ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES

ADOPTION OF IFRS IN ETHIOPIAN FINANCIAL INSTITUTIONS: PROSPECTS, CHALLENGES AND LEVEL OF IMPLEMENTATION

BY

MEHABAW ALEMU KEBEDE

JUNE, 2021
ADDIS ABABA, ETHIOPIA

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A THESIS SUBMITTED TO ST. MARY'S UNIVERSITY, SCHOOL OF GRADUATE STUDIES IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF ART IN ACCOUNTING AND FINANCE

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DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of **MULUADAM ALEMU, (Ph.D.)**. All sources of material used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

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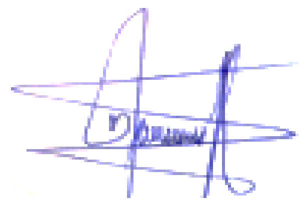
St. Mary's University, Addis Ababa	**June, 2021**

ENDORSEMENT

This thesis has been submitted to St. Mary's University School of Graduate Studies for examination with my approval as a university advisor



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Acronyms and Abbreviations

IAS	International Accounting Standards
IASC	International Accounting Standards committee
IASB	International Accounting Standards Board
FDI	Foreign Direct Investment
EU	European Union
IFRS	International Financial Reporting Standards
IOSCO	International Organization of Securities Commissions
IFRIC	International Financial Reporting Interpretations Committee
GAAP	Generally Accepted Accounting Principles
OAG	Office of the Auditor General
CFO	Chief Executive Officer
AABE	Accounting and Auditing Board of Ethiopia
WTO	World Trade Organization

Abstract

Title

Adoption of IFRS in Ethiopian Financial Institutions: Prospects, challenges and level of Implementation.

Abstract

The development of science and technology contributed for globalization to emerge as a concept. Globalization in its turn, truncates the distance between countries and continents. A global village which we all live in has emerged due to an extensive rise of globalization. Not only creating villages, it also creates different languages in that the villagers to communicate. It is quite difficult to live in the same village speaking different languages. IFRS in this regard had emerged as a language enabling the business community to communicate each other. Ethiopia as a part taker in the global village proclaimed proclamation number 847/2014 to adopt IFRS and integrate its financial reporting with the global system.

This study aims to assess the challenges, prospects and implementation status of IFRS by Ethiopian financial institutions. Questionnaires were distributed to IFRS implementation team members of selected financial institutions. Primary data were collected through five point Likert scale questionnaire whereas secondary data were collected through analysis of proclamations, council of ministers declarations, annual reports, legislations, directives and other related documents.

The study found that respondents recognized the prospects of IFRS adoption and its contribution for both quality of financial statements, government, investors, reporting entity and financial statement users. Major challenges that hinders IFRS adoption process found by this study include lack of strong Professional Accountancy Bodies, existence of incompatible accounting software with IFRS requirements, lack of markets that provides market information to supplement the adoption process, lack of well-trained professionals like Auditors and Trainers on IFRS, and hiring new staffs and consultants is costly. The study also showed that financial institutions performed both initial, conversion, report and assurance level activities. This study is worth reading due to its various contributions to future researchers, policy makers, and educational institutions.

Key words: *Ethiopian, financial institutions, IFRS, prospects, challenges, level of implementation.*

CHAPTER ONE

INTRODUCTION

1.1. BACKGROUND OF THE STUDY

This study assessed adoption of International Financial Reporting Standards (IFRS) in Ethiopian financial institutions: prospects, challenges and level of implementation. These days, anything happened in one corner of the world could be heard or viewed within fractions of seconds in another corner. The development of science and technology truncate the distance between continents and countries as well. No need to have ticket and visa and to go a long journey to visit the ins and outs of a country at a different location. It is quite enough to have an internet connectivity (Sasvari, 2012).

An extensive rise of globalization has led to the emergence of a global village that we all live in. With such a robust wave of globalization surging through the world, businesses across the globe cannot remain unaffected by it no matter how hard they try. With the advent of the World Wide Web and the knocking down of trade barriers across national boundaries through global initiatives such as the setting up of the World Trade Organization (WTO), international trade between businesses across the globe has become quite simple and attractive. If we agree with the old adage, “accounting is the language of business,” then business enterprises around the world cannot afford to be speaking in different languages to each other while exchanging and sharing financial results of their international business activities and also reporting the results of business and trade to their international stakeholders. As one school of thought believes, since business enterprises around the world are so highly globalized now and need to speak to each other in a common language of business, there is a real need for a single, universal set of accounting standards that would unify the accounting world and, more important, solve the problem of diversity of accounting practices across borders. (Nandakumar A. et al., 2010; Alemi & Pasricha, 2016)

Consistent, comparable and understandable financial information is the lifeblood of commerce and making investment. The idea of global harmonization of accounting standards stems from lack of comparability of financial statements across the country. Increasing cross border investing and creation of financial products have posed a challenge to companies as they faced multiple standards. Harmonization and convergence with IFRS can greatly contribute to the efforts to build global financial reporting infrastructure. This resulted in international initiative of convergence of Accounting Standards to a common standard (Kumar, 2014).

Historically, countries around the world have had their own national accounting standards (some countries have treasured these for whatever reason, most likely due to the pride of national sovereignty). However, with such a compulsion to be part of the globalization movement, wherein businesses across national boundaries are realizing that it is an astute business strategy to embrace the world as their workplace and marketplace, having different rules (standards) of accounting for the purposes of reporting financial results would not help them at all; rather, it would serve as an impediment to the smooth flow of information. Businesses, therefore, have realized that they need to talk to each other in a common language. The adoption of accounting standards that require high-quality, transparent, and comparable information is welcomed by investors, creditors, financial analysts, and other users of financial statements. It is difficult to compare worldwide financial information without a common set of accounting and financial reporting standards. The use of a single set of high-quality accounting standards would facilitate investment and other economic decisions across borders, increase market efficiency, and reduce the cost of raising capital. (Nandakumar et al., 2010).

Therefore, in this globalized world, a country will never survive without making its system of doing things similar with other countries in the rest of the world. As far as globalization brought countries to be your neighbor, you need to share something you have and vice-versa (Sasvari, 2012). But, before exchanging /sharing/ something, there must be a common language that communicates your interests. Accounting by its definition is a language of business, which communicates the performances and positions of companies among others to their stakeholders (Needles, *et al*., 2011).

Formerly, most countries were using their own local GAAP (Generally Accepted Accounting Principles) to communicate financial statements mostly to local users of accounting information (Kieso, *et al*., 2014). These days in contrast, while trance national companies are emerging, there has to be a better language that could perfectly communicate its financial information to both local and international users. Because, local GAAP is just like a local language. It means that trying to communicate a person who doesn't understand your local language without a translator. Globalization necessitates trance boundary investments and global markets. This in-turn requires international standards that brings transparency, strengthens accountability and contributes to economic efficiency (Mongiello, 2014).

This demand calls professionals from all corners of the world. They sit together and discuss to bring a new set of standard in to existence. About 16 professionals from countries including Australia, Canada, France, Germany, Japan, Mexico, Netherlands, United Kingdom and the United States of America came together and agreed to converge their accounting system to a global set of standards starting from 1973 by forming International Accounting Standards committee (IASC) (Deloitte, 2016).

International Accounting Standards (IAS) was issued between 1973 and 2001 by the International Accounting Standard Committee (IASC). On 1 April, 2001, IASC was replaced by International Accounting Standards Board (IASB). Since then International Accounting Standards Board (IASB), based at London UK is now responsible to issue International Financial Reporting Standards. IASB is an independent body and consists of members from nine different countries around the globe having variety of functional backgrounds. During its first meeting the Board adopted existing IAS and SICs. The IASB has continued to develop standards calling the new standards IFRS (Mongiello, 2014).

Ashok (2014) underlined that the main objective of IFRS development is harmonization in financial statements reporting. Some additional objectives are to: create the global financial reporting infrastructure, generate sound business sense among the beneficiaries, generate the dimensions of fair presentation of financial statements and maintain higher transparency of financial statement and mobility of capital.

IFRS has emerged as a new system of financial reporting principally for external users and accepted worldwide as a better business language more than ever for understandability and comparability among others (Deloitte, 2016). IFRS is becoming a mandatory reporting format all over the world these days. It is because global capital markets are emerged, every country wants to attract Foreign Direct Investment (FDI) and trance boundary companies require the use of IFRS in every country where they are operating to make their accounting activity easier and consolidation costs lower (Mongiello, 2014).

At time when IFRS is getting wider acceptance all over the world. Ethiopia as a country expected to share from the global experience and get applicable benefits from adoption of IFRS, issued a

"Financial Reporting Proclamation No. *847/2014"* believing that it has become necessary to establish a sound, transparent, and understandable financial reporting system applicable to entities in both private and public sectors; having a uniform financial reporting law 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; it is necessary to ensure that the provision of financial information meets internationally recognized reporting standards.

IFRS APPLICATION IN ETHIOPIA

Except the "Financial Reporting Proclamation of Ethiopia" which has been issued in December 2014, No. 847/2014", there were no particular accounting standard in Ethiopia ROSC (2007). Income tax proclamation of Ethiopia article 58(1), indicated use of Generally Accepted Accounting Principles but neither of the international standards officially adopted in Ethiopia in earlier times. The Financial reporting proclamation of Ethiopia necessitates "public interest entities" to follow IFRS in their financial reporting.

The Financial Report Proclamation of Ethiopia didn't set a firm deadline for the IFRS transition. For which it was criticized. Whereas, the financial reporting proclamation clearly listed the reporting standards that reporting entities in Ethiopia should use when preparing their financial statements. These are:

a) IFRS issued by IASB or its successor;

b) IFRS for SMEs issued by IASB or its successor and;

c) International Public Sector Accounting Standard (IPSAS) issued by the International Public Sector Accounting Standards Board or its successor.

Following the "Financial Reporting Proclamation of Ethiopia" in 2015 the Accounting and Auditing Board of Ethiopia is established as a statutory body under CMR 332/2015 to govern the implementation process with a mission to support investment and protect the public interest by promoting high quality financial reporting in Ethiopia through appropriate oversight of the accountancy profession, in accordance with local laws and international standards (Federal Negarit Gazette, 2014).

1.2. STATEMENT OF THE PROBLEM

Worldwide, several studies were conducted about adoption, challenges and prospects of IFRS. As it is obvious in most cases, developed countries had accumulated a stock of research projects in this regard. For instance, the European Union (EU) accumulated many stocks of research products on IFRS. The rationale behind this fact is EU mandated all listed companies in the European Union to start the adoption and implementation of IFRS in their financial reporting since 2005 (Odia, *et. al*, 2013).

Accordingly, following the increase in the number of countries adopting IFRS, large number of research works have been conducted to know the merits and demerits of these movements and the reasons for adopting, and to identify the opportunities and challenges ahead (Alemi & Pasricha, 2016). Following the decision of the Ethiopian government to adopt International Financial Reporting Standards (IFRS), a small amount of researches conducted using the Ethiopian data about benefits /prospects/ opportunities/ and challenges of adopting IFRS (Fikru, 2012; Meles, 2016; Teshome, 2017; Eyob, 2017; Yetneberk, 2018; Marnesh, 2018; Alexander, 2019) and about IFRS Adoption Progress in Ethiopia (Alemi and Pasricha, 2016).

