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Benefit and Challenges of adopting IFRS in Case of commercial Bank of Ethiopia
Addis Ababa, Ethiopia

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Abstract

Background: International Financial Reporting Standards (IFRS) have been adopted by 143 countries around the world. The goals of the IFRS is to develop, in the public interest, a single set of high-quality, understandable, enforceable and globally accepted financial reporting standards based upon clearly articulated principles. However, its adoption and implementation bring opportunities and create challenges to the adopter. The main objective of this study is to assess the adoption, challenges and benefits of (IFRS) in case of Commercial Bank of Ethiopia.

Methods: The study used both primary and secondary sources. The primary data was collected through predesigned questioners and secondary data was collected from the Bank report, scientific papers and proceedings relevant to the study using document, annual financial reports, proclamations and regulations that deal with financial reporting issues by the bank that deal with financial reporting issues in Ethiopia.

Findings: The study found that commercial bank of Ethiopia have started using IFRS voluntarily for the preparation of their financial statements without making necessary awareness but nationally; IFRS is adopted officially in December 5, 2014 through enactment of Proclamation. And from the analysis of survey that in the dependent and independent variables there is significant relationship. Among those the IFRS on the quality of financial reporting has significant relationship with the transparency, accountability and economic efficiency. The result of the study will provide a good lesson for other Financial Institution, Governmental and Policy Makers for the implementation of IFRS network.

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Chapter One: Introduction

This chapter includes the following; background of the study, statement of the problem and continued with the research questions, objective of the study, significance of the study, scope of the study and organization of the paper.

1.1. Background of the Study

In most countries especially developed ones, many or even all entities have a legal obligation to prepare financial statements that conform to the required standards or set of accounting principles that are generally acceptable in that country(Frank2002).The great majority of these entities are companies or organizations which are publically accountable especially the multinationals which need greater international uniformity in the regulations underpinning the preparation of company's financial statements (Frank 2002). The quality of financial reporting is essential to the need of users who require them for investment and other decision making purposes (Fashina and Adegbite, 2014). Financial reports can only be regarded as useful if it represents the economic substance of an organization in terms of relevance, reliability, comparability, understandability, timeliness and simplifies interpretation of accounting numbers (Kenneth, 2012). If the IFRS adoption era, most countries had their own standards with local bodies responsible for developing and issuance of the local standards even if some of them align largely with the International Accounting Standards (IAS). The International Accounting Standards Board adopted the IFRS framework on 1 April, 2001 the International Accounting Standards Board (IASB) took over the setting of International Accounting Standards from the International Accounting Standards Committee (IASC).

Thenceforth, the IASB updated the already existing International Accounting Standards and referred to them as International Financial Reporting Standards (IFRS); the standards were adopted by over 143 countries around the world. IFRS was established and approved by the IASB. The goals of the IFRS Foundation and the IASB is to develop, in the public interest, a single set of high-quality, understandable, enforceable and globally accepted financial reporting standards based upon clearly articulated principles. (IFRS, 2015) In Africa 19 of the 53(36%) countries have adopted IFRS. The momentum of Africa appears to be much slower than that of the rest of the world Jeff Van Rooyen (2011). A trustee of the International Financial Reporting standards Foundation and also an African saw the value of economic globalization for continent by stating the following: “The whole world is converging. Africa needs to be part of this. In the case of Ethiopia is moving toward implementing IFRS within the next five years, the aim of this paper is to assess the IFRS adoption progress and investigate factors that motivate to adopt IFRS, and advantages and challenges ahead of IFRS adoption in Ethiopia. This study will makes an effort to bridge this gap and tries to study the Ethiopian data with reference to IFRS adoption, benefits of IFRS for Ethiopia, challenges faced by the stakeholders in the process of adoption of IFRS, and the factors that affect the adoption. (IFRS, 2016) According to World Bank on the Report on the Observance of Standards and Codes, there is no specific set of accounting regulations in Ethiopia and therefore accounting practices vary across institutions (World Bank, 2007). But now the first financial reporting Federal state regulatory body is established for the first time in Ethiopia by regulation entitled Council of Ministers Regulation to provide for the establishment and to determine the procedure of the Accounting and Auditing Board of Ethiopia (Council of Ministers Regulation No. 332/2014) pursuant to Article 4(1) of the Financial Reporting Proclamation No. 847/2014. Accordingly, provision of Article 3(1) of this regulation describes that “The Accounting and auditing Board of Ethiopia (AABE) is hereby established as an autonomous government organ having its own legal personality.” AABE consists of 12 members which includes one representative from each of various Ministries (Directives of National bank 2014)

1.2. Statement of the Problem

Many countries have faced challenges in their decisions to adopt IFRS, its wide spread adoption has been promoted by the argument that the benefits outweigh the costs. 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)..

In the past few years many developed and developing countries have adopted international financial reporting standards (IFRS) as the basis for financial reporting. While some countries have been using these standards for decades, they are however new for transition economies like Ethiopia. In Ethiopia, implementation of IFRS will be launched in June 2018(Directive of National Bank).

The benefit is intended to ensure that bank IFRS financial statements contain high quality information that: is transparent for users and 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 may face 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 (Melese Hailemichael 2016).

More so, the researcher was observe various problems including high cost of first implementation of IFRS, low level of awareness for preparers and users of Financial Statement, and difficulties in understanding the impacts 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 Commercial Bank of Ethiopia to overcome the problem get advantage for the user.

1.3. Research Objectives

1.3.1. General Objective

- Objectives to assess benefit and challenge of adopting IFRS the Case of Commercial Bank of Ethiopia, 2017.

1.3.2. Specific Objectives

The Specific objectives of the study are to find out the following:

1. To assess challenges in adoption of IFRS in Case of commercial bank of Ethiopia.
2. To assess the benefits of adopting IFRS by the commercial bank of Ethiopia.
3. To assess the impact of adopting IFRS on the quality of financial reporting in commercial bank of Ethiopia.

1.4. Significance of the Study

The study benefits the Commercial Bank of Ethiopia by assess the factors that affect the adoption of IFRS and recommend best practice in regarding how to implement the adoption of IFRS in the Bank. The study was useful for Bank's management and staff by providing information about the theoretical and actual benefits and challenges of adopting IFRS. It was very important for academic purpose by providing useful information about International Financial Reporting Standards

The study was used as an initiation for those who are interested to conduct a detailed and comprehensive study regarding the adoption of IFRS in Ethiopia And it would enable the governing body, specifically the higher responsible body, and the managements of companies to be aware of the perceived and actual benefits of International Financial Reporting Standards and give insight on how to adopt these international standards most efficiently.

1.5. Scope of the Study

The unit of analysis for this study was at head of finance department, Audit, IT, directors and conversion team of IFRS of the bank. The study is only inclusive of Commercial Bank of Ethiopia because of difficulty to cover all banks due time and finance constraint.

