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Research on
IFRS, adoption and implementation in public Enterprises in Ethiopia with the
assessment of key issues and challenges

By

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Statement of declaration

I, Abebaw DagneW Wubetie, have carried out independently a research work on “IFRS, adoption and implementation in Public Enterprises in Ethiopia with the assessment of key issues and challenges” in partial fulfillment of the requirement of the MSc program in Accounting and Finance with the guidance and support of the research advisor.

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

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CERTIFICATION

I certify that the thesis work entitled “IFRS, adoption and implementation in Public Enterprises in Ethiopia with the assessment of key issues and challenges” is a genuine work of Mr Abebaw Dagneb Webetie, who carried out the research under my guidance. Certified further, that to the best of my knowledge the work reported herein doesn't form part of any other project report or dissertation on the bases of which a degree or award was conferred on an earlier occasion on this or any other candidate.

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<u>Presentation</u>	<u>Page</u>
Table of contents	i
Acronyms and Abbreviations	iv
Abstract	vi
Acknowledgements	vii
Chapter One: Introduction	1
1.1 Organizational Background	3
1.1.1 Historical Background and Accounting in Public Enterprises	3
1.1.2 Public Enterprises in Ethiopia	6
1.2 Statement of the problem	7
1.3 Research Objective	10
1.3.1 General objective	10
1.3.2 Specific objectives	10
1.4 Research Questions	11
1.5 Significance of the study	11
1.5.1 To Government and policy Makers	11
1.5.2 To the Public Enterprises	12
1.5.3 To the Stakeholders	12
1.5.4 To Academics/Researchers	12
1.6 Scope of the study	12
1.7 Limitation of the study	13
1.8 Organization of the paper	14
Chapter Two: Literature and Conceptual Review	15
2.1 Theoretical Literature Review	15
2.1.1 Objective of financial statements	15
2.1.2 The concept of IFRS	18

2.1.3 International Accounting Standards	19
2.1.4 Factors Affecting the Adoption of IFRS	23
2.1.5 Benefits of IFRS Adoption	23
2.1.6 Challenges of Adopting IFRS	24
2.1.7 IFRS Adoption and Implementation public Enterprise in Ethiopia	25
2.1.8 Trends of IFRS Application in public enterprises	26
2.1.9 Awareness Made during IFRS Adoption at Public enterprises	26
2.1.10 Motivating Factors for Adopting IFRS in Public Enterprises	27
2.1.11 Current movements on Human Resource Development toward IFRS	27
2.2 Empirical Literature Review	28
2.2.1 Empirical Evidence	28
2.2.2 Summary and Gap in the existing literature	51
Chapter Three: Research Methodology	53
3.1 Research Approach	53
3.2 Research Design	53
3.2.1 Population and sampling techniques	54
3.2.2 Data Collection Instrument and Administration	54
3.2.2.1 Interview	55
3.2.2.2 Document Review	55
3.2.2.3 Focused Group Discussion	55
3.2.3 Data Collection procedure	56
3.2.4 Data Management	56
3.2.5 Ethical consideration	56
3.3 Data analysis	56
3.4 Validity of the Study	57
Chapter four: Results and Discussion	58
4.1 The Application of IFRS in Public Enterprises in Ethiopia	58

4.2 Benefits of adoption of IFRS	60
4.2.1 Benefits to the public Enterprises	61
4.2.2 Benefits to Investors/Government	62
4.2.3 Benefits to the Managements	63
4.2.4 Benefits to other stakeholders	63
4.3 Challenges of IFRS Adoption	64
4.4. Factors affecting the Adoption and implementation of IFRS In Public Enterprises in Ethiopia	67
4.5 Summary of the chapter	70
Chapter Five: Summary of Major Findings, Conclusions and Recommendation	71
5.1 Summary of Major Findings	71
5.2 Conclusions	73
5.3 Recommendations	76
5.4 Future research areas	77
Definition of terms	78
References	80
Appendices:-	
Appendix (A) Interview Guide	86

Acronyms and Abbreviations

AABE	Accounting and Auditing Board of Ethiopia
ACCA	Association of Chartered and Certified accountants
AISG	Accountants International Study Group
ASE	The Accounting Society in Ethiopia
EAFA	Ethiopian Accounting and Finance Association
EPAAA	Ethiopian professional Association of Accountants and Auditors
ERCA	Ethiopian Revenues and customs Authority
EU	European Union
FASB	Financial Accounting Standards Board
GAAP	Generally Accepted Accounting Principles
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
IFAC	International Federation of Accountants
IFRIC	International Financial Reporting Interpretations committee
IFRS	International Financial Reporting Standards
IIA	the Institute of Internal Auditors

IOSCO International Organization of Securities Commission

ISA International Standards for Auditing

IT Information Technology

NASB Nigerian Accounting Standard Board

PIE Public interest entity

ROSC Reports on Observance of Standards and codes

SIC Standing Interpretation Committee

UNCTAD United Nations Conference on Trade and Development

Abstract: -

The goal of financial reporting is to make information available for decision making. Historically, there is diversity of financial reporting in different countries due to culture, legal systems, tax systems and business structures. International Financial Reporting Standards (IFRS) harmonizes diversity by making information more comparable and easier for analysis, promoting efficient allocation of resources and reduction in capital cost. Both primary and secondary data were collected and studied by the researcher to confirm these assumptions. Lessons from already adopters of IFRS show that there are enabling framework for the imminent transition and challenges. Based on all these facts; the benefits and challenges together with the roadmap of its adoption and implementation with key issues of IFRS in public Enterprise, Ethiopia were studied. To answer research objectives the researcher use exploratory research design. The data were analyzed qualitatively and data from interview, focused group discussion and document reviews were interpreted qualitatively. The results show that IFRS adoption in Public Enterprises in Ethiopia will result in a number of important benefits to the enterprise and stakeholders. Among the listed benefits are: - increase the quality of financial statements, reliable and comparable financial statements ,improved management information system, get the best information out of the financial statements and increase confidence to rely on the financial statement, ease to manage risk, increase external financier reliance on financial statement, and make easier to oversight. On the other hand, high cost of adopting, the complex nature of IFRS, need strong support from AABE and other stakeholders for implementing IFRS, as well as IFRS emphasis on fair value accounting are listed among the most important challenges of IFRS adoption. The study also finds that those: - which are Government policy and support, commitment of the enterprise, support from professional bodies, sufficient period for adoption and implementation, capital market, timely revision of accounting curriculum, IFRS based accounting procedure manual for each enterprise/industry, better educational level and intensive training are some of the factors which are significantly influence the adoption of IFRS in public Enterprises in Ethiopia. Finally, the thesis displayed practical implications for the efficient and effective adoption and implementation of IFRS, in following the proper application of all the adopted standards. The findings also suggests that a rigorous IFRS capacity building program should be embarked by the government, all regulatory bodies, enterprises and training institutions in order to provide the needed manpower for IFRS implementation.

Keywords: - Adoption, implementation, Benefits, Challenges, Roadmaps, International Financial Reporting Standards in Public Enterprises in Ethiopia

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Chapter One: - Introduction

Introduction

The goal of financial reporting is to make information available for decision-making. Financial statements apart from stating the financial position of an organization, provides other information such as the value added, changes in equity if any and cash flows of the enterprise within a defined period time to which it relates (Iyoha and Faboyede, 2011). This information is useful to a wide range of users making informed economic decisions. The quality of financial reporting is indispensable to the need of users who requires them for investment and other decision making purposes. Financial reports can only be regarded as useful if it represents the “economic substance” of an organization in terms of relevance, reliability, comparability and aids interpretation simplicity (Penman, 1984). According to Essien-Akpan (2011) as a result of increasing globalization and therefore competition, it becomes essential that countries and companies alike address issues that will make them become more attractive of investors. Capital market trades (cross border listing) have gone global and a company can raise funds on several stock exchanges around the world. Diversity in financial reporting in different countries arises because of the differences in legal systems, tax systems and business structures. The IFRS is intended to harmonize these diversities by making information more comparable and easier for analysis, promoting efficient collaboration of resource and reduction in capital cost. The implementation of IFRS would reduce information irregularity and strengthens the communication link between all stakeholders (Bushman and Smith, 2001). It also reduces the cost of preparing different version of financial statements where an organization is a multi- national (Healy and Palepu, 2001). Before IFRS adoption era, most countries had their own standards with local bodies responsible for developing and issuance.

The increasing growth in international trade, cross border financial transactions and investments which unavoidably involves the preparation and presentation of accounting

reports that is useful across various national borders, has brought about the adoption of IFRS by both the developed and developing countries (Armstrong et al., 2007).

There are proponents as well as opponents who have arguments for and against the global adoption of IFRS. One of the demerits that will be experienced by countries adopting of IFRS include forgoing the benefits of any past and potential future innovations in local reporting standards specific to their economies. Single set of accounting standards cannot reflect the differences in national business practices arising from differences in institutions and cultures (Armstrong et al., 2007).

Proponents of the adoption of IFRS argue that there are a number of benefits which can be gained from greater cross-country comparability of firms financial reports, Barth (2007), for instance, argues that by adopting a common body of international standards, countries can expect to lower the cost of information processing and auditors of financial reports can be expected to become familiar with one common set of international accounting standards than with various local accounting standards. The argument here is that countries choose to adopt IFRS when they expect to increase the share of foreign capital and trade in the economy. In this sense, even countries with low levels of foreign capital and trade can choose to adopt IFRS if they are expecting growth in those sectors.

On the contrary, opponents argue that one single set of accounting standards cannot reflect the differences in national business practices arising from differences in institutions and cultures (Armstrong, Barth, Jagolinzer, and Riedk, 2007)

Although many countries have faced challenges in their decisions to adopt IFRS, its wide spread adoption has been promoted by the argument that the benefits outweigh the costs (Iyoha and Faboyede, 2011).

In the past few years, many developed and developing countries have adopted International Financial Reporting standards (IFRSs) as their basis for financial reporting. IFRSs are a set of accounting principles that is rapidly gaining acceptance on worldwide basis. They are published by the London-based international Accounting Standards Board

(IASB). IFRS is more focused on objectives and principle-based. The adoption of IFRS as issued by the International Accounting Standards Board (IASB) is expected to result in the application of a common set of financial reporting standards within and between countries, in many countries that require or permit application of IFRS. Ball (1995) concludes that internationalization will reduce some or much of the diversity in accounting rules and practices across nations, it will not eliminate it.

Key issues, benefits and challenges of the International Financial Reporting Standards (IFRS) to adopt in public Enterprise, in Ethiopia, needs background knowledge of IFRS, the theoretical foundation or basis on which it is rooted, empirical studies on financial reporting, definitions and components of IFRS.

1.1 Organizational Background

1.1.1 Historical Background and Accounting in Public Enterprises

The state has a public purpose in the exercise of its sovereign power, and any modern state assumes responsibility beyond its traditional function of maintaining peace and order and protecting the country from external aggression, and it engages in economic activities. To accomplish this, one of the options is setting up an entity that undertakes commercial activities (Tewodros Meheret, 2014).

Generally, the term public enterprise refers to enterprises established under the ownership of the state or public authorities. However, the particular features of such enterprises are not the same in all definitions. For instance, International Center for Public Enterprises has adopted the following definition:- (Tewodros Meheret, 2014).

Any commercial, financial, industrial, agricultural or promotional undertaking- owned by public authority, either wholly or through majority shareholding- which is engaged in the sale of goods and services and whose affairs are capable of being recorded in balance sheets and profit and loss accounts. This definition is broad enough to embrace all forms of public economic enterprises established across countries and ideologies. However, it

does not hold true in all legal systems because of the peculiar factors of a country may prompt a definition that fits the setting. For example, the law governing public enterprises (public Enterprises proclamation No. 25/1992) through which the transition from command to market economy was realized in Ethiopia by transforming the role of public enterprises defines it as “wholly state owned public enterprise established pursuant to the same Proclamation to carry on for gain manufacturing, distribution, service rendering or other economic and related activities.” (Tewodros Meheret, 2014).

This definition embodies three elements that determine the feature of public enterprise. The first element relates to ownership and requires an enterprise to be wholly owned by the state so that it can be characterized as a public enterprise.

The second element requires establishment under the proclamation. The proclamation sets the legal framework for entities established by the state for the purpose of economic activities for gain.

The third element in the definition of “public enterprise” under Proclamation No. 25/1992 is the purpose of the entity which distinguishes it from the main function of the state. Public enterprises are commercial entities as distinguished from administrative agencies which carry out regulatory activities and render public service. (Tewodros Meheret, December 2014).

The evolution of accounting can be seen international perspective and from national point of view. The development of accounting internationally has generally been well documented, studies that examine this process in developing countries appear relatively limited (Mihret, 2009). The development of accounting in Ethiopia could be better understood if examined in a range of decades beginning from pre-1970 to date

Ethiopia has alternating political orders: - from a developing market economy (pre 1974) to a communist economy (1974 to 1991), and then back to a market oriented economy (1991 onwards) (Mihret, 2009). These patterns are described below in terms of

stakeholders' efforts to promote the development of accounting and the outcomes of such efforts.

Two significant developments in the history of accounting in Ethiopia took place in the 1960s. In 1960 the commercial code of Ethiopia was proclaimed (Government of Ethiopia 1960) which was followed by the formation of the office of the Auditor General in 1961 by proclamation No. 199/1961. The commercial code contains accounting and external auditing provisions, which serve as the legal basis for financial reporting and external audit of companies (Argaw, 2000; Kinfu, 1990; ROSC,2007).

The early seventies saw the creation of many professional associations in Ethiopia (Mengistu, 2008). An effort to establish indigenous professional accounting associations in Ethiopia occurred in 1973 when the Ethiopian professional Association of Accountants and Auditors (EPAAA) was established (Argaw, 2000; Kinfu, 1990; Mihret, n.d). According to Mihret (2009), the EPAAA was aspiring to develop to a level where it would certify and license public accountants to practice in Ethiopia. Composition of members to the association included mainly accounting and auditing practitioners.

In 1974, a military government came into power in Ethiopia and declared a communist ideology, Nonetheless, an important landmark in the history of accounting and auditing in this period the formation of the Audit Service Corporation (ASC) by proclamation no. 126/1977 (Mihret,2009).