Despite the fact that researches have been conducted on the adoption of IFRS, challenges and prospects in Ethiopia, and in Ethiopian banking sector, the researcher found that more researches are still on demand. It is because on one hand most researches were conducted before the end of the period publicly traded companies to complete the adoption progress allowed by AABE. On the other hand, the researcher believes that there are no adequate studies that investigated the Adoption of IFRS in Ethiopian Financial Institutions with due emphasis on the Prospects, Challenges and Level of Implementation. In addition the government of Ethiopia extended the end of the period publicly traded companies to complete the adoption of IFRS. It is believed that the government of Ethiopia reached at this decision after making thorough analysis on the ups and downs of the implementation process of publicly traded companies including financial institutions. As far as the researcher's knowledge is concerned, there is no a single paper that tries to see level of IFRS implementation. In addition, the researcher found no research output that has been made on adoption of IFRS focusing on financial institutions using the Ethiopian data. Therefore, this study tries to make an effort to bridge the gap through studying the adoption of IFRS in Ethiopian financial institutions: prospects, challenges and level of implementation.

1.3. RESEARCH QUESTIONS

The followings are basic research questions, this study will look for their answers.

1. What is the level of IFRS implementation in Ethiopian Financial Institutions?
2. What are the challenges faced by the Ethiopian financial institutions while implementing IFRS?
3. What Prospects IFRS implementation will bring for Ethiopian Financial institutions?

1.4. OBJECTIVES OF THE STUDY

The introduction of IFRS attracted scholarly attentions significantly. Worldwide, sizable number of research works have been conducted so far to accumulate knowledge about the advantages and drawbacks of the movement. There found research works in Ethiopia too to identify the prospects and challenges of IFRS adoption and implementation. This research work is therefore guided to meet the following general and specific objectives.

1.4.1. General Objective:

The general objective of this study is to assess the challenges, prospects and implementation status of IFRS by Ethiopian financial institutions.

1.4.2. Specific objectives:

1. To study the challenges faced by the Ethiopian financial institutions while implementing IFRS;
2. To study the prospects that IFRS will bring to Ethiopian Financial institutions; and
3. To study the level Ethiopian financial institutions reached in implementing IFRS.

1.5. SCOPE OF THE STUDY

Proclamation number 847/2014, imposed responsibilities on publicly traded companies to adopt IFRS. Due to ease of accessing resources and the researcher's keen interest to undertake a research in this area, the research is limited to financial institutions. Consequently, the research is limited to Adoption of IFRS in Ethiopian Financial Institutions: Prospects, Challenges and Level of Implementation.

1.6. SIGNIFICANCE OF THE STUDY

This study contributes a lot to financial institutions in capitalizing the knowledge of prospects of IFRS adoption for exploitation and mitigating the challenges in a way that will not be bottlenecks for their implementation process. In addition, it will also let financial institutions know their level of implementation and the way forward for completion. Being a reference material for further research is also considered to be the significance of this study. Moreover, this study will also contribute to policy makers to develop or amend policy frameworks and academic institutions to identify the gaps in their curriculum.

1.7. LIMITATION OF THE STUDY

Limitations of the study that the researcher was encountered during the inquiry process are the following;

- Some respondents were not willing to cooperate and committed to answer the questionnaires from top to bottom.
- Empirical studies were not available enough on Adoption of IFRS in Ethiopian Financial Institutions: Prospects, Challenges and Level of Implementation. The researcher found no single empirical study which dealt about level of implementation.

Frequent communication and encouragement of respondents while filling the questionnaires by making personal presence and checking the questionnaires whether or not completely answered was the tactics the researcher used to overcome the limitations stated above. In addition, the researcher considered empirical studies from all over the world and even accounted IASB's IFRS implementation guide and AABE's IFRS adoption roadmap to overcome the related research shortages.

1.8. ORGANIZATION OF THE STUDY

The first chapter provided a background to the researched topic of the study. The section explained in detail about the problem statement, objective of the study, significance, and limitation of the study. The second chapter of the study reviewed related literatures regarding the topic area and provided exhaustive information about the main subjects of the study by reviewing the works of different authors. The third chapter explained about the methodology implemented in order to come up with the findings of the study. Specifically, the chapter clarifies about the research approach and design, population, and samples; and data collection methods used to find out the needed data. The fourth chapter explained about the results after analyzing the collected data. The section organized and clarifies about the findings of the study which were collected. Finally, in the last chapter of the study, the key findings were summarized and after that the chapter concluded the study and gave recommendations based on the findings.

CHAPTERTWO

LITERATURE REVIEW

2.1. INTRODUCTION

In this section, a review of related literature on International financial reporting standards (IFRS) and its adoption, benefits and challenges are addressed. It consists of the general overview on evolution and meaning of International financial reporting standards (IFRS), prospects and challenges of adopting it, and level of implementation in the context of Ethiopian Financial Institutions. This chapter analyses existing empirical researches, identifies the gap in the existing literature and presents summary of the review in the area of Financial Reporting Standards.

2.2. CONCEPTUAL AND THEORETICAL FRAMEWORK OF THE STUDY

Conceptually it is compulsory to provide meaning, show compositions of IFRS and disclose its historic evolution for facilitating understandability. With conceptual framework, readers could grasp the definition, genesis and growth of the subject matter. And this in turn, creates interest on readers to read the paper and understand the totality of the research work. The conceptual framework presents the meaning and composition of IFRS as well as its evolution.

2.1.1. MEANING AND COMPOSITION OF IFRS.

The acronym IFRS is to mean International Financial Reporting Standards and they are functional standards in the international context for reporting financial results which are applicable to general purpose financial statements and other financial reporting of all profit oriented entities. All forms of standards, interpretations and frameworks for the preparation and presentation of financial statements set and adopted by the international Accounting Standards Board are constituted in the International Financial Reporting Standards. International Accounting Standard (IAS), the older term, has been replaced by International Financial Reporting Standards (IFRS). According to Kumar, IFRS are considered ‘principle based’ set of standards as a result they establish broad rules as well as dictating specific treatments (Kumar, 2014). IFRSs are standards and interpretations adopted by the International Accounting Standards Board (IASB). The IFRIC and/or its predecessor the former Standing Interpretations Committee (SIC) originate IFRSs, IAS, and Interpretations. IFRSs consist of 43: Main Standards i.e. 15 IFRS and 28 International Accounting Standards and 26 Interpretations i.e. 15 IFRIC + 11 SIC. These days there is an increasing recognition of IFRSs as global reporting standards for financial statements (Thappa, 2012). Apparently, following the emergence of trance boundary organizations the need for a global set of high-quality financial reporting standards has been increased. A single set of accounting standards would enable internationally standardize training and assure better quality of accounting profession, permit international capital to flow more freely, enabling companies to develop consistent global practices on accounting problems. It would also be beneficial to regulators as a complexity associated with needing to understand various reporting regimes would be reduced. It enhances comparability between financial statements of various companies across the globe. In addition, it reduces time and resources required to prepare different set of accounts for companies listed in various exchanges of the world and for companies having global group companies (Ismail, 2017).

The process of international convergence towards a global set of standards started in 1973 when 16 professional accountancy bodies from Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom and the United States agreed to form the International

Accounting Standards Committee (IASC), which in 2001 was reorganized into the International Accounting Standards Board (IASB). The IASB develops global standards and related interpretations that are collectively known as International Financial Reporting Standards (IFRS) (Thappa, 2012).

All listed companies in France, Germany, the Netherlands and the UK and other 21 countries were mandated by the European commission to adopt IASs or the International Financial Reporting Standards (IFRS) from 2005. The Australian government and standard setter had put upon adoption policy of IAS by 2005. The US roadmap for adoption is 2014-2016. Canada and Japan are also considering convergence with IFRS (Ojiedu.*et.al*, 2013).

2.1.2. EVOLUTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

According to Nobes (2006), International Convergence of accounting standards is not a new idea. The concept of convergence first arose in the late 1950s in response to post World War II economic integration and related increase in cross-border capital flows (Nobes, 2006). The initial focus was on harmonization, means reducing differences among the accounting principles used in major capital markets all over the world. The concept of harmonization had replaced by the another new concept called convergence in the 1990's – which refers to the development of a single set of high-quality international accounting standards that would be used in at least all major capital markets (Harvis, 2009; Bushman & Piotroski, 2006; Cellucci, 2010).

The need to develop a unified set of accounting standards is initiated by international differences in standards that reduced investment opportunities (IFAC, 2008; IFRS, 2011). According to

Jaggieand Low (2000), inflation, tax method, and legal system of a country are other factors that triggered the development of a unified set of accounting standards. To bridge international differences, the "International Accounting Standards Committee" (IASC), was formed in 1973 by ten national professional accountancy bodies namely, "Australia, Canada, France, Germany Japan, Mexico, Netherlands, United Kingdom and Ireland, and the United States of America" (Newaiwu, 2018).

Ernst and Young, wished-for evolution of IFRS could be viewed in three phases: In its phase one from 1973 up to 2002, International Accounting Standards Committee (IASC) was founded in 1973 to formulate and publish International Accounting Standards (IAS) that would improve financial reporting and that could be accepted worldwide. In keeping with the original view that the IASC's function was to prohibit undesirable accounting practices, the original IAS permitted several alternative accounting treatments. In 1994 after 21 years International Organization of Securities Commissions (IOSCO) completed its review of IASC standards and communicated its findings to the IASC. The review identified areas that required improvement before IOSCO would consider recommending IAS for use in cross-border listings and offerings. In the same year IASC Advisory council formed to oversee IASC and manage its finance.

In 1995, IASC developed its Core Standards Work Program. IOSCO's Technical Committee agreed that the Work Program would result, upon successful completion, in IAS comprising a comprehensive core set of standards. The European Commission (EC) supported this agreement between IASC and IOSCO and associated itself with the work of the IASC toward international harmonization of accounting standards. In 1997, Standing Interpretations Committee (SIC) established to interpret International Accounting Standards (IAS).

In 1999, IASC Board approved a restructuring that resulted in the current International Accounting Standards Board (IASB). The newly constituted IASB structure comprises: (1) the IASC Foundation, an independent organization with 22 trustees who appoint the IASB members, exercise oversight and raise the funds needed, (2) the IASB (Board), which has 12 full-time, independent board members and two part-time board members with sole responsibility for setting accounting standards, (3) the Standards Advisory Council and (4) the International Financial Reporting Interpretations Committee (IFRIC) (replacing the SIC) and is mandated with interpreting existing IAS and IFRS standards, and providing timely guidance on matters not addressed by current standards.

In 2000, IOSCO recommended that multinational issuers be allowed to use IAS in cross-border offerings and listings. April 2001, IASB assumed standard-setting responsibility. The IASB met with representatives from eight national standard-setting bodies to coordinate agendas and discuss convergence, and adopted existing IAS standards and SIC Interpretations. In February 2002, IFRIC assumed responsibility for interpretation of IFRS (Ernst &Young, 2012).