1.6. Organization of the Paper

Generally the paper is organized into five chapters. The first chapter presents background which Continued statement of the problem and continued with the research questions, objective of the Study, significance of the study, scope of the study and organization of the paper. The second Chapter deals with the literature review and conceptual framework of the study. The third chapter is research methods, sample size and sampling methods, method of data collection, data quality Assurance and etc. The fourth chapter handles data presentation, analysis and interpretation. The Fifth chapter wind ups the paper by summary of major findings, conclusion and recommend.

Chapter Two: Literature Review

In this literature review, it is the opinion of the researcher to examine and review various views of scholars and researchers of every related concept to this topic of discussion. It also included the background about the International Financial Reporting Standards (IFRS); IFRS adopted and used by financial institutions, the researcher also investigate about the factors affecting the adoption of IFRS and the qualities of financial statements in the financial institutions.

2.1. International Financial Reporting Standards

Definition of IFRS is standards and rules for reporting financial information, as established and approved by the Financial Accounting Standards Board (FASB). IFRSs are issued by the International Accounting Standards Board (IASB), formerly known as International Accounting Standards Committee (IASC). The main objective of the IASB is "to develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the world's capital markets and other users make economic decisions" (Epstein & Mirza, 2002).

To bridge the gap between accounting standards among countries, the IASC was founded in 1973 by a group of professional accounting practitioners. The IASC was to formulate uniform and global accounting standards aimed at reducing the discrepancies in international accounting principles and reporting practices. In this light, the IASC was established. Since its establishment the IASC has actively been championing the uniformity and standardization of accounting principles for over two decades (Carlson, 1997). In April 2001, the IASB took over the setting of

International Accounting Standards from the IASC. Thenceforth, the IASB updated the already existing International Accounting Standards and referred to them as International Financial Reporting Standards (IFRS). IASB mission is to develop International Financial Reporting Standards (IFRS) that bring transparency, accountability and efficiency to financial markets around the world. IASB work serves the public interest by fostering trust, growth and long-term financial stability in the global economy (IFRS, 2015).

 IFRS brings transparency by enhancing the international comparability and quality of financial information, enabling investors and other market participants to make informed economic decisions.

 IFRS strengthens accountability by reducing the information gap between the providers of capital and the people to whom they have entrusted their money. Our Standards provide information that is needed to hold management to account. As a source of globally comparable information, IFRS is also of vital importance to regulators around the world.

 IFRS contributes to economic efficiency by helping investors to identify opportunities and risks across the world, thus improving capital allocation.

For businesses, the use of a single, trusted accounting language lowers the cost of capital and reduces international reporting costs. (IFRS, 2015) For many years, each country has had its own system of accounting standards and principles; however, as many companies became international, the workload to report financial statements multiplied. Not only were companies required to report financial statements using their home country's standards; but the company would also be required to report financial statements using the standards of all countries that were listed as exchanges (The unification of international accounting standards, 2007). The IAS/IFRS (International Accounting Standards/International Financial Reporting Standards) consists of a set of international accounting principles, the adoption of which aims at establishing clear rules originally within the European Union to draw up comparable and transparent annual reports and financial statements (Cardozzo, 2008). Their adoption represents an essential element to obtain an integrated, competitive and attractive beyond the European capital markets. With the increasing internationalization of trading activities amongst countries of the world, necessitated by globalization, brings changes of the adoption and adaptation of local accounting practices and harmonizing it with that of the International Financial Reporting Standards (IFRS). According to (Nkundabanyanga, 2004) IFRS are accounting standards set up with an aim of harmonizing accounting procedure across the world. IFRS are body of prescriptive rules and guidelines with global reach and appeal which provide direction and guidance on how business enterprises in a globalised world could achieve the goal of proper record keeping, transparency, uniformity, comparability and enhancing public confidence in financial reporting (Tendeloo and Vanstraelen, 2005). Thus, failure on the part of the firm to apply the requirements of IFRS would result in inconsistencies, lack of accountability and transparency, distortion in financial reports, which in turn results into poor financial reporting practices and dissemination of accounting information that is of less value to any particular group of users. This is because the preparation and presentation of financial statements will be bereft of objectivity, reliability, credibility and comparability, and thus results in fraudulent business practices which subsequently lead to business failure and become

devastating on the national economy (Atu et al., 2014). Various literatures argued for the necessity of single accounting standard for the globe. For instance, argued in favor of the global convergence of accounting standards asserting that convergence in accounting standard is a very positive development as it: contributes to the free flow of global investment and achieve substantial benefits for all capital markets stakeholders; improves the ability of investors to compare investments on a global basis and thus lower their risk of errors of judgment; has the potential to create a new standard of accountability and greater

Transparency, which are values of importance to all market participants including regulators, and creates an unprecedented opportunity for standard setters and other stakeholders to improve the reporting model (Shabana and Samant, 2011). The globalization of international financial markets across the globe, the idea of adopting a common language for financial reporting to enhance international comparability has become widespread (Jeanjean and Stolowy, 2008). Countries have permitted their domestic companies to use International Financial Reporting Standards (IFRS), an international reporting language in recent years (Li, 2010).

The momentum of Africa appears to be much slower than that of the rest of the world (Jeff 2011). In the case of in our country review on accounting standards in Ethiopia conducted by World Bank and IMF in 2007, “Reports on Observance of Standards and Codes (ROSC)”, indicated various issues in accounting standards in Ethiopia. One of the major issues is The Ethiopian Professional Association of Accountants and Auditors (EPAAA), has no legal backing and is not a member of International Federation of Accountants (IFAC). Under that scheme the EPAAA was supposed to actively participate in the process. It could be noted that the post-1991 period brought about some favorable conditions for the development of Accounting and auditing in the country that could be exploited by aspiring professional associations. The EPAAA has not developed to a level where it can offer certification examinations (World Bank, 2007). According to World Bank on the Report on the Observance of Standards and Codes, there is no specific set of accounting regulations in Ethiopia and therefore accounting practices vary across

Institutions (World Bank, 2007).

2.2. Financial Institution in Ethiopia

The government of Ethiopia as a nation has expressed an initiative to integrate the financial statements of its companies with international standards. In our country most of organizations use GAAP for their financial reporting and there are very few companies use IFRS and among them most of the companies are financial institutions currently government enforce companies to use IFRS in their financial reporting. (Financial Institutions Audit Reports) Intention of the government to implement IFRS in Ethiopian share companies, including Banks and Insurance, is

Manifested by the issued Proclamation No. 847/2014 December 5, 2014 called "Financial Reporting Proclamation of Ethiopia" which obliges companies to follow IFRS in their financial statement presentation. The National Bank of Ethiopian (NBE) and the Securities and Exchange Commission also adopted this date for compliance and has issued guidance compliance circulars to ensure full implementation of IFRS in Ethiopia. There are no extra requirements for banks and insurance companies for preparation of their annual financial statements. Banks and insurance companies are subject to regulatory laws and directives issued by the National Bank of Ethiopia, but there are no extra requirements in these laws or directives for preparation of annual financial statements. The applicable requirements for preparation of annual financial statements for banks and insurance companies are those provided in the Commercial Code. The Commercial Code has no requirement for compliance with any Defined accounting standards. Banks and insurance companies are public interest entities which should be subjected to high standards of financial reporting (World Bank, 2007). Auditors for banks are required to be approved by the National Bank of Ethiopia on an annual basis; banks are required to send selected auditor's name to the National Bank of Ethiopia for the approval of the appointment of bank auditor. This is a legal requirement under Proclamation for Licensing and Supervision of Banking Business No. 84/1994. When approving auditors the

National Bank of Ethiopia ensures that only those auditors licensed by Office of the Federal Auditor General (OFAG) are approved (World Bank, 2007).