According to Seal, Sucher and Zelenka, (1996 as cited in Mihret, 2009), after 1991, when the country shifted back to a free-market economic order, a number of public enterprises were privatized, which resulted in a new corporate governance structure that would be expected to enhance the importance of financial reports. In addition to this, the EPAAA has been reactivated and three other professional associations, i.e. The Ethiopian Accounting and Finance Association (EAFA), the Institute of Internal Auditors (IIA), and the Accounting Society in Ethiopia (ASE) have been established (Mihret,2009).

There are a number of developments in accounting at present, problems related to accounting regulations and financial reporting are now being recognized and appreciated by the Government of Ethiopia, hence the government of Ethiopia issued proclamation No.847/2014.

Though IFRS was developed in 2001 by professional accountant in different countries, its transition to Europe came in 2005. It has been evolving over the years. Currently, Ethiopia is in the progress of adopting it. IFRS is required for a certain type of institution to effective implementation; Ethiopia established an institution to take responsibility for effective implementation of IFRS, called AABE.

Similar to many developing countries, Ethiopia's financial reporting practices were driven by its tax laws and fragmented accounting practices acquired from the country's institutions of higher learning. Adopting IFRS as a national standard will have significant benefits for countries to improve corporate transparency that is required by investors and the public. Many countries are currently migrating to IFRS by abandoning their national accounting standards. This is an opportunity for countries like Ethiopia, which do not have national accounting standards even if transiting to international standards with weak financial reporting practices in the country may pose many challenges that must be overcome through time (Gizaw,n.d).

1.1.2 Public Enterprises in Ethiopia

According to proclamation no 25/1992 the Government of Ethiopia has adopted a new economic policy and it has become necessary to take successive measures for the implementation of this policy. The Government of Ethiopia declare a proclamation to stay under the government control, it was necessary to create an organizational structure whereby they can enjoy management autonomy and thus enable them to be efficient, productive and profitable as well as to strengthen their capability to operate by competing with private enterprises. According to the law "Enterprise" means a wholly state owned public enterprise established pursuant to this proclamation to carry on for gain

manufacturing, distribution, service rendering or other economic and related activities. Every enterprise shall be established by regulations to be issued pursuant to the proclamation. Accordingly, the enterprise shall not be liable beyond its total assets.

As stated in the proclamation, without prejudice to the provisions of other laws providing otherwise, any enterprise shall annually transfer 5% of its net profits to the legal reserve fund until such reserve fund equals 20% of the capital of the enterprise. The legal reserve fund may be utilized for covering: the losses; and unforeseeable expenses and liabilities. Proc No. 412/2004 2nd August 2004, further offers another definition which considers public enterprise as an enterprise as defined under Article 2(1) of the Public Enterprises Proclamation No. 25/1992, or as a wholly state-owned share company.

1.2 Statement of the problem

Considerable differences exist across countries with respect to how financial statements are prepared and presented. Differences exist in recognition, measurement, presentation, and disclosure. A survey of the relevant literature identified the following five items as commonly accepted factors influencing a country's financial reporting practices:- legal system, taxation, financing system, inflation, and political and economic ties(Gary K. Meek and Sharokh M. Saudagaran, Journal of Accounting Literature, 1990). The diversity in accounting practices across countries causes problems that can be quite serious. Problems relate to preparation of consolidated financial statements by companies with foreign operations, gaining access to foreign capital markets and lack of comparability of financial statements between companies from different countries are some of the problems (HOLYE, 10th edition, 2011). These differences can significantly affect the analysis of foreign financial statements for making investment and lending decisions. It is very difficult, if not impossible, for potential investor to directly compare the financial position and performance of different countries; because of countries have different financial accounting and reporting standards. Efforts have been underway for over four decades to reduce the diversity that exists in financial reporting across

countries. The most important of these efforts has been the work that was begun by the International Accounting Standards Committee (IASC) and continues with the International Accounting Standards Board (IASB) to develop International Financial Reporting Standards (IFRS). Today, publicly traded companies in more than 100 countries around the world are using IFRS to prepare consolidated financial statements. Many countries have faced challenges in their decisions to adopt IFRS, its wide spread adoption has been promoted by the argument that the benefits outweigh the costs. The benefits recently there has been a push towards the adoption of IFRS developed and issued by the International Accounting Standards Board (IASB).

IFRS are attracting significant scholarly attention especially in markets where decision making on its adoption is approaching. Researches show that there are cultural, legal, political obstacles to an immediate full adoption of IFRS.

In Ethiopia the mandatory adoption of IFRS required in public interest entities over certain period of time (proclamation No. 847/2014, 5th December 2014). Public interest entities would be the first phase implementers of IFRS; small and medium enterprises would require in the second.

First time adopters of IFRS will have to be careful to comply with all disclosure and presentation requirements, those contained in IAS 1, “presentation of Financial Statements.” Several public accounting firms provide IFRS disclosure checklists that can be used for this purpose.

If a company is required to report IFRS based financial statements for the year ended Sene 30, 2010 E.C under IFRS 1 it also must provide comparative financial statements for the year ended Sene 30, 2009, Hamle 1, 2008, is the beginning of the earliest period for which the comparative information must be provided, and therefore Hamle 1, 2008 is the transition date for the company. This means that public enterprises must begin using IFRS on Hamle 1, 2008; to be able to prepare comparative IFRS financial statements on Sene 30, 2010 E.C.

Once the opening IFRS balance sheet has been prepared, enterprises continue to use IFRS for the next two years so that comparative information can be included in the first set of annual financial statements prepared under IFRS.

Researches done in Nigeria, Ghana, Kenya, Libya and other countries show that Due to the complex and less understandable nature of IFRS and it is especially the case for developing and least developed countries, their IFRS adoption and implementation were complex and faced many challenges. This complexity requires a huge workload during the transition year for finance and accounting staff and other relevant bodies. This results is not only increased internal employees cost but also external monitoring costs such as high audit fees. Intensive training program for staff across the company is also another costly investment and of course one of the most important factors for the adoption of IFRS.

Other difficulties encountered for the implementation IFRS are technical aspects of the application of IFRS, lack of comprehensive training, lack of adequate IFRS training bodies, problem with the IT system in handling the transaction to IFRS, increase volatility of earnings as a result of IFRS implementation, lack of availability of competent specialists, lack of proper instructions from regulatory and lack of adequate IFRS implementation guidance suited to the specific industry (P.FareedMastan et.al, 2015).

Even though IFRS adoption requires companies a huge amount of initial investment during the implementation phase, benefits of IFRS will accrue throughout the life of the company as a going concern.

Public Enterprises as defined in proclamation No. 25/92 is a wholly state owned enterprise established for gain or other economic and related activities. Thus, public enterprises are public interest entities which required preparing their financial statements on IFRS based starting Hamle 1, 2008 E.C.

Public enterprises comprise enterprises which are accountable to the ministry and which have been established under proclamation No. 25/92 are under the study. The ministry oversees and assists their corporate management and financial performance of the enterprises which are accountable to the ministry and other supervising authorities.

IFRS adoption and implementation in Public enterprises in Ethiopia have been started. The researcher identified there is a need to make a research on public enterprises on the issue, thus, studies on IFRS adoption, implementation, benefits, key issues and challenges in public enterprises are important at present. Moreover, knowingly the benefit and challenges of the adoption and implementation of IFRS, the researcher have made a research to fill the gap taking in to consideration the theoretical and other countries experiences in adoption of IFRS.

1.3 Research Objective:-adoption, Benefits, key issues and challenges of the implementation of IFRSs in public Enterprises in Ethiopia.

1.3.1 General objective

The main objective of this study is to examine IFRS adoption and implementation in public Enterprise in Ethiopia with the assessment of the key issues and challenges.

1.3.2 Specific objectives

The specific objectives of the study are to find out the following

- i. To identify adoption of IFRS on quality of financial reporting in public Enterprise in Ethiopia.
- ii. To assess the benefits of adopting IFRS in Public Enterprise in Ethiopia.
- iii. To examine challenges faced by Public Enterprise in Ethiopia in adoption and implementation of IFRS.

- iv. To identify role of main stakeholders to the adoption and implementation of IFRS in public enterprise.

1.4. Research questions

- i. Does IFRS adoption affecting financial reporting of Public Enterprises?
- ii. What benefits do you expect from the adoption of IFRS in Public Enterprises?
- iii. What are the main challenges faced by public enterprises in Ethiopia in adopting and implementing IFRS?
- iv. What are the main stakeholders in the adoption and implementation of IFRS in public enterprises?

1.5. Significance of the study

The findings of this study will be useful to owners/Government, management, Public Enterprises, and potential investors and other stakeholders of Public Enterprises. This study is necessary because it would enable to improve the implementation of IFRS in public Enterprise in Ethiopia. Finally, it would serve as a reference on the adoption and implementation of IFRS to the public enterprises with key issues and challenges, and serve as a reference to students or other researchers who might want to carry out their research on the similar topic.

1.5.1 To Government and policy Makers

The government can use the findings of this study to assist in policy formulation and development for a framework used for improving the adoption of IFRS practices in relation to public enterprises financial statements.

1.5.2 to the Public Enterprises

Public Enterprises are established based on proclamation No. 25/1992 and on this proclamation it is mentioned that they are state owned/public property and these properties should be properly safe guarded and economically utilized. Public enterprises should be market and economic oriented; then, finance has contributed significantly to these purposes, and should be upgraded to serve the need. So, the researcher asserts Proper implementation of IFRS would better serve for these purposes.

1.5.3 to the stakeholders

Stakeholders are lenders, suppliers, customers and others which have stake on the enterprises. Stakeholders need sufficient information about the enterprise, and one of the most important information is financial information. Importance of the financial information provided to the stakeholders using IFRS studied.

1.5.4 to the Academics/Researchers

Findings from this study will assist academicians or other researchers to use as a base for farther research or study hence it will provide additional understanding on adoption of the IFRS and the benefits and challenge of financial reporting of public enterprise in Ethiopia.

1.6 Scope of the Study

According to proclamation No. 847/2014 issued 5th December 2014 Public interest entities are significant public relevance as the board may decide from time to time because of the nature of its business, its size or its number of employees and includes; in particular a company whose securities are admitted to trading on a regulated capital market, banks, insurance companies and any financial institutions and public enterprises.

Pursuant to proclamation No. 847/2014 AABE was established by regulation No.332/2015 in January 2015 and was given power and duties to prepare an IFRS

implementation roadmap. AABE issued roadmap for public interest entities and small and medium enterprises required to adopt IFRS. Public interest entities required to implement IFRS in the first phase.

According to AABE road map Hamle 1, 2008 E.C. or July 1, 2016 G.C is the starting period of adopting IFRS and it is the conversion period, and Sene 30, 2010 E.C. or June 30, 2018 is reporting period for those significant public interest entities. Public Enterprises are one of the public interest entities.

Countries experience tells us adoption and implementation of IFRS has many benefits and challenges. Adoption and implementation of IFRS in public interest entities have got those benefits and challenges. Therefore, the researcher interested to make a research on one of significant public interest entities; public Enterprises which are accountable to the ministry. .

Therefore, the scope of the study is in Public Enterprise in Ethiopia established under proclamation No. 25/92 and accountable to the ministry. The study involved head of finance department which are working for the selected public Enterprise as a finance manager and team leaders of the enterprises, Audit Service Corporation, and other relevant bodies such as AABE. The study deals only adoption, implementation, benefits and challenges of IFRS in Public Enterprise in Ethiopia.

1.7 Limitation of the study

Even if the research project carried out by taking proper care, attention and devotion, there was limitation.

The limitation was, the researcher tried to get enough data through questionnaire, respondents were reluctant to give their response, thus the researcher unable to use questionnaire response for data analysis. Thus, the researcher used to get data using interview, focused group discussion and document review.

1.8 Organization of the paper

Generally the paper is organized into five chapters. The first chapter presents introduction, background which continued statement of the problem, objective of the study, significance of the study, scope of the study and organization of the paper. The second chapter deals with the literature review and conceptual framework of the study. The third chapter deals with in research methods. The fourth chapter deals with Result and discussion. The fifth chapter deals with summary of major findings, conclusions and recommendation.

Chapter two: Literature and Conceptual Review

2.1 Theoretical Literature Review

Introduction

This section presents a review of related literature to International Financial Reporting Standards (IFRS) and its adoption. It consists of general overview about objective of financial statements, International Financial Reporting standards, benefits and challenges of adopting IFRS, factors affecting the adoption and development of accounting in public Enterprise in Ethiopia.

2.1.1 Objective of financial statements

Financial statements are a structured representation of the financial positions and financial performance of an entity. The objective of financial statements is to provide information about the financial positions, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions. Financial statements also show the results of the management's stewardship of the resources entrusted to it.

IFRS financial statements consist of (IAS 1.8)

- A statement of financial position
- A statement of comprehensive income, which reconciles profit or loss on the income statement to total comprehensive income
- A statement of changes in Equity
- A Cash Flow statement or statement of Cash Flows
- Notes, including a summary of the significant accounting policies

Comparative information is required for the prior reporting period (IAS 1.36). An entity preparing IFRS accounts for the first time must apply IFRS in full for the current and comparative period although there are transitional exemptions (IFRS 1.7)

To meet these objectives, financial statements provide information about an entity's: assets; liabilities; equity; income and expenses, including gains and loss; contributions by and distributions to owners in their capacity as owners; and cash flows. This information, along with other information in the notes, assists users of financial statements in predicting the entity's future cash flows and, in particular, their timing and certainty.

The following are the general features in IFRS.

- ✓ Fair presentation and compliance with IFRS: Fair presentation requires the faithful representation of the effects of the transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework of IFRS.
- ✓ Going concern: Financial statements are present on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so.
- ✓ Accrual basis of accounting: An entity shall recognize items as assets, liabilities, equity, income and expenses when they satisfy the definition and recognition criteria for those elements in the Framework of IFRS.
- ✓ Materiality and aggregation: Every material class of similar items has to be presented separately. Items that are of a dissimilar nature or function shall be presented separately unless they are immaterial.
- ✓ Offsetting: offsetting is generally forbidden in IFRS. However certain standards require offsetting when specific conditions are satisfied in IAS 19 and the net presentation of deferred tax liabilities and deferred tax assets in IAS 12.