The IASB has continued to develop standards calling the new standards IFRS (Kumar, 2014). Between 1973 and 2001, the IASC issued 41 standards or IASs before it was replaced by the International Accounting Standards Board (IASB) (Ojiedu,*et.al*, 2013).

2.3. WHAT CALLS FOR IFRS TO EMERGE AS A NEW REPORTING STANDARD?

These days, anything happened in one corner of the world could be heard or viewed within fractions of seconds in another corner. The development of science and technology truncate the distance between continents and countries as well. No need to have ticket and visa and to go a long journey to visit the ins and outs of a country at a different location. It is quite enough to have internet connectivity (Sasvari, 2012).

Therefore, in this globalized world, a country will never survive without making its system of doing things similar with other countries in the rest of the world. As far as globalization brought countries to be your neighbor, you need to share something you have and vice-versa (Sasvari, 2012). But before exchanging /sharing/ something, there must be a common language that communicates your interests. Accounting by its definition is a language of business, which communicates the performances and positions of companies among others to their stakeholders (Needles, *et al*., 2011).

Formerly, most countries were using their own local GAAP (Generally Accepted Accounting Principles) to communicate financial statements mostly to local users of accounting information (Kieso, *et al*., 2014). These days in contrast, while trance national companies are emerging, there has to be a better language that could perfectly communicate its financial information to both local and international users. Because, local GAAP is just like a local language. It means that trying to communicate a person who doesn't understand your local language without a translator. Globalization necessitates trance boundary investments and global markets. It is believed that accounting harmonization is necessary for the globalization of capital markets (Quigley, 2007) as cited by (Ojiedu,*et.al*, 2013). Investors now seek investment opportunities all over the world. Many business entities continue to expand their operations across national borders. Companies are seeking capital at the lowest cost anywhere. Securities markets are crossing national boundaries (and increasing cross-border capital flow). Merger talks among some of the world's largest stock exchanges continue and the glowing investment transactions via the internet (Ojiedu,*et.al*, 2013).

This in-turn calls for international standards that brings transparency, strengthens accountability and contributes to economic efficiency (Mongiello, 2014).

2.4. OBJECTIVES OF INTERNATIONAL FINANCIAL REPORTING STANDARD

The main objective of IFRS is harmonization in financial reporting. Some additional objectives are; to develop 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, to promote the use and rigorous application of those standards, to take account of the special needs of small and medium-sized entities and emerging economies, to bring about convergence of national accounting standards and International Accounting standards and IFRS to high quality solutions (Kumar, 2014).

2.5. CONCEPTUAL DIFFERENCE BETWEEN IFRS ADAPTATION (ADOPTION), AND CONVERGENCE

It is known that IFRS are becoming increasingly needed and antagonistically attempted different companies which are in need of globalizing their operations. In the meanwhile the prevalence of confusion still exists over the difference between adaptation (adoption) of, and convergence with, IFRS. Although the existing literatures used the terms interchangeably, conceptually there exists a significant difference between the two. Researchers, regulators, professionals, and other IFRS users should have proper understanding of the difference and implement. In any IFRS discourse, it is essential to make clear this distinction (Ismail, 2017).

According to IFRS Foundation Guide, 2013, adoption and convergence are alternative approaches countries could choose to change their local system to a globally recognized one. 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 Foundation Guide, 2013).

The term "adoption" refers to the disregard of national rules and being administered by IFRS requirements. It means in another words a country or jurisdiction when adopts IFRS, it should comply 100% with the guidelines issued by IASB, (Nobes & Parker, 2008; Herbert, *et al.*, 2013). The term adoption is also used when a company chooses to use a set of accounting rules other than the national one.

On the other hand, convergence with IFRS means that the specific country's accounting standard board in applying IFRS would work together with IASB to develop high quality compatible accounting standards over time. Convergence is then the gradual process of changing a country's accounting rules towards IFRS. Thus, it is, to all intents and processes, a particular form of harmonization or standardization. Most countries follow the convergence path towards IFRS. However, with IFRS convergence, a country may deviate to a certain extent from the IFRS as issued by the IASB, in which case some differences may still remain since compliance is partial, rather than total as with adoption (Adhana, 2020). Different countries take different approaches of transition to IFRSs because IASB has no authority to impose IFRS on countries and companies across the world (Karthik & Ewa, 2009).

2.6. PROSPECTS OF ADOPTING IFRS

According to existing literatures, adoption of IFRS standards is usually allied with several benefits. According to Leuz and Verrecchia (2000), transition from local GAAP to IFRS in Germany reduces cost of capital. Again as suggested by, Leuz (2003), Hope, Kang and Zang (2005), IFRS adoption may include lower cost of capital, positive valuation effect, increased shareholder base and trading volume as a potential of long-term Benefits. According to study Barth, Landsman and Lang (2005), IFRS adoption increases firms' financial reporting quality. In addition, Aljifri and Khasharmeh (2006) sent questionnaires to preparers of major companies in United Arab Emirates (UAE) and based on the respondents response examined the suitability of the implementation of IFRS. They suggested in their finding that adoption of IFRS "enhance comparability of financial statements", "improve the perception of accounting profession across the world" and "provide better information for government for economic planning" among the other advantages.

A study conducted by Joshi *et al*. (2008) in Bahrain, to which most of the respondents were accountants and auditors uncovered that the respondents perceived that by applying IFRS would lead to greater comparability of financial performance, followed by greater relevance, reliability and transparency of financial information of companies. Moreover, according to the suggestion made by El-Gazzar, Finn and Jacob (1999), firms voluntarily comply with IFRS in order to obtain greater exposure to new financial markets. Hence, adopting IFRS also improves access to foreign capital. Tarca (2004) reported that anticipation of improved communication with information users is also reported to be one of the motivations to use IFRS. International Accounting Standards (IAS) helps firms to supply information that meet foreign investor's information needs (Kinnunen, Niskanen & Kasanen, 2000). IFRS adoption which improves financial reporting quality helps the small investors to compete better with informed professionals and hence reduces their trading risk (Bhattacharjee& Islam, 2009). Transition to IFRS increases market efficiency and reduces the cost of raising capital for companies, ultimately improving competitiveness and helping in boosting economy (Kumar, 2014). Multinational companies extended their business and established subsidiaries in various countries with unindustrialized economies.

According to Thappa, (2012), Companies in emerging economies are increasingly accessing the global markets to fulfill their capital needs by getting their securities listed on the stock exchanges outside the country and this results in making the Capital markets global in nature (Thappa, 2012). Different scholars argued that IFRS is unrelated to developing countries, whereas developing countries are adopting it because IFRS is a product with "network effects". When it is compared to most local accounting standards, IFRS seems as a high quality accounting standard in a way that it helps to foster increased comparability of financial statements for investors. Globalization, increased border listing, attraction of foreign investment and aids, and other institutional factors have been the motivating factors for IFRS adoption (Ojiedu, *et.al*, 2013). Based on the literature above, the prior research supports the view that the adoption of IFRS is beneficial.

2.7. MAJOR CHALLENGES OF ADOPTING IFRS

The existing literatures revealed that many countries in the world didn't finalize their IFRS adoption process in their predetermined timeline. This is predominantly associated with IFRS adoption challenges. Edeigba (2017) reported that the challenges in IFRS adoption are heterogeneous and different challenges have been reported in countries that have implemented IFRS such as Australia, New Zealand, Romania, Turkey, South Africa and Kenya among others.

According to Edeigba (2017), companies' cultural factors were significant in explaining the challenges in IFRS adoption. Specifically, transparency, statutory control, secrecy, flexibility, and professionalism were found to inhibit IFRS adoption. The empirical results indicated that as the transparency in financial reporting increases by using IFRS, the greater the likelihood companies will not adopt IFRS. In the practical difficulties model, the majority of the companies considered the cost of IFRS adoption prohibitive and the lack of an internal control system was also a significant factor that influenced IFRS adoption (Edeigba, 2017).

The problem of differences in accounting standards will continue to exist for some time. From a regulatory perspective, convergence to IFRS would require amendments to the Companies Act and the Income Tax Act, to mention the major ones. Currently industries such as banking and insurance companies are also regulated by specific acts that prescribe accounting norms. IFRS does not provide industry specific standards so there would be additional transition challenges as and when progress is made. IFRS requires valuations and future forecasts, which will involve use of estimates, assumptions and management's judgments (Kumar, 2014). The principal impeding factors in the adoption process of IFRS in Europe, America and the rest of the world are not necessarily technical but cultural issues, mental models, legal impediments, educational needs and political influences (Obazee, 2007), cited (Ojiedu,*et.al*,2013). According to Rong- Ruey Duh (2006), the implementation challenges include: timely interpretation of standards, continuous amendment to IFRS, accounting knowledge and expertise possessed by financial statement users, preparers, auditors and regulators, and managerial incentive (Ball, Robin & Wu 2000), cited (Ojiedu,*et.al*, 2013).

Abebe and Mezigebu (2020), after tacking analysis of fifteen papers related to challenge of International Financial Reporting Standards adoption, found out that cost of adoption, training of relevant accounting professional, lack of competent man power, lack of proper financial reporting guidance, use of fair value accounting in comparison to historical cost method, Lack of proper instructions from regulatory bodies, increases the risk for handling in interpretation of financial statements and modernized information technology system in handling the transitions to standard were the main challenges of International Financial Reporting Standards adoption (Abebe & Mezigebu, 2020).

2.8. HISTORY OF ACCOUNTING IN ETHIOPIA

Kinfu (1990) claimed that the key concept of accounting made a long history in Ethiopia. He provided an account of the development of accounting in the Country and argued that keeping of records in various forms might have existed in ancient Ethiopia as early as the 3^{rd} century A.D. during the Axumite Kingdom of the Nation. Kinfu, added that keeping of formal records of government activities started in the 1900s when Emperor Menelik established Finance and *Gauda* (meaning treasury) Ministry, which was to maintain records of the King's treasury.

Kidane (2012); Mihret and bobe (2014), similarly reported that in Ethiopia modern accounting was crafted in 1905 along with the establishment of the Bank of Abyssinia as a branch of the Bank of Egypt, which was administered under the British financial system. Kidane, argued that as result of the British administration of the bank British-oriented accounting practice is adopted and British experts were the first to introduce public accounting practices in Ethiopia; and the first Ethiopian professional accountants obtained certifications from British accountancy bodies (Kidane, 2012). As cited by Mihret & Bobe (2014), Kinfu (1990), argued that following the establishment of Ethiopian branches by Price Waterhouse and Peat & Co., a British accounting firms to serve foreign subsidiaries of their British clients, public accounting started in Ethiopia in the 1940s.

