ADDIS ABABA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

CHALLENGES AND PROSPECTS OF INTERNATIONAL FINANCE REPORTING STANDARDS (IFRS) ADOPTION IN ETHIOPIA

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Approval of Board of Examiners

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External Examiner	Signature

DECLARATION

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

Declared by

Solomon Demena	_____________________	February, 2018
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LIST OF ACRONYMS

AABE	Accounting and Auditing Board of Ethiopia
AACCSA	Addis Ababa Chamber commerce and sect oral Association
ACCA	Association of Certified chartered accountants
AIR	African Development Report
ASC	Standard Corporation
CEO	Chief Executive Officer
CFO	Chief Finance Officer
CIAO	Chief Internal Audit Officer
CPD	Continuous professional Development
ELC	Ethiopian I investment commission
EU	European Union
FDI	Foreign Direct Investment
FDRE	Federal Democratic
GAAP	Generally Accepted Accounting practice
GDP	Growth and Domestic product
GTP	Growth Transformation plan
HOPR	House of peoples Representative
IASB	International accounting standard Board
IASC	International Accounting Standard Committee
ICAA	Institute for Certifying Accountants and Auditors
IFAC	International Federation of Accountants
IFEIC	International Financial Report Interpretation Committee

IFRS	International Financial Report Standard
IMF	International Monitory Fund
INTOSAI	International Organization of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
ISA	International Standards of Audit
NAAB	National Accountants and Auditors Board
NGOS	Non-Government Organization
OFAG	Office of the Federal Auditor General
PIE	Public Internal Entities
ROSC	Report an Observance of Standards and Codes
ROSC	Team of World Branch
SIC	Standard Interpretation Committee
SMEGA	Small and Medium-sized Entities Guidelines Accounting issued by UNCTAD
SPSS	Start package Transformation plan
UNCTAD	United Nations Conference on Trade and Development
WB	World Bank

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ABSTRACT

Globally, users of financial statements need harmonized, transparent international financial reporting standardized (IFRS) to help them make economic decisions and to enable them to invest in across the globe their capital resources. Ethiopia has recognized the need for accepting those financial reporting standards that were set out by IASB and started implementing it by selecting 78 companies on the first phase as set out by Accounting and Auditing Board of Ethiopia (AABE) strategic plan of action. Therefore, the objective of this research paper is to identity the benefits would be obtained and challenges encountered during the implementation process which was started from July 8, 2017 in 78 entities in Ethiopia. This study deployed descriptive survey research design and applied quantitative research method or approach. The researcher distributed questionnaires to 180 employees selected using purposive sampling of the selected 60 sample entities using stratified sampling technique which were adopting IFRS in their company. The study used both stratified and purposive sampling techniques to select the entity and each respondent from their company. Primary data were collected through structured questionnaires from chief executive officers (CEOs), Chief Finance Officers (CFOs) and Chief Internal Audit Function. The quantitative data were entered by using SPSS version 22, analyzed and results were presented in figure, tables, percent and frequency. Out of the total questionnaire distributed to 180 respondents 165 questionnaire returned to which is 91.67% response rate. The research analysis and finding indicted the following results: IFRS adaption in Ethiopian was positively influenced by economic growth rate, existence of financial markets even if it is in its infant phase, weakness of previews accounting system, enforcements of new legal systems and others factors such as external factors including influence of the world bank and IMF which forced government to adopt IFRS. The analysis also identified problems related to IFRS adoption such as complexity and difficulty of the standards, minimum number of the professionals, lack of technically competent staffs, non,- existence of professional association ,cost associated with IFRS.

Key words: International Finance Reporting Standards (IFRS), Ethiopia

CHAPTER ONE

INTRODUCTION

1.0 Introduction

The main objective of this study is to identify the benefits would be obtained and challenges encountered during the implementation process started from July 8,2017 in 78 entities in Ethiopia to report IFRS complaint financial reports at the end of the year ended 7 July 2018.

The first chapter of the research intended to introduce the background of the study, statement of the problem, objective of the study both general and specific objectives, research questions, significance of the study, limitation of the study and finally illustrate the organization of the study.

1.1 Background of the study

The faster growing economy of Ethiopia need a huge amount of foreign direct investment inflow (FDI), thus the high level of economic growth, the provision of better infrastructure, and the successive growth of market sizes and the government's openness for FDI contributed to high profile investors targeting Ethiopia in the past few years. According to the African Investment Report (AIR) (2015) in 2014-15 Ethiopia roses included in the Top-10 investment destinations in Africa - recording 100% change in FDI flow. Ethiopia also doubled its registered growth in manufacturing projects, in addition to parallel increases in manufacturing value added growth from 12 to 17 percent (AIR, 2015). FDI inflow to Ethiopia showed a continuous increase of more than 12% per annum, a fact which could be attributed to the country's favorable investment climate (EIC, 2016).

To invest in one country foreign investors need harmonized financial reporting standards which enable them to control the investment made in various countries and to evaluate the efficiency and effectiveness of their investment in particular to the specific country (Gyasi, 2010). So the Ethiopian government understand the need for the harmonized one set of accounting standards and conducted various studies with respect to the existing accounting, auditing and financial management systems and a need for reporting framework and accounting standards that comply with the requirement of international companies that shall provide foreign direct investment funds and need to invest in various sectors of the Ethiopian economy. After the study made by ROSC team of the World Bank in 2017 the government of Ethiopia recognized the adoption of International Financial Reporting Standards (IFRs) as set out by International Accounting Standard Board (IASB) (Said, 2013).

In addition to the studies made by Ethiopia government considerable research studies have investigated the motivations behind the adoption of IFRS by emerging nations. According to some of these studies, the decision to adopt IFRS derives from the fact that developing nations are generally unable to allocate the financial and technical resources needed to develop high-quality and indigenous accounting standards (Said, 2013).

Various prior accounting researches such as (Irvine and Lucas, 2006; Gyasi, 2010; Laga, 2012; Owolabi and Iyoha, 2012; Schachler et al., 2012) have investigated the influences of several environmental issues on implementation of IFRS. These studies identify several factors, such as availability of capital market and degree of external economic openness, economic and political influences, legal systems, taxation, culture, and accounting education and training system that seem to affect the adoption of IFRS in emerging countries.

Before the adoption of the standards set out by IASB Ethiopia is one of the countries who have not have their own accounting standards and framework for financial reporting except the rule based coded commercial law of 1960 and proclamations enacted in different periods with regard to income tax and other matters related to business activities. Therefore, adopting IFRS in Ethiopia is more complicated and a challenge, to transit to IFRS is very acute as in the case of most of developing countries encountered when the first time adopt IFRS as have been seen in studies made by various researcher of IFRS implementation in developing economies. Among these researchers Gyasi (2010), Lega (2012) and Schacler et al. (2012) indicated that some challenges that facing the adoption of IFRS in developing countries which summarized as follows:

- Since these standards are new and unfamiliar to the local staff, several training must be done to ensure that these accountants are skillful with handling these new standards. This invariably leads to increase in the cost of training. Also, the services of consultants must be purchased so as to complete compliance with the new standards adopted which also increases the consultancy cost immensely,

- Some standards do not meet the accounting and financial requirements of the developing countries, and
- The variances in local regulations as one major challenge to the compliance to IFRS in developing countries.

Therefore, the purpose of this research paper is to identify real challenges encountered and benefits shall be obtained by the entities selected by Accounting and Auditing Board of Ethiopia (AABE) to transit to IFRS in the first phase of mandatorily adopting of IFRS for first time. This study also intended to contribute a body of knowledge to the existing research and intended to contribute the way to overcome challenges that will be encountered by the second and third phase of transiting to IFRS in Ethiopia as set out in the road map of AABE's strategic plan.

1.2 Statement of the Problem

The adoption of IFRS benefit is intended to provide high quality information like financial statements, provide transparent statement for users and easily comparable over all periods presented; provides a suitable starting point for accounting under IFRSs; and can be generated at a cost that does not exceed the benefits to users. The adoption of IFRS faces several challenges and obstacles including, lack of technical skills and inadequate knowledge of companies 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 (Eyob, 2017).

Currently both developed and developing countries were facing in implementation and adoption of IFRS. But its wide spread adoption has been promoted by the argument that the benefits are more important than its costs and challenges. Many jurisdictions have cultural, legal, or political obstacles to an immediate full adoption of IFRS (Wayne, 2010). 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 (Thi Phana and Mascitellib, 2014).

IFRS are sets of standards or requirements that dictate the measurement, recognition, presentation and disclosures to be used in the preparation of financial statements by business entities. In the past few years many developed and developing countries started to adopted international financial reporting standards (IFRS) as the basis for financial reporting. While some countries have been using these standards for decades to foster economic development and harmonize financial standards, however particularly developing nations like Ethiopia were unable to fully adopted and implemented IFRS. In Ethiopia, implementation of IFRS was launched in July 7, 2017 (AABE, 2015).

The researcher was also observed various problems including high cost of implementation of IFRS, low level of awareness among employees and institutions and users of Financial Statement, and difficulties in understanding the effect of IFRS on various sectors of the economy and their economic operations respectively. Hence, to assess there are limited research done and published in this issue in Ethiopia, the finding from this study was aimed the benefit and challenge of adopting of IFRS in the selected institution in Ethiopia to overcome the problem get advantage for the user.

Therefore this study is initiated to study the challenges and benefits based on the actual transition process of those entities mandatorily adopt IFRS in Ethiopia in the first phase since there were no sufficient studies made in regard to IFRS adoption in the first time in accordance with IFRS 1 in actual implementation process in Ethiopian case.

1.3 Objective of the study

1.3.1 General objective of the study

The general objective of this study is to identify the challenges and benefits of international finance report standards (IFRS) adoption in Ethiopia..

1.3.2 Specific objective of the study

The specific objective of this study includes the following:

1. To assess the adequacy of the time frame (the road map) set out by the AABE
2. To identify problems encountered by entities subject to the phase 1 first time adaptors of IFRS.
3. To find out the adequacy of the monitoring, assistance and support made.
4. To assess the benefits obtained from adopting of IFRS in respect of each entity and nation –wide.
5. To investigate any problems in data- capturing and obtaining the necessary information related to IFRS adoption.
6. To examine the adequacy of accounting system, accounting policies, Information Technology system.

1.4 Research Questions

1. Is the time frame (the road map) set out by regulatory body adequate?
2. What are the problems encountered by those entities while implementing IFRS?
3. Is the monitoring, assistance and support made by the regulator body adequate?
4. What are the benefits obtained from adopting of IFRS nation -wide?
5. What are the problems encountered in data- capturing and obtaining the necessary information in IFRS adoption?
6. Are the accounting system, accounting policies, Information Technology system and educational back ground of finance staff adequate?

1.5 Significance of the Study

The studies made to date with regard to Ethiopian financial management and accounting system by various researchers and the study of ROSC team in 2007 indicate that Ethiopia is one of the countries that have not have its own accounting standards, so the adoption of IFRS for such countries is difficult than those having their own accounting standards to apply the requirements set out by standard IFRS 1 first time adoption of IFRS as stated by International Accounting Board (IASB). The Accounting and Auditing Board of Ethiopia (AABE) had planned to implement the adoption of IFRS in three phase and now it starts its first phase conversion program and set out the reporting period for IFRS complied financial statement as of July 2018 for the selected 78 entities which includes 19 banks, 18 Insurance Companies and 41 Government Owned Public Enterprises which companies manufacturing companies, construction industries, retail business and transport sectors , therefore, the researcher believes that this study will identified problems encountered to date in the first phase shall be an input for the other remaining phase two and phase three and the researcher also believe that the result of this research will contribute to the body of knowledge in the area of adoption of IFRS in the case of developing economies since Ethiopia's case can be representative of many under developed countries that will adopt IFRS in the future periods.

1.6 Scope of the Study

The scope of this research paper is limited to the selected entities in Ethiopia that adopt IFRS on the first phase in accordance with IFRS Standard 1 first time IFRS adoption as indicated in the road map of AABE for Ethiopian's entities so the objective of this research paper is to identify challenges encountered in this first phase implantation period and to evaluate the benefits obtained and will be obtained from the adoption of IFRS for those entities categorized in the first phase. The Accounting and Auditing Board of Ethiopia identified 41 Government Enterprises', 19 Banks, 18 Insurance companies, and 35 Microfinance Enterprises total of 113 entities. However the board decided to postponed the implementation of Microfinance entities for one year so those selected entities shall produce IFRS complaint financial reports as of July 8, 2017. Therefore the scope of the study limited to t78 entities.

1.7 Limitation of the study

The major limitation of the study was due to vast number of entities, the data was collected from a small purposively selected top managers like Chief Executive Officers (CEOs), Chief Finance Officers (CFOs) and Chief Internal Audit Officer (CIAOs) in each entities. This means some key staffs and committee members were not incorporated in the study. Another limitation of this study is that the research scope was a little bit vast and due to time constraint the researcher was unable to conduct qualitative research to get in-depth overview about the adoption of IFRS in Ethiopia.

1.8 Organization of the study

This research is organized into five chapters. Chapter One is the introduction, this entails the background of the study including previous studies on the topic, the problem statement, research questions, the objectives of the study, significance of the study, limitations of the research, and the organization of the study.

Chapter Two includes review of relevant literatures to the study and the conceptual Framework relevant to the study. These includes both imperial and theoretical studies made with regard to the need for the IFRS and benefit and challenges of adopting IFRS..