- ✓ Frequency of reporting: IFRS requires that at least annually a complete set of financial statements is presented. However listed companies generally also publish interim financial statements (for which the accounting is fully IFRS compliant) for which the presentation is in accordance with IAS 34 interim Financial Reporting.
- ✓ Comparative information: IFRS requires entities to present comparative information in respect of the preceding period for all amounts reported in the current period's financial statements. In addition comparative information shall also be provided for narrative and descriptive information if it is relevant to understanding the current period's financial statements. The standard IAS 1 also requires an additional statement of financial position (also called a third balance sheet) when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.
- ✓ Consistency of presentation: IFRS requires that the presentation and classification of items in the financial statements is retained from one period to the next unless:
 - a) It is apparent, following a significant change in the nature of the entity's operations or a review of its financial statements, that another presentation or classification would be more appropriate having regard to the criteria for the selection and application of accounting policies in IAS 8; or
 - b) An IFRS standard requires a change in presentation.

2.1.2 The concept of IFRS

IFRS stands for International Financial Reporting standards and they are standards for reporting financial results and are applicable to general purpose financial statements and other financial reporting of all profit oriented entities. The term IFRS comprises issued by IASB, IAS issued by IASC; and interpretations issued by the standing Interpretations Committee (SIC) and the International Financial Reporting Interpretations committee (IFRIC) of the IASB (Holve B., et al.,2011, Baker E. et al.,2009 and Larsen E.2008).

Alistair (2010 cited in Ojeka and Mukoro, 2011) defined International Financial Reporting Standards (IFRS) as a series of accounting pronouncements published by the International Accounting Standards Board (IASB) to help preparers of financial statements, throughout the world, produce and present high quality, transparent and comparable financial information.

Since 2001, International Financial Reporting Standards (IFRS) are being developed and approved by the International Accounting Standards Board (IASB). The IASB is a stand-alone, privately funded accounting standard setting body established to develop global standards for financial reporting. It is the successor to the International Accounting Standards committee (IASC), which was created in 1973 to develop International Accounting Standards (IAS). Based in London the IASB assumed accounting standard setting responsibilities from the IASC in 2001 (Hoyle B., et al, 2011, Baker E. et al., 2009 and Larsen E. 2008).

One of the basic features of IFRS is that it is a principle based standard and seeks to avoid a rule based mentality (Hlacuc et. Al., 2009). Instead, the application of IFRS requires exercise of judgment by the preparer and the auditor in applying principles of accounting on the basis of the economic substance of transactions.

According to IASB (2009); the IASB achieves its objectives primarily by developing and publishing IFRS and promoting the use of those standards in general purpose financial statements and other financial reporting. Other financial reporting comprises information

provided outside financial statements that assists in the interpretation of a complete set of financial statements or improves users' ability to make efficient economic decisions. The term 'financial reporting' encompasses general purpose financial statements plus other financial reporting.

IFRS get recognition, measurement, presentation and disclosure requirements dealing with transactions and other events and conditions that are important in general purpose financial statements. IFRS are based on the Framework, which addresses the concepts underlying the information presented in general purpose financial statements. The objective of the Framework is to facilitate the consistent and logical formulation of IFRS. It also provides a basis for the use of judgment in resolving accounting issues (IASB, 2009).

2.1.3 International Accounting Standards

Attempts to reduce accounting differences across countries have been ongoing for more than four decades, because of the problems associated with worldwide accounting diversity. The ultimate goal of reducing accounting diversity is to have all companies around the world follow one set of international accounting standards (Holye B., et al., 2011, Baker E. et al., 2009). With growing international markets and international investing opportunities, the advantages of uniform worldwide accounting standards as a global language of financial information have become more and more apparent (Apostolos et al., 2010).

IFRS are a manifestation of globalization, with financial report prepared under IFRS presenting an image consistent with that of Multinational Corporation and developed nations. Recently, it is over 115 countries around the world require or permit IFRS, including big countries such as EU, China, Japan, South Korea, Australia, Russia, etc. United States who adopt US GAAP for years also accept IFRS (Latifah et al, 2012).

With the growing internationalization of economic trade and the globalization of businesses and financial markets, financial information prepared and audited according to

a national accounting and auditing system may no longer satisfy the needs of users whose decisions are more international in scope (Zeghal and Mhedhbi, 2006; Carson and Dowling, 2010).

Adoption of international Financial Reporting Standards is becoming trend among countries because of its advantages it provides for countries and multinational companies.

According to the proponents of accounting harmonization, worldwide comparability of financial statement is necessary for the globalization of capital markets. It would be easy for investors to evaluate potential investment in foreign securities and it would also simplify multinational companies' evaluation of possible foreign takeover targets. International Financial Reporting Standards would reduce the cost of preparing worldwide consolidated financial statements. Multinational companies would also find it easier to transfer accounting staff to other countries (Apostolos et al., 2010; Iyoha and Faboyede, 2011; Jermakowicz, 2004; Alicja et al.,2007; Susana et al.,2007; William et al.,2010)

To meet the needs of International capital markets and their participants, companies must supply for current and potential investors with accurate and useful information that provides the necessary data to make investment decisions. Paul Volker, chairman of the International Accounting committee Foundation Board of Trustee in 2001, said:-

“If markets are function properly and capital is to be allocated efficiently, investors require transparency and must have confidence that financial information accurately reflects economic performance. Investors should be able to make comparisons among companies in order make rational investment decision. In a rapidly globalizing world, it only makes sense that the same economic transactions are accounted for in the same manner across various jurisdictions.”

According to Jermakowicz and Gornik-Tomaszewski (2006) IFRS are not only relevant to external parties but are useful to management decision making as well. Caramanis and Papadaki (2008) found that accounting information provided by financial statements

prepared according to IFRS is reliable, relevant, understandable and comparable. In general, they believe that the quality of financial information has improved as a consequence of the introduction of IFRS.

According to Jermakowicz (2004) the adoption of IFRS will increase comparability of consolidated accounts as well as levels of transparency for many companies, e.g. through expanded segment disclosures, reporting on balance sheets at fair value. Even though IFRS has the aforementioned benefits the preparation of the financial statements becomes time-consuming due to the amount of information that is required which in turn leads to an increase in the accounting activities (Apostolos et al.,2010).

On the other hand some scholars argue against harmonization. Opponents of harmonization argue that it is unnecessary to force all companies worldwide to follow a common set of rules. For example Richard (1991) stated that:-

“Full harmonization of international accounting standards is probably neither practical nor truly valuable... it is not clear whether significant benefits would be derived in fact. A well-developed global capital market already exists. It has evolved without uniform accounting standards.”

Opponents of accounting harmonization also argue that because of different environmental influences, differences in accounting might be appropriate and necessary. For example, countries at different stages of economic development should have differently oriented accounting systems.

There are two approaches of adopting IFRS; totally replacing and convergence approach. Totally replacing approach, once IFRS are adopted, all IFRS standards should be complied while preparing financial statements and the existing accounting standard is replaced with IFRS; while in Convergence approach, gradual movement is made towards IFRS through customizing with the existing accounting standards and IFRS are applied gradually. Convergence a few local standards to IFRSs each year can allow local preparers and auditors to learn a few topics at a time rather than immersing themselves in

the full set of IFRSs and convergence approach can also allow time for necessary changes in local legal frameworks (IFRS, 2013).

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

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

Findings therefore suggest that Companies voluntarily shifting to IFRS have incentives to improve transparency and the quality of financial reporting (Cuijpers and Buijink, 2005). Along the same lines argued that foreign mutual fund ownership is significantly higher among IFRS adopters, which suggests a voluntary switch to IFRS aimed at attracting

foreign investors by providing them with both more information and information that is more familiar to them (Covington et al., 2007).

The IFRS Foundation has published the 2017 version of 'pocket Guide to IFRS standards: the global financial reporting language'. The guide provides an overview of the adoption of IFRS in 150 countries and other jurisdictions around the world.

2.1.4 Factors Affecting the Adoption of IFRS

According to Iyoha and Faboyede, (2011), the adoption of International Financial Reporting Standards is largely driven by a number of factors which include among others professional support with IFRS experience and self-enforcement by companies. Similarly Mir and Rahman, (2005), the result of their study revealed that institutional legitimization is found to be the main factor that influences the decision of adoption of IASs.

The factors affecting the choice of accounting systems could be internal and /or external, external factors include factors such as economic growth and the level of wealth, the level of inflation, the level of education, the legal system, the country's history and geography, the financial system, the size and complexity of company, the well known of the accounting profession, the development of financial market, sources of investment and financing and the predominant culture and language.

In the study the researcher try to answer the question of factors that could affect the adoption of IFRS in public enterprises, factors such as Government policy, Professional Bodies, training, Capital Market, Educational level and other factors are considered.

2.1.5 Benefits of IFRS Adoption

The IFRS adoption result in improved efficiency and effectiveness of financial reporting, more reliable, transparent and comparable and is easier external financing. Adoption of IFRS provides to the management of a company with better risk management, improved management information for decision making and it promotes cross border investment.

The results of the study are supported by the conclusion forwarded by Larson et al., (2004). They stated that IFRS financial statements are rather seen as a comprehensive information package, than only as a reporting of the financial situation of the company.

2.1.6 Challenges of Adopting IFRS

Accounting professions across the world have listed various benefits of adopting IFRS. In spite of these benefits, adoption of IFRS is a difficult task and has many challenges. For example Iyoha and Faboyede (2011) identified ethical environment and the ability to protect qualified and competent employees from being poached by other companies as main challenges facing Nigerian Companies. Wong (2004) said that education and training are considered as major challenges to prevent against the adoption of IFRS.

The principal impending factors in the adoption process of IFRS in Europe, America and the rest of the world are not necessarily technical but cultural issues, mental models, legal impediments, educational needs and political influences (Obazee, 2007). According to Rong-Ruey Duh (2006), the implementation challenges include: timely interpretation of standards, continuous amendment to IFRS, accounting knowledge and expertise possessed by financial statement users, preparers, auditors and regulatory and managerial incentive (Ball, Robin & Wu 2000)

As evidenced by the global experience, convergence with IFRS would have significant challenges common to all countries and companies. Additionally, there are also certain specific challenges that are unique to particular countries (Robyn and Graeme,2009). EU publicly listed companies to prepare their consolidated accounts in conformity with IFRS, are facing many challenges, including fair value measurements to be considered to a greater extent (Jermakowicz, 2004; Alexander,2003). IFRS would also present a challenge by way of more complex financial reporting requirements and resultant increase in costs; and availability of resources with expertise in IFRS. Similarly from an overall perspective, amendments to regulatory requirements and tax laws would be

required; and impact on IT systems and compensation structures would need to be evaluated (Apostolos et al., Jermakowicz, 2004; Alexander, 2003).

Jermakowicz et al. (2007) examine the challenges and benefits, including value relevance, of the adoption of IFRS by DAX-30 companies in Germany based on a questionnaire sent to company executives. They find that most companies agree that implementing IFRS should improve the comparability of financial statements while the complex nature, high cost of adopting and lack of guidance for implementing IFRS, as well as increased volatility of earnings after adopting IFRS, are listed among the most important challenges of conversion to IFRS.

2.1.7 IFRS Adoption and Implementation public Enterprise in Ethiopia

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

According to the proclamation No. 847/2014; Public interest entity (PIE) should use the full version of IFRS. A PIE is a reporting entity that is of significant public relevance because of the nature of its business, its size and its number of employees. PIE also includes banks, insurance companies, any other financial institutions and public enterprises.

According to Accounting and Auditing Board of Ethiopia (AABE) roadmap, July 8, 2008 is a transition period, from July 8, 2016 through July 7, 2017 is a comparative period, and IFRS expected to implement by all financial institutions and public enterprises and

mandatory reporting on July 7, 2018. From this standpoint, this research is carried out to study adoption, implementation, and challenges and impact of IFRS in Public Enterprise in Ethiopia.

2.1.8 Trends of IFRS Application in public enterprises

The first organizations that used the term IFRS for the first time in their annual report in Ethiopia are government owned entities such as commercial Bank of Ethiopia, Construction and Business Bank and Ethiopian Insurance Corporation (Teferi and J.S. Pasricha, 2016). Other government owned entities used the term IFRS over decade is the Ethiopian Air lines. (Focused Group discussion, on November, 24, 2017, took place at Ghion Hotel)

Even though IFRS was not officially adopted at national level at that time, auditors indirectly enforce the same upon management of the organizations who have little or no accounting knowhow about accounting standards.

2.1.9 Awareness Made during IFRS Adoption to Public enterprises

Adopting IFRS involves policy decision to adopt, planning and making all necessary resources required available to handle all the changes that will result in changes in system, procedures, and operation. Even though there was no adopted or developed accounting standard in Ethiopia, they were saying in accordance with GAAP but it was not clear to which GAAP they were referring. Awareness creation about the adoption of IFRSs is very important for efficient and effective implementation. Public enterprises and stakeholders should be aware in the adoption and implementation of IFRS. Awareness about the advantage of implementation of IFRS, the challenges they faced and how they implement. So that awareness creation on the implementation of IFRS is vital.

2.1.10 Motivating Factors for Adopting IFRS in Public Enterprises

In Ethiopia's context it was found that there are different factors that motivate the adoption of IFRS; which can be divided into internal and external factors. From internal factor, the most motivating factor is the absence of national accounting standards in the country. From the external factors; external pressure comes from lenders and donors, international correspondent organizations, World Bank and IMF, International Audit Firms such as Earnest and Young, Association of Chartered and Certified Accountants (ACCA).

2.1.11 Current movements on Human Resource Development toward IFRS

There is a move to promote IFRS in Ethiopia through arranging various training, workshops, seminars, focused group and panel discussions. The major organizations that are arranging these events are Universities, ministry of public enterprises, Earnest and Young and enterprises themselves have been given training and workshops on IFRS in Ethiopia.