Ethiopia established its own audit commission by imperial proclamation. The Audit Commission of Ethiopia was established in 1944 by proclamation (Imperial Government of Ethiopia, 1944). The commission was authorized to 'examine and control the accounts of the Ministry of Finance', whereas accounts of other ministries were 'controlled and examined by officers of the Ministry of Finance' (Article3). In 1946 the commission's responsibility was extended to centralizing the audit and control of all Government accounts by Article 2 of Proclamation 79/1946. Subsequently, The Office of the Auditor General (OAG) was established by Decree 32/1958 and then Proclamation 199/1961, with greater authority of public sector auditing than was provided in 1944 (Government of Ethiopia, 1961). The 1940s saw the start of internal and external auditing.

Later following the growth of private sector business, the Commercial Code of Ethiopia was proclaimed in 1960 (Government of Ethiopia, 1960), which served as another landmark in Ethiopia's accountancy development.

2.9. IFRS ADOPTION AND IMPLEMENTATION IN ETHIOPIA

Adopting IFRS is like starting a family. It is best done with careful planning, commitment and complete understanding of the implementations. Setting these priorities and plans is the first step towards adopting IFRS, (IFRS foundation ® Adoption Guide, 2013, P, 5). According this guide there are three steps that new adopters of IFRS should pass through before adopting it. 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). From this standpoint, to grasp a clear view on how IFRS is being adopted and implemented proclamations, regulations and directives are analyzed. 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” (Alemi & Pasricha, 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 (ROSC, 2007).

National bank of Ethiopia, Ministry of finance and economic development and other government institutions are working together towards the adoption of this international standard in Ethiopia. The National Bank of Ethiopia has already required the banks to prepare their financial statements in accordance with IFRS. In 2011 Ministry of Finance and Economic Development (MoFED) issued a draft proclamation called Financial Reporting Proclamation of Ethiopia to provide for the financial reporting of Ethiopia. The proclamation requires reporting entities in Ethiopia to follow IFRS (Fikru, 2012).

2.10. OPPORTUNITIES AND CHALLENGES OF IFRS IMPLEMENTING IN THE ETHIOPIAN CONTEXT

According to World Bank Consultant to AABE, the adoption of IFRS in Ethiopia may provide opportunities as under:

“Ethiopia is among the fastest growing countries in Sub-Saharan Africa and it has managed to sustain that growth over decades. This growth needs to be supported by high quality financial reporting and IFRS offers that. There is also the advantage arising from the high level of support to financial reporting reforms by the Government. In summary, if Ethiopia lags behind in

*implementation of IFRS, it may lose out in terms of attracting international investment capital which is necessary for investment. Successfully implementing the adopted IFRS will make Ethiopia part of the global world in terms of high quality financial reporting which is one of the key contributors to sound business environment, necessary to attract investment." cited in (*Alemi & Pasricha, 2016)

Alemi and Pasricha (2016), in their research titled 'IFRS Adoption Progress in Ethiopia' after collection data from CFOs of audit firms and the Board representatives through interview summarized opportunities and challenges regarding implementation of IFRS in Ethiopia as follows:

2.10.1. Opportunities

According to Alemi and Pasricha (2016), the government of Ethiopia 'showed high commitment' which is manifested by issuance of proclamations and regulations, expressing willingness to inculcate IFRS in Accounting Curricula of Universities, establishing state regulatory body through which enforcement of the corporate financial reporting will be made, making available financial and logistic support to the AABE. In the current scenario, it has been very difficult to agree on the depreciation rate as there is no agreed depreciation rate in the country except in case of for tax purposes; in addition, financial statements don't have real users. Therefore, IFRS implementation will 'Avoids these current problems' serving as benchmarks. Moreover according to them, IFRS adoption and implementation will enhance comparability, enhance FDI, ease access to finance, and helps to establish legal backing accounting and auditing system as there were no legally known standards and procedures.

2.10.2. Challenges to Preparers, Auditor Firms and AABE

Alemi and Pasricha (2016) categorized challenges of IFRS implementation in to two major parts, as challenges attributable to Preparers and Auditor Firms and to newly Established Board of (AABE). Firstly, they identified challenges of preparers and auditor firms as prevalence of knowledge gap in IFRS among various stakeholders such as preparers, users, academics, and professionals, Shortage of Qualified Professionals, Resistance to Change: 'resistance from organizations who are benefiting from or comfortable with the existing non-enforced and non-regulated accounting and auditing system', Management Knowledge Gap: 'there is a gap in the management (both Board members and Executive Officers) of corporate organizations as they have little or no understanding of accounting and financial reporting', Costs: 'in addition to training costs IFRS materials are available in foreign currencies and the materials are updated regularly', Absence of Professional Institutions: 'since no work has been done to have well-organized professional body, as the existing one are club of professionals, the accountancy professions fail to contribute what it was purported to contribute for economic growth and development of the country, Emergence of Unfair Competition among Professionals: if the board is unable to equip itself to properly enforce provisions of the proclamation with superior capacity unfair competition might in a way that one audit firm works with commitment and the other negligently.

Secondly, the found out the challenges related to the newly established board. The board is starting to regulate Accountancy Professions for the first time in the Ethiopian history at centralized level. As new entrant, obviously, challenges are expected to be faced. Their assessment revealed the following as challenges of the board:

The Board Structure: the board is not welcomed by professional working in different regions as a federal regulatory body. They want to be regulated by their own regulatory body as it was in OFAG. But such structures were not thought while proclamations and regulations were developed. Member of Board Directors: they are identified as the second challenge. The board which constitutes twelve members is the higher level authority. All members of the board are government officials who are very busy and overwhelmed when trying to manage the board activities. Lack of Experience in Setting Standards: is identified as a third challenge. Ethiopia has no experience in setting accounting and auditing standards and this will have its own impact on the standard adopting and implementing processes of the Board. The fourth identified challenge is Resistance from Preparers and Auditors: Resistance is expected; because the board is enforcing preparers and auditors to work with the law and being supervised where they were working with no rules. The last challenge of the board identified by (Alemi & Pasricha, 2016), is Employees Turnover: Besides, the non-availability of the qualified and competent professionals, it will be difficult to retain them by paying them an amount to be afforded by the board in comparison with the amount the market can pay them.

2.11. LEVELS OF IFRS IMPLEMENTATION IN ETHIOPIA

IFRS implementation roadmaps of AABE classified the implementation activities in to four steps: as initial level activities, conversion level activities, report level activities and assurance level activities. Initial level activities deals about establishment of appropriate project team/office, preparation of TOR for consultant hiring, hiring qualified and independent consultant, identifying the gap in the current practice and IFRS requirements, training employees to fill the identified gaps, and development of IFRS based accounting manual, (IFRS foundation, 2013; Eyob, 2017).

De-recognition of assets and liabilities that do not qualify to be recognized under IFRS. Recognition of assets and liabilities that needs to be recognized under IFRS, making proper reclassification of assets and liabilities, and adjusting value differences on assets and liabilities are considered as second step or conversion level activities.

The third step is about reporting level activities. In this level ensuring that recognition, measurement, presentation and disclosure of every day transactions and events are in accordance with IFRSs requirement; preparing both financial reports produced under GAAP for tax purpose and opening IFRS compliant financial statement issued at the end of this transition period; producing interim IFRS compliant Financial Statements; issuing IFRS compliant Financial Statements. When the firm issued IFRS compliant Financial Statements, the reporting entity fully transited to IFRS (do not record transactions based on GAAP any more).

The last and four level activities in an IFRS adoption is getting the IFRS compliant Financial Statement audited and cleared. When the firm received unqualified audit report for its IFRS compliant financial statements, the firm declared the full and successful transition from GAAP to IFRS. At this point consultant’s work is completed (IFRS foundation, 2013, Eyob, 2017).

2.12. EMPIRICAL EVIDENCE

Worldwide several research projects have been undertaken regarding IFRS implementation opportunities, prospects, challenges and related other topics. Bhattachaijee, *et.al*, (2009) conducted a study on Problems of Adoption and Application of International Financial Reporting Standards (IFRS) in Bangladesh, and concludes that Agency problem between management and shareholders, reduce the cost of investors of processing financial information, reduce accounting diversity, improve risk-sharing and lowers cost of capital. The study highlights the challenges of adopting IFRS as the wholesale importation of the highly sophisticated rules like IASs is not suitable for less sophisticated economic and regulatory structure of Bangladesh, ambiguity of role and responsibility of the Securities and Exchange Commission (SEC) and the Institute of Chartered Accountants of Bangladesh (ICAB) and only enforcement mechanism will not help the procedure if some firms are forced to adopt IFRS against their will.

Thappa, (2012), examined Challenges, the impact of IFRSs in Indian banking Industry and the various phases of implementation of IFRSs in the banking sector in India. The paper also highlights on the challenges ahead in the implementation of IFRS in Indian banking sector and the possible ways to address the challenges. And finally came up with the conclusion that IFRSs in Indian Banking Industry would bring many benefits to the industry along with some challenges like changes to the existing law, skilled manpower, increasing cost.

Demaki, (2013), attempted to study Prospects and Challenges of IFRS to Economic Development in Nigeria. IFRS will position Nigerian companies in the global market place as well as ensure transparency, accountability and integrity in financial reporting in Nigeria which is a prerequisite for the attraction of investment that will promote economic development. It will provide international investors the ability to make well- informed, useful and meaningful comparison of investment portfolio in Nigeria and other countries. Multinational companies with the aid of IFRS financial statement provide for easy consolidation of financial statements.

Olano, *et al*. (2014), investigated the relationship between International Financial Reporting Standards and the quality of banks financial statement information by using data from banks audited financial statements and capital market performance report.

Other researchers argued that IFRS improves transparency, comparability, credibility, and positive capital market effects, reduces cost of capital, corporate investment efficiencies and international capital flows (Dunne, *et al*., 2008; Mira,*etal*, 2006; Epstein & Jermakowicz, 2010; Zeghal & Mhedhbi, 2006; Daske & Gebhardt, 2006; Dodiya, 2013; Harton, *etal*., 2010; Lourenço & Branco, 2015).

When we come to the case of Ethiopia, some research projects have been undertaken in Ethiopia. These empirical evidences fall in common thematic issues such as benefits, challenges, opportunities, and prospects of adopting IFRS. For instance, Fikru (2012) has examined the benefits and key challenges of Adoption of International Financial Reporting Standards (IFRS) in Ethiopia. Meles (2016), has evaluated IFRS adoption progress in Ethiopia. Alemi and Pasricha (2016) examined the role of IFRS on the Quality of Financial Reporting of Financial Institution in Addis Ababa. Recently, Firdawok (2017), Teshome (2017), Yetneberk (2018), Marnesh (2018) and Alexander (2019) have investigated the challenges, opportunities and prospects of adopting IFRS by the banking sector in particular and in Ethiopia in general.

As far as the researcher's knowledge concerned the few empirical inquires conducted so far to examine the benefits, challenges, opportunities, and prospects of adopting IFRS in general. Besides, these studies lack depth and detailed examination on the adoption of IFRS in Ethiopian Financial Institutions. Therefore, this study will try to fill the existing knowledge gap by examining the Adoption of IFRS in Ethiopian Financial Institutions with due emphasis on the prospects, challenges and Level of Implementation.