Chapter Three also deals with the methodology of the study. It will include the research design, source of data, target population, sampling methods and techniques, research instrumentation, data analysis plan as well as issues from the field, ethics and how they will be addressed.

Chapter Four has to do with the analysis and interpretation of results with the aid of Statistical Package for Social Sciences (SPSS).

Chapter Five will draw possible conclusions on the basis of the findings and an indication of their relevance or policy making implications. Recommendations will also be made in this chapter.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter presents both theoretical and empirical review of related literatures on the International Financial Reporting Standards (IFRS). The theoretical review incorporate the definition of IFRS, reason for harmonization of IFRS, historical background for the development of IFRS, the need for harmonization of IFRS, approaches to IFRS adoption, challenges of adoption of IFRS and the need for adoption IFRS in Ethiopia. The empirical literature review includes IFRS adoption in developing countries, IFRS adoption in the case of Ethiopia, relevance of IFRS adoption, problems in IFRS adoption, perceived challenges of IFRS adoption, the conceptual framework and the existing gap.

2.1 Theoretical Review

2.1.1. Definition of International Financial Reporting Standards - IFRS

IFRS are a set of international accounting standards stating how particular types of transactions and other events should be reported in financial statements. IFRS are issued by the International Accounting Standards Board. IFRS are sometimes confused with International Accounting Standards (IAS), which are the older standards that IFRS replaced. The goal with IFRS is to make international comparisons as easy as possible. This is difficult because, to a large extent, each country has its own set of rules. For example, U.S. GAAPs are different from Canadian GAAP. Synchronizing accounting standards across the globe is an ongoing process in the international accounting community (Karthik and Ewa, 2009).

Obviously, there are major differences in financial reporting of companies in different countries. These differences result in complications for preparing, consolidating, auditing and interpreting published financial statements. There has been a greater need to bridge the gap between the differences in financial reporting standards among countries. To make this a reality, several organizations have been involved in trying to harmonize the financial reporting standards worldwide. The terms harmonization and standardization are used in most instances to describe the solution to solving the differences that pertain in national financial reporting standards. Harmonization is the process of increasing the compatibility of accounting practices by setting bounds to their degree of variation. In an effort to harmonize accounting measurements and reporting standards, almost sixteen (16) different governmental and non-governmental organizations have attempted various options. However, the IASC emerged as the most active and potent accounting standards setting body (Gyasi, 2010).

2.1.2 Reasons for Harmonizing International Accounting Standards

In recent years, countries are much interested and concerned with financial information from other countries due to the increasing rate of internationalization. International harmonization of accounting standards is of much concern to the regulators, preparers, and users of financial information. There are a whole host of professionals that need financial information from different countries for the sake of comparison and effective financial decision making. These include the following:

Firstly, financial analysts and investors need comparable and comprehensible financial information of foreign companies to be better help in their decision whether to buy a particular share or invest in other ventures. The key issues that investors and financial analyst look for are reliability and comparability of the financial information (Alemgena, 2016).

Better still, even if there are differences in the accounting standards between countries, investors and financial analysts need to be clear about the nature and magnitude of the differences. More so, foreign companies that list their shares on the domestic stock exchange of another country would be required to provide sound and reliable financial information by the regulators of the stock exchange in the domestic country which meets the local standards. International grantors (Ibid).

2.1.3 Historical Back Ground for the Development of IFRS

IFRS are accounting rules ("standards") issued by the International Accounting Standard Board (IASB), an independent organization based in London, UK. Before the inception of IASB, international standards were issued by the IASB's predecessor organization, the IASC, a body established in 1973 through an agreement made by professional accountancy bodies from Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom and Ireland, and the United States of America. Up to 2000, the IASC's rules were described as "International Accounting Standards" (IAS). In fact in 1997 after nearly 25 years of achievement, IASC recognized that to continue to perform its role effectively, it must find a way to bring about convergence between national accounting standards and practices and high quality global accounting standards. In late 1997 IASC formed a Strategy Working Party that published a discussion paper in December 1998 and final recommendations in November 1999.

The IASC Board approved the proposals in December 1999, and the IASC member bodies did the same in May 2000. The new standards-setting body was named as International Accounting Standards Board (IASB) and since April 2001, it has been performing the rule-making function. Components of IASB structure contain IASB, IASC Foundation, International Financial Reporting Interpretations Committee (IFRIC), previously Standing Interpretations Committee, SIC under IASC), Standards Advisory Council (SAC) and Working Groups. The IASB is better funded, better-staffed and more independent than its predecessor. The IASB describes its rules under the new label "International Financial Reporting Standards (IFRS), though it continues to recognize the prior rules (IAS) issued by the old standard-setter (IASC).

2.1.4 The Need for Harmonization of IFRS

The need for harmonization of financial reporting standards arises as a result of the globalization of businesses activities and operations, due to this cross boundary business activities and a need for comparability of financial statements of global companies the requirement for one set on standards become inevitable. As the current reality indicates that the world's capital markets operate more and more freely across borders so the need for harmonization of one set of global financial reporting standards become necessary. This impact of rapid globalization need for one set of reporting standards as summarized by the words of Paul Volker, Chairman of IFRS Foundation Trustees in November 2002, in a speech to the World Congress of Accountants as follows:

> "Developments over the past year and more have strongly reinforced the logic of achieving and implementing high-quality international accounting

standards. In an age when capital flows freely across boundaries, it simply makes sense to account for economic transactions, whether they occur in the Americas, Asia, or Europe, in the same manner. Providing improved transparency and comparability will certainly help ensure that capital is allocated efficiently. Not so incidentally, generally accepted international standards will reduce the cost of compliance with multiple national standards")

As the modern business imperative moves towards the globalization of operations and activities, there is an underlying commercial logic that also requires a truly global capital market. Globally, users of financial statements need transparent and comparative information to help them make economic decisions and to enable them to invest in across the globe their capital resources.

To fulfill the harmonization of financial reporting the International Accounting Standards Board (IASB) was established in 2001 to develop International Financial Reporting Standards (IFRS). IFRS stands for "International Financial Reporting Standards" and it is created as the global language of accountancy which is aimed to make the comparison and interpretation of the financial statements across the world easier. It includes International Accounting Standards (IASs) until they are replaced by any IFRS and interpretations originated by the IFRIC or its predecessor, the former Standard Interpretations Committee (SIC). IFRS is a set of international accounting and reporting standards that will help to harmonize company financial information, improve the transparency of accounting, and ensure that investors receive more accurate and consistent reports. IFRS were adopted legally first time in 2005 by European Union. Other countries with developed capital markets have adopted or in the process of adopting IFRS in for reporting purpose. However, this is only possible if all the countries prefer the IFRS reporting (IFRS 2015 Guide paper).

In the report made by IASB guideline issued on May 2017 an ever-growing number of jurisdictions requiring the use of IFRS Standards. Of the 143 jurisdictions researched thus far, 119 (83per cent) require the use of IFRS Standards by all or most publicly listed companies. Moreover, most of the remaining jurisdictions either permit its use or are well advanced in embracing IFRS Standards (IFRS 2015 Guide paper).

In accordance with Hans Hoogervorst Chairman, “International Accounting Standards Board they have seen very positive evaluations about their Standards from existing IFRS jurisdictions. During 2015, the European Commission published a report evaluating the European Union’s experience of using IFRS Standards over the past ten years. The key findings showed that IFRS Standards were successful in creating a common accounting language for capital markets. Companies were mostly positive about their experience of using IFRS Standards and in most cases, benefits outweighed costs. Investors also largely supported IFRS Standards for improving the transparency and comparability of financial statements. These are all very positive developments, and reaffirm our strong belief in our mission” Hans Hoogervorst (Atu et al., 2014).

The main objective of IFRS development is harmonization in financial statements reporting. Some additional objectives are:

1. To create the global financial reporting infrastructure.
2. To generate sound business sense among the beneficiaries.
3. To generate the dimensions of fair presentation of financial statement.

The harmonized financial reporting standards defined as follows: “Harmonized financial reporting standards are intended to provide a platform for wider investment choice more efficient capital market, lower cost of capital and Enhanced business development” (Jermakowicz, 2004).

The expansion of International Trade and the accessibility to foreign stock and debt market has given impetus to increasing the debate on whether or not there is need to be a global set of accounting standards. As companies compete globally for scarce resources, investors and creditors as well as multinational companies are required to bear the cost of reconciling financial statements that are prepared using national standards. It was argued that a common set of practices will provide a “level playing field” for all companies worldwide (Murphy, 2000).

IFRS are standards and interpretations adopted by the International Accounting Standards Board (IASB). They include: International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) and interpretation originated by the International

Reporting Standards Interpretation Committee (IFRSIC) (Ioannis and Lisa, 2010). IFRS represent a single set of high quality, globally accepted accounting standards that can enhance comparability of financial reporting across the globe. This increased comparability of financial information could result in better investment decisions and ensure a more optimal allocation of resources across the global economy. Cai and Wong (2010) hypothesized that having a single set of internationally acceptable financial reporting standards will eliminate the need for restatement of financial statements, yet ensure accounting diversity among countries, thus facilitating cross-border movement of capital and greater integration of the global financial markets.

Esptein (2009), emphasized the fact that universal financial reporting standards will increase market liquidity, decrease transaction costs for investors, lower cost of capital and facilitate international capital formation and flows, various studies conducted on the adoption of IFRS at country level indicated that countries that adopted IFRS experienced huge increases in direct foreign investment (DFI) flows across countries (Irvine and Lucas, 2006). Cai & Wong (2010),in a study of global capital markets demonstrated that capital markets of countries that had adopted IFRS recorded high degree of integration among them after their IFRS adoption compared with the period before adoption. In a study on financial data of public listed companies in 15 member states of the European Union (EU) before and after full adoption of IFRS in 2005, Chai at al (2010), found that majority of accounting quality indicators improved after IFRS adoption in the EU.

In a study on the question of usefulness of IAS/IFRS for developing countries using a case study of Zimbabwe, Chamisa (2000), analyzed the impact of the adoption of IASB standards on the accounting practices of listed companies. Results of the study revealed that these standards have particular importance for developing countries with emerging financial markets. In an analysis of the IAS/IFRS implementation process in developing countries using Armenia as the analytical framework McGee (1999), showed that this process poses difficulties, which can be overcome by concerted efforts in training and information dissemination about the new standards. Alp and Ustandag (2009) studied the development process of financial reporting standards around the world and its practical results in developing countries found that Turkey had encountered several complications in the adoption of IFRS. Such complications include the complex structure of the international standards, potential knowledge shortfall and other difficulties in the application and enforcement issues.

Similarly, in a study on adoption of IFRS at firm level, Kim and David (2012 demonstrated that firms adopting IFRS had exhibited higher accounting quality in the post-adoption period than they did in the pre-adoption period. In a study of financial data of firms covering 21 countries, Barth (2008), confirmed that firms applying IAS/IFRS experienced an improvement in accounting quality between the pre-adoption and post-adoption periods. Latridis (2010), concluded on the basis of data collected from firms listed on the London Stock Exchange that IFRS implementation has favorably affected the financial performance (measured by profitability and growth potentials).

There is also growing number of studies that question the relevance of IFRS in developing and emerging economies. Irvine and Lucas (2006) also reported that the development of globalized set of accounting standards provides other benefits that are not so relevant to developing and emerging nations. The adoption of IFRS will save Multinational Corporations the expense of preparing more than one set of accounts for different national jurisdictions, the professional status of accounting bodies will be enhanced and the big accounting firms will benefit in their efforts to expand the global market for their services. Perera (1989), posited that accounting information produced according to developed countries accounting system is not relevant to the decision models of less developed countries. As evident from the foregoing, a good number of studies carried out in different countries have highlighted the benefits of having single set of financial reporting standards across the globe. Few of the studies have given contradictory views questioning the relevance of IFRS adoption in developing and emerging economies.

2.1.5 Approaches to IFRS Adoption

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 totaling replacing or customizing it with IFRS over time. The first approach is known as adoption or 'big bang' approach 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 to companies of different sizes. Under this approach, once IFRS are adopted, all IFRS standards should be complied while preparing financial statements and the existing accounting standard 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 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 (Pacter, 2015).

2.1.6 Challenges of Adopting IFRS

Though adopting IFRS is expected to facilitate growth in bilateral economic activities, the benefit may not be evenly distributed across all bilateral relations due to certain challenges. The pre-adoption conformity of national GAAP to IFRS determines the significance, and therefore the benefit, of IFRS adoption. However, institutional differences among partner countries can impact the effect of convergence to a set of uniform financial reporting standards, as they can affect the degree to which the new accounting standards are actually enforced and influence the interpretation of accounting information prepared under IFRS. Furthermore, different studies, both extant and contemporary, had been carried out on the impact of IFRS, as wells as the challenges adopters of the accounting standards face in moving to the standard. In this connection, (Street and Larson, 2004) cited in (Cardozzo, 2008) conducted a survey within EU member states to test the plans and barriers to convergence to IFRS before their mandatory adoption by listed companies in 2005. The survey highlights that most of EU listed companies do not plan to converge national GAAP to IFRS, and after the required adoption they might keep this two accounting systems for individual accounts. The main impediments are based on the difficulties arising in the application of some IFRS and the tax system of countries sampled as well as the lack of guidelines of national bodies in the application of such standards. Similarly other literature studies the problems of implementing IFRS in Czech Republic by analyzing the key issues that arise by moving to IAS/IFRS reporting. Their research paper underlines that even though the Czech accounting system is moving closer to IFRS in some areas such as the valuation at fair value, the need of national system to keep separate the tax and financial reporting to ensure that the different objectives of the two reporting systems are met explains why the Czech system differs in certain aspects from IFRS (Sucher and Jindrichovska, 2004). Given the strong influence of tax rules on financial reporting, (Vellam, 2004) discusses whether the convergence between national GAAP and IFRS can be achieved in practice, by describing the differences between Polish financial reporting and the IASB conceptual framework. The preference of Polish accounting system for a tax orientation and the lack of an effective enforcement of international accounting standards are perceived as the main reasons of a full compliance of IFRS requirements.