2.2 Empirical Literature Review

2.2.1 Empirical Evidence

Internationalization and globalization of business have been given reason for harmonized financial statement preparation and presentations, companies compete globally for limited resources, shareholders, potential investor and creditors as well as multinational enterprise are required to bear the cost of adopting financial statement that are prepared using national standards that ultimately lead to adoption of IFRS. In the view of this development all corporate organization are expected to adopt and comply with IFRS in preparation and presentation of their financial statement.

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

Proponents of IFRS argue that the standards reduce information costs to an economy, particularly as capital flows and trade become more globalized: it is cheaper for capital market participants to become familiar with one set of global standards than with several local standards (Leuz, 2003; Barth, 2008).

The need for a global set of high-quality financial reporting standards has been apparent since the early 1970s. The existence of a global benchmark enables direct comparison of corporate financial reports between jurisdictions. Such high-quality standards enhance investor's confidence by allowing economic transactions of a similar nature to be treated and reflected in the same manner around the globe, what was only a vision four decades ago has now become a reality. As of the beginning of 2005, over 100 countries, including the European Union, either require or permit use of international financial reporting standards (IFRS) for preparation of financial statements by enterprises in their respective jurisdictions.

The full benefits of such a global benchmark will be realized only when it is implemented around the world in a consistent manner. Many developing countries and countries with economies in transition lack the accounting infrastructure and professional institutions needed for building the technical capacity required to meet the challenges posed by the transition to a common set of global standards- standards that are formulated with developed markets in mind and which have been becoming increasingly sophisticated.

The study was a survey report. He also found out that after mandatory IFRS adoption, the quality of information in accounting and business environment increased significantly more for mandatory adopters. The impact of inclusion of IFRS in schools and colleges curriculum, this will enable the potential accountants to be well trained before joining the accounting and auditing profession (H.Daske et al, 2006)

According to the case studies conducted by the United Nations covering Brazil, Germany, India, Jamaica, Kenya, Pakistan, South Africa and Turkey, the factors that initially contributed to the introduction of IFRS in the countries covered vary (UNCTAD, 2008). According to these case studies, in Brazil, the Central Bank's intention of adopting IFRS was to bring financial reporting in line with international best practice to facilitate the comparability of financial reports and fostering investor confidence. In Germany, a number of large companies began to prepare their financial statements in accordance with IAS in order to be able to access financial markets outside Germany. The implementation of IFRS for the preparation of consolidated financial statements of listed companies in Germany became mandatory following the decision of the European Union to implement the IAS regulation of 2002. Since the case study of Germany illustrates, a European Union wide approach of implementing IFRS, the implementation challenges extend beyond its domestic factors (UNCTAD, 2008).

The country case studies covered shows, countries have taken a variety approaches to implementing IFRS. (UNCTAD, 2008)

The case studies of Pakistan, South Africa and Turkey show that a desire to raise their financial reporting requirements to internationally recognized benchmarks is one of their main objectives in implementing IFRS. The case study highlights the role of IFRS in facilitating economic integration on a regional basis.

One of the common aspects of the countries covered in the case studies is that most of them require an audit of IFRS financial statements to be conducted in accordance with ISAs issued by the International Auditing and Assurance Standards Board of (IAASB) of the International Federation of Accountants.

Professional accountancy bodies also play a role in the enforcement of IFRS as they discharge their responsibilities with respect to ensuring adherence to their membership by-laws.

The extent of the application of IFRS in the countries included in the case studies varies from one country to another. In Brazil, financial institutions and listed companies are required to follow national standards that are gradually being converged with IFRS. In the case of Germany, listed companies are required to apply IFRS for preparing their consolidated financial statements. Non-listed companies are also allowed to use IFRS for preparation of their group financial statement. However, both listed and non-listed companies are prohibited from using IFRS for preparing their individual (separate) financial statements. In Jamaica and Kenya, all listed and non-listed companies are required to prepare their financial statements-consolidated and non –consolidated- in accordance with IFRS.

According to the case study of Kenya, the aim was to raise national financial reporting requirements to international best practices following significant collapses in the country's financial services sector in the 1980s and 1990s.

The case study of India indicated that the intention was harmonization of domestic financial reporting requirements with international standards. The study also showed another approach of converging Indian accounting standard with IAS by adapting the country's economic reality to IAS.

The case study of Jamaica also indicated the intention of harmonization corporate reporting practices across countries in the Caribbean in accordance with international requirements (UNCATED, 2008).

The case studies of Pakistan, South Africa and Turkey showed that the intention was to raise financial reporting requirements to internationally recognized bench marks (UNCTAD, 2008).

According to (UNCTAD, 2008) case study reports of the countries covered, a number of practical challenges were faced by countries while implementing IFRS in their respective jurisdictions.

These issues can be grouped in to three main areas:-

- I. Institutional
 - II. Enforcement
 - III. Technical
- I. **Institutional Issues:** According to (UNCTAD, 2008) report, often, laws and regulations overlap or become inconsistent, with each other especially when the role and responsibilities of different institutions are not clearly defined and coordination mechanisms are not in place. Lack of coherence in the regulatory system becomes cause for serious misunderstandings and inefficiency in the implementation of IFRS.
 - II. **Enforcement Issues:** Enforcement of standards is also one of the critical elements in the implementation of IFRS. The full benefits of a global set of financial

reporting standards such as IFRS will be realized only when these standards are consistently enforced. The institutions responsible for enforcing IFRS need to realize that as a result of the growing globalization of financial markets, their enforcement efforts often protect both domestic and international investors.

III. Technical Issues: practical implementation of IFRS requires adequate technical capacity among preparers, users and regulatory authorities. According to (UNCTAD, 2008) report, the case studies showed a number of challenges in the practical implementation of IFRS; one of the main difficulties encountered in the practical implementation process was the shortage of accountants and auditors who are technically competent in implementing IFRS and ISAs.

Nigeria: - the Nigerian Accounting standards Board (NASB) was responsible for developing and issuing standards and the body was renamed Financial Reporting Council of Nigeria as a regulatory body overseeing the adoption and implementation of IFRS. Studies of IFRS implementation in Nigeria shows; promote foreign direct investments inflows and economic growth due to uniformity, reliability and comparability of financial statements of companies.

The adoption of IFRS continues with many countries setting timetable or roadmap for adoption expecting to reap the benefits of IFRS adoption.

As part of the plans to meet international standards, the Government of Nigeria disclosed a 'road map' of full transition to International Financial Reporting Standards (IFRSs) over three years period beginning from January 2012 (Umoru and Ismail 2012). By this directive, all public interest entities are to mandatorily adopt the IFRS by January 1, 2014.

Nevertheless there are numerous challenges a country must confront and overcome. A critical assessment of countries where IFRS has been adopted or converge their local

GAAP with IFRS must be adequately prepared for effective IFRS adoption, the following are suggested.(Odia,J.O et al, 2013)

- i. Effective implementation of IFRS requires careful planning and extensive public education, the allocation of resources, a legal and regulatory support system and institutional support system and institutional support with strong management systems. Unless the various stakeholders are integrally involved and included in development plans and how they are affected, they will be reluctant to support the change and IFRS adoption may not succeed.
- ii. The communications system for informing users of the changes in reporting requirements must be effective and responsive. Users of financial statements have to be able to interpret financial reports and raise questions about an entity's performance. Efforts to build good corporate governance and enhance corporate transparency will be successful only when the key stakeholders have the desired knowledge to understand the financial reports and interrogate reported information. Also, the transition plans to IFRS and its implications for preparers, users, educations and other stakeholders have to be effectively communicated.
- iii. Adequate resources must be put in place to support the sustainable implementation of IFRS. This includes having consultative groups available to respond promptly to concerns by users and to provide for their ongoing training. Assisting key stakeholders, including regulators with training, and possessing the required resources to interpret and apply the requirements of IFRS is a critical element underlying the successful implementation of IFRS.
- iv. Suitable standards must be developed to facilitate recognition of the small and medium scale enterprises (SME) because most of the standards include complex and detailed disclosure issues applicable to larger companies which are listed in the stock exchange.

- v. Continual training of auditors, regulators, analysts and other users is an important factor in the transition to IFRS. In fact, capacity building of the various stakeholders in the accounting profession is a necessity.
- vi. Strong accounting institutional framework must be in place to champion and manage the IFRS change process. Nigeria had the financial Report council of 2011 but the other institutions frameworks were not put in place.
- vii. The adoption of IFRS has impact on a country's national statistics. Data on productivity, efficiency and profitability are often times collected by the government statistical authority for national reporting
- viii. Introduction of an awareness program by government to improve the degree of compliance with accounting requirements by specified business enterprises. Regulatory agencies in Nigeria work jointly to design an awareness program on the importance of compliance with accounting requirements of IFRS
- ix. On the basis of proper compliance of IFRS, the regulatory authorities can provide significant benefits for firms reporting regularity and complying with IFRS and other necessary requirements like relaxing the listing criteria or providing incentives in either monetary or non-monetary forms.
- x. An independent oversight body like the Financial Reporting council Nigeria (FRCN) should be strengthened to shoulder the responsibility of setting accounting and auditing standards, monitoring compliance with accounting standards, reviewing auditors' practice and reviewing reporting practices and enforcing sanctions for violations. The government should ensure the capacity and effectiveness of this regulatory regime to provide a real sense of security to stakeholders because one of the critical elements in the implementation of IFRS is the rigorous enforcement of standards. The FRCN should forces on technically qualified personnel, practical training of inspectors/reviewers, administrative support, and necessary logistics arrangements. The IFRS

enforcement bodies (the FRC, SEC and CBN) should immediately enhance and expand their expertise. As IFRS changes due to amendments to existing standards or new standards being issued by IASB, these regulatory agencies need to have a plan in place to keep pace with the changes. Part of the plan should include continuing education programs for personnel in charge of reviewing IFRS-based statements for regulatory purposes.

- xi. A system for adoption of standards and monitoring should be developed that can work on a consensus view of all the interested parties. Therefore, exposure drafts are to be circulated for comments from various professionals and the general public at large. This often has resulted in minimizing dissensions and increasing acceptance of accounting standards (Hove, 1990).
- xii. Implementation of certain requirements of IFRS should be a gradual process because adopting IFRSs is not just an accounting exercise but transition of IFRS is not a one-time process, but rather an on-going effort that requires continued institutional support.
- xiii. Where the conceptually superior accounting treatments prescribed in various IFRS are in conflict with the corresponding legal requirements of the local GAAP, the standard lays down the approach recommended by the IFRS, while recognizing that until a change is made in the relevant legal requirements, the law will prevail. This makes the correct accounting treatment gets recognized in an accounting standard in the country, it also gets recognized that a change in law is imperative. There must be sufficient legal backing of IFRSs as reporting standards in a country
- xiv. Successful implementation of IFRS needs extensive and on-going support from professional accounting bodies like institute of chartered Accountants of Nigeria (ICAN). They can contribute to the effective implementation of IFRS through requirements that hold their members responsible for observing due

care in implementing these standards therefore, an IFRS implementation program needs to adequately assess the state of readiness of relevant professional accountancy organizations in the country so that the necessary resources are available to ensure competent and continuous support from such organizations.

- xv. Integrating IFRS into university accounting education and updating the curricula for the training of accountants by tertiary institutions and professional accounting bodies in Nigeria. There should be hiring and training of staff/faculty knowledgeable in IFRS and massive publication of accounting textbooks. Educational institutions must alter their teachings to account for the foreseen transition to IFRS and to adequately prepare students. This is because businesses will depend on universities and the accounting professions to bridge the IFRS knowledge gap and provide leadership.

The adoption of IFRS is known to be a Herculean task owing to the fact that several challenges are often encountered in the course of implementation. These challenges are not peculiar to Nigeria but are common in most countries that are in the process of adopting the global standard, although there are some unique challenges that are specific to particular countries (Robyn and Graeme, 2009). For instance, Iyoha and Faboyede (2011) noticed that ethical environment and the ability of companies to protect their experienced employees from being taken over by their counterpart is among the main challenges faced by companies in Nigeria. Other significant challenges include the requirement of IFRS for a more broadened financial reporting which will invariably result in added costs for companies. Similarly, the regulatory requirement to amend the existing tax laws to effect the changes in line with the new standard is also a point to consider. Additionally, the level of education and experience, level of awareness, enforcement and compliance mechanism are also instrumental to the successful implementation of the process, these challenges are broadly discussed as follows:-(Bello Usman Baba, Information Management and Business Review).

- 1) **Implementation costs:** the first adoption of IFRS framework is perceived by most entities as costly, these costs usually relate to consultants' costs, costs of training personnel and costs of adjusting the existing accounting system to effect the change (Ionascu, Olimid & Calu, 2007). This challenge has made management of most companies to be reluctant in embracing the change which invariably resulted in mellow attitude by staff on IFRS issues and therefore, contributed immensely to retardation in IFRS conversion process in Nigeria (Oduware, 2012).
- 2) **Amendment of Existing Laws:** The adoption of IFRS in Nigeria has resulted in the amendment of different tax laws as well as numerous tax considerations (Ernst & Young, 2013). These tax considerations are complex and therefore arise from the computation of deferred tax attributed to IFRS adjustments effect. With the adoption of IFRS, the basis for computation of deferred tax varies from how it was previously computed during statement of accounting standards (SAS) regime. IFRS involves the use of the balance sheet liability method will demand full deferred tax provision which is more complex when compared to the income statement method (Oduware, 2012). Hence, these issues had been a source of concern for Federal Inland Revenue Service (IFRS) in Nigeria.
- 3) **Inadequate Technical Capacity:** the implementation of the IFRS framework demands sufficient technical capacity within the various stakeholders including the preparers, auditors, regulatory authorities and users of financial reports (Madawaki, 2012). Therefore, one of the main challenges of implementing IFRS in Nigeria is a shortage of Accountants and Auditors that are skilled in IFRS reporting. Hence, this had been a foremost challenge on IFRS implementation process in Nigeria.
- 4) **Level of Awareness:** the process of transition to IFRS and its implication for preparers and other stakeholders including regulators and educators need to be

effectively coordinated and communicated (NASB, 2010). But despite effort made by different stakeholders and regulators through organizing series of sensitization workshop and other means of reaching out to targeted audience across the country, the level of awareness among companies' executives is relatively low, managers of most entities tends to look at the transition process as a means of increasing cost of reporting ignoring the benefit to be derived from the entire process.