2.13. SUMMARY OF KNOWLEDGE GAP IN THE EXISTING LITERATURE

Globalization calls for capital markets to expand, diversify and integrate worldwide. Not only capital markets but also investments expanded throughout the world. Trance national companies emerged as well. This has brought about a shift away from local financial reporting standards to global standards. Because of the advantages it provides for countries, multinational companies and regulators, many counties adopt International Financial Reporting Standards. Adoption of International Financial Reporting Standards has a number of benefits for a range of stakeholders such as, effective and efficient financial reporting for companies (Tesfu,2012), improved comparability (Thappa,2012), (Alemi,2016), reliability of financial statements, enhanced transparency (Teshome,2017), enhanced investor confidence (Odia, *etal*.,2013), improved regulatory oversight and opportunity for accounting professionals (Thappa,2012).

Although IFRS adoption renders many benefits it poses many challenges. Various literatures revealed challenges in the process of IFRS adoption. Need of amendment to regulatory requirement and tax laws, high implementation cost, more complex financial reporting requirements, shortage of IFRS specialist and tight dead line are the major challenges. Financial institutions particularly banks is expected to be most affected by changes in accounting standards specifically IFRS adoption or convergence (Olano, *et al.*, 2014). According to (IASB, 2014) as cited in (Olano, *et al.*, 2014) moving to IFRS has had a major impact on the reporting requirements of financial institutions.

Most of existing studies on IFRS adoption focus mainly on European and other developed countries with paucity of such studies on emerging economies. Several studies have addressed issues related to accounting harmonization in Europe and its impact on comparability and transparency of financial statements (Thappa, 2012). Relatively few studies have been conducted on the data from developing countries. In spite of studies have been conducted on the challenges and prospects of IFRS previously in Ethiopia, as per the knowledge of the researcher prior studies does not address the level of implementation beyond exploration of opportunities and challenges specifically emphasizing first phase adopters financial institutions in Ethiopia. Therefore, this study makes an attempt to bridge the gap in this regard.

CHAPTER THREE

RESEARCH DESIGN AND METHEDOLOGY

3.1. INTRODUCTION

This chapter presents the methodology used to conduct the study. It describes the data collection and analysis methods. It also describes the reasons for why these methods were chosen in comparison to the other alternative methods. This chapter consists of four main sections and seven subsections. The first main section is research design and methodology which container search design, target population, samples and sampling technique, data source and data collection instruments, data analysis instrument, validity and reliability of the research instrument and ethical consideration subsections. The rest three main sections described in this chapter are significance of the study, scope of the study and limitations of the study. The purpose of this study is to assess the adoption of IFRS in Ethiopian financial institutions its prospects, challenges and level of implementation.

3.2. RESEARCH DESIGN AND METHODOLOGY

The research design and methodology is about presenting approaches that the researcher used to conduct the research. It gives a clear insight for readers about the researcher's plan on how the research conducted and what approaches the researcher adopted (Creswell, 2014).

3.2.1. Research design

According to Ogula (2005), a research design is a plan, structure and strategy of investigation to obtain answers to research questions and control variance. Kerlinger (1973) also described that it is the plan of action the researcher adopts for answering the research questions and/or used as a blueprint by the researcher. This study adopted a descriptive research design. Descriptive research design permits to apply survey and fact-finding investigation on the issue under investigation. It is instrumental to come up with comprehensive explanation of the set of circumstances (Orodho, 2003; Jaeger, 1988).

3.2.2. Target Population

Population is any group of institutions, people or objects that have common characteristics as defined by Ogula (2005). The target population for this study included IFRS implementation team members in selected financial institutions in Ethiopia.

3.2.3. Sample and Sampling Techniques

According to Mugenda and Mugenda (1999), a sample is a smaller group or sub-group obtained from the accessible population. Sampling is a procedure, process or technique of choosing a sub-group from a population to participate in the study, (Ogula, 2005). The researcher applied convenience sampling procedures to obtain respondents for questionnaires. The population of the study had included 18 banks and 18 Insurers. On average IFRS implementation team members are 5 for banks and 3 for insurance companies. Therefore, the total numbers of implementation team members in all financial institutions are 144. The study included 50% of IFRS implementation team members involved in the implementation process in the sampling frame. According to Borg and Gall (2003), 30% of the total population is considered to be representative. Hence, the samples considered in this study are beyond representing the population. The grey highlighted are those selected as a sample in the table below.

Table 1. List of Financial institutions

No.	List of Banks	No.	List of Insurance Companies
1	Abay Bank S.C	1	Abay Insurance Company
2	Addis International Bank S.C	2	Africa Insurance Company S.C
3	Awash International Bank	3	Awash Insurance Company S.C
4	Bank of Abyssinia	4	Berhan Insurance S.C.
5	Berhan International Bank	5	Bunna Insurance S.C.
6	Bunna International Bank	6	Ethio-Life and General Insurance S.C.
7	Commercial Bank of Ethiopia	7	Ethiopian Insurance Corporation
8	Cooperative Bank of Oromia	8	Global Insurance Company S.C.
9	Dashen Bank	9	Lion Insurance Company S.C
10	Debub Global Bank S.C	10	Lucy Insurance S.C.
11	Development Bank of Ethiopia	11	National Insurance Company of Ethiopia S.C.
12	Enat Bank S.C	12	NIB Insurance Company
13	Lion International Bank	13	Nile Insurance Company S.C
14	Nib International Bank	14	Nyala Insurance Company S.C
15	Oromia International Bank S.C	15	Oromia Insurance Company S.C.
16	United Bank	16	The United Insurance S.C

17	Wegagen Bank	17	Tsehay Insurance S.C.
18	Zemen Bank	18	Zemen Insurance S.C

Source: National Bank of Ethiopia Official Site

3.2.4. Data Source and Data Collection Instruments

This study used both primary and secondary sources of data. The main data collection instrument used in this study is survey questionnaire. It is used for the purpose of collecting primary quantitative data. Secondary data on the other hand collected from annual reports of the financial institutions using IFRS and proclamations and regulations that dealt with financial reporting issues in Ethiopia using document analysis techniques.

3.2.4.1. Research variables

The research variables used to answer the research questions were fifteen into three categories:

Five variables regarding IIFS benefits: Three items under Benefits to Quality of Financial Statements, two items in benefits to government, three items in benefits to investors, seven items in benefits to reporting entity and four items in benefits to financial statement users. Six variables regarding IFRS implementation challenges: Nine items regarding system compatibility & support, six items regarding institutional attitude, six items regarding knowledge gap, five items regarding team composition, Six items about compliance cost and seven items about nature of financial reporting standards. Four variables regarding level of implementation: eight items in initial level activities, four items in conversion level activities, six items in report level activities and one item regarding assurance level activities.

3.2.4.2. Questionnaire

Questionnaires were distributed to IFRS implementation team members of selected financial institutions. The justification behind choosing IFRS implementation team members as respondents is because they are well-informed about IFRS and could provide important perspective on prospects, challenges and level of implementation regarding adoption of IFRS in Ethiopian Financial Institutions. The data collection instrument was designed including both close-ended and open-ended questionnaires. According to (McNabb, 2005), Mixed questionnaires have many merits; the most important of this advantage is its considerable flexibility.

Respondents were asked to indicate their level of agreement on a five point Likert scale in close- ended questions. The ratings used in this five point Likert scale are: Strongly agree (SA; or 5), agree (A; or 4), neutral (N; or 3), disagree (D; or 2), and strongly disagree (SD; or 1). The meaning of points in the scale have to mean 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 indicates that the item could be disregarded for being unimportant. Similar scales have been used by Courtis (1992) and Iyoha and Faboyede (2011) and were found suitable. In Addition, respondents were asked to provide their opinion in response to the open ended questions if they have opinions they feel the researcher would find useful.

3.2.4.3. Document Review

The review of documents helped the researcher to understand the key facts of the organizations. The documents were reviewed by referring most recent information from authorized documents and different reports. Proclamations, council of ministers declarations, annual reports, legislations, directives and other documents related to the adoption and use of IFRS were used. The document reviews were used to triangulate the data collected by the questionnaires and interviews.

3.2.5. Data Analysis Procedure

The data was analyzed using SPSS (Statistical Package for Social Science) version 20. The computed data then analyzed using descriptive statistics tools (frequency and arithmetic mean) and described the arithmetic mean and frequency value.

3.2.6. Validity and Reliability of the Research Instrument

Quality assurance is an important aspect of maintaining research standard and enhancing the likelihood of success in research through ensuring achievement of research objectives and accuracy of results. In scientific investigation, reliability and validity are applied to ensure instruments provide credible and accurate information (Howitt & Cramer, 2011). Thus, the quality assurance mechanisms of this research are built around ensuring reliable and valid research.

3.2.6.1. Reliability

Reliability refers to the extent to which an instrument produces consistent results across different points in time, groups of people, and diverse circumstances (Howitt & Cramer, 2011). Of all reliability tests, the most commonly accepted measure for a single instrument administration on the intended respondent is the internal consistency reliability test often measured using Cronbach alpha (Martens, 2010). According to George and Mallery (2003), alpha 0.70 is an appropriate level. Whereas, according to Pallant (2007) Cronbach's alpha value more than 0.6 is regarded as satisfactory level. Completed questionnaires were coded and categorized in to 15 variables for analysis 1 to 9 items in each variable. Thus using the data collected at the time of pilot test, the Cronbach alpha value was calculated for three categories of variables. As indicated in the table below, the average Aplha value is found to be 0.75 indicating 75 percent of the time respondents have similar way of understanding the questions included in the questionnaire.

Table 2. Reliability Statistics

Categories	***Measurement Variables***	***Number of Items***	***Cronbach's Alpha***
Benefits of IFRS	Quality of Financial Statements	3	0.90
	Government	2	0.79
	Investors	3	0.72
	Reporting Entity/ Management	7	0.82
	Financial Statement Users	4	0.84
Challenges of IFRS	System Compatibility & Support Requirement	9	0.91
	Institutional Attitude	6	0.89
	Knowledge Gap	6	0.83
	Team Composition	5	0.88
	Compliance Cost	6	0.93
	Nature of IFRS Requirements	7	0.92
Levels of Implementation	Initial Level Activities	7	0.82
	Conversion Level Activities	4	0.89
	Report Level Activities	6	0.88
	Assurance Level Activities	1	1.00
	Overall Cronbach's Alpha	**15**	**0.75**

Source: Pilot Survey (2021)

3.2.6.2. Validity

According to Mugenda and Mugenda (1999), Validity is the accuracy and meaningfulness of inferences, which are based on the research results. This research project had used subsequent techniques to enhance degree of validity as quality assurance mechanism. The research instrument had been validated in terms of content and face validity. The instrument is reviewed by panel of content experts. They reviewed the suitability of the instrument for the intended use (Ayodele, 2012). Questionnaire and document review were used as data source (Ellinger, Watkins, & Marsick, 2005). Document reviews helped the researcher to triangulate the data gathered through questionnaire. In order to increase internal and external validity questions were tested for their clarity and understandability. Respondents were purposively chosen from trained experts for assignment of IFRS implementation and practically assigned and gone through the implementation process. In addition, all respondents have studied BA and above levels and have 86% of respondents have had six and above years of experience and again above 83% had positions above officer level. These all contributory to research validity. The following validity taxonomies and basic evaluative approaches is used in this research project to enhance degree of validity as quality assurance mechanism.