Auditors for insurance companies are not subjected to any additional requirements other than the provisions of the Commercial Code. The Proclamation for Licensing and Supervision of Insurance Businesses No.86/1994 states that the auditors for insurance companies shall have powers, functions, and duties; and be subject to liabilities and penalties under the Commercial Code. There are no other regulations for auditors of insurance companies (World Bank, 2007). The Income Tax Law requires taxable income of businesses to be determined on the basis of financial statements prepared according to generally accepted accounting standards. The Income Tax Proclamation No. 286/2002 states that taxable business income shall be determined per tax period on the basis of the profit and loss account, or income statement, which shall be drawn in compliance with generally accepted accounting standards. The problem in this case is that 'generally accepted accounting standards' is not defined, and there are no accountings standards set or adopted in the country (World Bank).

2.3. Bank Directors' Responsibilities in Ethiopia

The Commercial Code of Ethiopia was proclaimed in 1960 (Government of Ethiopia 1960). This Code contains accounting and external auditing provisions, which still serve as the legal basis for financial reporting and external audit of companies and the Banking Business Proclamation No. 592/2008 require the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the bank as at the end of the financial year and of the operating results of the bank for that year. The directors are also required to ensure that the bank keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the bank. They are also responsible for safeguarding the assets of the bank.

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with international financial statements standards and in the manner required by the Commercial Code of Ethiopia, 1960 and the Banking Business Proclamation No. 592/2008 and for such internal controls as the directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Commercial Code of Ethiopia, and the Banking Business Proclamation. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the bank and of its operating results. The directors further accept

Responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial controls.

2.4. 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 (IFRS, 2013). Source: http//www.ifrs.org

2.5. 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.

2.6. 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).

2.7. IFRS Adoption and Implementation in Ethiopia

Adopting IFRS is like starting a family as it requires careful planning, commitment and complete understanding of its implications. There are three steps that new adopters of IFRS should pass through before adopting it. According to this guide, the first step is making policy decisions through building consensus among concerned stakeholders. The second step is preparing a plan by building in targets and deadlines, and making them public and helps to identify obstacles that must be overcome. The third step is identifying the resources that we have on hand and what we

need to implement the new standard such as availability of local professionals at company and national level, finance for capacity building, and source of finance, materials and technical supports (IFRS, 2013). From this standpoint, this research will carried out to study benefit challenge of adopting of IFRS by commercial bank of Ethiopia. From the analysis of the annual reports of institutions in Ethiopia, the researcher will learn that IFRS is voluntarily adopted as there was no law which enforced them to use IFRS which were adopted at national level in 2011 to 2015 only.

2.8. Trends of IFRS Application in Ethiopia

According to the analysis of the annual reports of financial institutions in Ethiopia, an institution in Ethiopia has started to use IFRS in their financial rporting for the first time in 2002/03. The first organizations that used the term IFRS for the first time in their annual report in Ethiopia are government owned entities such as Commercial Bank of Ethiopia, Construction and Business Bank and Ethiopian Insurance Corporation. (Teferi and Dr. J.S. Pasricha, 2016) The analysis of the proclamations, regulations and directives, however, indicated that there was no national or regional law that required companies to adopt and implement IFRS in Ethiopia. Even in 2008, Article 23(1) of the Proclamation to Provide for Banking Business (Proclamation No. 592/2008) stipulates that "the National Bank may direct banks to prepare financial statements in accordance with the international statements standards, whether their designation changes or they are replaced, from time to time." This showed that Ethiopian Government was not interested to adopt IFRS officially in 2008 when the proclamation was enacted and postponed the adoption for another time. Similarly after four years Article 26(1) of a

Proclamation to provide for Insurance Business Proclamation No. 746/2012 stipulated "the National Bank may direct insurers to prepare financial reports in accordance with international reporting standards, regardless of the change." Even though IFRS is not officially adopted at national level, auditors indirectly enforce the same upon management of the organizations who have little or no accounting knowhow about accounting standards. This fact was succinctly explained by one of the higher CEO of Audit firm in Ethiopia as follows:

2.9. Awareness Made During IFRS Adoption at Financial Institution Level

Adopting IFRS involves policy decision to adopt, planning and making all necessary resources required available to handle all the changes that will result in changes in system, procedures, and operation. Financial institutions started using IFRS without passing through these steps which indicated that any previous systems, processes, procedures and preparation of human resources has occurred in relation to IFRS. Professionals from audit entities and the newly established Board also agree with practitioners and pointed out that organizations started to use IFRS without making adequate and necessary awareness discussing under An Official of Accounting and Auditing Board of Ethiopia also agree with the professionals IFRS is used without making necessary preparedness saying: "IFRS is not adopted in Ethiopia but auditors were simply saying in compliance with IFRS as there is no one who was reviewing their works and there were no actions being taken on those who were giving or saying so. Even though there was no adopted or developed accounting standard in Ethiopia, they were saying in accordance with GAAP but it was not clear to which GAAP they were referring and they repeated the same in IFRS case, too. Of course, Office of General Auditor was certifying professional accountants and auditors but

was not regulating them and this was the basic gap. However, now the newly established Board will fill this gap."[AABE General Manager Comment] The researcher realized that Companies in Ethiopia have started to apply IFRS in preparing their financial statements without accessing its impact on their financial performance and making policy decisions, and providing training on IFRS to their staffs.

2.10 Motivating Factors for Adopting IFRS in Ethiopia

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

2.11. Enactment of the Financial Reporting Proclamation

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

Practices in Ethiopia and very minor provisions have been issued in various separate laws that are not found in a single place and issued by various regulatory body. The government of Ethiopia issued this proclamation (No.847/2014) to achieve the following objectives as stated in Article 1 of the proclamation: to establish a sound, transparent and understandable financial reporting system applicable to entities in both private and public sectors; to have a uniform financial reporting law that enhances transparency and accountability by centralizing the hitherto decentralized financial reporting structures of Ethiopia; to support various building blocks of the economy and to reduce the risk of financial crisis, corporate failure and associated negative economic impacts; and to ensure that the provision of financial information meets internationally recognized reporting standards. The newly enacted Proclamation (proclamation No. 847/2014) has eight Chapters where the eighth part of the proclamation comprises provisions that deal with miscellaneous issues (such as conflict of interest, confidentiality, power of the Council of Minister to issue Regulations and that of Board to issue directives, Transitory Provisions and repealed and inapplicable laws). The board shall be accountable to the Ministry of Finance and Economic Development (Art.3/2/ of Regulation 332/2014). According to the Article 5 of the 332/2014, the board shall have the following objectives:

- Promoting high quality reporting of financial and related information by reporting entities;
- Promoting the highest professional standards among auditors and accountants;
- Promoting the quality of accounting and auditing services;
- Ensuring that the accounting profession is used in the public interest; and
- Protect the professional independence of accountants and auditors.