2.1.7 Benefits of IFRS Adoption

Various studies have been conducted in different countries to identify benefit realized and challenges faced in adopting IFRS for the first time. IFRS might provide the following benefits: organization problem between management and shareholders can be substantially reduced through implementation of IFRS as increased transparency causes managers to act more in the interests of the shareholders and IFRS adoption could reduce the cost of investors for processing financial information and the improving financial reporting quality in turn allows the small investors to compete better with professionals, and hence reduces the risk they are trading with a better-informed professional (known as “adverse selection”) (Bhattacharje and Islam, 2009).

2.1.8 The need for adoption of IFRS in Ethiopia

Ethiopia is one of the faster economy growing countries in the world that attracting international and foreign investment as well as local investment so the foreign investors need to have harmonized financial management and accounting system that enable them to compare results of their investment in Ethiopia and various counties around the world and to compare their results with other competitors investing around the globe and to consolidate their investments in cross -boarders before allocating resources to any country, therefore, to attract foreign investment and to enhance the faster growing economy the Ethiopian Government required to adopt IFRS set out by IASB.

“Ethiopia has sustained a high annual growth since 2004 and the country is among the faster growing non-oil producing economies in Africa, the agricultural sector account for 80% of employment and remaining the major source and focus of the country’s growth but other sectors much as service and industry are increasingly gaining importance.‘’ Ethiopia is implementing a five year Growth and Transformation Plan (GTP) which aims to foster high and broad-based growth. "www.undp.org.et"

The first phase of Growth of Transformation Plan of the Government of Ethiopia completed and the second phase of the Growth and Transformation Plan (GTP II) which aimed to make Ethiopia a middle income county started in 2015. The long objective of this ambition of making the country the top manufacture in Africa, which have given a top priority in the plan to reach 18% of the total GDP of the county by 2021. Therefore the move to manufacturing sector in the GTP II will require the mobilization of huger financial resource for investment both in the industrial sector and also in the agricultural sector which now focus for investment in Ethiopia by international foreign inventers and individual international investors.

The need for this huge capital inflow to and out flow from country including investing by local investors in both industrial, agricultural and service sectors need 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 world’s capital markets and other users in make economic decision.

Ethiopian Government understand the need to adopt IFRS as critical to meeting and sustaining Ethiopia’s economic growth potential and conceptualize the adoption of IFRS provides international investors with a brand of trust in the quality of financial reporting. The government understands that trust in financial reporting is essential if investors are to be encouraged to step in promote continued economic growth. Ethiopian government also recognize that IFRS have a profound impact on the countries growth potential became nationally supported IFRS will increase stability stewardship, accountability and transparency both at institutional and governmental level. The government recognizes that the adaption of IFRS will increase the general level of professional education of accountants and standard setting bodies and improve their policy and decision making.

As clearly stated on the Accounting and Auditing Board of Ethiopia (AABE) five years strategic plan (fiscal year 2016 -2019) the implementation of IFRS contributes to government efforts of improving Good governess and reducing the level of corruption and rent seeking behaviors. It recognized that the adaption of IFRS will lay the foundation to the much needed domestic capital market to mobilize financial resources for long-term investment and general wealth creation of the county.

Based on the foundation lay down by IASB the Ethiopian government proclaimed a financial reporting proclamation No 847/2014 and the council of ministers of Ethiopia passed regulation No 332/2014 for establishment and determination of the procedure of the accounting and auditing board of Ethiopia.

The proclamations No 847/2014 set out financial reporting frameworks applicable to deferment reporting entities and mandated Accounting and Auditing Board of Ethiopia (AABE) with the responsibilities of regulating the accounting profession and ensuring the accounting profession's development in the country.

Before drafting and approval of the proclamation by the Ethiopian Federal Democratic Republic House of Peoples Representatives (FDRE HoPR) various studies were done by initiative taken by Ethiopia Government, the World Bank and IMF.

Report on observance of standards and codes (ROSC) is a World Bank and IMF joint initiative that helps member countries strengthen their financial systems by improving compliance with internationally recognized standards and codes of best practices.

The researcher of this paper reviewed bellow the research and finding of ROSC Ethiopian Accounting and Auditing issues which lay down the frame work for adoption of IFRS of IASB and establishment of AABE.

2.2 Empirical Literature Review

2.2.1 IFRS Adoption in Developing Countries

Companies compete globally for limited resources, shareholders, potential investor and creditors as well as multinational enterprises are required to bear the cost of adopting financial statement that are prepared using national standards and adoption of international reporting standard in developing economy (Alexander, 2003).

It is expected that the move towards IFRS convergence will enhance capital market performance and ginger global business expansion in Nigeria. 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 Iyoha and Jimoh (2011), "Compliance with accounting standards by quoted insurance companies in Nigeria: An empirical investigation. There is wide spread adoption and compliance by other country of the world. In a survey Conducted by H. Manuel, How to hedge disclosure on Spanish stock market, on how to hedge disclosures, today firms face several financial risks in their daily business activities due to global, international trading and transactions.

Ojeka and Mukoro, (2011) conducted a research entitled International Financial Reporting Standards (IFRS) and SMEs in Nigeria: Perceptions of Academic. The paper has three objectives. The first objective was to identify whether the academic believe that the proposed IFRS for SMEs (Statement of GAAP for SMEs) will ease or alleviate the burden of financial reporting and preparation by SMEs in Nigeria. The second objective of the study is to find out if Nigeria government should support the adoption/adaption of IFRS for SMEs. Finally the study aims to find out how outspoken the academic have been towards the adoption/adaption of IFRS for SMEs in Nigeria. The result of the study revealed doubt among the academic about whether this would be so. This was in spite of the good and sincere intentions in establishing IFRS for SMEs. After reviewing the literatures and the empirical result, it was believed that Nigeria government should put all the necessary machinery in place to fast track the adoption of IFRS for SMEs in Nigeria. The result also showed that academics have been relatively quiet in time past in Nigeria since the IFRS for SMEs was proposed.

Various researches made on the adoption of International Financial Standards indicate that huge amount of Direct Finance Inflow to countries that adopt IFRS; therefore the adoption of IFRS for emerging economies like Ethiopia which has limited resources for development is more advantages than that of the developed countries, regarding the advantages of adopting IFRS globally several researches were made among them the following are listed here (Iyoha and Faboyede, 2011).

Beside the benefits obtained from the harmonization of international financial reporting standards as identified by various researchers the adoption of international reporting standards and the harmonization process encounters many challenges as identified by various researchers such as (Iyoha and Faboyede, 2011; Apostolos et al., 2010; Jermakowicz et al., 2007; Jermakowicz, 2004; Wong, 2004; Alexander, 2003), the challenges faced on transiting to IFRS for the first time varies from one country to another but the major issues and challenges may be common for most countries whether developed or country with emerging economy, however, some issues are peculiar to those countries whose economies are under development. In these countries their financial management system is very weak, they lack adequate IT system to process financial information, they lack appropriate accounting software that produced in the local language, they lack adequate number of qualified accounting professional and lack adequate training centers and professional institutions which regulate the profession in some countries.

2.2.2 IFRS Adoption in the case of Ethiopia

There were some studies made in regard to the benefits and challenges of IFRS adoption faced by many countries but the case of Ethiopia is very different from those studies so fare made because Ethiopia is one of few countries who have not have its own accounting standards or who has not adopted other courtiers standards as some countries did adopt USA or UK GAAPs, in fact few studies were made with regard to IFRS adoption in Ethiopia to site Fikru Fantahun (2012), Teferi Deyuu (2016), Yitayew Mihert (2016), Almgena and Eyob all of them were studied the need, benefits and challenges of IFRS adoption. The researcher was presented their study area and finding as follow.

According to the study conducted by Fikru (2012) entitled the benefits and challenges IFRS adoption in the Ethiopia case identified the most important factors that could influence the adoption of IFRS. The findings of the study identified that the need for the requirement of capacity building program for both government regulatory bodies and training making institutions in order to provide the required man power to facilitate the adoption IFRS in Ethiopia . His research was mainly focused specifically on the voluntary adoption of IFRS in Ethiopia specifically on the financial institutions and ECX member organizations that were required by proclamation to adopt IFRS.

The other study conducted on IFRS adoption progress in Ethiopia was made by Teferi and Passich (Professor) (2016) .Their study was mainly focused to assess the IFRS adoption progress in Ethiopia and identified determinant factors that motivate adoption of IFRS and stated advantages and challenges of IFRS adoption in Ethiopia. The authors were provided an input for stakeholders and serve as stepping stone for future researches on the issue of IFRS adoption in Ethiopia. Similarly, Teferi and J.S Pasricha indicated that on their research that Commercial Bank of Ethiopia, Construction and Development Bank and Ethiopian Instance Corporation were used the term IFRS in their annual report for the first time. However, the authors were not investigated whether those reports were done in compliance with the requirement of IFRS 1 the first time and whether they were fully disclose the adoption of IFRS as required by IASB.

Yitayew (2016) was also studied entitled IFRS adoption in Ethiopia with a view to explain how different factors such as government regulatory bodies and other national actors and international forces interact in establishing the Ethiopian regulatory landscape as antecedent to IFRS adoption and subsequent implementation. Moreover, Melese (2016) studied about adoption, challenges and perception s of IFRS on the quality of Financial Reporting of Financial institution s in Addis Ababa, this research was focused on voluntary adoption and tried to explain the use of IFRS by financial institution in Ethiopia since 2002/2003 voluntarily.

Based on the theoretical analysis since Ethiopia was not adopt IFRS during those studies, this research is intended to identify the gap in the studies made previously in international bases and locally by focusing on the study of actual implementation issues during the transition period as set out by the regulatory body AABE for the 78 which encompass 41 Government Owned Public Entities which includes (industries, transport sectors, construction industries, tourism, agricultural sectors, retail business etc), 19 banks and 18 Insurance company which adopt IFRS for the first time mandatorily in Ethiopia and this study intended to contribute body of knowledge to remaining entities which will adopt IFRS in the country and for countries that will be adopting IFRS in the future periods.

In addition to the papers written in Ethiopia had reviewed recent literatures which related to my research paper such as Alemgena (2016) and Eyob (2017)) research carried out in Heineken brewery factory and Commercial Bank of Ethiopia respectively. Therefore the study categorized them in three parts that is articles related relevance of IFRS adoption, articles related to problems of adopting IFRS and finally I categorized them as perceived challenges of IFRS adoption.

2.2.2.1 Relevance of IFRS adoption

In according with the proponents of IFRS that IFRS possess many advantages over the domestic accounting standards of individual countries. Several studies report improvements in accounting quality following voluntary IFRS adoption some of those are studies made by (Barth, Landsman & Lang 2008) as well as mandatory IFRS adoption as stated by (Daske et al. 2008). For example, Barth et al. (2008) in his study provided evidence from 21 countries, showing that firms applying international accounting standards generally had less earnings management, more timely loss recognition, and more value relevance of accounting amounts than others. Prior researchers provided many reasons for a higher accounting quality in the financial statements under IFRS: They reduce the alternative accounting methods, leading to lower earning management (Jeanjean & Stolowy 2008); They require higher quality measurement and recognition rules (De Franco, Kothari & Verdi 2010) that better reflect a firms underlying economic position, hence more transparent than local GAAP (Ding et al. 2007) and they require higher disclosure levels, thereby mitigating information asymmetries between firms and their shareholders (Healy & Palepu 2001).

Besides the higher financial reporting quality argument, advocates of IFRS also claim that IFRS reporting increases comparability of firms across markets and countries (DeFond et al.

2010), thus, facilitating cross-border investment (Lee & Fargher 2010) and integration of capital market (Saudagaran 2008). In light of the IFRS effects on the capital market, the promoters of IFRS often argue that companies could access the international capital market more easily (Christensen, Hail &Leuz 2011), especially the ones with high level of internationalization such as trading or raising fund in overseas markets (Daskeet al. 2009) .

In addition, there are also the intangible advantages that adopting firms might be able to benefit from, when they implement additional disclosure policy under IFRS. For example, the firm may more easily access capital market (Soderstrom& Sun 2007), charge higher price for products (Ray 2010), and attract more experienced staff (Naoum, Sykianakis & Tzovas 2011) thanks to the reputation of more transparency than their competitors (Fox et al. 2013).

In the same line of argument, prior researchers reported that serious. IFRS adopters experienced significant declines in their cost of capital and substantial improvements in their market liquidity compared to label, adopters (Daske et al. 2009). Accordingly, it is predicted that the IFRS related Effects for first time adopters are likely to be greater in countries with higher quality institutions and countries with higher divergence between domestic GAAP and IFRS (Ding et al. 2007).

2.2.2.2 Problems of IFRS Adoption

There are several reasons why the expected benefits of IFRS may not be achieved. Reducing accounting alternatives may result in a less true and faithful representation of the firms, underlying economics (Barth, Landsman & Lang 2008).