3.2.7. ETHICAL CONSIDERATIONS

The study is used for academic purposes only. The researcher explained this to the respondents. The researcher had made it clear to the participants that participation is voluntary. The participants had informed consent to make the choice to participate or not. They were guaranteed that their privacy is protected by strict standard of anonymity.

CHAPTER FOUR

RESULTS AND DISCUSSION

4.1. INTRODUCTION

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

4.2. RESPONSE RATE

A total of 81 questionnaires which dealt with the Adoption of International Financial Reporting Standards were distributed to a sample of companies which adopted International Financial Reporting Standards. Out of the 81 questionnaires distributed, only 72 questionnaires were collected out of which 70 questionnaires (86.4% response rate) were correctly filled and used in the analysis.

The results obtained from the survey are analyzed through descriptive statistics and frequency distribution. Descriptive measures of the questions response and document sources results are presented in the subsequent sections.

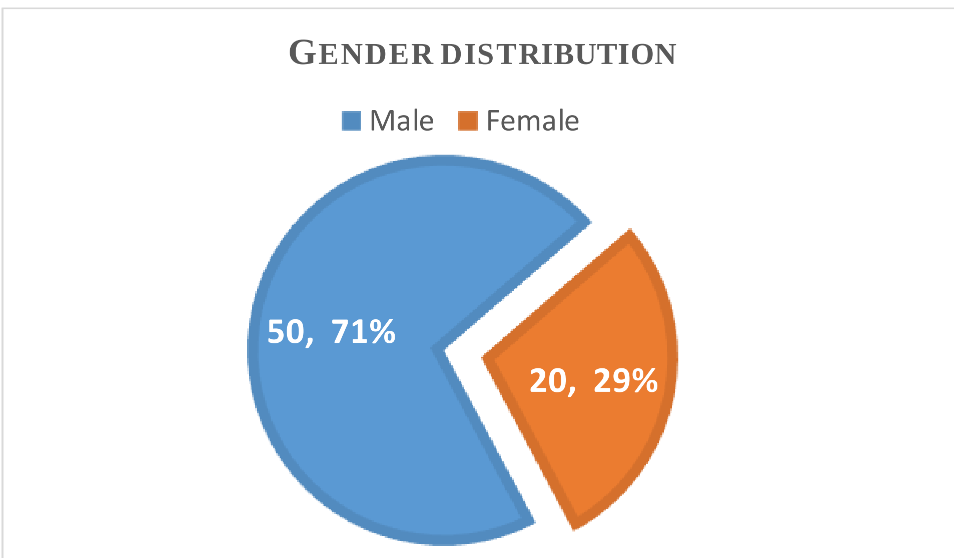
4.3. DEMOGRAPHIC CHARACTERISTICS OF THE RESPONDENTS

Background analysis is important to put the study in context as these factors are cross-cutting determinants of responses given by respondents.

4.3.1. Gender distribution

The researcher was keen to check gender distribution in the professional carrier of financial institutions in Ethiopia. Data was gathered and presented the demographic characteristics of the respondents in Figure 1 below:

Figure 1. Gender distribution



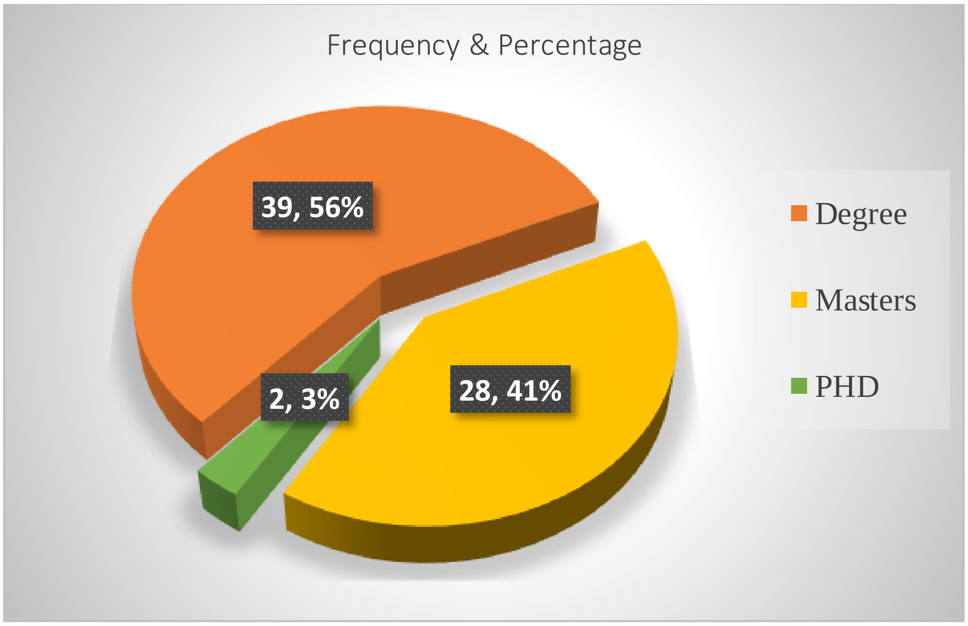
Source: Pilot Survey (2021)

Based on the findings displayed on Figure 1, out of 70 valid respondents 71% or 50 of them were Males and the remaining 29% or 20 of respondents were Females. This implies the gender distribution of officials in those financial institutions though encouraging is not balanced yet.

4.3.2. Educational Background of Respondents

This study demands respondents who attended higher level education and professional training in order to understand and respond regarding benefits and challenges of IFRS adoption and level of implementation. In this respect, the researcher gathered and presented the data in Figure 2 below:

Figure 2. Educational Background



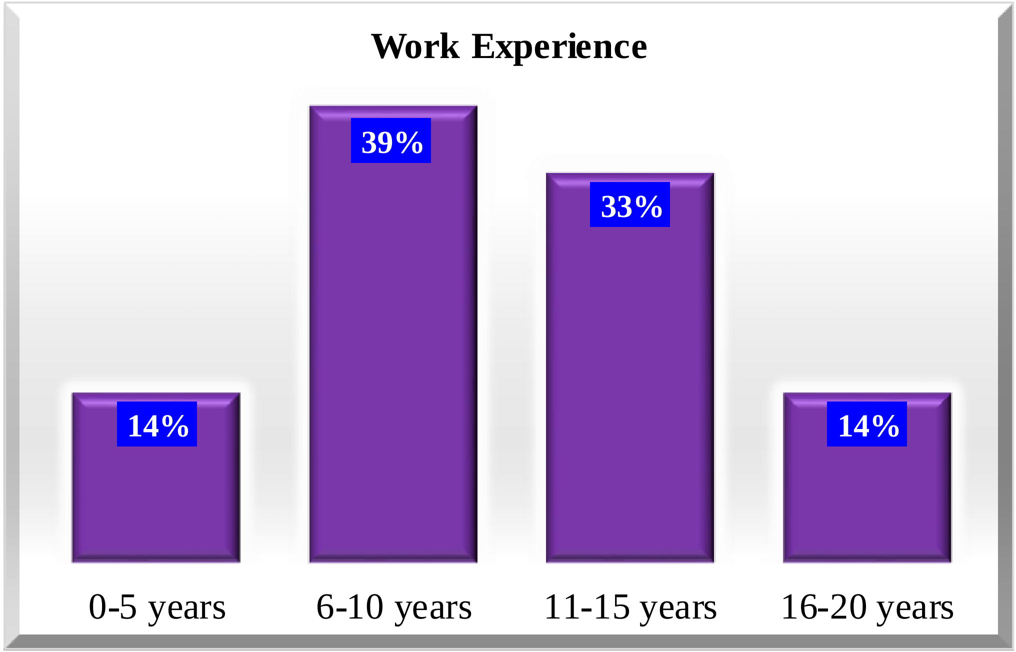
Source: Pilot Survey (2021)

As displayed above in Figure 2, respondents' educational background level differs. About 39(56%) of the respondents are 1st degree holders, followed by 2nd degree holders (28/41%), the remaining (2/3%) of the respondents earned a 3rd (PHD) degree. This implies that all respondents are well educated to understand the questionnaire and forward relevant and accurate information needed for the study.

4.3.3. Respondents work experience

Work experience and exposure to both GAAP and IFRS plays vital role to pinpoint the benefit and key challenges of IFRS adoption and easily identify where the level of implementation is? Accordingly, the researcher gathered the data summarized in Figure 3 below:

Figure 3. Work Experience of respondents



Source: Pilot Survey (2021)

As it is shown in Figure3 above, majority of the respondents (27/39%) have a work experience of 6 to 10 years, followed by respondents with experience 11 to 15 years (27/33%), and 0 to 5 & 16 to 20 years of experiences each had an equal frequency and percentage share (10/14%). This indicates, overall, that the appointed IFRS implementation team in Ethiopian financial institutions composed of staffs that are well experienced and exposed both with previous GAAP and IFRS. In addition, in accountancy profession, the more staffs are experienced the more they refine their proficiency. This could yield them the ability to easily assimilate themselves with the new standard as they could build on what they recognize the new requirements. In fact, it is clear that experience and age correlated with change resistance. Yet, according to the respondents their institute exposes them with frequent trainings that help them to advance with new ideas and innovations.

4.3.4. Respondents' Position in the Company

Work position plays its own vital share in responding to this study. Senior positions are exposed to confidential information. This in turn equipped position holders with holistic knowledge and understanding about existing and system at introduction. Hence, the researcher gathered and summarized the data hereunder in Table 1:

Table 3. Respondents' Position in the Company

Position in the Company			
		Frequency	**Valid Percent**
Valid	Officer	11	16.4
	Supervisor	21	31.3
	Deputy Manager	21	31.3
	Manager	11	16.4
	Executive Manager	3	4.5
	Total	67	100.0
Missing	System	5	
Total		72	

Source: Pilot Survey (2021)

As displayed above in Table 1, most of the respondents secured a managerial level position. The majority shares (42 / 62.6%) of respondents are supervisors and deputy-managers at equal proportion. Followed by officers and managers (22 / 32.8%) again at equal proportion and the remaining (3 /4.5%) are executive managers. Such team composition from different level positions helps respondents share valuable experience and validates the respondents' competence to give relevant information on IFRS adoption related activities which was needed for the study.

4.3.5. IFRS trainings

Trainings welcomed new systems to the minds of the trainees. Means it is the key to open the get of the new system. The researcher gathered data and summarized in the Table 2 below:

Table 4. IFRS Training

IFRS Training			
		Frequency	Valid Percent
Valid	YES	64	88.9
	NO	8	11.1
	Total	72	100

Source: Pilot Survey (2021)

Table 2 above revealed that 64 or 88.9% of valid respondents had attended IFRS trainings. This in turn increases the viability of respondents to provide useful information regarding the adoption of IFRS or properly answer the questionnaire of the study.

