aspects of the valuation process proprietary?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	6	85.7	85.7	85.7
	Yes	1	14.3	14.3	100.0

	Total	7	100.0	100.0	

What is your judgment of control risk associated with this fair value measurement process?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	1	14.3	16.7	16.7
	2	1	14.3	16.7	33.3
	7	1	14.3	16.7	50.0
	9	1	14.3	16.7	66.7
	10	1	14.3	16.7	83.3
	11	1	14.3	16.7	100.0
	Total	6	85.7	100.0	
Missing	System	1	14.3		
Total		7	100.0		

Were any of the controls surrounding this fair value measurement process relied upon for purposes of altering the nature, timing or extent of substantive audit procedures?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	3	42.9	50.0	50.0
	Yes	3	42.9	50.0	100.0
	Total	6	85.7	100.0	
Missing	System	1	14.3		
Total		7	100.0		

Did the engagement team encounter significant challenges in performing the control testing?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	5	71.4	71.4	71.4
	Yes	2	28.6	28.6	100.0
	Total	7	100.0	100.0	

What is your judgment of inherent risk associated with this fair value measurement?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	1	14.3	16.7	16.7
	2	1	14.3	16.7	33.3
	9	1	14.3	16.7	50.0
	10	1	14.3	16.7	66.7
	11	2	28.6	33.3	100.0
	Total	6	85.7	100.0	
Missing	System	1	14.3		
Total		7	100.0		

Was management's valuation model substantively tested?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	2	28.6	28.6	28.6
	Yes	5	71.4	71.4	100.0
	Total	7	100.0	100.0	

(If yes), who performed these audit procedures?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Member(s) of the core engagement team	5	71.4	100.0	100.0
Missing	System	2	28.6		
Total		7	100.0		

(If yes), did the core engagement team and/or the valuation specialist encounter any significant challenges in performing these audit procedures?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	2	28.6	40.0	40.0
	Yes	3	42.9	60.0	100.0
	Total	5	71.4	100.0	
Missing	System	2	28.6		
Total		7	100.0		

(If yes), did the results of these audit procedures identify any significant problems with management's significant assumptions?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	2	28.6	66.7	66.7
	Yes	1	14.3	33.3	100.0
	Total	3	42.9	100.0	
Missing	System	4	57.1		
Total		7	100.0		

Were management's significant assumptions substantively tested?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	2	28.6	28.6	28.6
	Yes	5	71.4	71.4	100.0
	Total	7	100.0	100.0	

If yes), who performed these audit procedures?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Member(s) of the core engagement team	5	71.4	100.0	100.0

		Frequency	Percent	Valid Percent	Cumulative Percent
Missing	System	2	28.6		
Total		7	100.0		

(If yes), did the core engagement team and/or the valuation specialist encounter any significant challenges in performing these audit procedures?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	3	42.9	60.0	60.0
	Yes	2	28.6	40.0	100.0
	Total	5	71.4	100.0	
Missing	System	2	28.6		
Total		7	100.0		

(If yes), did the results of these audit procedures identify any significant problems with management's significant assumptions?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	1	14.3	50.0	50.0
	Yes	1	14.3	50.0	100.0
	Total	2	28.6	100.0	
Missing	System	5	71.4		
Total		7	100.0		

Were the underlying data used by management substantively tested?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	2	28.6	28.6	28.6
	Yes	5	71.4	71.4	100.0
	Total	7	100.0	100.0	

(If yes), who performed these audit procedures?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Member(s) of the core engagement team	5	71.4	100.0	100.0
Missing	System	2	28.6		
Total		7	100.0		

(If yes), did the core engagement team and/or the valuation specialist encounter any significant challenges in performing these audit procedures?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	4	57.1	80.0	80.0
	Yes	1	14.3	20.0	100.0
	Total	5	71.4	100.0	
Missing	System	2	28.6		
Total		7	100.0		

(If yes), did the results of these audit procedures identify any significant problems with the underlying data used by management?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	3	42.9	75.0	75.0
	Yes	1	14.3	25.0	100.0
	Total	4	57.1	100.0	
Missing	System	3	42.9		
Total		7	100.0		

Were ranges of fair values estimate developed?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	3	42.9	42.9	42.9
	Yes	4	57.1	57.1	100.0
	Total	7	100.0	100.0	

(If yes), who performed these audit procedures?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Member(s) of the core engagement team	3	42.9	100.0	100.0
Missing	System	4	57.1		
Total		7	100.0		

(If yes), did the core engagement team and/or the valuation specialist encounter any significant challenges in performing these audit procedures?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	3	42.9	75.0	75.0
	Yes	1	14.3	25.0	100.0
	Total	4	57.1	100.0	
Missing	System	3	42.9		
Total		7	100.0		

(If yes), did the results of these audit procedures identify any significant problems?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	2	28.6	66.7	66.7
	Yes	1	14.3	33.3	100.0
	Total	3	42.9	100.0	
Missing	System	4	57.1		
Total		7	100.0		

Were any control deficiencies identified as a result of tracing back from a misstatement detected in this fair value measurement?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	5	71.4	71.4	71.4

	Yes	2	28.6	28.6	100.0
	Total	7	100.0	100.0	

What was the extent of discussions with management regarding this fair value measurement?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0	1	14.3	14.3	14.3
	8	1	14.3	14.3	28.6
	10	2	28.6	28.6	57.1
	11	3	42.9	42.9	100.0
	Total	7	100.0	100.0	

Was an audit adjustment proposed for this fair value measurement?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	5	71.4	71.4	71.4
	Yes	2	28.6	28.6	100.0
	Total	7	100.0	100.0	

(If yes), would the proposed audit adjustment increase or decrease its value?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Increase	1	14.3	50.0	50.0
	Decrease	1	14.3	50.0	100.0
	Total	2	28.6	100.0	
Missing	System	5	71.4		
Total		7	100.0		

If yes), the proposed adjustment was ultimately

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Partially booked	2	28.6	100.0	100.0
Missing	System	5	71.4		
Total		7	100.0		

(If so), does the proposed adjustment was shown the effect of changes in fair values on net income of the report?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	2	28.6	100.0	100.0
Missing	System	5	71.4		
Total		7	100.0		