- As a result of the principle-based nature of IFRS (Hong 2008), professional judgment may create the opportunities for earning management (Chand, Patel & Patel 2005; Jeanjean & Stolowy 2008).
- Weak enforcement mechanisms of adopting, nations can reduce financial reporting quality, even when high-quality accounting standards are implemented (Brown & Tarca2007; Chen & Cheng 2007)

Furthermore, capital market effects of IFRS are more pronounced in countries with stricter enforcement regimes and therefore better IFRS implementation (Chen & Cheng 2007; Hail &

Leuz 2006). Wang & Yu (2009) and Leuz (2006) showed that capital market effects were also apparent when stronger reporting incentives and thus higher quality financial reporting were evident. A higher divergence between IFRS and local GAAP and therefore larger change of domestic accounting rules (Byard, Li & Yu 2011; Daske et al. 2008) are also relevant factors.

Regarding the capital market effects, prior authors suggested that the introduction of IFRS reporting can improve stock market liquidity and reduce cost of capital (Ahmed, Neel & Wang 2010; Li 2010) although many other authors argued that this may not always be the case (Armstrong et al. 2010; Daske 2006; Hail & Leuz 2009; Karamanou & Nishiotis 2009; Lambert, Leuz & Verrecchia 2008).

In addition to the potential disadvantages, previous authors also expressed some concerns regarding the costs of transitioning to IFRS. Smith (2009) expressed that transition costs may vary from firm to firm, and some may be common to all firms across many countries. For example, according to the report "EU implementation of IFRS and the Fair Value Directive" (ICAEW 2007), the ten common costs of conversion to IFRS include: IFRS project team, Software and systems changes, Additional external audit costs, External technical advice, Training of staff, Training other staff (such as IT staff, internal audit and management), Communications with third parties, Tax advice, Additional external data costs and Costs arising from changes such as renegotiating debt covenants surveys of accounting firms (Larson & Street 2004) unveiled that most companies hire extra staff or use subcontractors for IFRS project team, therefore, the real costs of resources could be higher than the reported figures. The survey results in ICAEW (2007) also observed that, depending on the size of the company, the ranking of cost of preparing the first set of IFRS financial statements and recurring costs varies depending on the size of the firm, and these costs can represent up to 24 percent of turnover. Other less tangible costs also become apparent when disclosures which create a concern in the investors about the abilities or reputation of the reporting firms and disclosed information supply other firms with a competitive advantages are present (Fox et al., 2013).

Despite some costs of IFRS, implementation is obvious such as those discussed in ICAEW (2007); Fox et al. (2013) argued that other costs are less tangible. They provided examples of these intangible costs occurring when: Disclosures which create a concern in the investors about the abilities or reputation of the reporting firms and Disclosed information supply other firms with competitive advantages.

In summary, the key arguments in favor of IFRS adoption focus on the effects on capital and investors; and the less favorable arguments give emphasis to the costs occurring during and after the transition period. Though the evidence of economic consequences of IFRS implementation in the literature is mixed and inconclusive, there is a growing demand for IFRS and potentially a single set of global accounting standards.

2.2.2.3 Perceived Challenges of IFRS adoption

The move to a new reporting system (like IFRS) brings many challenges for different stakeholders involving in the process such as regulators, preparers, auditors and users. In particular, the challenge for regulators is to identify to what extent national GAAP will be similar or distant from IFRS (Heidhues & Patel 2008). This, in turn, requires the practitioners to develop or obtain an in-depth analysis what changes in hardware, software, reporting processes are required; what transitional workload adding to the normal day-to-day activities (AICPA 2011).Managing public perceptions around the changes in financial statements are another challenge for the management of adopting firms (PWC 2011). From the perspective of auditors, they need to well plan so that their professional staff have the necessary skills at the time their clients begin the process of conversion, but not so early that the knowledge is out of date or forgotten from lack of use (Deloitte 2008).

Furthermore, Jermakowicz (2004) listed some key challenges in the process of adopting IFRS including: The complicated nature of some standards of IFRS (e.g. impairment test in IAS 36); the lack of guidance of first time IFRS reporting (e.g. IFRS 1); the underdevelopment of capital market and the weak enforcement of law and regulations. Tokar (2005) added that for the country that has a different official language other than English, timely IFRS translation into the national language is another obstacle during the transition period. The task of implementing IFRS is further complicated by the fact that IFRS are continually evolving, and not yet finalized (Fox et al. 2013). This challenge makes it more difficult for a smooth transition to the status of full compliance under IFRS (Joshi et al. 2008).

Several authors have also expressed their concerns about how IFRS will be taught to students and how professionals will keep up to date with new standards (Heidhues & Patel 2008; Wong 2004). Education for both professional and non-professional resources also then becomes an important barrier for making IFRS convergence with national accounting standards happening.

2.3 Research Gaps

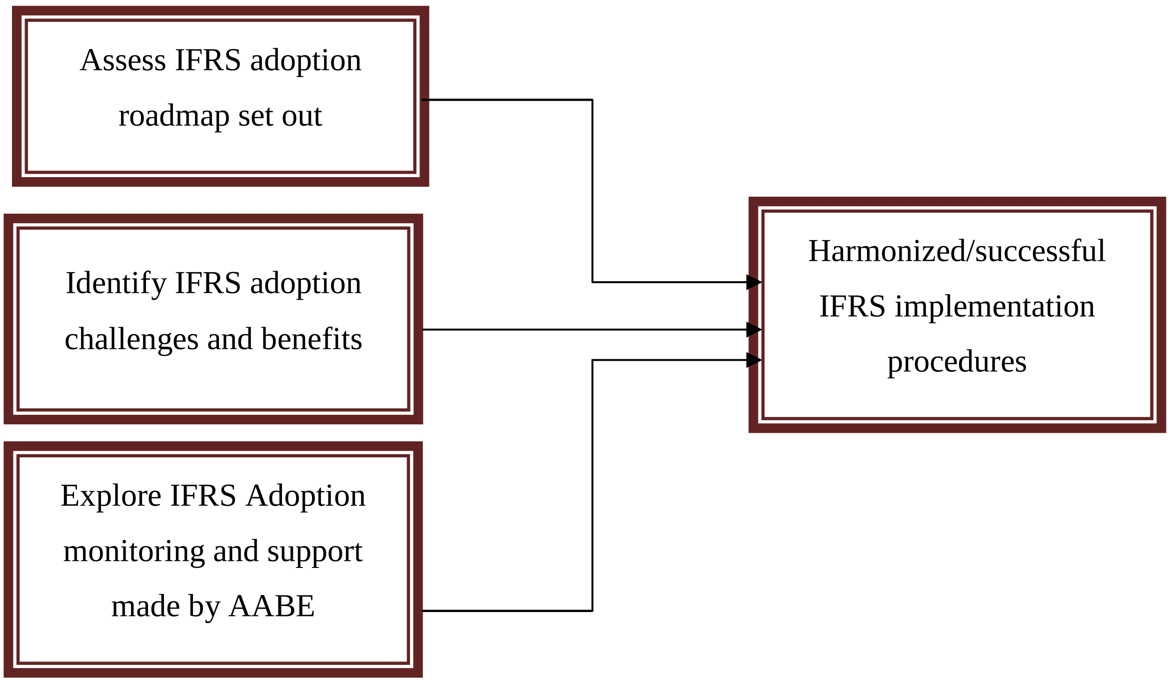
In summary, the key arguments in favor of IFRS adoption focus on the effects on capital and investors; and the less favorable arguments give emphasis to the costs occurring during and after the transition period. Though the evidence of economic consequences of IFRS implementation in the literature is mixed and inconclusive, there is a growing demand for IFRS and potentially a single set of global accounting standards.

Therefore, this study was intended to fulfill the gap which were not observed and addressed by Fikru, Alemgena, Eyob, Teferi, Meles and other researchers related to challenges and benefits of IFRS adoption in Ethiopia. Thus this research is different from the previous researches in terms of time, scope of variables, target group, and the research techniques applied.

2.4 Conceptual framework

Conceptual Framework of the study begins first by assessing the problem of statement of IFRS adoption process, stated the research question and stated objectives; second read both theoretical and empirical related literature review, thirdly set research design and methodology and adopt research questionnaires, analyzed the data gathered through questionnaires, and concluded based on the research findings and recommended.

Therefore, as conceptually the researcher set the following as conceptual model



Source: Own model, 2017

Figure 2.1: Conceptual Framework

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter deals with the methodology used in order to conduct the study. It consists of the research design; the target population of the study, the sampling design, the sampling frame, sampling technique, sample size determination, source of data and data collection instruments, measurement of data analysis and presentation, pilot study and finally deals with ethical issue.

3.1 Research Design

This study was used descriptive survey research design and applied quantitative research approach.

3.2 Population of the study

According to Kothari (2012), a researcher has to have a specific population as the researcher research population target upon which the researcher uses to make all his/her inferences regarding validity of what he/she is researching on. A population frame is a comprehensive itemized list of all subjects, which comprise the study population, from which a sample was taken (Mugenda & Mugenda, 2008). Based on their experience and exposure to financial analysis like IFSR, the researcher purposively selected chief executive officers (CEOs), Chief Finance Officers (CFOs) and Internal Audit Function of 78 entities in the first phase. These 78 entities which adopted in the first time IFRS were comprise 19 banks, 18 insurance companies and 41 government owned public enterprise (AABE, 2015). Therefore, the total populations of the study were 180 questionnaires

3.3 Sampling Design

Sampling is selecting some of the elements in a population from which a researcher may draw conclusions about the whole population. A population group is the subject on which measurements are obtained; it is the entity of the study (Cooper & Schindler, 2010). For the purpose of this study, the unit of study were 78 entities adopting IFRS mandatorily in the first phase in Ethiopia from 8 July 2017, the regulatory bodies such as ABBE and Ministries, National Bank of Ethiopia and concerned agencies, all the information and lists had been provided to the researcher by AABE and concerned institutions and the entities under study and sample had been drawn from these lists (AABE, 2015).

3.3.1 Sampling Frame

The sampling frame had been obtained from AABE and the entities subject to IFRS implementation which includes the list of 78 entities encompassing Government Entities, Financial Institutions that are Banks and Insurances which are subject to adopt mandatory IFRS in Ethiopia in the first phase. The list of governing bodies, senior management, IFRS implementation task forces audit function staff, finance staff and concerned regulatory body staff made up the sample frame.

3.3.2 Sampling Technique

Stratified random sampling is useful method for data collection if the population is heterogeneous like banks, insurances and government public enterprises (Singh and Masuku, 2014). In this method, the entire heterogeneous population is divided in to a number of homogeneous groups, usually known as Strata, each of these groups is homogeneous within itself, and then units are sampled at random from each of these stratums. The sample size in each stratum varies according to the relative importance of the stratum in the population. Sampling will then be conducted separately in each stratum (Singh and Masuku, 2014)

Studying the whole of the population was impossible. For this reason, the researcher selected based on the formula from Akanni *et al. (2008)* cited by Saleh (2014) representative sample of the whole population from each 78 entities. To achieve a representative sample for a research study, the people who were studied (i.e. the subjects) were carefully selected using stratified and purposive sampling techniques. To select the 78 entities like 19 banks, 18 insurances and 41 government entities the researcher applied stratified sampling techniques and to select the target population of the study the researcher applied purposive sampling techniques were applied to draw chief executive officers (CEOs), Chief Finance Officers (CFOs) and Chief Internal Audit Function.

Therefore, this research was used stratified and purposive sampling technique to select the appropriate sample size among the target population of the study.

3.3.3 Sample Size Determination

To determine the sample size of the study, the total populations of the selected entities have been taken with the confidence level of 95% and then sample size was determined based on the formula from Akanni *et al. (2008)* cited in Saleh (2014) which were adopted in the calculation of the sample size as follows:

$$\text{Sample size } = \eta = \frac{n'}{\left[1 + \left(\frac{n'}{N}\right)\right]}$$

$$n' = \frac{S^2}{V^2} = \frac{(0.5)^2}{(0.05)^2} = \frac{0.25}{0.0025} = 100$$

Where,

η = sample size

n' = sample size from infinite population = S^2/V^2

N = total estimated population;

The V = standard error of the sampling distribution = 0.05 and the confidence level is equal to 95%

S^2 is the variance of the population elements and V is a standard error of sampling population. (Usually S = 0.5 and V = 0.05) (Cohen,1988).

Hence, the sample size for 19 banks,

η = 100 /[1 + (100 / 19)] = 16 samples

This means that the questionnaire was distributed to 16 banks organizations in order to achieve 95% confidence level.

The sample size for 18 insurance companies,

η = 100 /[1 + (100 / 8)] = 15 insurance

The sample size for 41 government enterprise

$$\eta = 100 /[1 + (100 /41)] = 29 \text{ samples}$$

From the above calculation a total of 60 entities of Chief Executive Officers (CEOs) staffs, Chief Finance Officers (CFOs) staff and Internal Audit Function staffs were selected with regard to the research purpose. According to the research objective and the target population for each 60 selected entities 3 questionnaires were sent because each entities have 1 CEOs, 1 CFOs and 1 Chief Internal Audit Function (AABE, 2016). This means a total of 180 questionnaires were distributed for CEOs, CFOs and Chief Internal Audit Function staff of the selected 60 entities which adopted IFRS in the first phase in Ethiopia.