4.3.6. Adequacy of the training

Trainings need to be adequate; to the level the trainees grasp the whole idea of the issue or system being trained. The researcher, gathered data and analyzed in Table 3 below:

Table 5. Adequacy of the Training

Adequacy of Training			
		Frequency	**Valid Percent**
Valid	Adequate	42	65.6
	Not Adequate	13	20.3
	Neutral	9	14.1
	Total	64	100
Missing	System	8	
Total		72	

Source: Pilot Survey (2021)

Table 3 above displayed the finding related to the adequacy of the training. Of the total valid respondents 42 or 65.6% received adequate IFRS training, 13 or 20.3% reported that the training they received is not adequate and the remaining 9 or 14.1% of the respondents' didn't mention whether they received adequate training. But still majority of respondents' received appropriate IFRS training. Hence, it is possible to conclude that respondents gave information with applicable knowledge.

4.4. BENEFITS OF IFRS IMPLEMENTATION

IFRS brought plenty of benefits for its implementers and stakeholders. These include cost savings in reporting, reliability of financial information, achieving the purposes of reporting, simplicity, audit facilitation, and cost of capital reduction. In this regard, the researcher gathered the following data regarding the benefits of IFRS implementation as summarized in Table4 below:

Table 6. Benefits of IFRS

BENEFITS of IFRS					
	N	**Minimum**	**Maximum**	**Mean**	**Std. Deviation**
Quality of FSs	72	3	5	4.45	.629
Government	71	2	5	4.13	.707
Investors	72	3	5	4.41	.579
Reporting Entity/mgt	70	3	5	4.05	.558
FS Users	70	3	5	4.20	.647
Valid N (list wise)	67				

Source: Pilot Survey (2021)

For this study nineteen questions under five groups regarding benefits of adopting IFRS asked for response by statements with a 5 point Likert scale and indicate the extent they agree with the statements that is: 5- Strongly agree, 4-Agree, 3-Nuetral, 2-Disagree, 1-Strongly disagree. A mean (M) score of 0-1.50 means that respondents strongly disagree, between 1.50 -2.50 means they disagreed, 2.50-3.50 means that the respondents were neutral or no sure, 3.50 – 4.50 means they agreed, and a mean above 4.50 means the respondents strongly agreed. Based on the findings displayed on Table 4 above (with Mean=4.45; SD=0.629), the respondents agreed that adoption of IFRS provide high quality financial statements. In the same way, majority of the sample respondents (with a Mean=4.13; SD=0.707) agreed that IFRS helps government in identifying tax payers liability and improving regulation oversight and enforcement.

Respondents again agreed (with Mean =4.41; SD =0.579) that IFRS helps investors in increasing credibility of financial information, providing provides better information to investors for making decision, and supporting investors to identify opportunity and risk across the world and contributing for efficiency. Similarly, majority of the respondents (with Mean= 4.05; SD=.558) agreed that Adoption of IFRS benefited reporting entity or management in a way that it creates transparency, increases efficiency, reduces cost of doing business, promotes accountability and proactive risk management, increases the decision making capacity of management by providing better information and avoids multiple reporting requirements as compared to GAAP. Again respondents (with Mean=4.20; SD=.647) agreed that adoption of IFRS benefits financial statement users in increasing the confidence of financial statement users, reducing information gap between providers of capital & the one managing this capital, the need for additional information, and the uncertainty on users of financial statements. In general referring to respondents of this study, most of the respondents recognized the prospects of IFRS adoption for both quality of financial statements itself, government, investors reporting entity and financial statement users.

4.5. CHALLENGES FACED IN IMPLEMENTATION OF IFRS BY ETHIOPIAN FINANCIAL INSTITUTIONS.

IFRS implementation is not possible without obstacles. There are several challenges that IFRS implementers faces. Institutional attitude, system compatibility challenges, knowledge gap, limited access to IFRS consultants, adoption cost, complex financial reporting framework, and lack of implementation guidance, lack of awareness and training institutions. Accordingly, the researcher gathered the data presented to identify and analyze the challenges encountered in IFRS implementation in Tables 5.

Table 7. IFRS Implementation Challenges

Implementation CHALLENGES					
	N	Minimum	Maximum	Mean	Std. Deviation
System compatibility & support requirement	65	2	5	3.53	.732
Intuitional attitude	66	1	5	2.91	.785
Knowledge gap	68	2	5	3.23	.788
Team composition	67	1	5	2.85	.805
Compliance cost	67	2	5	3.70	.798
Nature of IRS requirements	69	2	5	3.51	.830
Valid N (list wise)	54				

Source: Pilot Survey (2021)

In this study, thirty nine questions were asked using seven categorical groups for challenges faced in the adoption and implementation of IFRS. Respondents were asked to express their opinion by the statements with a 5 point Likert scale and indicate the extent they agree with the statements that is: 5- Strongly agree, 4-Agree, 3-Nuetral, 2-Disagree, 1-Strongly disagree. A mean (M) score of 0-1.50 means that respondents strongly disagree, between 1.50 - 2.50 means they disagreed, 2.50-3.50 means that the respondents were neutral or no sure, 3.50 – 4.50 means they agreed, and a mean above 4.50 means that the respondents strongly agreed.

Based on the findings clearly seen in Table 5 above, majority of the sample respondents (with Mean=3.53; SD=.732) agreed that there exists system compatibility and support requirement challenges in adoption and implementation of IFRS. Significant proportion of the sample respondents (with Mean= 2.91; SD=.785) disagreed on lack of institutional level support or institutional attitude to accept as a challenge. On the other hand, majority of respondents (with Mean=3.23; SD=.788) became neutral in responding the questionnaire regarding knowledge gap. Similarly, significant majority of respondents (with Mean=2.85; SD=.805) were not sure about FFRS project management team composition is with enough resources, trained manpower and none conflicting assignment. On the other hand most of sample respondents (with Mean=3.70; SD=.798) agreed IFRS implementation entails significant compliance costs, cost of hiring new staff and the consultant, training and other project management costs, cost of changing IT system, data collection and analysis costs for conversion work, financial statement preparation costs and cost restructuring internal control system compared to GAAP.

Slight majority of sample respondents (with Mean=3.51; SD=.830) agreed that IFRS standards are complex to apply in Ethiopian context, IFRS require more professional judgment than the previous standards which may lead to bias due to the unavailability of required information. The tax considerations associated with IFRS conversion are complex and IFRS Standards are not easy to understand which may lead to difficulty to apply. Fair value requirement of IFRS makes the financial reporting difficult than the previous standards, frequent revision of IFRS Standards makes financial reporting task complex, IFRS increase the complexity of financial reporting and requires much higher time and resource than the local GAAP. Respondents agreed on the existence of most implementation challenges in Ethiopian financial institutions except their disagreement on lack of institutional support or attitude and being neutral on the FFRS project management team composition, deployment of enough resources, trained manpower and none conflicting assignment of team members. Finally, it can be concluded that though respondents believed that that there is lack of institutional support; there is a need for assignment of trained manpower in the team that work towards implementing IFRS.

4.6. LEVELS OF IFRS IMPLEMENTATION

There are different level activities to be performed for proper implementation of IFRS. Initial level activities: (establishment of project office/team, appropriate TOR development, recruitment of recognized consultant, gap analysis, training and manual development), conversion level activities: (de-recognition of assets and liabilities that didn't qualify under IFRS, recognition of assets and liabilities that qualifies under IFRS, proper adjustment of the value difference on assets and liabilities), report level activities: preparation of IFRS opening statements, recording day to day transactions under IFRS, preparation of comparative financial statements GAAP and IFRS, IFRS interim financial statement, IFRS compliant financial statement), assurance level activity: securing unqualified audit report from external auditors. Accordingly, the researcher gathered the data presented to identify the level of IFRS implementation in Tables 6

Table 8. Level of IFRS Implementation

LEVEL of Implementation					
	N	Minimum	Maximum	Mean	Std. Deviation
Initial level activities	68	3	5	3.82	.613
Conversion level activities	68	3	5	4.07	.623
Report level activities	64	3	5	4.03	.668
Assurance level activities	58	1	5	3.93	1.057
Valid N (list wise)	51				

Source: Pilot Survey (2021)

For this study eighteen questioners under four categorical groups for levels of institutional implementation. Most of sample respondents (with Mean= 3.82; SD= .613) agreed that IFRS is not enforced by third party. It is initiated by their financial institute. Appropriate IFRS project office/team has been established, preparation of TOR is completed as intended, qualified and independent consultant has been hired, gaps in the current practice against the expected IFRSs requirement has been identified, a tailor-made training has been provided for employees based on the identified gaps, new accounting policy and procedure manual attributable to our company is developed based on IFRS.

Similarly, majority of respondents (with Mean=4.07; SD= .623) agreed that conversion level activities were done as intended. That means, assets and liabilities that do not qualify for recognition under IFRS were de-recognized properly, new assets and liabilities that needs to be recognized under IFRS had gone through proper recognition, reclassification of assets and liabilities in accordance with IFRS has been done appropriately, value differences on assets and liabilities were adjusted under IFRS. Significant share of the respondents (with Mean=4.03; SD= .668) claimed that report level activities were done properly. Mean, adjusting entries are made to retained earnings or another Equity account from the financial statements prepared under previous GAAP, opening IFRS statement of financial position has been prepared, day to day transactions are recorded under IFRS, comparative financial statements are prepared under IFRS and GAP, interim financial statements are prepared under IFRS, and IFRS compliant financial statement is prepared. (With Mean = 3.93: SD= 1.057) respondents agreed that unqualified audit report has been secured from external auditors.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATION

5.1. INTRODUCTION

This chapter presents the conclusions drawn from the summaries of the major findings in achieving the research's objective and the recommendation of the study. It has two parts; the first part presents conclusions of the study. The second part presents recommendation and finally, the last part presents possible future research areas.

5.2. CONCLUSIONS

This study examined the adoption of International Financial Reporting Standards (IFRS), its prospects, challenges and levels of implementation in Ethiopian financial institutions adopted this standard.

Although most banks started IFRS adoption before the proclamation, the government of Ethiopia took an initiative by issuing the Financial Reporting Proclamation No. 847/2014 in 2014 G.C.to integrate its financial statements with international standards. This Proclamation is applicable to all reporting entities established in accordance with the Ethiopian law or operating in Ethiopia primarily obligating "public interest entities" to follow IFRS in their financial reporting.

Majority of the respondents didn't face IFRS implementation challenges. Even respondents clearly showed their disagreement to the question "the company lacks strong Board of Directors which is expected to decide on strategic and policy issues and undertakes regular follow up on the process of IFRS implementation". This asserts that higher level officials of financial institutions supported the implementation process with full dedication. Therefore, according to respondents IFRS should have been implemented earlier in Ethiopia due to the greater benefits it has compared to the associated problems.

Adoption of IFRS enable companies to produce transparent financial statements, which in turn reduce the agency problem between management and shareholders as increased transparency obligates managers to act in favor of the interests of the shareholders. Transparency on the other hand reduces cost of capital through lowering cost of information. It also reduces information asymmetry.