5) Level of Education and Experience: The implementation of IFRS is strategic and critical decision that requires a high level of education, expertise and competence to enable users to understand, interpret and effectively use the standards in financial reporting (Adeyemo 2013). Therefore, lower level of education and weak experience in IFRS reporting in Nigeria has become a barrier to successful implementation of IFRS framework. Similarly, considering the limited time frame given for the transition, integrating IFRS syllabus into accounting education in higher institution's curricula and coordinating such programs within professional institutions' requirement and regulations is also a foremost challenge to smooth implementation of IFRS in Nigeria.

6) Level of Technology: technology has a major effect on IFRS implementation. Therefore, Information Technology (IT) is definitely a key factor in IFRS transition process considering the important role played by Enterprise Resource planning (ERP) systems in companies operational, accounting and reporting processes (Uzor, 2011). Therefore, for companies to achieve a seamless conversion to IFRS; there is a need to be familiar with specific IT challenges and issues confronting their organization. In Nigeria, companies give less emphasis on technology which is invariably affecting the pace with which implementation of IFRS is going on in the country.

- 7) **Improper planning:** the underestimation of the complexities involved in implementing IFRS by companies' and expertise's is among the challenges of IFRS transition in Nigeria. According to KPMG report 2012, companies' executives sometimes underestimate how difficult transition to IFRS will be; they assume is something that can be done within some few days or weeks. But to their surprise it turns out to be a process that takes an intensive time as it affects people, processes and systems.
- 8) **Transition Management:** one of the challenges impeding IFRS implementation in Nigeria is the change which reporting entities are obliged to effect in order to operate the new regime. This challenge includes that of coping with additional data elements as well as managing the task of transition into a new process of reporting. Similarly, the implementation also requires at the initial stage a simultaneous comparative reporting based on both the existing and also the new standard and thus understanding the differences between the two.
- 9) **Inadequate private Sector Participation:** the onerous of implementing IFRS to a large extent depends on the involvement of private sector operators, in Nigerian case, the IFRS roadmap implementation committee constituted by NASB has less representation of major players in the private sector which is contributing to the sluggish transition process in the country.
- 10) **Enforcement Mechanism:** the transition to IFRS has a serious implication for regulators; this requires extensive use of judgments and assumptions that need to be considered by relevant regulators from taking legal recourse as regards enforcing compliance with accounting and financial reporting requirements. This state of affairs is impairing on the ongoing IFRS implementation process in Nigeria.

Findings showed that IFRS has been adopted in Nigeria but only fraction of companies has implemented with deadline for the others to comply.

The study conducted on the Impact of IFRS on stock market movement in Nigerian capital market. Based on the findings, it was concluded that the adoption of IFRS Is a move made in appropriate direction. Although there are issues and challenges facing the implementation, the benefits we can say overcome the challenges. The adoption of IFRS in Nigeria enhance the credibility of financial statements that will also provide a basis for assessing the strength of a corporate entity across the globe and this will command lots of attractions from foreign investors hence Is a welcome development in Nigerian economy.

The paper therefore recommends that Government should empower the Financial Reporting Council (FRC) of Nigeria to ensure that public entities' financial statements are in full compliance with IFRS, and Nigerian FRC should not relent in ensuring a full adoption of IFRS. Efforts should be geared towards cost reduction and amelioration of difficulties and challenges posed by IFRS adoption especially the cost of asset valuation by other entities.

The research findings are summarized as follows:

- ✓ There is a significant relationship between IFRS adoption by companies and foreign direct investments in Nigeria.
- ✓ The adoption of IFRS will increased the level of confidence of global investors and investment analysts in the financial statements of companies in Nigeria.
- ✓ That quoted companies which have adopted IFRS will be able to generate more funds from foreign sources.
- ✓ There are still some challenges militating against the success adoption and implementation of IFRS but government has put adequate infrastructure and regulatory framework in place to address those issues.
- ✓ IFRS adoption has not made much impact on making available timely and accurate financial reports.

- ✓ Government and the regulators should ensure that there is availability of training facilities and materials for professional accountants on the concept of IFRS and issues relating to its implementation and conversion.
- ✓ Compliance with IFRS timetable should be mandatory and failure should be meted with appropriate sanctions.

Firm-level studies of IFRS adoption are conditional on countries decisions to allow or mandate IFRS, suggesting that firm-level studies examine the second stage in what is at least a two-stage process

It is generally expected that IFRS adoption worldwide will be beneficial to investors and other users of financial statements, by reducing the costs of comparing alternative investments and increasing the quality of information. Companies are also expected to benefit, as investors will be more willing to provide financing. Companies that have high levels of international activities are among the group that would benefit from a switch to IFRS. Companies that are involved in foreign activities and investing benefit from the switch due to the increased comparability of a set accounting standard.

Ghana: - Ghana transitioned from the Ghana Accounting Standards (GAS) to adopt the IFRS on January 1, 2007. As of 2008 beyond a legislative injunction has been imposed on the Bank of Ghana to prepare financial statements in accordance with IFRS; thereby making it mandatory for all public entities in the country.

Since the introduction of IFRS, there had been several positive changes in some sectors of financial reporting. In measurement, majority of the participants affirmed a change; under disclosure the entire participant affirmed a change, and majority of the participant confirmed the significance of reliability of the introduction of IFRS.

The rationale behind the adoption of IFRS in Ghana was based on the desire to promote development, standardization of financial statements, and serve as channel of attracting international market. Ghana adopted IFRS because there was the need for transparency.

Since IFRS goes with significant disclosure, it offered transparency and upheld the fair value of the accounting system. These findings were different from the suggestion that, the key drive of developing countries to adopt IFRS was as a result of pressures from multinational corporations or the World Bank (Irvine, & Lucas, 2006).

From the study, IFRS was also described as an effective mechanism to ease the consolidation of financial statements among the participants. This response was no different from what is known in literature (Larson, & Street, 2004). The study clearly indicated that information cost was reduced drastically since the introduction of IFRS. This is because the same platform was used to prepare and present the financial statements.

The study also disclosed that IFRS improved the transparency of financial statements, credibility of financial statement and made consolidation easier. On the other hand, IFRS was described as sophisticated.

Based on the study undertaken on IFRS adoption in Ghana, the following recommendations were made:

- a) Government should support and strengthen the standards' setters so that they can try to set standards which are applicable to the Ghanaian environment.
- b) Professional education and training should also be strengthen as well as raising the awareness of the importance of IFRS and compliance with accounting requirements
- c) Necessary steps should be taken to strengthen the capacity of regulators including Securities and Exchange Commission to enable them deal effectively with accounting and financial reporting practices of the regulated entities.
- d) Future studies on IFRS suitability could consider industry-specific studies.

Kenya: - The Kenya experience on move towards the fair value model has also introduced complications. It is a subjective concept and is difficult to implement particularly in developing economies like Kenya. This has particularly been problematic for those in the financial services sector, the sector that seems to exhibit the highest levels of non-compliance is the banking sector.

Fair value has been defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. However, while the concept is easy to understand, determination of fair value has been very difficult and at times impossible.

In Kenya, fair valuation of financial instrument including bonds, derivatives have been very difficult due to lack of reliable market information. The Kenyan capital market is still in its infancy stage and cannot be relied on to determine fair value for the financial instruments. Auditors in Kenya lack reliable accurate reference points for some instruments.

One of the reasons of non-compliance includes the growing complexity of IFRS. IFRS have become increasingly more complex and subjective in recent years. Requiring technical expertise to understand and implement. There have been frequent and rapid changes to various standards arising from improvements and convergence project. The improvement project gave rise to simultaneous amendments to 13 standards while the convergence project led to various changes to standards Such as on presentation of financial statements; accounting policies; and changes in accounting estimates and errors.

There are also cases where there are conflict between the requirements of IFRS particularly with regard to fair valuations, and those of various regulations and legislation. In Kenya, there have been instances where the regulator has refused to accept fair valuation based on IAS.

In General, there is need for further discussions on the use of fair values. Absence of accurate reliable data on discount rates volatility, industry or company data to support

cash-flow trends, crop yields, loan default rates and lack of market or underdevelopment of the existing ones has made the situation worse. There is need to establish what items can be measured at fair values and which items cannot. Establishing of sector benchmarks will also help in determining of fair values for some items. (Erick Rading Outa, 2011)

Libya:- The adoption of IFRS in Libya faces several challenges and obstacles including, lack of technical skills and inadequate knowledge of Libyan professional accountants, the difficulty to develop its existing accounting systems, and a regulatory framework to cope with economic and social development, recent evolution in accounting profession including international financial reporting standards application, and inadequate education and training of accountants (Schachler et al., 2012; Laga, 2012; Masoud, 2014).

Many necessary steps should be taken to overcome such obstacles which include strengthen professional accountancy body Libya Accountants and Auditors Association (LAAA) to improve the status of profession, revisions of curriculum for educating and training of professional accounts to enable accountants to gain exposure to international developments in the profession including IFRS application.

Lega (2012) suggested several steps that may serve as useful inputs for implementing of IFRS and for accounting profession evolution in Libya. These including:-

- Adequate professional education and training.
- Strengthen Professional accountancy body Libyan Accountants and Auditors Association (LAAA), and
- Review consistency of existing laws and regulations framework of accounting.

Canada: - the use of IFRS became a requirement for Canadian publicly accountable profit-oriented enterprises for financial periods beginning on or after 1 January 2011. This includes public companies and other “profit-oriented enterprises that are responsible to large or diverse groups of shareholders.

European Union: - in 2002 the European Union agreed that from 1 January 2005 international Accounting Standards/International Financial Reporting Standards would apply for the consolidated accounts of the EU listed companies. In order to be approved for use in the EU, standards must be endorsed by the Accounting Regulatory Committee (ARC), which includes representatives of member state governments and is advised by a group of accounting experts known as the European Financial Reporting Advisory Group. As a result, IFRS as applied in the EU may differ from that used elsewhere.

Japan: The minister for Financial Services in Japan announced in late June 2011 that mandatory application of the IFRS should not take place from fiscal year-ending March 2015; five to seven years should be required for preparation if mandatory application is decided; and to permit the use of U.S. GAAP beyond the fiscal year ending 31 March 2016.

Accordingly, the mandatory adoption of IFRS in Japan is likely to be deferred beyond 2015 because at least five to seven years are expected to be needed to prepare the country for this change (Jimi, 2011).

The reasons for the postponement are the consideration of social, historical, political and economic factors are important for Japanese policymakers because the accounting system in Japan is quite different from those in Anglo-American countries. These differences have forced the Accounting Standards Board of Japan (ASBJ) to develop a complete set of accounting standards and a conceptual framework and to reconcile these accounting standards with related laws (Nippon Steel et al, 2011).

According to the study Organizational environment refers to elements bearing on rationalization in the choice and design of accounting systems, such as organizational size, technology, complexity and human and capital resource.

Japan's Conservatives are more likely than Liberalists to insist on traditional concepts such as the superiority of Japanese GAAP and institutional complementarity among related infrastructures.

Japan's accounting liberalists (Kokusai-ha) supported the "direct adoption approach", arguing that mandatory adoption of IFRS would enhance international comparability of financial reporting and increase the attractiveness of Japanese capital markets.

Russia: - The government of Russia has been implementing a program to harmonize its national accounting standards with IFRS since 1998. Since then twenty new accounting standards were issued by the ministry of Finance of the Russian Federation aiming to align accounting practices with IFRS. Despite these efforts essential differences between Russian accounting standards and IFRS remain. Full transition to IFRS is delayed but starting 2012 new modifications making Russian GAAP converging to IFRS have been made.

Korean

A. Need for Education and promotion

Believing that, long term education and promotion would play an extremely important role in bringing about these changes. Korea has carried out education and promotion activities via diverse methods under a long term plan since the announcement of the roadmap towards IFRS adoption in 2007. The successful implementation of IFRS in Korea is considerably attributable to the fact that Korea emphasized education and promotion of IFRS adoption.

B. Communication among Local and Foreign Constituents

The Korean practice indicated the importance of good communication among constituents for effective implementation of IFRS. The communication was especially important during the early periods of IFRS implementation. To facilitate such communication, the Korean Accounting Standards Board (KASB) launched the “IFRS implementation committee”, where various issues raised in practice were addressed and thereby participants in the committee could arrive at a consensus through the cooperative process of seeking solutions.

Communication with foreign constituents has also become important. Korea has put more attention on communication with the IASB in the early phase of IFRS implementation. These helped Korea understand more the perspectives of IFRS and its application.

C. Support from IFRS Foundation

Korea received support from the IFRS Foundation for implementing IFRS. The IFRS foundation has contributed for the smooth progress of IFRS implementation in Korea. The Korean experience indicates that new IFRS-adopting countries should get support from IFRS Foundation for smooth implementation of IFRS in their respective jurisdictions.

D. Sufficient preparation Period

Korean experience indicates that countries planning IFRS adoption need to have sufficient preparation period and thorough plans preceding the IFRS implementation.

Greece: - (Ioannis Tsalavoutas and Lisa Evans, 2010) investigated the transition to IFRS in Greece, though the Greek environment was not appropriate for IFRS application, participants in the survey believes that their adoption improved the quality of financial reporting. The introduction of IFRS increased the reliability, transparency and comparability of the financial statements.

Bangladesh: - (Monir Z. Mir and Abu S. Rahaman, 2005) conducted a research on the adoption of International Accounting Standards in Bangladesh. The aim of the paper was to evaluate the decision of the Bangladesh Government and accounting profession to adopt international accounting standards (IASs). Findings of the paper shows that institutional legitimization is a major factor that drives the decision to adopt IASs because of the pressure exerted by key international donor/lending institutions on the Bangladeshi Government and professional accounting bodies.