3.4 Source of Data

This study was used both primary and secondary data sources. Primary source of data were obtained from each respondent using structured questionnaires, whereas secondary source of data were collected specially for literature review and general understanding of the subject area.

Secondary sources of data were obtained from different published books, internet websites, journals, previous research papers and archive documents. Published books were reviewed to review related theoretical literatures and to interpret the research findings. Journals and research papers were used as a base for conducting this study to attempt adding some new finding on the existing knowledge. Internet web sites were the source of unpublished books, journals, and research papers were the major sources of information related to the subject area.

3.5 Data Collection Instruments

The data collection method was self-administered questionnaire filled by the CEOs, CFOs and Internal Audit Head of the selected 60 entities. To collect data from each respondents the researcher was used structured and closed ended questionnaires for the selected staff's of the 60 entities which included CEOs, CFOs and Chief Internal Audit function of which were involved in the IFRS transition process Therefore, this study was used close-ended questionnaires as data collection instruments. The study was developed research questionnaires from different literature review and modified based the researchers knowledge and experience to addressed the research objectives. To administer and properly manage large number of responses of respondents the researcher used close-ended questionnaires and applied quantitative research approach.

3.6 Measurement of Data

The questionnaires were structured based on those used by Iyoha and Faboyede (2011), and Sharif (2010). The close- ended questions, the respondents were asked to indicate their level of agreement on a five point Likert scale with the following ratings. Strongly agree (SA; or 5), agree (A; or 4), neutral (N; or 3), disagree (D; or 2), and strongly disagree (SD; or 1). On this scale a score of 5 or 4 indicates that the item is perceived to be essential while a score of 3 or 2 indicates that the item is perceived to be fairly important, but not essential, while a score of 1.

3.7 Data Analysis and Presentation

In this research, the data collected from the respondents were analyzed using Computer systems like Statistical Package for Social Science (SPSS) version 22. A data collected from respondents were analyzed using descriptive statistical indexes like frequency distribution and percentage were calculated.

After information was collected from different sources, mainly the information obtained through questionnaire were scaled, once the information scaled then the researcher organize in appropriate categories related to respondents view in general and in terms of the research variables in particular.

The data obtained from primary sources were presented in the form of tables, bar charts, figures and texts.

3.8 Pilot Study

Pilot study of the questionnaire was achieved by investigation sample, which consisted of 30 questionnaires. These questionnaires were distributed to purposively selected chief executive officers (CEOs), Chief Finance Officers (CFOs) and Chief Internal Audit Function of the. According to the researcher view they had a strong practical experience in accounting and finance sector to properly understand the IFRS adoption in Ethiopia. Their sufficient experiences and educational qualification are a suitable indication for pilot study.

3.9 Ethical consideration

Informed consent: Participants were given the choice up on their willingness to participate or not to participate, and furthermore the researcher informed in advance about the nature of the study. Right to privacy: Participants were informed about confidentiality of their responses and this was stated clearly in the questionnaire, that it is only for academy purpose. Honesty with professional colleagues: These findings were reported in proper manner and honest way, without misrepresenting.

CHAPTER FOUR

DATA ANALYSIS AND DISCUSSION OF RESULTS

4.0 Introduction

This part of the research deals with the analysis and discussion of the data gathered from the questionnaire survey. The analysis and discussion were done with the understanding of research objectives.

4.1 Response Rate

To make the analysis a total of 180 questionnaires were distributed to IFRS implementation team which largely includes Chief Executive Officers (CEOs), Chef Finance Offices (CFOs) and Chief internal audit function of 60 selected entities. The entities selected were 16 banks including the national bank of Ethiopia which is the regulatory body for banks, 15 insurances and 29 government owned public enterprises in the county, for the selected entities 3 questionnaires were sent for each CEOs, CFOs and CIAF's a total of 180 questionnaires were distributed . Therefore, out of the total questionnaires 165 questionnaires were filled and returned back to the researcher, which means the overall response rate of the study was 91.67%. This shows the response rate result is enough to make the analysis.

Table 4.1: Percentage of questionnaires distributed and returned and response rate

Respondent from each office	Questionnaire distributed		Questionnaire returned		Response Rate (%)
	Number of respondents	%	Number of respondents	%	
Banks	48	26.67	43	26.0	89.6
Insurances	45	25	42	25.5	93.3
Government Owned Public Enterprises	87	48.33	80	48.5	92
Total employees	180	100	165	100	91.67

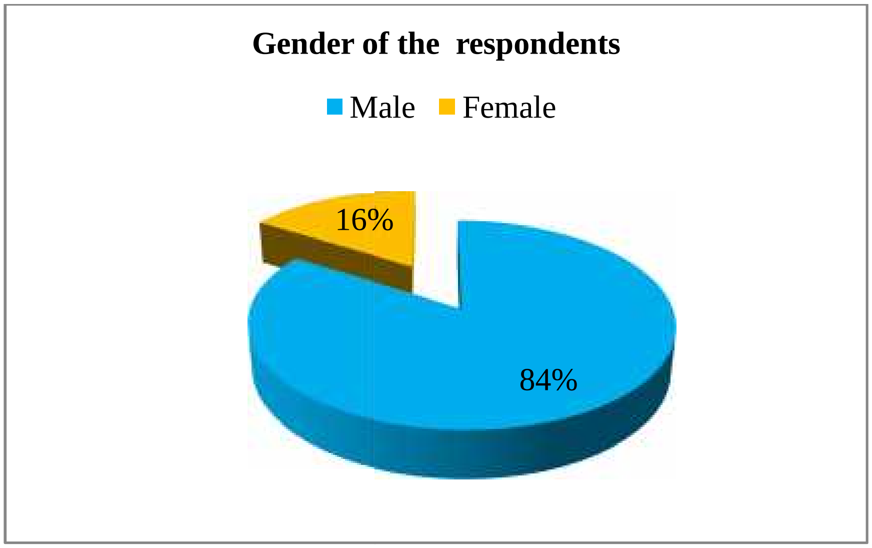
Source: Survey result, 2017

4.2 Demographic Characteristics of Respondents

The respondents demographic features include six key features which were: The respondent's gender, age, educational level, professional qualification and industry they worked in.

4.2.1 Gender distribution of respondents

The study need to discover the gender of the respondents as shown in the figure 4.1 below.

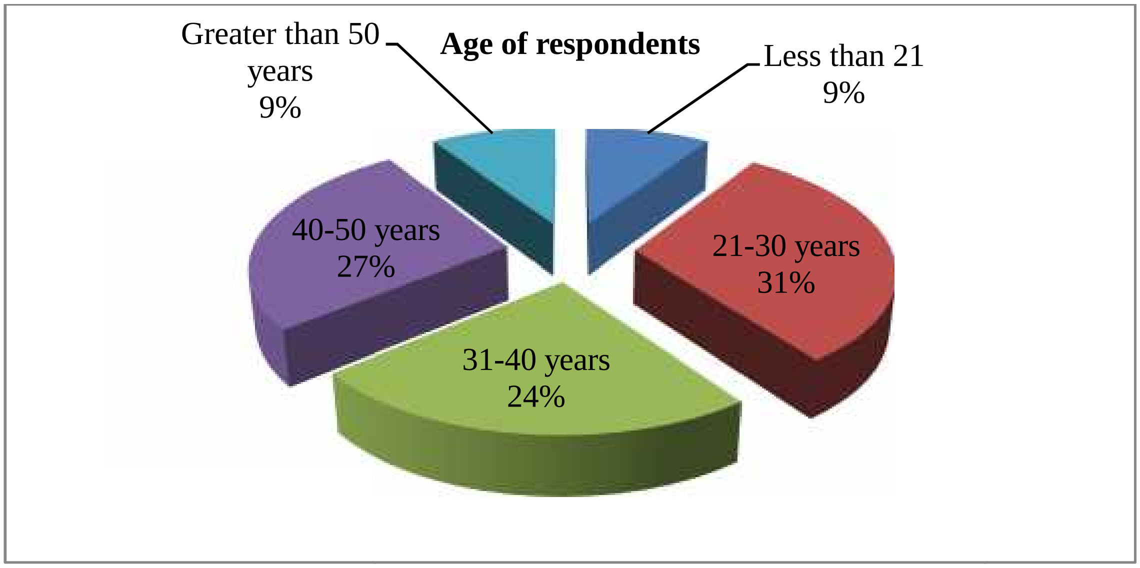


Source: Survey result, 2017

Figure 4.1: Gender distribution of respondents

Figure 4.1 shows that out of 165 respondent's 139 respondents representing 84% were males while 26 representing 16% were females. The result indicated that more male respondents were participated than female respondents in this study, so for the future phases the inclusion of adequate number of female employees in the IFRS implementation process shall facilitate the transition process.

4.2.2 Age Distribution of Respondents



Source: Survey result, 2017

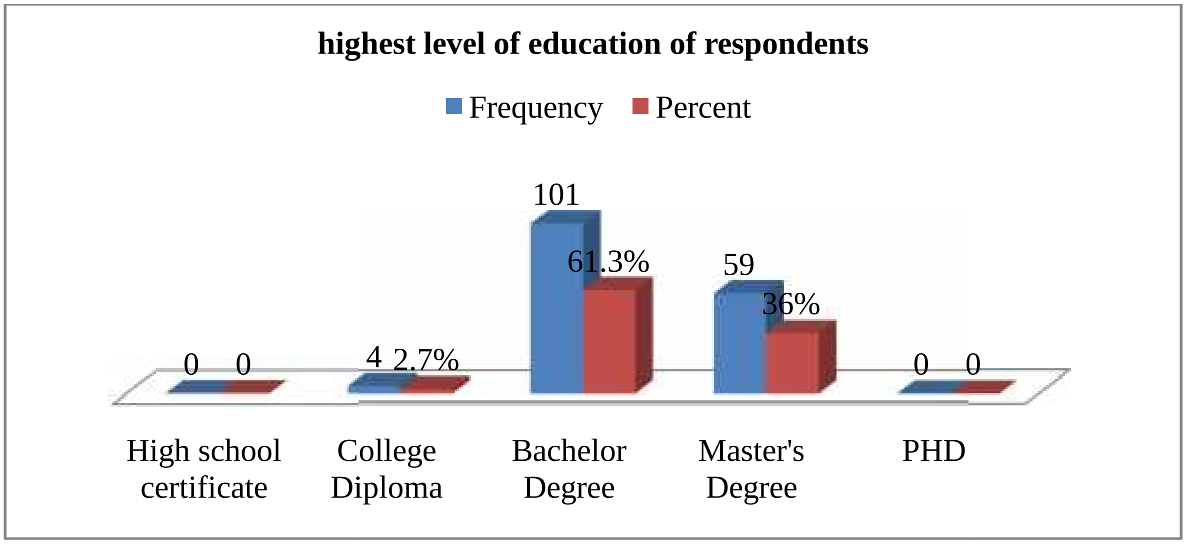
Figure 4.2: Frequency and percent of age of respondents

As we can see from Figure 4.2 majority of the respondent's age were between 21 years up to 50 years. These age groups contribute 82% of the total respondents. Total percentage of respondents who were age less than 21 were 15 (9%), between from 21-30 years 51(31%), from 31-40 years were 40 (24.0%), from 40-50 years were 44 (27%) and the remaining age over 50 years were 15 (9%) out of the total respondents.

This result indicate that majority of respondents age fall under the productive and experienced age group, so since the productive and experienced age group prone to technology and change it was an advantage to the transition process since the conversion of current accounting standards (GAAPs) to IFRS requires high technical IT skill and soft skill on accounting software programs, therefore, the existence of majority of productive staff was an advantage to transition to IFRS.

4.2.3 Highest Educational level of Respondents

The educational level for implementation of such kind of projects as IFRS adoption very crucial and important to the success of the intended aim, therefore.

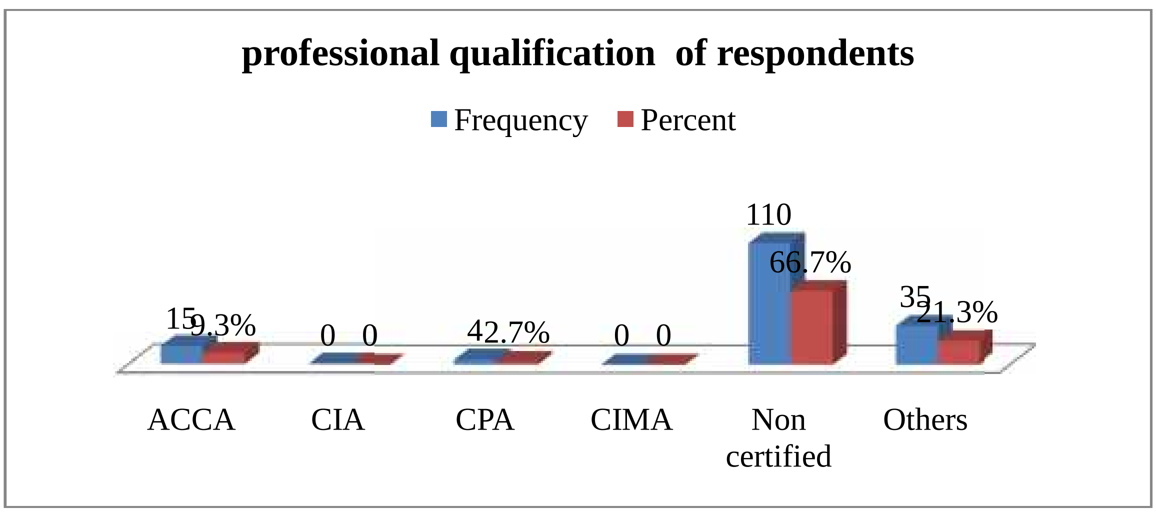


Source: Survey result, 2017

Figure 4.3: Highest Educational level of Respondents

Figure 4.3 above result depicted that out of the total 165 respondents59 respondents that contribute 36.0% of the respondents have masters degree and 101 respondents which contribute 61.3% have Bachelor Degree, the rest 4 respondents which contribute 2.7% have diploma and one person not responded that is 0.3%. Therefore, the result indicated the transition teams were qualified and has appropriate educational qualification to carry out the IFRS implementation process.