2.12. Establishment of the Board

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

1 Government Officials 7 58

2 Professionals 2 17

3 Preparers and Users 2 17

4 Academic (by Ministry of Education) 1 8

Total 12100

Source: Accounting and Auditing Board of Ethiopia

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

 Improved comparability of financial statements across sectors, countries, regions, and companies.

 As Ethiopia sustains its growth trend, it requires increased access to capital markets to raise capital, reduce barriers to cross border mergers & acquisitions, and listings (once a stock exchange is established)

 increased level of confidence in financial reporting, common accounting systems, and better relationships with investors & stakeholders. IFRS addresses changing commercial practices, global markets as well as investor needs.

 internal reporting is used as a basis for reporting under IFRS, e.g. Operating Segments IFRS

 Cost efficiency IFRS streamlines reporting; one accounting language is used group wide, eliminating the need for reconciliations and restatements for consolidation purposes

 Change of management focus as IFRS are focused on risk and uncertainty. IFRS compliant financial statements have a positive impact on proactive risk management and focus on maximizing shareholder value.

2.13. Roadmap to IFRS Implementation in Ethiopia

Although some reporting entities in Ethiopia says they are already using IFRS for their financial statements, during the world bank 2007 review of financial statements that focused on issues of presentation and disclosure (not issues of recognition and measurement which are not detectable through a review of financial statements requirements) on sample of 35 financial statements from

Financial institutions, public enterprises, Share Company and NGOs revealed that there were significant differences between the actual accounting practices and IFRS requirements and concluded that the actual accounting practice in Ethiopia differ from IFRS. The reference to

IFRS by such entities prior to the national mandatory requirement date shall be referred herein as "voluntary" adoption and treated accordingly. Such claim by reporting entities and their auditors shall be scrutinized strictly and any infraction shall be dealt with firmly. The following three phases stated to adopt IFRS in Ethiopia (AABE 2015). Phase 1: Significant Public Interest Entities and all Financial Institutions and public enterprises owned by Federal or Regional Governments at July 8, 2016 is recommended as the date for adoption of IFRS for financial institutions and large public enterprises. The choice of July 8, 2016 is anchored on the need to give sufficient period (22 months) over which to effectively transit to IFRS.

Current movements on Human Resource Development toward IFRS There are a move to promote IFRS in Ethiopia through arranging various workshops, seminars, and panel discussions. The major organizations that are arranging these events are ACCA Ethiopia, HST Audit and consulting firm which is an affiliate of The United Kingdom professional services firm, Deloitte Touché Tohmatsu Ltd (Deloitte), Ethiopian Commodity Exchange Authority, Privatization and Public Enterprises Supervising Agency, Earnest and Young Different training workshops are being arranged and conducted on IFRS in Ethiopia. From the interview conducted with lecturers of accounting from six Universities including Addis Ababa University stated that a seven days Training was offered to around 40 accounting lecturers from selected universities in the country on IFRS for SME by ACCA Ethiopia in collaboration

With Addis Ababa University-College of Business and Economics in August 2014. However, the trainings should be conducted on a coordinated way and serious attention should be given from all concerned bodies (government, regulators, board of directors, managements, shareholders, and employees, NGOs, Development partners, media and so forth) and it should not be given for formalities and on short term-benefits basis.

2.15. Empirical studies on IFRS

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 M. Abdulkadir, Adoption of international reporting standard in developing economy.

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 R. Oghoma and F. Iyoha, “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.

All the banks increased their net profit as a result of reclassifying their financial instrument in 2008 and 2009. On the influence of IFRS implementation on business management, the finding of the study shows that there are positive effects from the adoption of the IFRS by Finnish companies W. Jonna, (2008 and 2009)The influence of IFRS implementation on business management. IFRS are seen as a comprehensive information package where the management gets improved financial information easier for their decision making and judgment. In another research conducted by W. Jonna, The influence of IFRS implementation on business management that mandatory IFRS contributes and improve business environment. The study was a survey report. He also found out that after mandatory IFRS adoption, the quality of information in accounting and business environment increased significantly more for mandatory adopters. The impact of inclusion of IFRS in schools and colleges curriculum, this will enable the potential accountants to be well trained before joining the accounting and auditing profession H. Daske, C. Hail, and V. Leuz, Mandatory IFRS reporting around the world: Early evidence on economic consequences. Finally, this empirical study has been conducted to critically examine the factors that could influence the adoption of IFRS in Ethiopia.

Chapter Three

Research Methodology

This chapter is intended to provide a description on how the study was conducted. The purpose of this study is to assess the Benefit and challenges of adopting international financial reporting Standard in the Case of Commercial Bank of Ethiopia.

3.1. Research Design

The study was conducted in commercial bank of Ethiopia at head offices. In order to attain the objective of the study and answer the research questions; researcher was adopting both quantitative and qualitative (Mixed) research approach. And here the rationale of using such a mixed approach is to gather data that could not be obtained by adopting a single method and for triangulation. When we use the word quantitative to describe quantitative dissertations, we do not simply mean that the study will draw on quantitative research methods or statistical analysis techniques. Quantitative research takes a particular approach to theory, answering research questions and/or hypotheses, setting up a research strategy, making conclusions from results, and so forth (Creswell 2003).

Measurement Variable

***Dependent Variable*:**

- Impact of IFRS on the quality of financial reporting

***Independent Variables*:**

- Transparency, Accountability and Economic Efficiency

Independent variables	Factors
Transparency	Enhancing the international comparability Enhancing quality of financial information, Enabling investors and other market participants
Accountability	Reducing the information gap between the providers of capital and the people to whom they have entrusted their money Standards provide information that is needed to hold management to

	account As a source of globally comparable information, Vital importance to regulators around the world
Economic Efficiency	Helping investors to identify opportunities and risks across the world improving capital allocation

3.2. Sample Size

The sample sizes of the study take into account the number of staffs working with the IFRS. Considering the number of staffs the study sample took 52 study participant selected from each department allocating proportionally for each department except for the conversion team whereby all the team members included in the study due to the conversion team is primarily responsible for IFRS implementation. After the proportional allocation the study subjects selected using simple random sampling method to improve the generalizability of the study using traditional balloting method.

DEPARTMENT	Number of staff	Sample size taken for this study purpose
Finance department	205	23
Audit	100	11
IT	63	7
Conversion team	9	9
Directors	17	2
Total	**394**	**52**

3.3. Data Collection Instrument and Administration

Here the researcher was used both primary and secondary data's and the primary data was collected from the concerned bodies at head office of the bank by using a pre designed questioners for primary data collection method and the primary data also supplemented by secondary data collected from the bank published documents scientific papers, commercial bank manuals cbe.portal mail, annual financial reports and proceedings relevant to the study.