Taiwan: - Adoption scope and timetable

Year work Plan:

2008

- Establishment of IFRS Taskforce

2009-2011

- Acquisition of authorization to translate IFRS
- Translation, review, and issuance of IFRS
- Analysis of possible IFRS implementation problems, and resolution thereof
- Proposal for modification of the related regulations and supervisory

Enhancement of related publicity and training activities

2012

- IFRS application permitted for phase I companies
- Study on possible IFRS implementation problems, and resolution thereof
- Completion of amendments to the related regulations and supervisory mechanisms
- Enhancement of the related publicity and training activities

2013

- Application of IFRS required for phase I companies and permitted for phase II companies
- Follow-up analysis of the status of IFRS adoption, and of the impact

2014

- follow-up analysis of the status of IFRS adoption and of the impact

2015

- Applications of IFRS required for phase II companies

Counter Measure for Effective Adoption of IFRS: the transition from the existing local GAAP to IFRS represent a major change in organizations' processes, these changes are not limited to organizations' financial results, but it also involves changes in their business processes, internal systems, external communication and performance management. Therefore, the implementation process will impact on all facets of an organization as well as the people involved. As such, it requires intensive planning and coordination across functional lines such as accounting, treasury, tax, information technology and Human resources (Aladenusi, 2012).

Lessons learned in the implementation process

The key to increase the compliance level is to ensure that there are trained persons who understand the use of IFRS and ISA. This requires that the qualification process should emphasize proficiency in the use of the various standards.

The training of accountants is also very important, Kenya works towards increasing professional accountants with integration of Universities.

Majority of preparers of financial statements do not have access to the standards and do not keep up to date with the standards and various developments. Due to this reason, ICPAK tries to provide the standards. ICPAK requires its members to acquire a certain number of hours of learning per year.

The education process needs to be addressed, as this equips preparers and auditors with the tools they need to understand and participate in the financial reporting process using IFRS and ISAs. In this case, the education process should comprise both the pre-and post-accountancy qualification phases. Accountants need to continuously review and enhance their skills set so as to remain relevant. In this regard, professional bodies must be strengthened so as to ensure that their members remain relevant and committed to the adoption and compliance with international reporting standards.

Based on studies undertaken on IFRS adoption in developing and less developed countries the following recommendations are hereby advanced for countries who still wants to adopt IFRS (ATU, Oghogho Gina,RAPHAEL, Igbinsa Adeghe and ATU,Omimi-Ejor Osaretin Kingsley,2016).

- i. Strengthen professional education and training. The professional accountancy bodies should align their continuing professional education requirements with IFAC guidelines. Business ethics should be taught as a separate subject in undergraduate accounting and business programs and revision to university accounting curricula should enable students to gain exposure to practical IFRS application.
- ii. Strengthen capacity of the regulatory bodies and review adequacy of statutory enforcement provisions. Take necessary steps to strengthen capacity of regulators and improve the statutory framework of accounting and auditing to protect the public interest.
- iii. Raise awareness of professionals, regulators and preparers to improve the knowledge gap. Issues to be addressed include the importance of financial statements prepared under IFRS framework and importance of compliance with accounting and auditing requirements.
- iv. Establish an independent body to set monitor and enforce accounting and auditing standards and codes. The proposed body should be empowered to monitor and

enforce accounting and auditing requirements with respect to general purpose financial statements.

- v. Adequate resources should be put in place to support the sustainable implementation of IFRS. This includes having consultative groups available to respond promptly to concerns by users and to provide for their ongoing training.

2.2.2 Summary and Gap in the existing literature

Because of the problems associated with worldwide accounting diversity, attempts to reduce accounting differences across countries have been ongoing for attempts to reduce accounting differences across countries and multinational companies, many countries adopt International Financial Reporting Standards. Adoption of IFRS has a number of important benefits for a wide range of stakeholders such as, increased comparability of consolidated accounts, increased levels of transparency, better access to the global capital markets and other stakeholders would benefit from overall better reporting and information (Iyoha and Faboyede,2011; Apostolos et al., 2010; Jermakowicz et al. 2007; Alicja et al., 2007; Susana et al., 2007; Jermakowicz, 2004).

In spite of the quite many benefits of IFRS adoption, it is also a difficult task and has many challenges. As evidenced by the global experience, convergence with IFRS has significant challenges common to all countries and companies and there are also certain specific challenges that are unique to particular countries and companies. Growing bodies of literature revealed that more complex financial reporting requirements; ethical environment, the ability to protect qualified and competent employees from being poached by other companies and from an overall perspective, amendments to regulatory requirements and tax laws; and impact on IT systems and compensation structures are the main challenges of IFRS (Iyoha and Faboyede,2011; Apostolos et al.,2010; Jermakowicz et al., 2007; Jermakowicz, 2004; Wong, 2004; Alexander, 2003).

Although various survey studies have been conducted to assess the adoption of IFRS in different countries of the world, most of the studies have been carried out on IFRS

analyzing the data from member countries of EU (Apostolos et al., 2010; William et al., 2010; Alessandro et al., 2009; Robyn and Gaeme,2009; Alicja et al.,2007; Jermakowicz et al., 2007; Susana et al., 2007; Jermakowicz,2004). Even though IFRS seems to be equally important for all countries, there is a no enough empirical study that examines the data from developing countries and in particular in public Enterprises in Ethiopia. Therefore, this study makes an attempt to bridge this gap and elaborated the benefits, challenges, and the factors that could influence the adoption of IFRS in Public Enterprises, Ethiopia.

Chapter Three: Research Methodology

Introduction

The chapter describes the methodology used in order to conduct the study. It describes the types of methods selected for data collection and analysis and the reasons for why these methods have been chosen in comparison to the other alternative methods.

3.1 Research Approach

As per Creswell (2003) there are three approaches that are used in conducting a given research. These are quantitative, qualitative and mixed research approach. Quantitative research approach focuses primarily on the construction of quantitative data, and quantitative data is a systematic record that consists of numbers constructed by researcher utilizing the process of measurement and imposing structure (Kent, 2007). The quantitative research approach employ measurement that can be quantifiable while qualitative cannot be measured (Bryman & Bell,2007). In mixed research approach inquirers draw liberally from both qualitative and quantitative assumptions (Creswell, 2009).

In this paper the researcher would use the qualitative research approach; the rationale for data is to better understand a research problem.

3.2 Research Design

This study has intent to assess the adoption of International Financial Reporting Standards in Public Enterprise in Ethiopia. To do this, the method employed is exploratory method. Survey research according to Fowler (1993) is a means of gathering information, usually through self-report using questionnaires or interviews. Its purpose is to generalize from a sample to a population so that inferences can be made and it is also economical and rapid turnaround in data collection (Creswell, 2003). This survey was conducted by means of self-administered interview question which was done to finance

officers of the ministry and enterprises under the ministry, external auditors (Audit Service Corporation) and AABE. Interview is a common instrument for collecting data on the physical reach of the observer.

3.2.1 Population and Sampling Techniques

Survey sampling is the process of choosing, from a much large population, a group about which the researcher wish to make statements so that the selected part would represent the total group (Leedy, 1989). The population considered in this study is the number of public Enterprises in Ethiopia; at present they are twenty seven out of which sixteen are directly accountable to the ministry and the rest are accountable to other supervising authorities, the study which are going to adopts IFRS and randomly draws a sample from enterprises directly accountable to the ministry to get rich evidence.

The sampling design for this population is simple random sampling. In random sampling each individual in the population has an equal probability of being selected which is important for the external validity of the study (Creswell, 2009). Since the aim of the study is to make theoretical inferences from the results of the study that are suitable for further empirical investigation in any other context, this random sampling is the most appropriate method. The data were collected from headquarters of the respective enterprises at Addis Ababa and all of them will have equal chance to be included in the sample.

3.2.2 Data Collection Instrument and Administration

This study use both primary and secondary data. Primary sources of data include interview and Focused Group discussion, whereas secondary sources data is gathered through a review of relevant documents.

3.2.2.1 Interview

Semi structured interview with finance manager/representative of the selected enterprise which are eleven out of sixteen, higher officials of Audit Service Corporation and AABE were conducted. It allowed the investigator some degree of flexibility at the time of interviewing for the pursuit of unexpected line of inquiry which was arising at the study progresses. Questions in the interview checklist were constructed based on the review of literature. In the process of preparing, testing and using the instruments, the following procedures were followed.

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

3.2.2.2 Document Review

The review of documents helped the researcher to understand the key facts of the organizations. The documents being reviewed by referring most recent information from authorized documents and different reports. Annual reports, legislations, directives and other documents related to the adoption and use of IFRS being used.

3.2.2.3 Focused Group discussion

A Focused group discussion (FGD) is a qualitative research method in social science, with a particular emphasis and application is a good way to gather people from similar backgrounds or experience to discuss a specific topic of interest. The researcher gathered data from the group discussion on IFRS adoption, implementation, issues and challenges faced by public enterprises which was took placed on November 24, 2017 at Ghion Hotel.

On the focused Group discussion high officials of the Ministry, Enterprises, AABE, Audit Service Corporation and other relevant bodies were present and discussed on issue.

3.2.3 Data Collection procedure

This study used both primary and secondary data. Primary sources of data include interview, Focused Group Discussion, whereas secondary sources data were gathered through a review of relevant documents.

3.2.4 Data Management

The collection data were checked by the researcher at the time of collection of the data for completeness and/or consistency. When there is any incompleteness and/or inconsistencies appear, correction was made by returning back to those data providers for which incompleteness appears.

3.2.5 Ethical consideration

Data were collected and used ethically, thus before collecting the data from the respondents, researcher explain the purpose and the conduct of the study through a generic letter written by the department/the ministry and researcher. And also informed to those participants can withdraw at any time during the data collection.

3.3 Data Analysis

As explained in the preceding part, the research is designed to follow exploratory research method. To this end, qualitative analyses can be used. Data collected using interview and Focused Group Discussion were analyzed qualitatively. Data collected reviews of documents have been interpreted qualitatively. In analyzing the data from interviews, narrative approaches including quotations from respondents were used.

3.4 Validity of the Study

Validity refers to the degree to which a study accurately reflects the specific concept that the researcher is attempting to measure or describe. In order to keep the validity of the study, researchers should be concerned with both external and internal validity. Internal validity refers to the extent to which the researcher can demonstrate that he has reliable and adequate evidence for the statement (Grix, 2004). External validity on the other hand stands for the extent to which the conclusion is generalized to the population (Yin, 1994).

Yin (1994) suggested using multiple sources of evidence as the way to ensure construct validity. This study used multiple sources of data including document review and interview that helps to cross validate the data. In addition, the study used instruments developed by Iyoha and Faboyede (2011), and Sharif (2010). Since questions are tested up on their clarity and understandability and significant conclusions are drawn using those questions, it adds both to the internal and external validity of the study. In order to keep the validity the researcher chose representative respondents which are familiar with the issue and are experts in the field, which enhance the external validity of the result.

Chapter Four: Results and Discussions

Introduction

This chapter explains and discusses the results of findings based on the analysis done on the data collected. The results of the study are discussed by the different sources results: interview, Focused Group Discussion and document review results. The discussion attempts to accomplish the objectives of the study and answer the research questions.

Interview which dealt with the adoption and implementation of international Financial Reporting Standards was made to a sample of public enterprises which required adopting the International Financial Reporting Standards. Interview was made to AABE, Ministry of Public Enterprises, Audit Service Corporation and Public Enterprises. As indicated in the previous chapter, survey was the main strategy of inquiry adopted to investigate the adoption of IFRS in public enterprises. To this end, the results obtained from the survey are analyzed through qualitative research method. The interview response, focused group discussion and document review results are presented in the subsequent sections.

4.1 The Application of IFRS in Public Enterprises in Ethiopia

According to ROSC (2007), so far there is no particular accounting standard in Ethiopia. Even though some of the laws indicate to use generally Accepted Accounting Principles, for example the income tax proclamation of Ethiopia article 58(1) state neither of the international standards was officially adopted. But very recently, the government of Ethiopia issued a proclamation called “Financial Report Proclamation of Ethiopia 847/2014) which obliges Public enterprises to adopt IFRS in their financial reporting.

Even though Financial Report Proclamation of Ethiopia is not setting a firm deadline for the IFRS transition, it set the implementation period would be not more than five years ,

and the financial reporting standards that public Enterprise in Ethiopia use when preparing their financial statements should be IFRS issued by IASB or its successor;

According to the Financial reporting Proclamation of Ethiopia, the country is adopting IFRS and it is already given a mandate to AABE for the proper adoption and implementation of IFRS in national level. The Institute of Certified Public Accountant of Ethiopia has objectives, among others, to promote the development of the accounting profession; and ensure the accountancy profession acts in the public interest.

There is no doubt that Public Enterprises in Ethiopia have been adopting IFRS, since it is a Global issue and proclaimed in proclamation No. 847/2014. In this regard the interviewee respond were asked to mention the previous accounting standards they used to prepare financial statements and to compare IFRS with the previous standard. Based on the interview result almost all stated the nonexistence of any particular previous accounting standard in Public Enterprise and they believe that the financial reporting practice of Ethiopia is driven by tax laws. On the other hand almost all the respondents mentioned GAAP as their previous financial reporting standard.

Because of the absence of one set of accounting standard in the country; financial statements depict limited information for users. This shows the existence of urgent need for the country and Public Enterprise in Ethiopia to adopt International Financial Reporting Standards and financial statement users get the best information out of financial statements.

The respondents were asked to list the reasons for their preferences, and most of them believe that IFRS would enhance the comparability, consolidation and increase quality of financial statements and make them more reliable. They believe that the benefits of uniform and complete information provided by IFRS would help different stake holders such as investors/Government, creditors, regulators, managers; accounting professionals and others stakeholders to relay and have confidence on the financial statements and get the best information out of the financial statements. Adoption of IFRS would also provide

greater reporting transparency for the financial statements improves management information for decision making, creditors and provides better information for investors so that they can make informed decisions.

Adopting IFRS would make it easier for investors, creditors and businesses to evaluate the financial performance of organizations with which they might do business or invest in: The standardized auditing system enable the Ethiopian Revenues and Customs Authority (ERCA) to rely on external auditor's reports for their tax collection. It would also afford lenders and banks confidence to grant loans based on the financial statements of the Enterprises.