4.2.4 Professional qualification of respondents

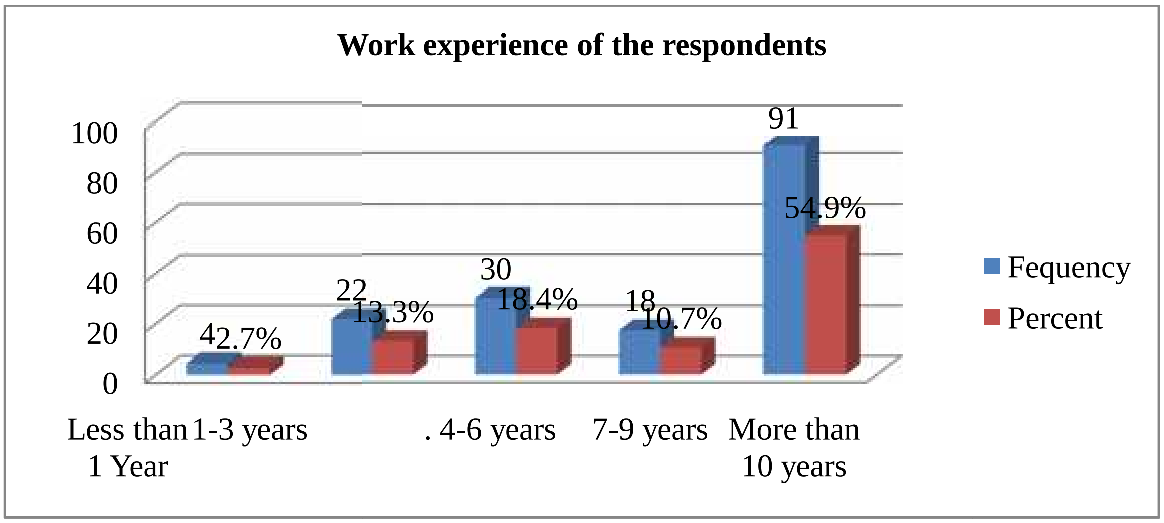


Source: Survey result, 2017

Figure 4.4: Frequency and percent of Professional qualification of respondents

Figure 4.4 above result showed that among 165 respondents 15 respondents who contribute 9.3 % were ACCA members and 4 respondents were CPA-USA members which contribute to 2.7% and 35 respondents which were contribute to 21.3 % of respondents non certified and surprisingly 110 respondents which contribute to 66.7% of the total respondents were non certified. Therefore, from the survey we learnt that professionally qualified team members were very few in some entities while not exist in some entities under study, The absence of sufficient qualified personnel in the sector may affect the adoption and transition process of IFRS in Ethiopia. Therefore, having qualified personnel in the sector will enhance the IFRS adoption process.

4.2.5 Work experience of respondents in the sector



Source: Survey result, 2017

Figure 4.5: Frequency and percent of work experience of respondents in the sector

The experience gained in the sector or the industry shall be crucial to the implementation process of IFRS, therefore as seen from the figure 4.5 above 91 respondents which contribute to 54.9% of the total 165 respondents serve in the industry for more than 10 years, 30 respondents who serve from 4 to 6 years which contribute to 18.7%, 22 respondents were served for 1 to 3 years in the industry which contribute 13.3% , 18 respondents were serve in the industry for 7 to 9 years which contribute to 11.4% and finally only 4 respondents serve for less than 1 year, which contribute to 1.7% therefore from the survey result we can learn that majority of implementation team members have adequate years of services in the industry which is an advantage for adoption of IFRS transition process.

4.3The descriptive analysis of response on yes or no questions

The following table below gives a breakdown of the descriptive analysis of the each question frequency and percent answered by respondents. The yes or no questions answered by the respondents enable the researcher to assess the factors that directly affect the implementation process of IFRS in Ethiopia.

Table 4.2: Summary of Yes/No questions

Questions	Replied Yes		Replied No	
	N	%	N	%
Is there published implementation guideline on adoption of IFRS in your entity?	75	45.5	90	54.5
Is the audit committee of your entity fully participates in the transition process to IFRS?	77	46.7	88	53.3
Is there a road map that had been approved by the board of directors of your entity?	110	66.7	55	33.3
Is the involvement of the board of direct s of your entity in the translations process was adequate?	99	60	66	40.0
Did risk assessment was conducted before transition to IFRS was started in your entity?	88	53.3	77	46.7
Did gap assessment was done before starting the IFRS implementations in your entity?	143	87	22	13
Did time - period for the preparation to transition to IFRS provided was adequate?	75	45.5	90	54.5

Source: Survey result, 2017

Table 4.2 above included the existence of published implementation guideline can facilitate the smooth transition process from GAAP to IFRS prepared financial statements. From the respondents of this study 75 respondents were answered yes which contribute 45.5% of total respondents of 165while 90 respondents answered No which contributed 54.5%. This result indicates that for the majority of the entities implementation guidelines were not prepared and provided to them so unavailability of adequately explained guideline delayed the transition process.

The participation of the audit committee in the transition process from GAAP to IFRS enhance the transit process from the respondents answer we can observe that 77 respondents which contribute to 46.7% of total respondents answered yes while 90 respondents which accounted for 53.3% answered No. The answer indicated that majority of the audit committees of entities were not participated in the transition process to IFRS, so this has direct effect on the process of transition.

The preparation of road map before the implementation process simplify the process and assist the regulatory body and the management of the entities to strictly follow up the process in this regard 110 respondents which account for 66.7% were answered yes whereas 55 were answered No, therefore the result indicate that majority of the entities prepared road map for the implementation of IFRS but still the efforts should be made to prepare the road map for the remaining entities to facilitate the smooth implementation of IFRS.

The involvements of board of directors or senior management of entities facilitate the transition process from financial statements papered using GAAP to IFRS compliant financial statements. The result of this survey indicate that 99 respondents that accounted for 60% of respondents answered Yes while the remaining 66 which accounted for 40% were answered No. Therefore the involvement of the board of directors or senior management is important to facilitate the conversion from financial statements papered using GAAP to IFRS compliant financial statements.

The transition process from financial statements prepared in GAAP to IFRS complaint financial statements requires risk assessment in order to identify the concentration area and to establish the mitigation strategy for the risk that may be encountered. The survey result indicates that 88 respondents accounted for 53.3% while the remaining 77 responded No which accounted for 46.7%. The risk assessment is mandatory in accordance with IFRS 1 first time adoption of IFRS so the result indicate that there was a gap on this regard.

The transition process from GAAP to IFRS requires that gap assessment shall be done before the starting of the process. The survey result indicates that 143 respondents that were 87 % answered yes while 22 responded were responded No which accounted for 13%. Relatively gap assessment was made for majority of the entities but still the gap would have been assessed for the remaining entities too.

The preparation time for transiting from GAAP to IFRS compliant financial statements requires adequate time so 75 respondents were answered yes which accounted for 45.5% and 90 respondents answered no which accounted for 54.55%, therefore to be successful in the transition process adequate time should be provided for the preparation period.

The researcher administered a question that assess the time period for preparation to transit IFRS. The survey result indicate that 75 respondents answer Yes for the adequacy of time for preparation which accounted for 45.5% but the remaining 90 respondents answered No which accounted for 54.5%, therefore the conclusion here preparation time was not adequate in general.

4.4 The Descriptive Analysis of Factors Influence the adoption of IFRS

Table 4.3: Factors Affecting Adoption of IFRS

	Strongly disagree (1)		**Disagree (2)**		**Neutral**		**Agree**		**Strongly agree**	
Questions	N	%	N	%	N	%	N	%	N	%
Economic growth in Ethiopia greatly influenced the adoption of IFRS.	17	10.3	23	14.1	10	6	66	40	49	29.6
The legal system of Ethiopia influenced IFRS adoption.	22	13.1	43	26.2	8	4.6	53	32.4	39	23.7
The external environment forces such as IMF, WORLD BANK influenced IFRS adoption.	4	2.4	12	7.3	18	11	58	35.1	73	44.2
The need for existence of	15	9.3	30	18	13	7.8	58	35.4	49	29.5

capital market influenced IFRS adoption.										
Previous accounting standards were ineffective or accounting standards were not available.	25	15.2	56	34.1	6	3.4	51	31.1	27	16.2

Source: Survey result, 2017

4.4.1 Economic Growth in Ethiopia greatly influence the adoption of IFRS

The fast growing economy of Ethiopia needed large capital investment this necessitate the need for foreign investment so large amount of foreign direct investment inflow (FDI) requires accounting system that capture the information the investors and other stakeholders needed.

According to table 4.3 above result respondents on impact of the Ethiopian Economic Growth on the adoption of IFRS indicate that 49 respondents strongly agree with the statement and 66 were agree with the statement which accounted for 40% .This indicated that 89 out of 165 respondents agree and strongly agree to the impact of economic growth, but 10 of the respondents were neutral to this statement and 17 was strongly disagree with the statement and 23 respondents were disagree with the statement which totally accounted for 14.1% to total respondents. From the above result, it can be justifiable to say that economic growth impact on the adoption of IFRS in Ethiopia.

4.4.2 The Legal System of Ethiopia influenced IFRS adoption

The commercial code of Ethiopia of 1960 was not clearly state the accounting system that companies were required to follow and even nothing was mentioned on the code about Generally Accepted Accounting Practices (GAAPs), however the government of Ethiopia proclaimed financial reporting number 847/2014 which set out financial reporting applicable to different entities specifically by accepting the adoption of IFRS as set out by IASB. The result of table 4.3 survey showed that 53 respondents agree with the statement which accounted for 32.4% and 39 respondents which accounted for 23.7% were strongly agree with the statement and 8(4.6%) of the respondents were neutral. However, 22 respondents strongly disagree which account for 13.1% and 43 respondents disagree which accounted for 26.2% of the total respondents.

Therefore it can be concluded that there is strong relationship between legal system and IFRS adoption in Ethiopia.

4.4.3 The external environment forces influenced IFRS adoption in Ethiopia

External environment pressures exercised by institutions such as international monitory fund (IMF) and The World Bank besides the precedence of foreign investors can greatly influence the adoption of a particular accounting policy.

The level of openness of the economy to any of the aforementioned bodies can result in the adoption of accounting policy that is globally accepted and recognized. In the instance of Ethiopia, the World Bank is on record to have recommended the adoption of IFRS, afterward studying the Ethiopian system as formulation on Observance of Standards and codes. This study was also designed to find out the opinion of the respondents on the degree to which external environmental factors can influence IFRS adoption.

The table 4.3 above shows that 4 respondents that accounted for 2.4% strongly disagrees with the assertion,12 respondents which accounted for 7.3% disagree with the assertion, 18 respondents which account 11%, whilst 58 respondents which accounted for 35.1% agree with the assertion and 73 respondents accounted for 44.2% strongly agree with the assertion . This implies the majorities of the respondents agree and strongly agree with the statement which constitutes 80% out of the total respondents. The overall result indicates that the environmental factors actually influence the adoption of IFRS in Ethiopia.

4.4.4 The need for existence of capital market influenced IFRS adoption

The existence of capital market plays an important role in economic growth and economic prosperity of a country. In Ethiopian case the development of capital market is in its infant stage, there are few share companies such as banks and insurance companies and the Ethiopian Commodity Exchange (ECX) market. Capital markets in developing nations do not have meaning of activating domestic resources for financing, additionally giving or attracting foreign direct investment.

Capital market will impact and enhancing the preparation of domestic resources to finance and advance the efficient utilization of capital. The result from the study whether or not existence of capital market indeed induced the adoption of IFRS in Ethiopia as shown in the Table 4.3 above indicated that portrays that more than 64.9% of the respondents agree strongly and agree with the assertion of capital markets influence the adoption of IFRS in Ethiopia, 13(7.8%) of the respondents were neutral with the statement, 15(9.3%) of the respondents were strongly disagree and 30(18%) of the respondents were disagree with the affirmation that the presence of capital market surly instigated the adoption of IFRS in Ethiopia.

In conclusion the presence of capital market even though it is in its infant stage impacted extraordinarily the adoption of IFRS in Ethiopia

4.4.5 Non availability of pervious accounting standards impact on the adoption of IFRS

From table 4.3 around 47.3% of the respondents agree that non availability of past standards impact on the adoption of IFRS in Ethiopia, whilst 49.3% oppose the idea that non existence of accounting standards has impact on the adoption of IFRS in Ethiopia. Only 6(3.4%) of the respondents were neutral with this statement. Therefore we concluded that the non availability of standards do not affect the adoption of IFRS in Ethiopia.