Validity and Reliability

Validity refers to the extent to which a test measures what we actually wish to measure. To raise the validity of the researcher undertaken the following.

- Date was collected using developed questionnaire from different papers with slight adjustment with the existing situation of the study.
- Questionnaire was distributed and collected by the researcher himself

Reliability has to do with the accuracy and precision of a measurement procedure.(kotharin 2004).the questioner was pre tested with 15 employees to test the content validity of the instrument and also check the clarity, word ambiguity and structure and their suggestion were incorporated before the final distribution of the questionnaire.

3.4 Data Processing Procedures

After the researcher complete the data collection, data entry and data cleaning for this study; the researcher were use SPSS to get the required data analysis results for study. descriptive statistic helps to describe the level of agreement of respondents .it reveals the conformity of respondent attitude about IFRS adaptation .in addition frequency and percentage was used to present the data.tabels were also used to ensure easily understanding of the analysis.finaly the result of statically analysis was summarized, tabulated and interpreted appropriately.

Chapter Four: Data Analysis, Results and Discussion

This chapter presents the data analysis, the research findings or results, and based on the results the researcher gives discussion on the findings and also gives some interpretation of the result. In order to presents findings and the discussion about the benefit and challenge of adopting international financial reporting standards (IFRS) in case of commercial bank of Ethiopia. The researcher uses different form of tables and figures and qualitative analysis done in prose.

4.1. Response Rate at Commercial bank of Ethiopia

Total 1.1 of 52 questionnaires were administered to bank finance manager, Auditors, Directors, IT Experts and Conversion team of the bank Questionnaires were completely filled and returned.

Rate	Number of questionnaires	Percent
Completed	52	100%
Not completed	0	0
Total	52	100%

Source: Research data (2017)

Table shows: A response rate of 100% was achieved. Rate Number of Questionnaires Percent Completed 52 100% Not Completed 0% Total 52 100%

4.2. General Information

4.2.1. Respondent Gender

Demographic profile of respondents based on gender

Gender	Frequency	Percent	cumulative
Male	37	0.72%	72%
Female	15	0.28%	100%
	52	100%	

From table 4.2.1

From Table 4.2, the data obtained from the questioner, shows on the above table reveals that out of 52 of respondents 37 (72%) of them are Males the remaining 15(28%) of respondents were females. This implies that the number of male respondents were greater than female who were participated in this study.

4.2.2. Respondents Age

Age bracket	Frequency	Percent	Cumulative percent
Less than 25 Years	0	0	0%
25-34 Years	18	34.6%	34.6
35-44 Year	23	44.2%	78.8
45-54 Years	9	17.3%	96.2
54Years	2	3.8%	**100%**
Total	52	**100%**	

Table 4.3: Age Brackets of Respondent

From Table 4.3, a total of 52 respondents 18 of them or 34.6%% were found at the age bracket 25-34 Years, 23 or 44.2% of respondents were found at the age bracket 35-44 Years, and 9 or 17.3% of respondents were found at the age bracket 45-54 Years and the remaining 2 (3.8%) This indicates most of respondents were mature or from 35 to 44 age groups are dominant with appropriate work experience and therefore they were well versed with relevant information on IFRS which was needed for the study.

4.2.3. Educational Background of respondents

Educational back ground	Frequency	Percent	Cumulative
BA/BSC	37	71.1	71.1%
MA/MSC	15	28.9%	100%
Total	52	100%	

Educational Background Frequency Percent Cumulative Percent

Table 4.2.3: Respondents Education Status

The education level of the participants varied widely from a total of 52 respondents 37or 71.1 % of respondents have 1st degrees (BA/BSc Degree), and the remaining respondent 15 or28.9%% have 2nd Degree (MSc/MA Degree). This indicates most of the employees have good educational back, this suggests our respondents give relevant and accurate information needed for the study of IFRS on benefit and challenge of adopting IFRS.

4.2.4. Respondents position

Position in the bank	Frequency	Percent	Cumulative
Finance manager	1	1.9%	1.9%
Directors	2	3.8%	5.8%
Auditors	11	21.2%	26.9%
others officers	38	73.1%	100%

Total	52	100%	

Table 4.2.4: Position in the financial institutions

From Table 4.5 total of 52 respondents 1 or 1.9% of them are Finance Manager, 2 or 3.8% of themes respondents were director,11 or 21.2% of respondent were Auditors and the remaining respondents 38 or 73.1% were Others officers. This implies the information gathered for this study was collected from the concerned bodies in the bank and the researcher believes that the information we get from those personals are truthful and appropriate for the study.

4.2.6. Does the bank use IFRS?

Does the bank use IFRS?	Frequency	Percent	Cumulative
YES	52	100%	0
NO	0	0	100%
TOTAL	52	100%	

Table 4.2.6: Dose your bank use IFRS

From Table 4.2.6 shows that all (52) respondents were responded that the bank has adopted IFRS.

What is the difficulty you encountered at the first time adoption of IFRS?

What is the difficulty you encountered at first time adoption of IFRS?	Frequency	Percent	Cumulative
Difficulty in	31	59.6%	59.6%

understanding how to implement IFRS			
Lack of regulation	11	21.2%	80.8%
o Lack of regulation on how to implement	10	19.2%	100%
Total	52	100%	

What is the difficulty you encountered at the first time adoption of IFRS?

Table 4.2.7: total of 52 respondents Difficulty you encountered at the first time adoption of IFRS The difficulties encountered at the first time adoption of IFRS 31or 59.6% respondents experienced difficulty in understanding how to implement IFRS, 11 or 21.2% respondents stated that lack of regulation, 10 or 54.4% of respondents experienced Lack of regulation on how to implement. Therefore it implies that the adoption of IFRS have some difficulty in implementation.

4.2.8. How many years IFRS was introduced in this bank?

How many years IFRS was introduced in this bank?	Frequency	Percent	Cumulative
Less than 2 years	45	86.5%	86.5%
2-5 years	7	13.5%	100%
5-10years	0	0	
No applicable	0	0	100%
Total	52	100%	

How many years IFRS was introduced in this bank?

Table 4.2.8: IFRS was introduced in this bank?

When IFRS was introduced in the bank from a total of 52 respondents 45 or 86.5%respond as the implementation is started less than 2years and 7 or 13.5% of respondent respond as the bank start between two to five years therefore the implementation of IFRS is new for the employee.

Table 4.2.9. Does your bank understands and uses proclamation No. 847/2014 date December 5, 2014 about IFRS on Share Company and government finance institution?

	Frequency	Percent	Cumulative
Yes	15	28.8%	28.8%
No	37	71.2%	100%%
Total	52	100%	

Table 4.2.9: Understands and uses proclamation No. 847/2014 date December5,2014 the above table indicates 15 or 28.8%of the respondents use the proclamation and 37 or 71.2% of the respondents do not use information.