According to respondents, major challenges that hinders IFRS adoption process include lack of strong Professional Accountancy Bodies, existence of incompatible accounting software with IFRS requirements, lack market to provide market information that supplements the adoption process, lack of well-trained professional like Auditors and Trainers on IFRS, hiring new staffs and consultants is costly, training and other project management costs are expensive, changing IT system (acquisition cost of new technology) to comply with IFRS requirement is costly, IFRS standards are complex to apply in Ethiopian context, and companies incurred huge cost in relation to collecting and analyzing information and data.

The other key challenge is that IFRS requires more professional judgments than the previous standards which may lead to bias due to unavailability of required information. In developing countries like Ethiopia are not that favorable for implementing fair value accounting due to nonexistent of market for achieving observable market prices and professionals that provides accurate estimates of assets to be revalued periodically.

With regard to level of implementation, respondents assured that initial level, conversion, report and assurance level activities were performed appropriately.

5.3. RECOMMENDATION

The conclusions revealed that adoption of IFRS provides considerable and long lasting benefits than its adoption costs and associated implementation challenges. With understanding of the greater benefits of IFRS implementation the Ethiopian financial institutions faced the challenges and completed it is implementation process.

To overcome the challenges with regard to lack of professional practitioners, trainers and auditors and work of capacity building in general, there is an urgent need for all the relevant higher level educational institutions and professional accounting associations to integrate IFRS into their curriculum and the membership qualifying examination curricula respectively. This should be followed by increased funding by way of special research grants by the government for the training of lecturers on IFRS as a way of building human capacity in support of the transition from local GAAP to IFRS.

Accounting Society of Ethiopia (ASE) should involve in professional education and/or training programmers on IFRS for its members in particular and all accounting professionals in general and possibly accredit all its members on the basis of IFRS compliance.

In addition, the Ethiopian government shall assist IFRS adopters with full scale support and expand the experience exhibited by financial institutions to other sector operators. If the government transcended the adoption activity to other sectors, foreign direct investment to the country might grow up. This in turn could contribute to economic growth & development and lower the foreign currency access challenges of the country.

5.4. FUTURE RESEARCH AREAS

This study examined only adoption of IFRS: its prospects, challenges and level of implementation in Ethiopian financial institutions with even some limitations. Whereas, broader scope and never be dealt with one study. Impact of mandatory adoption on quality of financial statements, disclosure and compliance issues, and perceptions and satisfactions financial statement users on IFRS based reports are topics that call for future research on International financial reporting standards.

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APPENDIX

St. Mary's University

College of Graduate Studies

MBA in Accounting and Finance

This questionnaire is designed to gather data on *"Adoption of IFRS in Ethiopian Financial Institutions: Prospects, challenges and level of implantation)" for partial fulfillment of MBA degree in Accounting and Finance*. The data will be used only for academic purpose. Therefore, your frank and sincere response will highly be appreciated. I assure you that your identity and answers will be kept confidential. There is no need to write your name.

Thank you very much for your cooperation and timely response!

Part I: General Information

1. Gender: 1. Male 2. Female

2. Age: 1. under 20 2. 21-30 3. 31-40 4. Above 40 Years

3. Education level: 1. Diploma 2. Degree 3. Masters 4. PHD

4. Professional Membership Certificate: 1. ACCA 2. CPA 4. CIA 5. Other (specify) ____

5. Experience: 1. 1-5 2. 6-10 3. 11-15 4. Above 15Years

6. Current position (Job Title)________________________________

7. Have you ever attended any IFRS related Trainings? 1. Yes 2. No

8. If your answer is yes to Q7 how adequate is the IFRS training that you have had for implementation

1. Adequate 2. Not Adequate 3. Neutral

Part II: Benefit of IFRS Adoption

Would you please indicate your agreement/disagreement by putting a tick (✓) mark in the space provided under for the five-scale rating questions from 1 to 5 where 5=Strongly Agree (SA), 4=Agree (A), 3=Neutral (N), 2=Disagree (DA) 1=Strongly Disagree (SDA).

IFRS Adoption Benefit	**SA(5)**	**A(4)**	**N(3)**	**DA(2)**	**SDA(1)**
I. Benefits to Quality of Financial Statements					
1. IFRS encourages international comparability of financial information.					
2. IFRS promotes quality of financial information to the public.					
3. IFRS increases reliability of financial reporting.					
II. Benefits to government					

1. IFRS helps the government to know the tax payers liability.					
2. IFRS adoption improves regulation oversight and enforcement.					
III. Benefits to Investors					
1. IFRS increases the credibility of financial information for investors.					
2. IFRS provides better information to investors for making decision.					
3. IFRS supports investors to identify opportunity& risk across the world and contribute efficiency.					
IV. Benefits to the reporting entity /management					
1. IFRS creates transparency.					
IFRS Adoption Benefit	**SA(5)**	**A(4)**	**N(3)**	**DA(2)**	**SDA(1)**
2. IFRS increases efficiency.					
3. IFRS reduces the cost of doing business.					
4. IFRS promotes accountability.					
5. IFRS promotes proactive risk management.					
6. IFRS increases the decision-making capacity of management providing better information.					
7. IFRS avoids multiple reporting requirements.					
V. Benefits to financial Statement Users					
8. IFRS increase the confidence of financial statement users.					
9. IFRS reduces information gap between providers of capital & the one managing this capital.					
10. IFRS reduces the need for additional information.					
11. IFRS reduces the uncertainty on users of financial statements.					

Part III: Challenges of Adopting IFRS

IFRS Implementation Challenges	SA(5)	A(4)	N(3)	DA(2)	SDA(1)
I. System Compatibility and support requirement.					
1. The IFRS Transition Road Map developed by AABE is not realistic.					
2. There is no effective monitoring & review process from AABE side during IFRS implementation process.					

3. There is lack of technical guidelines, interpretation tools and other supporting materials considering national context and pectoral issues from AABE.					
4. There is lack of collaboration from regulatory bodies (including AABE, MR and NBE) on current laws and regulations including how to handle tax related transactions.					
5. There is lack of strong Professional Accountancy Bodies in the country that support the transition to IFRS through awareness creation, training and challenging regulatory bodies on issues that needs resolution.					
6. There is compatibility problem of existing accounting software with IFRS requirement.					
7. There is lack of accounting software & other IT to support the IFRS adoption.					
8. There is lack of market to provide information (Like market price) to support the adoption.					
9. IFRS reporting is not compatible with the tax reporting of the country.					
II. Institutional level Support (Institutional attitude)					
1. The company lacks strong Board of Directors expected to decide on strategic & policy issues and undertake regular follow up on the process of IFRS implementation.					
2. The company's top-level management is not committed for IFRS adoption through availing resources and information needed, monitoring the conversion work and deciding on issues that need their attention.					
3. Lack of commitment at institutional level to be transparent over the conversion process.					
4. No well-established IFRS project management office in terms of manpower, resource and expertise.					
5. Lack of incentive or recognition for each achievement at each level of the conversion process.					
6. There is high resistance to go in line with the new reporting Standard requirement.					
III. Knowledge Gap					
1. Adequate IFRS training were not provided at company level.					
IFRS Implementation Challenges	**SA(5)**	**A(4)**	**N(3)**	**DA(2)**	**SDA(1)**
2. There is lack of personnel with IFRS knowledge and expertise in the company.					
3. There is a shortage of (Limited access to) IFRS expert and consultant for adoption.					
4. There is lack of well-trained professional like Auditors and Trainers on IFRS matters.					
5. Adequate trainings were not provided to the IFRS implementation team.					

6. Departments and employees are unaware of the implication of IFRS implementation in the company's reporting, business, process, policy and system.					
IV. IFRS Project Management and Team Composition					
1. The IFRS Project Management office is not well organized, have no enough resources and manpower required.					
2. Competent and qualified professionals are not included in the project team.					
3. Members of the IFRS Project are not trained enough to implement IFRS or follow-up IFRS implementation process in the company.					
4. The company didn't prepare realistic and comprehensive Project Plan/Road Map for IFRS implementation.					
5. Conflicting or dual assignments are given to the IFRS project team.					
V. Compliance Cost of IFRS Implementation					
1. Cost of hiring new staff and consultants is costly.					
2. Training and other project management costs are expensive.					
3. Cost of changing IT system to comply with IFRS requirement is costly.					
4. There is a huge cost incurred in relation to collecting and analyzing information and data needed for the conversion work.					
5. There is a huge cost expected to be incurred in preparation of financial statements as per IFRS requirements unlike the former GAAP.					
6. Restructuring the existing internal control & setting up the appropriate internal control as per IFRS requirement is costly.					
VI. Nature of IFRS Requirements					
1. IFRS standards are complex to apply in Ethiopian context.					
2. IFRS requires more professional judgment than the previous standards which may lead to bias due to the unavailability of required information.					
3. The tax considerations associated with IFRS conversion are complex.					
4. IFRS Standards are not easy to understand which may lead to difficulty to apply.					
5. The fair value requirement of IFRS makes the financial reporting difficult than the previous standards.					
6. The frequent revision of IFRS Standards makes financial reporting tasks complex.					
7. IFRS increase the complexity of financial reporting and requires much higher time and resource than the previous GAAP.					

IFRS Level of Implementation	SA(5)	A(4)	N(3)	DA(2)	SDA(1)
I. Initial level Activities					
1. It is our company's will and intension to be engaged in an IFRS conversion.					
2. Appropriate IFRS project office/team has been established.					
3. Preparation of TOR is completed as intended.					
4. Qualified and independent consultant has been hired.					
5. The gap in the current practice against the expected IFRSs requirement has been properly identified.					

Part IV. IFRS Level of Implementation

IFRS Level of Implementation	SA(5)	A(4)	N(3)	DA(2)	SDA(1)
6. A tailor-made training has been provided for employees based on the gap analysis made.					
7. New accounting policy and procedure manual attributable to our company has been developed based on IFRS.					
II. Conversion Level Activities					
1. Assets and liabilities that do not qualify for recognition under IFRS were derecognized properly.					
2. New assets and liabilities that needs to be recognized under IFRS were recognized properly.					
3. Proper reclassification of assets and liabilities in accordance with IFRS has been done.					
4. The value difference on assets and liabilities were properly adjusted under IFRS.					
III. Report Level Activities					
1. Adjusting entries were made to retained earnings or another Equity account from the financial statements prepared under previous GAAP.					
2. Opening IFRS statement of financial position has been prepared.					
3. The day to day transactions were recorded under IFRS.					
4. Comparative financial statements are prepared under IFRS and GAP.					
5. Interim financial statements are prepared under IFRS.					
6. IFRS compliant financial statement is being prepared.					
IV. Assurance Level Activities					

1. Unqualified audit report is secured from external auditors.					

Part V. Open ended question

1. How do you describe the Prospects on the Adoption of IFRS in Ethiopian Financial Institutions?
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2. Do you have anything to say regarding the challenges and Level of Implementation of IFRS in Ethiopian Financial Institutions?____
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