4.4.6 Summary of Factors that influence IFRS adoption in Ethiopia

From the survey result we must noted that the variables identified had varying degrees of influence on IFRS adoption. From table 4.3 we identified that 69.6% of the respondents are agree and above with statement that economic growth indeed influence IFRS adoption, 56.1% of the respondents affirms the assertion on legal systems and IFRS adoption whilst 64.9% of the respondents affirms existence of capital market to be a major influent on IFRS adoption in Ethiopia and the effect of non-existence of previous accounting standards accounted for 47.3% of the respondents and 79.3% of the respondents agree that those external environmental factors such as World Bank, IMF, and foreign investors etc influence IFRS adoption.

From the survey above we can conclude that the external environmental factors had the highest weight on the elements that influence the implementation of IFRS in Ethiopia.

4.5 Analysis of Benefits or Prospects of Adopting IFRS in Ethiopia

'The survey result regarding the prospects or benefits of adopting one set of harmonized accounting standards analyzed below:

Table 4.4: Prospects of IFRS adoption in Ethiopia

Questions	Strongly disagree (1)		Disagree (2)		Neutral		Agree		Strongly agree	
	N	%	N	%	N	%	N	%	N	%
Is IFRS improves the quality of financial statements and increase access to global capital markets?	8	5	22	13	15	9	42	26	78	47
Is IFRS adoption ensures the use of one standards for both parent and subsidiary companies?	16	9.5	20	12	10	6.1	64	39	55	33.4
Is IFRS has positive effect on the information for control and decision making using financial statements by like investors?	22	13.3	25	15.1	9	5.6	44	26.6	65	39.4
Is IFRS adoption has significant effect on FDI inflows?	17	10.3	30	18	10	6.1	59	36	49	29.6

Source: Survey result, 2017

4.5.1 The quality of Financial Statements improved and enhances increased access to global market

From the total respondents, 26% were agreed with the assertion and 47% were strongly agree with the statement, 9% were neutral with the assertion, 5% were strongly disagree and 13% were disagree with the assertion. Therefore 73% of respondents were agreed and strongly agreed with the assertion. The result of the survey affirms that adoption of IFRS improves the quality of Financial Statements and enhances increased access to global markets.

4.5.2 IFRS adoption ensures the use of one standards for both parent and subsidiary companies

Majority of the respondents agree with the assertion of adoption of IFRS ensures the use of one standards particularly for the company which have subsidiary in foreign country other than Ethiopia and for subsidiaries for which the home office reside outside Ethiopia those respondents accounted for 39%, 33.4% strongly agreed with the assertion which accounted for in total 72.4% of the total respondents, 9.5% of respondents were strongly disagree, 12% of respondents were disagreed with the assertion whilst 6.1% neutral with the assertion. So result of the survey affirms that adoption of IFRS insures the use of one standard for parent and subsidiary companies.

4.5.3 IFRS has positive effect on the information for control and decision making using financial statements by users like investors, creditors and other stake holders

Here 13.3% of respondents strongly disagree, 15.1% disagree, 5.6% neutral with the statement whilst 26.6% agreed and 39.4% strongly agree with the assertion which accounted for 66% of the total respondents. Therefore we can conclude that based on the result of the survey IFRS has positive effect on the information for control and decision making using financial statements by users like investors, creditors and other stake holders

4.5.4 IFRS adoption has significant effect on FDI inflows

One of the benefits to adoption of harmonized accounting standards globally as identified by Irrational Accounting Standards board (IASB) is that it enhance the flow of capital across boundaries so the respondents of this survey were agreed with this statement 36% and strongly agree 29.6%, 6.1% of respondents were neutral, whereas 10.3% of the respondents strongly disagree and disagree 18% a total of 28.3% of respondents were disagree with the assertion. The survey result affirms that IFRS adoption has significant effect on FDI inflows.

Summary of benefits of adoption IFRS in Ethiopia

Most theoretical and empirical evidences identified the benefits of adopting one set of internationally harmonized accounting standards includes the benefits described above, therefore the result of this study also support the existing theoretical and empirical evidences since most of the respondents agree with the assertion as stated above.

4.6 Mechanism to Ensure Compliance to IFRS

The survey result regarding the mechanisms to ensure compliance to IFRS found from the SPSS were presented in the table 4.5 below.

Table 4.5: Mechanism to Ensure Compliance to IFRS

Mechanism to Ensure Compliance to IFRS	Strongly disagree (1)		Disagree (2)		Neutral (3)		Agree (4)		Strongly agree (5)	
	N	%	N	%	N	%	N	%	N	%
Training on IFRS.	5	2.9	2	1.3	9	5	39	23.3	110	67.5
Stakeholders' awareness on IFRS.	4	2.6	9	5.3	13	8.1	51	30.7	88	53.3
Providing guidelines on implementation process	2	1.4	7	4.1	11	6.6	42	25.7	103	62.2
Harmonizing with regulatory bodies.	4	2.3	6	3.6	19	11.7	47	28.3	89	54.1
Establish efficient and enforcement mechanisms to ensure compliance.	5	3.1	7	4	19	11.7	48	29.4	86	51.8
Develop a supported version IFRS to make it user friendly	7	4.1	11	6.8	16	9.5	55	33.7	76	45.9

Source: Survey result, 2017

4.6.1 Mechanism to Ensure Compliance to IFRS-Training on IFRS

The respondents for this assertion strongly agree which accounted for 67.5% out of the total respondents of 165 and 23.3% were agree to the assertion which accounted for in total

90.8% of total respondents agree and strongly agree , the remaining 9.2% strongly disagree, disagree and neutral with the assertion, so the survey indicate that regular training requirement before the staring of IFRS implementation, ongoing process of implementation and after the implementation are important since there are new employee entrants into the system and there is frequent change in IFRS.

4.6.2 Stakeholders Awareness of IFRS

The first step to achieve success is to create awareness on the International Financial Accounting Standards, when stakeholders are made to know and understand the reason and benefits they will drive from working with the IFRS that have been introduced to them the result can be a good success to the implementers. The standards should be reviewed time after time but before an organization can drive its full benefit after adoption, the review must be well circulated and understood so that full compliance can be achieved. From the study conducted respondents who agree to the fact that stakeholders awareness is actually being practiced were about 88% out of the 165 respondents ,however, the remaining 12% were strongly disagree, disagree and neutral with this assertion. This result indicates that almost most companies who are now on the transition process, this mechanism is in practice.

4.6.3 Providing guideline on implementation process

The study need to identify the guidelines availability on implementation which shall be the mechanism to ensure compliance. During the desk review the researcher obtained responses from the questions raised to respondents in most instances they answered that the regulatory beady Accounting and Auditing Board of Ethiopia (AABE) provided guideline to implementing entities and in addition to that in some cases the entities developed guideline which assists the IFRS implementation team, therefore, the result of the survey asserts this observation, from 165 respondents 145 respondents are strongly agree and agree with the assertion which accounted for 87.9% while 9 respondents which accounted for 5.5% disagree and 11 respondents were which account 6.6% were neutral with this statement.

4.6.4 Harmonization with regulatory bodies

Here the researcher seeks to evaluate the regular involvement of regulatory bodies in the transition process particularly the Accounting and Auditing Board of Ethiopia (AABE). Regulatory bodies such as ABBE and Ethiopian National Bank were there to implement supervisory roles that may be in the form of enforcing requirements and constraints, also coming out with guidelines in respect of any activity and obtaining compliance. Here 82.4% of the respondents of the survey were strongly agree and agree with the assertion and the remaining respondents 17.6% were strongly disagree, disagree and neutral with this statement. The researcher had made desk review of reports made by AABE with regard to implementation process, the problems and challenges faced by these entities which supposed to implement IFRS for first time in Ethiopia and the recommendations made by the AABE based on the assessment they made for each specific entity. Therefore the result of the response directly correlates to the findings identified by the regulatory body.

4.6.5 Efficient Enforcement Method to Ensure Compliance

This assertion used to evaluate the efficient enforcement method to ensure compliance measurement in place to help entities in process of implementation in order to make practical the compliance process.

From 165 respondents 134 which accounted for 81.2% were strongly agree and agree, 19 respondents which accounted 11.7% were neutral with the need for existence of efficient enforcement mechanism while 12 which accounted for 7.1% strongly disagree and disagree with assertion. Therefore the survey result affirms the assertion.

4.6.6 Develop a supportive version of IFRS to make it user friendly

The IFRS developed by International Accounting Standard Board (IASB) are to serve globally however, economic, technologic, historical and cultural situations vary from country to country particularly situations in developing countries like Ethiopia the backward economy, the low financial management structure, low IT infrastructure makes them different from the developed countries such as European countries, therefore, the lack of qualified employees, backward economic situation and backward economic structure requires simplified easy to use version of IFRS so IASB and local regulating bodies such as AABE need to work towards this simplified version of IFRS. This assertion was supported by 131 respondents which accounted for 79.6% while the assertion was not supported by 18 respondents which accounted for 10.9% of total 165 respondents.

4.7 The Analysis of Problems Facing IFRS

Table 4.6: Problems encountered during compliance

Problems Facing adopting IFRS	Strongly disagree (1)		Disagree (2)		Neutral (3)		Agree (4)		Strongly agree (5)	
	N	%	N	%	N	%	N	%	N	%
IFRS are complex and difficult.	13	8	48	29.2	22	13.3	66	40	16	9.5
Frequent changes on IFRS.	9	5.6	25	15.3	24	14.4	64	38.7	43	26
Inadequate number of professional accountants in the country.	7	4.1	16	9.5	24	14.8	74	44.6	44	27
Inadequate technical competence in applying IFRS.	10	6.3	9	5.3	20	12	88	53.4	38	23
Inadequate regulatory bodies to monitor and ensure compliance with IFRS.	9	5.3	22	13.3	37	22.7	71	42.7	26	16
Cost associated with IFRS compliance is high compared to benefit.	11	6.8	40	24.3	43	25.7	58	35.1	13	8.1

Source: Survey result, 2017

4.7.1 IFRS are Complex and Difficult

The IFRS prepared by IASB are very Complex and difficult to understand and interpret since they were prepared for multinational companies who consolidate their accounts in foreign countries with the home office results due to the natural complexity of the accounts to be prepared and the requirements that are demanded under IFRS, the implementation and requirements for entities of under developing countries may become difficult those difficult and complex standards implementations needs highly qualified professional accountants however the number of professionally qualified accounts are limited in Ethiopian case.

The result of the surrey indicate that 40% of respondents agree with the statement 13.3% were neutral and 9.5% were strongly agree but 8% strongly disagree and 29.2% disagree, so the result of the study concluded that account preparation under IFRS looks complex and difficult.

4.7.2 Frequent changes to IFRS

The IASB'S research team always conducts research on the existing IAS and IFRS to coup up with the existing economic and political situations, best practice of business conduct of international companies and made frequent changes on them based on current requirement.

The IASB provide a chance to have standard setters to make their recommendation as and when they observe any problem or have any difficulty during the implementation and application of the standard. After the recommendation the boards sits down to access and test if it can make the standard easy to understand and apply it is then circulated to all centers to be applied by stakeholders who have adapted the standards.

The study shows that majority agreed to the assertion that frequent changes do occur and the world being dynamic and necessitate regular change.

The result of the survey indicated that 38.7% were agreed, 26% of the respondents were strongly agreed with the assertion, 5.6% of respondents were strongly disagree and 14.4% were neutral but 15.3% disagree with the statement.

4.7.3 In adequate technical competence in applying IFRS

Inadequate number of qualified professional accountants and low level of training on IFRS to employees in most cases even employees were do not know about IFRS as the researcher identified during his assessment of entities implanting mandatory IFRS in Ethiopia the researcher observed that in his field visit lack of technical competencies. Technical competences include the use and application of computerized accounting software's and adequate use of IT systems.

The result of the survey indicated that 53.4% were agreed, 23% of the respondents were strongly agreed with the assertion, 6.3% of respondents were strongly disagree and 12% were neutral and the remaining respondents 5.3% disagree with the statement.

4.7.4 In adequate regulatory bodies to monitors and ensure compliance with IFRS

The only regulatory body in Ethiopia with regard to IFRS implementation is AABE, since there is no professional body that regulate the competency of accountants and qualified professionals in the country infarct ACCA members are monitored and subject to CPD by ACCA, therefore, the lack of national professional accounting body as most African countries and rest of the world have enhances the problem of compliance with IFRS.

The result of the survey indicated that 42.7% were agreed, 16% of the respondents were strongly agreed with the assertion, 5.3% of respondents were strongly disagree, 13.3% disagree and the remaining 22.7% respondents were neutral with the statement.

4.7.5 Cost associated with IFRS compliance

Empirical evidences showed that costs involved in compliance with IFRS very high and in some cases not affordable by small companies. The cost of compliance include training cost to staff, stakeholder awareness meetings, consultants cost for conversion, cost for implementation of IT support systems etc. Here the cost element usually measured in terms of cost and benefit received analysis then the benefit received should be greater than the cost incurred for same small companies the cost of compliance to IFRS greater than the achieved benefit, so the surrey result indicated that 35.1% were agreed, 8.1% of the respondents were strongly agreed with the assertion, 6.8% of respondents were strongly disagree, 24.3% disagree and 25.7% respondents were neutral with the statement

The researcher understand here about the outcome of the result that the entities under study were large financial institutions which includes Banks and insurance and huge government owned public entities so here the companies have a capacity to afford the cost relative to their size but in the cast of private companies those costs may be huge and may be greater than the benefit obtained from IFRS complied financial statements.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION

5.0 Introduction

This chapter incorporates three main components which are the major findings drawn from the research, conclusion and necessary recommendations to the field of study.