4.2.10. Did you get through formal training when IFRS was introduced?

	Frequency	Percent	Cumulative
Yes	15	28.8%	28.8%
No	37	71.2%	100%
Total	52	100%	

Table 4.11: Formal training when IFRS was introduced Form

Table 4.11 the respondents were involved in training activity or not. This question was a yes or no answer. 15or 28.8% of the respondents say that they were involved in training activities when IFRS was introduced. 37 or 71.2% of the respondents say that they were not involved in training activities when IFRS was introduced.

4.2.11. Have you ever attended any seminar concerning IFRS?

Table 4.12: Have you attend Attended any seminar concerning IFRS?

	Frequency	percent	Cumulative
Yes	5	9.6%	40.9%
No	47	%	100%
Total	52	100%	

Table 4.12: shows if the respondents were involved in seminar activity or not. This question was a yes or no answer. 9 or 40.9% of the respondents say that they were involved in seminar activities while 13 or 59.1% respondents say that they were not involved in seminar activities when IFRS was introduced. If 59.1% of the respondents could say they didn't attended seminar when IFRS was introduce, this means it is necessary for the department members of a institution that will adopt IFRS to attend seminars concerning IFRS. Like National workshop to launch IFRS implementation in Ethiopia to Implementing standards in financial reporting and auditing. The Accounting and Auditing Board of Ethiopia(AABE) in collaboration with the Association of Chartered and Certified accountants(ACCA)April 26,2016 at UN conference Center.

4.13. IFRS Adoption?

Sir. No	IFRS Adoption	Mean	Standard deviation	number
1	Do you think the statement of accounting standards your company used partly outdated?	1.9423	1.44729	52
2	Statement of accounting standards used in your company is not sufficiently comprehensive enough to become a basis for preparation of high quality financial statements.	3.1731	1.26369	52
3	Ethiopian government encourage companies to adopt IFRS	4.2308	0.70336	52
4	FRS is better than GAAP	4.2308	1.00226	52
5	In practice IFRS has really improved the reporting practice in your bank compare to the GAAP.	4.0962	1.12476	52
6	IFRS is difficult or cumbersome.	4.4038	0.95506	52
7	The adoption of IFRS has brought about high quality financial statements.	4.1731	1.07960	52
8	The adoption of IFRS has brought about transparent financial statements.	3.9615	1.17091	52
9	The adoption of IFRS has brought about comparable financial statements.	3.8269	1.27911	52
10	IFRS can help the local investors to make better investment decisions compare to the GAAP.	3.6923	0.85264	52
11	The cost of adopting IFRS is too high compare to the benefits that will be enjoyed.	1.5962	1.07118	52
12	IFRS provides better information for regulators than GAAP	3.9038	0.955506	52
13	The adoption of IFRS will result in a positive change or development in human resources.	4.0385	1.02826	52

14	The adoption of IFRS will increase transparency and comparability of financial statements	3.9231	0.90415	52
15	There is a greater efficiency and decrease in cost of finance under IFRS than in GAAP	4.1923	0.81742	52
16	Companies that operates or aims to operates in multiple foreign countries will be under pressure to comply with accounting standard under IFRS than in GAA	3.9231	1.21826	52
17	The adoption of IFRS will promote and increase access to overseas market.	4.1923	0.81742	52

Table 4.14: IFRS Adoption

For this study the researcher take seventeen International Financial Reporting Standards of adoption also asked for response by the statements with a 5 point Likert scale and indicate the extent they agree with the statements that is: 1 = Strongly disagree, 2 = disagree, 3 = Undecided, 4 = agree 5 = Strongly agree. A mean (M) score of 0-1 means that there respondents strongly disagreed, between 1 to 2 means they disagreed, 2 to 3 means the respondents were neutral or undecided, 3-4 means they agreed, and a mean above 4 means there respondents strongly agreed. Based on the findings on Table 4.12 (M=; SD=1.44729), the respondents could agree the statement of accounting standards your bank used partly outdated even some banks and share companies stated Ethiopia haven't standards organization uses GAAP only, (M=3.1731; SD=1.26369), the respondents could agree Statement of accounting standards used in banks and share companies is not sufficiently comprehensive enough to become a basis for preparation of high quality financial statements, (M=4.2308; SD=0.70336), the respondents could agree Ethiopian government encourage companies to adopt IFRS, (M=4.2208; SD=1.00226), the respondents could strongly agree IFRS is better than GAAP, (M=4.0962; SD=1.12476), the respondents could agree in practice IFRS has really improved the reporting practice in your company compare to the GAAP, (M=4.4038; SD=0.95506), the respondents could agree IFRS is difficult or cumbersome, (M=4.1731; SD=1.07960), the respondents could agree the adoption of IFRS has brought about high quality financial statements, (M=3.9615; SD=1.17091), the respondents could agree the adoption of IFRS has brought about transparent financial statements, (M=3.8269; SD=1.27911), the respondents could strongly agree the adoption of IFRS has brought about comparable financial statements, (M=3.6923; SD=0.85264), the respondents could agree IFRS can help the local investors to make better investment decisions compare to the GAAP, (M=1.5962; SD=1.07118), the respondents could agree the cost of adopting IFRS is too high compare to the benefits that will be enjoyed, (M=3.9038; SD=0.955506), the respondents could agree IFRS provides better information for regulators than GAAP, (M=4.0385; SD=1.02826), the respondents could strongly agree the adoption of IFRS will result in a positive change or development in human resources, (M=3.9231; SD=0.90415), the respondents could strongly agree the adoption of IFRS will increase transparency and comparability of financial statements, (M=4.1923; SD=0.81742), the respondents could agree there is a greater efficiency and decrease in cost of finance under IFRS than in GAAP, (M=3.9231; SD=1.21826), the respondents could agree Companies that operates or aims to operates in multiple foreign countries will be under pressure to comply with accounting standard under IFRS than in GAAP and (M=4.1923; SD=0.81742), the respondents could strongly agree the adoption of IFRS will promote and increase access to overseas market.

4.4. Benefits of IFRS?

sr.no	Benefits of IFRS	Mean	Standard deviation	N
1	Improves transparency of financial statement	4.1923	0.81742	52
2	Improves accountability of financial statement	3.9423	1.21128	52
3	Improves efficiency of financial statement	3.9615	0.83927	52
4	Improves reliability of financial statement	3.9423	0.97846	52
5	Improves relevancy of financial statement	3.5000	1.35038	52
6	Improves completeness of financial statement	4.0192	1.93914	52
7	Improves comparability of financial statement	4.0000	1.06642	52
8	Improves understandability of financial statement	3.9231	1.21826	52

9	IFRS provides better information for investors to make a decision	4.1154	0.87792	52
10	Improves credibility of financial statement	3.9038	1.40512	52
11	Decreases information cost	4.1923	0.95506	52
12	IFRS provides better information for management to make a decision	4.1731	0.81742	52
13	Ease to integrates IT system	4.3846	1.07960	52
14	Ease to consolidated financial reports	4.3846	1.12291	52
15	IFRS adoption improves regulation oversight and enforcement	4.1923	0.81742	52

Table 4.15: Benefits of IFRS

For this study researcher was take fifteen questionnaires benefits of International Financial Reporting Standards also asked for response by the statements with a 5 point Likert scale and indicate the extent they agree with the statements that is: 1 = Strongly disagree, 2 = disagree, 3 = Undecided, 4 = 1agree 5 = Strongly agree mean (M) score of 0-1 means that there respondents strongly disagreed, between 1 to 2 means they disagreed, 2 to 3 means the respondents were neutral or not undecided , 3-4 means they agreed, and a mean above 4 means there respondents strongly agreed. Based on the findings on Table 4.12 found that eight statements on benefits of IFRS are answered in the rage of 3.5 to 4.00 they are agree on the benefits of IFRS the remaining seven statements answered in the range of 4.00 to 4.3846 are strongly agree.