On the interview and Focused Group Discussion result indicates:- insufficient implementation period, absence of capital market, fair value measurement problem, lack of availability of competent specialists, intensive training, and IFRS implementation guidance are listed among the most important challenges of IFRS adoption and implementation in Public enterprise in Ethiopia. In alleviating these challenges AABE, the ministry of public Enterprises and very few others are providing professional service and support.

An enterprise which adopts IFRS required using full version of IFRS. Moreover, those IFRS standards should implement properly and need technical knowledge. In public Enterprises the researcher identified that there is a need to increase knowledge gap and these gap required intensive training.

4.2 Benefits of Adoption of IFRS

In this section, the interview and Focused Group Discussion results related to the benefits of IFRS adoption were analyzed. The data related to benefits IFRS to Public Enterprises, investors/Government, management, and other stakeholders' such as regulatory bodies and to accounting professionals presented and discussed separately.

4.2.1 Benefits to the Public Enterprises

The interviewers agreed with the proposition that the adoption of IFRS has many benefits to enterprises; this idea was reflected on the same way on the Focused Group Discussion.

In relation to the assertion that IFRS result in improving efficiency and effectiveness of financial reporting, respondents believe that adoption of IFRS improves the efficiency of financial reporting to the question. Related to effectiveness of financial reporting under IFRS indicates that adoption of IFRS improves the effectiveness of financial reporting.

The respondents agreed with the proposition that financial statements prepared based on IFRS are more reliable and comparable. Similarly, the interview result reveals that since similar economic transactions are accounted for by different methods of accounting for the same transactions, adoption of IFRS leads to improved, comparability and reliability of financial statements, since using IFRSs is dependable.

Almost all of the respondents and Focused Group Discussion believe that the financial statements would become more transparent as a result of the adoption of IFRS, while all of them believed that the adoption of IFRS would make external financing easier. The adoption of IFRS would also enable greater effectiveness of the internal audit. In relation to transparency of financial statements the interview results reveal that the increased transparency of financial statements would improve the agency problem between management and the government through implementation of IFRS as increased transparency causes managers to act more in the interest of the governments. It would also similar increase in the efficiency of contracting between firms and lenders. This finding was consistent with (Jermakowicz, 2004; and Apostolos et al., 2010).

The final question under benefits of adopting IFRS for public enterprises was about cost of capital of a firm, i.e. whether adoption of IFRS brings about a reduction in cost

of capital for enterprises. The finding of this study is supported by the conclusions forwarded by Iyoha and Faboyede, (2011); and Leuz, and Verrecchia, (2000). Leuz, and Verrecchia, (2000) states that lower cost of information, reduction in bad earnings management, increased value relevance of accounting information, increase leader confidences, and reduced information asymmetry between managers and governments have positive impact on cost of capital. The aforementioned benefits of IFRS would lead enterprises to a reduced cost of capital.

4.2.2 Benefits to investors/Government

The respondents' perceptions were almost the same. This shows that in the view of respondents the adoption of IFRS would make it easier for investors/Government to evaluate the financial performances of organizations with which they do business or invest in, enhance transparency through better reporting, and they would have more confidence in the information presented.

One of the main objectives of IASB is to develop in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the various capital markets of the world and other users of the information to make economic decisions. According to this objective of IASB, adoption of IFRS enhance transparency of financial reporting of the enterprises through better reporting and provides better information for decision making by investors. Since the standards are high quality, transparent and comparable, investors/Government would have more confidence in the information presented using IFRS.

4.2.3 Benefits for Managements

The view of respondents, adoption of IFRS provides management of the enterprise with better risk management, improved management information for decision making and it promotes cross border investment. The interview result reveals that management would benefit, amongst others, improved management information presented in the financial statements which they can use for decision making. Managers also be at ease to manage risk and value firms which follow identical accounting measures; the risk assessment can be done more accurately on account of decreasing disparities in the flow of information.

The results of this study are supported by the conclusion forwarded by Larson et al., (2004). They stated that IFRS financial statements are rather seen as a comprehensive information package, than only as a reporting of the financial situation of the enterprises. The management gets better and easier information on how to direct the business.

4.2.4 Benefits for Other stakeholders

The last section of the questionnaire forwarded to the interviewee under benefits of IFRS proved the perception of respondents with regard to the importance of the adoption of IFRS for other stakeholders. Benefits of IFRS for stakeholders such as regulatory bodies, AABE, lender, tax authority, accounting and auditing professionals and financial analysts are dealt in this particular section. In view of the respondents, adoption of IFRS is highly beneficial to other stakeholders.

The interview result suggests that one of universally accepted accounting standards would make it easier firms to transfer accounting and auditing staff to other enterprises or companies. In other words IFRS would provide professional opportunities for accountants and auditors to serve in different enterprises and international clients; and it would increase their mobility to other enterprises and companies. This implies that adoption of IFRS provides greater credibility and

improved economic prospects for the accounting profession. Similarly, other stakeholders such as regulatory bodies and financial analysts would benefit from improved regulation oversight and enforcement, overall better reporting and increase the quality of information on new and different aspects of the business.

4.3 Challenges of IFRS Adoption

Interview and on focused group discussion results indicates that the respondents perception were adoption of IFRS has many challenges.

On the interview and Focused group discussion some of the Challenges were raised on Public Enterprises adoption and implementation of IFRS are:- lack of trained competent specialist on IFRS, Some enterprises account are not closed and audited up to the year ended Sene 30,2008 E.C, Lack of IFRS based fair valuers, employees turn over, lack of consultant, over work load on IFRS implementers/team during the implementation period, some public enterprise audit report is not a clean or disclaimer report, enterprises were separated or amalgamated, some enterprises are complex in their establishment, lack of well developed IT infrastructure, enterprises need more support from AABE and AABE are not well staffed to provide sufficient support to the enterprises, and lack of sufficient and sustainable training.

Respondents agreed with IFRSs are costly. According to the interview result this is due to the complex and less understandable nature of IFRS and it is especially the case for developing and least developed countries. This complexity requires a double workload during the transition year for finance and accounting people and many others. This result is not only increased internal employee cost but also external monitoring costs such as high audit fees. A training program for staff across the enterprises is also another costly investment and of course one of the most important factors that challenge to the adoption of IFRS.

Even though IFRS adoption requires enterprises a huge amount of initial investment during the implementation phase, benefits of IFRS will accrue throughout the life of

the enterprise as a going concern. In other words the benefits of IFRS are longer lasting than the costs that occur during the initial phase of its adoption.

Another challenge in the process of adopting IFRS, according to respondents is it increases the complexity of financial reporting. According to Jermakowicz, (2004), one of the reasons is the complex nature of some of the IFRS, including standards related to impairment tests (IAS 36). Even though IFRS is being criticized for its wide and complex nature, some respondents argue that these days the complex nature of IFRS adoption seems decreasing at an increasing rate. They put two reasons to support their argument; the first is enterprises which adopt IFRS lately can learn lessons from early adopters' mistakes. This means enterprises have a latecomer advantage and can learn from previous adopter. The other reason is higher learning institutions of the country and other training institutions are producing trained accounting professionals with IFRS orientation through training. In this regard Addis Ababa University is the forerunners among the higher learning Institutions. The aforementioned reasons and the increased technological advancements in the area of financial reporting might contribute to the decrease in the complexity of International Financial Reporting Standards.

In the survey of Caramanis and Papadakis (2008), the respondents indicated a number of difficulties that relate with the application of IFRS. In particular, they have the opinion that a major source of the difficulties regarding the technical aspects of the application of IFRS is the lack of comprehensive training and lack of adequate IFRS implementation guidance. Their findings are also supported by the results of this study. According to the interview results this lack of guidance creates risks for different local or national interpretations of IFRS and increases the risk for manipulation in interpretation of financial statements.

The respondents also believe that lack of availability of competent specialists, problem with the IT system in handling the transition to IFRS, increased volatility of

earnings as a result of IFRS, fair value measurement, lack of guidance or accounting procedure manual and Tax driven nature of previous standards are as challenges of adopting IFRS. The interview result revealed that lack of specialists who could assist by providing reliable answers to accounting practices with which enterprises accountants were not acquainted is one of the major challenges in implementing IFRS. Even though Ethiopia has no specific set of accounting standards to follow or has no its own national standard, the few that existed were driven by the countries tax system which causes major differences in accounting requirements under the previous standards and IFRS, requiring several reconciliation items in the conversion process. The adoption of IFRS creates the need for the previous standards to be replaced to IFRSs.

Most of the respondents believe that the adoption of IFRS which uses fair-value financial reporting approach introduce significant volatility in the balance sheet and, more importantly, in earnings. The interview result suggests that fair value measurement and volatility of earnings is considered to be among the most important challenges of implementing IFRS. Enterprises management would learn how to deal with volatility in reported performance. This is also supported by the results of the 2004 survey carried out by Jermakowicz, according to which adoption IFRS brings about increased volatility of earnings.

Another challenge of adopting IFRS can arise due to its emphasis on fair value accounting. Most of the interviewer respondents believe that the new improvement of IFRS which is the use of fair value accounting instead of historical cost is another challenge in adopting the international standard. Similarly, the interview result reveals that since the fair value accounting incorporates more information into the financial statements than historical costs it is a major challenge for public enterprises. Since some conditions in developing countries like Ethiopia are not favorable for implementing fair value accounting such as achieving observable market prices and accurate estimates of liquid market prices are not available and that cannot be

materially influenced by managers due to less perfect market liquidity, and insufficient number of valuers for IFRS's; use of this accounting method can be considered as a challenge (see for example Ball, et al., 2006).

4.4 Factors Affecting the Adoption and implementation of IFRS in Public Enterprises in Ethiopia

Finally, the factors affect the adoption of IFRS in public enterprise in Ethiopia have been examined.

Government policy and support, implementation period, capital market, educational level in accounting especially in IFRSs, professional bodies, revision of accounting curriculum, training, establishment of IFRS implementation committee, availability of guidance/accounting procedure manual for each Industry/enterprises, lesson from IFRSs implemented enterprise, adopting easy way of fair value measurement are important to efficient and effective implementation of IFRS. The respondents agree with all of them are affecting the adoption of IFRS In public enterprises. Let us discuss some of determinant elements.

Capital Market

There is significant affect capital market on the adoption of IFRS. In this study, the interviewers give response that there is effect of capital market on adoption of IFRS.

Consistent with the result of this study a number of prior empirical evidence found significant relationship between capital market and adoption of IFRS,; (e.g. Chamisa (2000). Sharif (2010) and Zeghal and Mhedhbi (2006). In Conformity with this Al-Shammari, et al, (2008), states that the rapid growth and opening up of capital markets has led governments to adopt IFRS, in the expectation that adoption would meet demands by local and international investors for more detailed and comparable financial reporting.

The respondent suggested formation of Capital market enhances fair value measurement. They believe that establishing capital market in Ethiopia is important now days and they suggested that the Ethiopian government and stakeholders would work towards the establishment of capital markets and facilitate the establishment of capital market.

Implementation period

We have seen from the literature and empirical study, the importance of sufficient implementation period. However, according to AABE road map public enterprises should present their report or financial statements based on IFRS in the year ended Sene 30, 2010 or June 30, 2018. According to the respondents, this road map may enforce Enterprises to adopt and implement IFRS as early as possible. But looking the fact most of the public Enterprises in Ethiopia are in different capacity and problems regarding financial reports. The interviewer list their differences as follows: some of the public enterprises financial report are not updated and audited, some of the enterprises are separated or amalgamated, some enterprises/corporations are complex, they do not have competent professional to implement IFRS and need sufficient training, and their IT systems are not ready to implement IFRS.

Professional bodies

Most of the respondent agrees that professional bodies have great contribution for adoption and implementation of IFRS at the country level and for Public Enterprises too. This indicates that professional bodies influence the adoption of IFRS and the result is consistent with the theoretical assumption of the study.

The theoretical assumption supported by the research results that there is significant relationship between professional bodies and IFRS adoption. Consistent with the results of this study Mir and Rahman (2005), Aljifri and Khashaarmeh, (2006) and Chamisa (2000) found similar result. Chamisa (2000) for example found that professional bodies have played a significant role in supporting the adoption of IFRS.

Training

The theoretical assumption supported by the research results that intensive Training is important for proper adoption and implementation of IFRS. Public Enterprises are required to adopt and implement IFRS in the first phase and as the interviewee suggested, training should have been given earlier from adoption period, therefore, the preparation period must be sufficient. But when we look the actual facts and interviewer response most of the enterprises were not ready to implement IFRS on the implementation period so that they are on the way to implement IFRS. Thus, from the interview result it can be concluded that in most public enterprises training on IFRS were not given on preparation period.

Revised accounting curriculum

According to the respondent Revision of accounting curriculum which is late but need to be revised and implement will not be tomorrow's work, it must be done as early as possible. Most countries experiences show that the need for revision of accounting curriculum earlier was one of the important factors for the implementation of IFRS.

Availability of accounting procedure manual

According to the respondent Accounting procedure manual is helpful to the proper implementation of IFRS. It reduces different interpretation of a given fact, and implementers can learn and enrich their capacity using the manual. Moreover, it reduces the training cost and period required to trainee. At the time review relevant documents this IFRS based accounting procedure manual does not exist in most public enterprises.

4.5 Summary of the Chapter

In this chapter the results of findings has been explained and discussed based on the analysis done on the data collected. The results of the study are discussed by the different sources results: interview, focused group discussion and document review results. The data collected using interview and focused group discussion were analyzed, and answer the research questions.

In analysis of the result shows that adoption of IFRS in public enterprises has significant advantageous among others; it increase the quality of financial statements, increase transparency and comparability, and it would be more reliable so that it is a means to give more confidence and attract investors and lenders.

There are related challenges, in the adoption. The challenges are insufficient period for implementation; shortage of trained professional, lack of proper IT system, the issuance of new laws (amalgamation or separation of enterprises), IFRS require intensive training, some enterprises account are not updated audited, the complex nature of the enterprises, absence of capital market and in adequate number of valuers are some of the challenges for the adoption and implementation of IFRS in public enterprises. The benefits of IFRS adoption to different stakeholders, the related challenges, and the factors that could influence the adoption of IFRS in Public Enterprises in Ethiopia have been analyzed in the chapter.