5.1 Summary of Major Finding

The purpose of this research pepper is to identity the problems, challenges and benefits that could be obtained from adapting IFRS for first phase mandatory adopters of Entities in Ethiopia which had been identified by AABE and to provide recommendation which could help the entities that shall be adopt IFRS in the second and third phase in accordance with road map of AABE.

The result of the survey identified that the gender group of respondents dominated by male which accounted for 84% and the majority age group of respondents which accounted to 82% were ranging from 21 to 50 years old, so this result seems good since the availability of productive and experienced personnel in the entities prone to change in technology and faster growing economic system. These finding is compatible with Schachler et al. (2012) who concluded that although harmonization with IFRSs is not concluded by any cultural consideration, historical factors and accounting education deficiencies may make the adoption of IFRS more difficult.

The level of education mater in applying new ideas and methods so from the result of this study we observed that around 97.3% were first and second degree holders who were the IFRS implementation team members so this enhance the implementation process the researcher recognize this as good practice and should be continue in next phases of IFRS adoption in Ethiopia. The survey response was consistent with previous studies made by Irvine and Lucas (2006), (Gyasi, 2010), Schachler et al.(2012).

Number of qualified accountants such as ACCA, CPA or CIMA accounted for 12% of the total respondents' so here the number of qualified professional were very small since having these qualifications shall enhance IFRS implementation process. The survey response was consistent with previous studies made by Irvine and Lucas (2006), (Gyasi, 2010), Schachler et al.(2012).

The average work experience of the respondents more than 10 years and this contribute to 54.7% this is good indication that long term work experience enhances IFRS implementation process, however the more employees stay in one system for long period they are prone to resistance to change so this negatively affect the adoption of IFRS. The result was consistent with the study made by Schachler et al. (2012) who concluded that although harmonization with IFRSs is not precluded by any cultural consideration, historical factors and accounting education deficiencies may make the adoption of IFRS more difficult.

The result of the study identified that published guidelines were available for 45.3%, the participation of the audit committee in the formation process was weak since 46.7% of the respondents only agree with the participation 66.7% of respondents answered yes for the existence of implementation road map however still there were entities who have not have such document. The survey response was consistent with previous studies in this area such as study made by Irvine and Lucas (2006) who suggested that the UAE, in embracing globalization and adopting IFRS, will need to develop appropriate regulatory systems to overcome cultural issues relating to secrecy and fraud. In addition, Schachler et al. (2012) indicated that the variances in local regulations as one major challenge to the compliance to IFRS in developing countries..

For the involvement of the board of directors only 60% of respondents answered yes to the question so still the involvement and guidance of those senior management groups are very important. This survey result was consistent with the study made by Irvine and Lucas (2006) who suggested that the UAE, in embracing globalization and adopting IFRS, will need to develop appropriate regulatory systems to overcome cultural issues relating to secrecy and fraud.

For risk assessment made before the implementation of IFRS 53.3% of the respondents were answer yes so the assessment made was not complete and there is a gap in these regard. The result was consistent with the study made by Irvine and Lucas (2006).

Before the start of implementation the entities required to assess the existing gap the study result indicate that 86.7% respondents were answered yes but the assessment need to be done for all entities under consideration so the survey result was consistent with the study made by Irvine and Lucas (2006).

The conversion period and preparation period provided to entities by AABE were not adequate since 54.7% of respondents answered yes so that the period was in adequate which is a factor influencing the adoption of IFRS. The result of the study was consistent with the study made by Irvine and Lucas (2006).

Most respondents' of the survey believe that the adoption of IFRS influenced by economic growth, the legal system, the external environment, the need for existence of capital market and non availability of previous GAAPs in Ethiopia. The survey response was consistent with previous studies in this area (e.g. Gyasi, 2010) who found that external environments such as foreign investment that affect the adoption of International Financial Reporting Standards in developing countries in general and in Ghana in particular.

The majority of the respondents of the study agreed that the benefit of harmonized accounting system bring in providing quality financial standards, ensuring the use of one accounting standards for parent and subsidiary companies, increased access to global market, facilitate information for control and decision making and increase FDI in   flow in the Country. The survey response was consistent with previous studies in this area (e.g. Gyasi, 2010) who found that external environments such as foreign investment that affect the adoption of International Financial Reporting Standards in developing countries in general and in Ghana in particular

The survey result of majority of respondents' indicate that they agree with the .assertion that mechanism to ensure complicate to IFRS includes training on IFRS, stakeholders awareness on IFRS, providing guideline on implementation process, harmonizing with regulator bodies, establishing efficient and enforcement mechanism to ensure compliance and develop a supported version IFRS to make it user friendly. The result of this survey consistent with previous studies made by various researchers such as Irvine and Lucas (2006), (Gyasi, 2010), Schachler et al.(2012

Problem encountered during compliance to IFRS includes IFRS are complex and difficult, frequent change to IFRS, lack of professional accountants, lack of technical competence, lack of professional association, high cost associated to implementation all these assertion were all agreed almost by majority of respondents. The result of the survey compatible with studies made previously by various researchers such as Irvine and Lucas (2006), (Gyasi, 2010), Schachler et al.(2012), Heidhues & Patel 2008; Wong (2004.

5.2 Conclusion

This study examined the adoption of International Financial Reporting Standards (IFRS), its benefits, the challenges of adopting International Financial Reporting Standards, and adoption in selected banks, insurance and public owned enterprises in Ethiopia which was adopted IFRS. Six research objectives were developed and examined in this study. The first question is to assess the adequacy of the time frame (the road map) set out by AABE, the second question is to identify the major problems encountered by the selected entities while implementing and adoption of IFRS, third question is to find out the adequacy of the monitoring, assistance and support made by the regulatory body (AABE), the fourth question is to assess the benefits obtained from adopting of IFRS, fifth question is to investigate any problems in data- capturing and obtaining the necessary information related to IFRS adoption and the sixth question is to examine the adequacy of accounting system, accounting policies and Information Technology system in the selected banks, insurances and public owned enterprises in Ethiopia. The study used document analysis (annual reports, legislations, directives, and other documents) and questionnaire to chief executive officers (CEOs), chief finance officers (CFOs) and chief internal auditor function (CIAFs). Questionnaire data were analyzed using descriptive statistics.

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 Report Proclamation of Ethiopia" which obliges "public interest entities‟ to follow IFRS in their financial reporting.

The results of the survey reveal that IFRS should have been implemented in Ethiopia to the greater benefits it has compared to the associated problems. On the other hand the company which is required to use IFRS in preparing their financial reports is unable to apply all the standards. In other words there is a serious compliance problem with IFRS in Ethiopia.

Adoption of IFRS has the benefit of more transparent financial statements to company which in turn reduce the agency problem between management and shareholders as increased transparency causes managers to act more in the interests of the shareholders. Adoption of IFRS would also significantly reduce cost of capital of firms through lower cost of information, reduction in bad earnings management, greater marketability of shares, and reduced information asymmetry.

The main challenges in the process of adopting IFRS include insufficient guideline for adoption of IFRS, lack appropriate training, the complex nature of some of the IASB"s standards, low involvement of board of directors and lack of sufficient risk assessment before implementation. Due to lack of adequate guidance creates risks for different local or national interpretations of IFRS and increases the risk for manipulation in interpretation of financial statements.

5.3 Recommendation

The result of the study identified that inadequacy or lack of: gap assessment, risk analysis, involvement of board of directors and senior management and audit commit in the transition process and availability of the roadmap to IFRS Implementation
Therefore based on the findings identified through this study I recommend that:

- The entities required to adopt IFRS mandatory or voluntarily need to adequately prepare the implementation guide line suitable to their in entities in Ethiopian context. In addition AABE should strictly check and follow up the preparation of guidelines in accordance with the stated standards.
- The board of directors, audit committees and senior management should closely monitor and assist the IFRS adoption procedures in each company's and take necessary action on the problems encountered.

- A road map for IFRS implementation should be prepared by specific entities in the context of their company's objectives and operations and this should be monitored by AABE regularly.
- The entities should first take the necessary risk assessment before they began to implement the IFRS such as the availability of skilled personnel, the technology, and the need for harmonized IFRS.
- Adequate time frame should be provided for the next phases of IFRS adoption before starting implementation process.
- The IFRS implementation team should included the appropriate skilled personnel and particularly women accounting professionals since the women accounting professionals deliver more results than the male ones.

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ANNEXES

ADDIS ABABA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS DEPARTMENT OF ACCOUNTING AND FINANCE

QUESTIONNAIRE

This questionnaire is consists six parts and designed to extract information aimed at helping me to write my Masters Degree thesis. The topic of this thesis is Challenges and prospects of IFRS adoption in Ethiopia in respect of 78 entities that are first phase mandatory adopters selected by Accounting and Auditing Board of Ethiopia (AABE). The information collected is purely for academic purpose and any information given will be treated with high confidentiality.

Part one: Demographic characteristics of the respondents

Please tick where it applies.

(1) Gender: 1. Male ☐ 2.Female ☐

(2) Age: 1. Less than 21 ☐ 2. 21-30 ☐ 3. 31-40 ☐ 4.41- 50 ☐

5. More than 51 ☐

(3) What is your highest level of education?

1. High school certificate ☐ 2. Diploma holder ☐ 3. Bachelor degree ☐

4. Master's degree ☐ 5. PhD ☐

(4) Which professional qualification do you have?

1. ACCA ☐ 2. CIA ☐ 3. Public certified Accountant (USA) ☐

4. CIMA ☐ 5. Others (specify)…………………….

(6) How long have you worked within the sector?

1. Less than 1 Year ☐ 2. 1-3 years ☐ 3. 4-6 years ☐

4. 7-9 years ☐ 5. 10 years or more ☐

Part Two: The following factors that directly affect the implementation process of IFRS in Ethiopia. Based on your experience and opinion please select yes or no for each question from the given below.

(7) Is there published implementation guideline on adoption of IFRS in your entity?

1= Yes ☐ 0= NO ☐

(8) Is the audit committee of your entity fully participates in the transition process to IFRS?

1= Yes ☐ 0= NO ☐

(9) Is there a road map that had been approved by the board of directors of your entity?

1= Yes ☐ 0= NO ☐

(10) Is the involvement of the board of direct s of your entity in the translations process was adequate?

1= Yes ☐ 0= NO ☐

(11) Did risk assessment was conducted before transition to IFRS was started in your entity?

1= Yes ☐ 0= NO ☐

(12) Did gap assessment was done before starting the IFRS implementations in your entity?

1= Yes ☐ 0= NO ☐

(13) Did time - period for the preparation to transition to IFRS provided was adequate?

1= Yes ☐ 0= NO ☐

Part III: Factors that influenced your entity to adopt IFRS

In the Questions 15 to 18 given in the table below, please, indicate the extent to which you agree with each statement about the factors that influenced the adoption of IFRS by your entity.

Please, use a scale of 1 – 5, with 1 representing strongly disagree, 2 disagree, 3 Neutral 4. Agree, 5 strongly agree

QUESTION	**1**	**2**	**3**	**4**	**5**
(14) Economic growth in Ethiopia greatly influenced the adoption of IFRS.					
(15) The legal system of Ethiopia influenced IFRS adoption.					
(16) The external environment forces such as IMF, WORLD BANK influenced IFRS adoption.					
(17) The need for existence of capital market influenced IFRS adoption.					
(18) Previous accounting standards were ineffective or accounting standards were not available					

PART Four: <u>Benefits or Prospects of Adopting IFRS in Ethiopia</u>

(20)The following are benefits or prospects of adopting IFRS in Ethiopia: please indicate your perception on each statement made below by ticking the –box according to the Agreement legend supplied; 5. strongly Agree 4. Agree 3. Neutral 2. Disagree 1. Strongly Disagree

Prospects of adopting IFRS in Ethiopia	1	2	3	4	5
19.1. Is IFRS improves the quality of financial statements and increase access to global capital markets?					
19.2.. Is IFRS adoption ensures the use of one standards for both parent and subsidiary companies ?					
19.3. Is IFRS has positive effect on the information for control and decision making using financial statements by like investors ?					
19.4. Is IFRS adoption has significant effect on FDI inflows?					

Part Five: Mechanism to Ensure Compliance to IFRS

Please the following are the mechanisms to which IFRS compliance can be ensured. Indicate your perception on each statement made below by ticking the –box according to the agreement legend supplied. 5. Strongly Agree 4. Agree 3. Neutral 2. Disagree 1. Strongly Disagree

Variables	1	2	3	4	5
20.1 Training on IFRS					
20.2 Stakeholders awareness of IFRS					
20.3 Providing guidelines and implementation					
20.4 Harmonizing with other regulatory bodies					
20.5 Establish efficient and enforcement mechanisms to ensure compliance					
20.6 Develop a supported version IFRS to make it user friendly					

Part Six: Problems Facing IFRS

(21) The following are problems facing IFRS; please indicate your perception on each statement made below by ticking the –box according to the Agreement legend supplied.

5. Strongly Agree 4. Agree 3. Neutral 2. Disagree 1. Strongly Disagree

Problems facing IFRS	1	2	3	4	5
21.1. IFRS are complex and difficult					
21.2 Frequent changes on IFRS					
2013 Inadequate number of professional accountants in the country					
21.4 Inadequate technical competence in applying IFRS					
21.5 Inadequate regulatory bodies to monitor and ensure compliance with IFRS					
21.6 Cost assorted with IFRS compliance is high compared to benefit					