4.5. Challenges Faced in the Adoption of IFRS

sr.no	Challenges Faced After the Adoption of IFRS	Mean	Standard deviation	N
1	IFRS is sophisticated	4.1923	0.81742	52
2	Less number of professional with IFRS	3.9038	0.95506	52
3	IFRS has additional Cost	1.5385	0.99925	52
4	IFRS has a negative balance of retained earnings	4.0192	0.87426	52
5	Conflict between laws and IFRS	4.0000	1.06642	52
6	Differences in IFRS's implementation process	4.000	1.00976	52
7	Lack of Internal IFRS Experts	4.1923	0.81742	52
8	Lack of proper instruction from regulatory body	3.9038	0.95506	52

Table 4.16: Challenges Faced in the Adoption of IFRS

For this study the researcher was questionnaires take eight challenges faced in the adoption of IFRS also asked for response by the statements with a 5 point Likert scale and indicate the extent they agree with the statements that is: 1 = Strongly disagree, 2 = disagree, 3 = Undecided, 4 = agree 5 = Strongly agree A mean (M) score of 0-1 means that there respondents strongly disagreed, between 1 to 2 means they disagreed, 2 to 3 means the respondents were neutral or undecided, 3-4 means they agreed, and a mean above 4 means there respondents strongly agreed.

Based on the findings on Table 4.14 the researcher found that except one of those all are faced in challenges in the adoption of IFRS there response are in rage of 3.9038 to 4.1923 that is most of them are agree on the challenges faced in the adoption of IFRS.

In general descriptive statistics of the study dependent variables is IFRS on the quality of financial reporting and the independent variable are Transparency, Accountability and Economic Efficiency. In the following Table shown descriptive statistics

Chapter Five: Summary, Conclusion and Recommendations

This study wanted to assess benefits and challenges of adopting IFRS in case Commercial Bank of Ethiopia. Therefore this chapter gives the summary of the research finding, conclusions, recommendations and suggestions for further research based on the results in chapter four.

5.1. Summary of the Finding

The results of the study provide important insights on benefits and challenges of adoption IFRS in case of commercial bank of Ethiopia. The summary of this research finding is as follows this study is conducted on Commercial Bank of Ethiopia generate information about the status of adoption, challenges and benefits of International financial reporting standards (IFRS) on the quality of financial reporting of the bank to implement IFRS. The questionnaire of the survey has distributed to headquarter responsible officials of bank to those who are responsible for the preparation and assurance of financial statements; these are finance managers, Auditors, IT experts, Directors and senior Accountants under finance department and conversion team of the bank who assigned to implemented IFRS. The study found that commercial bank of Ethiopia started using IFRS voluntarily for the preparation of their financial statements since 2002/03 without making all necessary preparedness. However, nationally, Ethiopia has decided to join the IFRS network with a ‘big bang’ approach to adopt IFRS through enactment of proclamation as of December 5, 2014. The Adoption of IFRS is motivated by both internal and external factors: internally, the demand of professionals, academics and preparers to work with international trends and externally pressure from global audit firms and other international organizations.

The main questions of the survey focused on the points that can serve to identify commercial bank of Ethiopian adoption to IFRS, to understand the practical benefits of implementing IFRS, understand the challenges faced by the bank, and quality of financial reporting.

As a general information the question that can serve to assess and understand the profile of the respondents, the current status & profile of institutions and to understand the awareness of the respondent about IFRS. And from the analysis of survey that in the dependent and independent variables there is significant relationship. Among those the IFRS on the quality of financial reporting has significant relationship with the transparency, accountability and economic Efficiency. The study has analyzed the data collected through document analysis (annual reports, legislations, directives, and other documents), observation of the researcher and distributed self administered questionnaire to finance managers, auditors, Directors ,Senior Accountants, IT experts and conversion team of bank the Questionnaire data were analyzed using descriptive statistics and data from observation and document reviews have interpreted qualitatively and quantitative (mixed approach) as a support for the descriptive analysis.

The study on the implementation of IFRS by the bank mainly shows that implementation of IFRS leads to improved comparability & reliability of financial statements; reduce cost of capital of the bank through lower cost of information, greater market share, and reduced information asymmetry and others.

The survey result shows that the respondents identify various IFRS implementing challenges of institutions that high implementation costs, the complexity of financial reporting, lack of IFRS implementation agent, lack of IFRS implementation guidance, lack of availability of competent specialists, high level training requirement, less familiarity with the IT challenges in handling the implementation of IFRS, lack of proper instructions from regulatory bodies, and problem with IFRS implementation proper plan and absence of commitment & proper plan of financial institutions to implement IFRS and requirements of the existing Tax law amendment are identified as factors that makes to implement IFRS.

5.2. Conclusion

Definitely international financial reporting standards are vital in developing and building detailed quality financial reports that fit in the bank operations. The study found that Adoption of IFRS purports numerous benefits for commercial bank of Ethiopia including, improves the efficiency and effectiveness of financial reporting, provides reliable and comparable financial statements, makes external financing easier, provides greater reporting transparency and enables greater effectiveness of the internal audit. It also provides benefits for investors like providing better information for decision making, increase stake holders confidence on financial reports and enhances transparency of banks reports IFRS can minimize information asymmetry between employees and management and between the management and customers (stakeholders) that it helps to reduce uncertainties and better risk management, provides better information for decision making by the banks management and promotes cross border investment.

5.3. Recommendations

Based on the study results, the researcher gives the following recommendations the bank management and National bank of Ethiopia should seriously discharge the historical responsibility vested to them through establishing a noble foundation for accountancy profession in the country. The management of the bank should identify and determine the key dates and the date of transition to IFRS through active participation of all stakeholders through bottom-up approach and effectively communicate these dates to the stakeholders and develop its own IFRS training plan for accounting and finance personnel. Besides, recognizing the importance of professional accountancy institution in developing and enforcing accounting and auditing standards, and monitoring the accountancy Professionals, the management and National bank of Ethiopia should work toward its establishment and provide continuous support to the institution even after its establishment. The board should also conduct a study to identify the gaps in systems and processes to gather information needed under IFRS and the currently available information in the country and develop IFRS Accounting manual modifying charts of accounts and detailed instructions taking IFRS requirements into accounts. Practical action should be taken to integrate ISA and IFRS modules into Ethiopian higher institutions' accountancy education curriculum. Since IFRS are developed having stock market in mind, a stock exchange should also be established in the country if effective implementation and application of IFRS is considered necessary.