Chapter Five: Summary of Major Findings, Conclusions and Recommendation

5.1 Summary of Major Findings

This study examined the adoption of International Financial Reporting Standards (IFRS), its implementation, benefits, the challenges, and the factors that could affect its adoption in Public Enterprises in Ethiopia with particular reference to Public Enterprises which have been adopting or going to adopt this standard. Interview questions were developed and tested in this study. The first question is to understand the practical benefits of adopting IFRS for Public Enterprises and other stakeholders. The second question is to understand the challenges faced by the stakeholders in the process of adoption of IFRS. The last question is to assess the underlying factors (i.e. Government Policy and support, commitment of the enterprise, guidelines of IFRS implementation manual or develop accounting procedure manual, Professional Bodies, Training, revision of curriculum, Capital Market, and Educational Level) that could affect the adoption of IFRS.

The study used document analysis (legislations, directives and other document) interview with finance managers and audit directors. Data were interpreted qualitatively.

Even though Ethiopia has officially adopted IFRS recently, and this paper investigated a wide array of issues related to the adoption and implementation of IFRS in Ethiopia with particular reference public Enterprises which already started adopting this International Financial Reporting Standard and the following results were drawn.

The government of Ethiopia has expressed an initiative to integrate its financial statements with international standards. Intention of the government to adopt IFRS is manifested by the recently issued proclamation called “Financial Reporting

Proclamation of Ethiopia proclamation N0.847/2014 dated December 5, 2014” which obliges ‘public interest entities’ to follow IFRS in their financial reporting. However, the Financial Reporting Proclamation of Ethiopia is not setting a firm deadline for the IFRS transition but it gives a mandate to the AABE with maximum period of five years. AABE has issued a deadline for the implementation of IFRS in Public Enterprises in Ethiopia. The first phase is big public interest entities such as Banks, Insurance Companies and Public Enterprises.

The results show that the introduction of IFRS in Public Enterprises in Ethiopia will result in a number of important benefits for a wide range of stakeholders. The benefits of effective and efficient financial reporting will accrue to enterprises. Since similar economic transactions are accounted for similarly by eliminating different methods of accounting for the same transactions, adoption of IFRS leads to improved comparability and reliability of financial statements.

Adoption of IFRS has also the benefit to produce more transparent financial statements to public enterprises which in turn reduce the agency problem between management and government as increased transparency causes managers to act more in the interests of the Government. Adoption of IFRS would also significantly reduce cost of capital of firms through lower cost of information, make confidence for lender, reduction in bad earning management, greater marketability of shares, and reduced information asymmetry.

Investors and lenders will benefit, amongst others, more confidence in the information presented in financial statements which they can understand and use. For management, the adoption of IFRS will create improved management information for decision making and enables better risk management. Similarly, other stakeholders such as regulatory bodies and accounting professionals would benefit from improved regulatory oversight and greater credibility and improved economic prospects for the accounting profession.

The main challenges in the process of adopting IFRS include significant cost of adoption of IFRS; require intensive training, the complex nature of some of the IASB's standards and the lack of adequate implementation guidance. This lack of guidance creates risks for different local or national interpretations of IFRS and increases the risk for manipulation in interpretation of financial statements.

Other key challenges include fair value measurement. IFRS's use of fair value accounting instead of historical cost is considered as a challenge because some conditions in developing countries like Ethiopia are not favorable for implementing fair value accounting due to lack of achieving observable market prices or lack of accurate estimates of liquid market prices due to less perfect market liquidity.

5.2 Conclusions

This study has been conducted to critically examine adoption, implementation and the factors that could affect the adoption and implementation of IFRS in Public Enterprises with key issues and challenges. The study and the result reveals that Government policy and support, rigorous support and follow up by AABE, sufficient implementation period, strengthening IT, urgent revision of accounting curriculum in universities and college, strengthen of professional bodies like Ethiopian Professional association of Accountants and Auditors, preparing accounting procedure manual in consultation of expertise at least for each industry if possible for each enterprise, creation of Capital market, increased the role of external auditors, increase educational level, and intensive training have significant effect on the adoption of IFRS in public Enterprises in Ethiopia.

As the conclusions reveal since the benefits are longer lasting than the costs of adopting IFRS, there is an urgent need to adopt and implement IFRS and prepare financial statements based on this international standard. This implies that the government of Ethiopia specifically ministry of public enterprises continue their follow up for the proper and timely execution of IFRS in public enterprises. Public

Enterprises themselves put their effort and should present IFRS based financial statements and announce in earliest possible time.

The conclusions also reveal that there is a serious problem in relation to the detailed application of the adopted standards in public Enterprise. This implies that the concerned regulatory bodies such as the Accounting and Auditing Board of Ethiopia/AABE/, Audit Service Corporation, the Institute which is the Institute of Certified Public Accountants of Ethiopia and others stakeholders should strictly follow the application of all the standards. Thus, the effort to implement IFRS in Ethiopia specifically in public enterprises should be given more attention by the government, AABE, Ministry of public enterprises, public enterprises and other stakeholders.

On the other hand to fine tune with the main problems of IFRS adoption, adoption and implementation of IFRS should be supported by all stake holders. Moreover, IFRS capacity building program should be embarked upon by the regulatory body, Universities, enterprises and training institutions in order to provide the needed manpower for IFRS implementation.

The findings of interview and focused group discussions reveal that there are numerous factors that impact adoption of IFRS in Public Enterprises in Ethiopia. Based on the findings of the study, it is essential that the government has increased its support for the adoption of IFRS. The government should also encourage intensive training for accountants, auditors and relevant stake holders about IFRS and encourage its adoption, since adoption of IFRS could attract foreign direct investment, help to build confidence to lenders and enable enterprises get loan from local and international lenders, facilitate for capital market which in turn may lead to economic growth.

Finally, it could be summarized as under proclamation no. 847/2014 and regulation no. 332/2015 among other duties AABE has given a responsibility and power to the

proper adoption and implementation of IFRS, to discharge its responsibility it required the government support, that is AABE should be well organized and staffed for proper accomplishment of its duties. On the other hand, enterprises need strong support from AABE and AABE should give its rigorous support to the enterprises. Enterprise may not have access to the standards and do not keep up to date with standards so that AABE design a means to provide the standards on time.

Countries experience tells us launching IFRS implementation committee is useful for the proper implementation of IFRS and it is advisable and it is done in public enterprises.

Actively participation of all stake holders has great contribution to the proper implementation of IFRS. Triangular relationship among Ministry, AABE and Public Enterprises facilitate the proper adoption and implementation of IFRS. We can generalized that today globalization needs transparent, comparable and reliable financial statements, which is also lead to harmonization of accounting standards, therefore adoption of IFRS is inevitable. The processes tell us the need for establishment of capital market in the country. Moreover, IFRS based financial statements increase harmonization of financial statements all over the globe, therefore it increase investors, lender and donors confidence to relay on financial statements. Harmonization of financial statements increases confidence of external financier.

5.3 Recommendations

Now days IFRS adoption and implementation in public enterprises is an indispensable task for the owner/Government of Ethiopia, Public Enterprises, Management and other stakeholders of the public enterprises. This task should be well performed, and it is ongoing task. To accomplish the ongoing task it is recommended that there would be a triangular relationship among the ministry of public enterprise, public enterprises and AABE in order to facilitate the implementation.

On the other hand there are challenges on the adoption and implementation IFRS, which required timely solution, and need experts. Enterprises may be unable to give solution and they may need support from AABE. Therefore AABE should be well organized to give support on time to the Public Enterprises and the country at large for the proper implementation of IFRS.

As we have seen from other countries experiences and most interviewers' give their advice, national regulatory body that is AABE, has to adopt and issued IFRS standards. Thus, it is advisable that a complete set of standards applicable for the industry would be done and issued by AABE.

As per Focused Group Discussion and other countries experience tells us, at present and for subsequently it is recommended that the Government of Ethiopia give more attention to strengthen AABE in order to discharge its responsibility for the proper implementation of IFRS.

The government of Ethiopia and relevant stake holders are advised to increase their effort on establishing capital market, since; capital market would facilitate fair valuation which is an important element of IFRS.

Finally, other countries experience tells that IT is one of the important factors which contribute to the proper implementation of IFRS. So, it is recommended that implementation of IT suited to public enterprises must be done and applied. There is

also an urgent need to revise and implement accounting curriculum in university and college, there for it is advisable to revise and implement the curriculum.

5.4 Future Research Areas

The International Financial Reporting Standards (IFRS) is a broader scope of accounting which cannot be dealt with in its entirety in a few studies alone. This study focused on the adoption, implementation, benefits, challenges and Factors that could influence the adoption of these standards in public Enterprises. However, it would be highly appropriate for future research to be conducted on the issue of accounting procedure manual specific to the industry which is helpful to guide accountants when they analyze and record transactions and to facilitate audit process, on fair value measurement, how to adopt or apply the newly issued IFRSs, disclosure and compliance with IFRS. The study would comprise the detailed application of the adopted standards and how Public Enterprises adopt and apply these standards. Furthermore, little is known about how mandatory IFRS adoption affects financial statements and it is therefore still an open question, whether financial statements are more informative following mandatory IFRS adoption. How Public Enterprises adopt and comply with IFRS tailored for them could also be considered as another area for future research. Finally, this study attempted to focus on the adoption, implementation key issues and challenges of IFRS in Public Enterprises. Even though on this research found some important factors affecting the adoption and implementation of IFRS, the researcher advocates more studies to be conducted on IFRS adoption and implementation as well as newly issued or revised standards in the financial reporting domain of Public Enterprises.

Definition of terms

Specific to this research those terms have the following meaning.

Accounting policies: - are specific principles, bases, convention, rules and procedures or practices adopted by an entity in preparing and presenting financial statements.

Big Bang approach: - Totally replacing approach; once IFRS are adopted, all IFRS standards should be complied while preparing financial statements and the existing accounting standard is replaced with IFRS. Totally replacing financial statements means that the basis of preparation note and the auditor's report will refer to conformity with IFRSs.

Convergence approach: - gradual movement is made towards IFRS through customizing with the existing accounting standards and IFRS are applied gradually.

General purpose financial statements: - General purpose financial statements are those financial statements released to a broad group of users. These statements include Income statement, Balance Sheet, Statement of cash flows, Statement of Shareholders' equity and Accompanying disclosures. These statements are usually issued to the investment community and lenders.

Harmonization: - "the reconciliation of different accounting and financial reporting systems by fitting them into common broad classifications, so that form becomes standard while content retain significant differences" (Mathews & Perera, 1996, P.332)

Ministry: - The ministry of public enterprises.

Other financial reporting: - Information provided outside financial statements that assists in the interpretation of a complete set of financial statements or improves users' ability to make efficient economic decisions.

Principle based: - this standards leave more room for professional judgments; an entity may disclose material items of income in profit or loss or as separate component of equity.

Public enterprise: - wholly state owned enterprise established in Ethiopia pursuant to proclamation No. 25/92 to carry on for gain manufacturing, distribution, service rendering or other economic and related activities.

Public interest entity: -“means a reporting entity that is of significant public relevance as the Board may decide from time to time because of the nature of its business, its size or its number of employees, and includes, in particular, a company whose securities are admitted to trading on a regulated capital market, banks, insurance companies and any other financial institutions and public enterprises” (proclamation No. 847/2014).

Rule based:-it is basically a list of detailed rules that must be followed when preparing financial statements; an entity shall disclose material items of income in profit or loss or as a separate component of equity.

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Appendix (A) Interview Guide

Interview Guide

Abebaw Dagneb Wubetie (MSs Student)

Addis Ababa University

Faculty of Business and Economics

Department of Accounting and Finance

Dear sir/madam

The intent of this interview is to explore information regarding the adoption of International Financial Reporting Standards (IFRS) in public Enterprise in Ethiopia and to have sufficient response to the research problem which adopt or going to adopt IFRS of the enterprises and stakeholders. The interview will be made with financial managers and/or team leaders of the randomly selected enterprises, AABE, Audit Service Corporation. The information you provide in response to the items in the interview will be used as part of the data needed for a study on the Adoption and implementation of International Financial Reporting Standards in Public Enterprise in Ethiopia: with the assessment of Key issues and challenges.

I would like to assure you that the information you provide will be accessible only to the academic purpose. Your involvement is regarded as a great input to the quality of the research results. Hence, I believe that you will enlarge your assistance by participating in the study.

Your honest and thought full response is invaluable;

Thank you for your participation;

Kind regards;

Abebaw Dagneb

Interview check lists on IFRS adoption and implementation, issues and challenges in public enterprises in Ethiopia.

1. Do you agree IFRS implemented in your organization properly? If not, please mention the challenges.
2. Which accounting standard (US GAAP, UK GAAP or other) was employed in your enterprise before the adoption of IFRS?
3. What are the main factors that could influence the adoption of IFRS in Public Enterprises in Ethiopia?
4. Do you agree with the statement that IFRS is developed by the developed countries hence not practical for developing countries? Why?
5. From your point of View how beneficial are the Public Enterprises and other stake holders by adopted IFRS?
6. What are the main challenges of adopting IFRS in Public Enterprises?
7. What are the main challenges faced by enterprises and stakeholders in the process of implementation of IFRS?
8. What are the ways through which these challenges can be addressed? Please recommend some solutions to overcome the Challenges.
9. On the process of adopting IFRS which method do you recommend to follow? Convergence approach or totally replacing /Big bang/ approach?
10. Is timely interpretation and adoption of IFRS possible in public enterprise? And can be done on time?
11. Do public enterprises need additional professional consultation and follow up during the adoption and implementation of IFRS?
12. To what extent training is necessary? And for whom?
13. Is the implementation period of IFRS in public enterprises sufficient? Why? Please explain reasons.
14. To what extent do you need to be assisted by AABE at the time of adoption of IFRSs? And any subsequent event of IFRS adoption?
15. Do you have encountered any problems in fair valuation? Especially valuation of property, plant and equipment.
16. Does IFRS implementation have an impact to the cost of capital?
17. Would you give any more idea or comment regarding the adoption and implementation of IFRS in public enterprises?

Thank you!!!