National Bank of Ethiopia has preferred to give a clear direction to Ethiopian Banks about the implementation of IFRS through the customary directive; Since Ethiopia as a country NBE as Banks' supervisor shows initiation and commitment to implement IFRS, Ethiopian financial institutions should set a proper plan for the implementation of IFRS and reflect it in their respective financial statements; and Commercial bank of Ethiopia should search a means to equip and periodically update staff in the education, expertise, technical capacities and IT challenges in connection with IFRS. Ethiopian Universities, Colleges and other training institutes should work in this regard and incorporate the concept of IFRS intensely in their academic curriculum; All expert, practitioner and academicians of Accounting and Finance shall discussed by themselves through their professional associations to create a common and excel understanding about IFRS in Ethiopia;

5.4. Limitation of the Study

The major limitation of the study is that the data was collected from a small convenience sample of staff Commercial bank of Ethiopia i.e. this study only participates those finance directors, finance managers, Directors Senior accountants, Auditors and Conversion team of the bank thus the result may provide different since if we participate other in those institutions. Another limitation of this study is that the research focused only on commercial bank of Ethiopia because finance and time was also constraint for the researcher.

5.5. Suggestion for Further Study

The present study used only commercial bank of Ethiopia future studies should consider expanding their scope to include governmental, microfinance financial institutions and other private Banks in Ethiopia. Further studies related to the study can be conducted especially the effective implementation of IFRS in Ethiopia according to the time table of Accounting and Auditing Board of Ethiopia Roadmap Implementation Task Force.

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Questionnaires

St.mary's university Masters of business administration in Accounting and Finance

Questionnaire on "Benefit and challenge of adopting IFRS by commercial bank of Ethiopia."

Dear Respondents, This questionnaire is designed to explore benefit and challenge of adopting IFRS by commercial bank of Ethiopia. This study is conducted in partial fulfillment of the requirements for the Master's degree in Accounting and Finance at st.mary's university. Its main objective of this paper is to asses benefit and challenge of adopting IFRS by commercial bank of Ethiopia.

Your response is vital to the outcome of the study and you are requested to completely and objectively answer all questions. The research is going to be carried out based on your responses and other relevant data that could support it. It forms a major part of the research and the information you will enable the researcher to critically analyze the benefit and challenge of adopting IFRS on the bank.

Your cooperation to respond genuinely is very important to this study because it represents in the sample. Please answer all questions. Space is provided at the end of the questionnaire for you to add further explanations or comments. I would promise that all information you provide would be strictly confidential.

Please tick (✓) or provide your own answers where applicable.

Thank you in advance for your indispensable cooperation to spare invaluable time and energy to complete these questionnaires

Name: Eyob Lema student@ st.mary's university.

PART1. General Information

1. Gender o Male o Female

2. Age; Less than 25 Years o 25-34 Years o 35-44 Year o 45-54 Years o Over 54Years

3. Educational Background o Certificate o Diploma o BA/BSC Degree o MSc/ MA o Other Specify _______________

4. Your Position in the Company o Finance Manager o Deputy Finance Manager o Other Specify ________________

5. Does your bank use IFRS? o Yes o No If No please Specify ____

6. What is the difficulty you encountered at the first time adoption of IFRS? o Difficulty in understanding how to implement IFRS o Lack of regulation o Lack of regulation on how to implement Other Specify ____

7. How many years IFRS was introduced in this Company? o Less than 2 years o 2-5 years o 5-10years o No applicable o Specify ________________

8. Does your bank understands and uses proclamation No. 847/2014 date December 5, 2014 about IFRS on Share Company and government finance institution? o Yes o No If No please Specify ____

9. Did you get through formal training when IFRS was introduced? o Yes o No 10. Have you ever attended any seminar concerning IFRS? o Yes o No 11. Is the increase in number of your foreign investors as a result of IFRS adoption? o Yes o No

PART 2: IFRS Adoption

The scale below will be applicable as Five-point scales ranging from "Strongly disagree" to "Strongly agree" that are: 1 = Strongly disagree, 2 = disagree, 3 = Undecided, 4 = agree 5 = Strongly agree

IFRS Adoption 1 2 3 4 5

1. Do you think the statement of accounting standards your bank used partly outdated?

2. Statement of accounting standards used in your bank is not sufficiently comprehensive enough to become a basis for preparation of high quality financial statements.

3. Ethiopian government encourage companies to adopt IFRS

4. IFRS is better than GAAP

5. In practice IFRS has really improved the reporting practice in your company compare to the GAAP.

6. IFRS is difficult or cumbersome.

7. The adoption of IFRS has brought about high quality financial statements.

8. The adoption of IFRS has brought about transparent financial statements.

9. The adoption of IFRS has brought about comparable financial statements.

10. IFRS can help the local investors to make better investment decisions compare to the GAAP.

11. The cost of adopting IFRS is too high compare to the benefits that will be enjoyed.

12. IFRS provides better information for regulators than GAAP

13. The adoption of IFRS will result in a positive change or development in human resources.

14. The adoption of IFRS will increase transparency and comparability of financial statements

15. There is a greater efficiency and decrease in cost of finance under IFRS than in GAAP

16. Companies that operates or aims to operates in multiple foreign countries will be under pressure to comply with accounting standard under IFRS than in GAAP

17. The adoption of IFRS will promote and increase access to overseas market.

PART 3: Benefits of the Adoption of IFRS

SD: 1 = Strongly disagree, 2 = disagree,

3 = Undecided, 4 = agree 5 = strongly agree

1. Improves transparency of financial statement

2. Improves accountability of financial statement

3. Improves efficiency of financial statement

4. Improves reliability of financial statement

5. Improves relevancy of financial statement

6. Improves completeness of financial statement

7. Improves comparability of financial statement

8. Improves understandability of financial statement

9. IFRS provides better information for investors to make a decision

10. Improves credibility of financial statement

11. Decreases information cost

12. IFRS provides better information for management to make a decision

13. Ease to integrates IT system

14. Ease to consolidated financial reports

15. IFRS adoption improves regulation oversight and enforcement

PART 4: Challenges Faced in the Adoption of IFRS NB SD: Strongly Disagree, D: Disagree, NAD: Neither Agree nor Disagree, 1 = Strongly disagree, 2 = disagree, 3 = Undecided, 4 = agree 5 = Strongly agree

1. IFRS is sophisticated

2. Less number of professional with IFRS

3. IFRS has additional Cost

4. IFRS has a negative balance of retained earnings

5. Conflict between laws and IFRS

6. Differences in IFRS‘s implementation process

7. Lack of Internal IFRS Experts

8. Lack of proper instruction from regulatory bodies

PART 5: if anything; please State …………………………………………………………………………………………………… …………………………………………………………………………………………………… ………………………………………………………………………………………………