St. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

MBA PROGRAMME

CHALLENGES AND OPPORTUNITIES OF ADOPTING IFRS AND ITS CONTRIBUTION TO QUALITY OF FINANCIAL REPORTING: A STUDY ON BANKING SECTOR IN ETHIOPIA

BY:

YETNEBERK ABEBE AYANE

ID MBAAF/0446/2008A

JANUARY, 2018

ADDIS ABABA, ETHIOPIA

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A RESEARCH REPORT SUBMITTED TO THE SCHOOL OF GRADUATE STUDIES OF St. MARY'S UNIVERSITY IN PARTIAL FULFILLMENT OF THE REQUIRMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION (MBA)

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APPROVED BY BOARD OF EXAMINERS

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Declaration

I hereby declare that this submission is my own work towards the Master of Business Administration prepared under the guidance of Arega Seyoum (PhD) and that, to the best of my knowledge, it contains no material previously published by another person nor material which has been accepted for the award of any other degree of the University, except where due acknowledgement has been made in the text.

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MBAAF/0446/2008A	Signature Date	Date

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Acronym

Acronym	Definition
AABE	Accounting and Auditing Board of Ethiopia
ACCA	Association of Chartered Certified Accountants
AISG	Accounting International Study Group
ECX	Ethiopia Commodity Exchange
ERCA	Ethiopian Revenue and Customs Authority
FDI	Foreign Direct Investment
GAAP	Generally accepted accounting principles
IAS	International Standards on Auditing
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
IFAC	International Federation of Accountants
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IPSA	International Public Sector Accounting
KASB	Korean Accounting Standards Board
MOFED	Ministry of Finance and Economic Development
NBE	National Bank of Ethiopia
NGO	Non-Governmental Organization
PIE	Public Interest Entities
ROSC	Reports on Observance of Standards and Codes
SEC	Security and Exchange Commission
SIC	Standing Interpretations Committee
SME	Small and medium enterprises
SPSS	Statistical package for social science
UNCTAD	United Nations Conference on Trade and Development

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Abstract

The goals of IFRS is to develop, in the public interest, a single set of high-quality, understandable, enforceable and globally accepted financial reporting standards based upon clearly articulated principles. However, its adoption and implementation bring opportunities and create challenges to the adopter. The main objective of this study is to provide an input for banks, governmental and policy and to academics/researchers serve as for future researches on this field of study. Both primary and secondary sources of data have been used for the study from selected 11 banks. Primary data were collected through pre designed questioners whereas secondary data were collected from different banks annual reports, scientific papers and proceedings relevant to the study using document and regression analysis techniques, and proclamations and regulations that deal with financial reporting issues in Ethiopia. The study found that some banks in Ethiopia have started using IFRS voluntarily for the preparation of their financial statements without making necessary awareness, and from the analysis of survey dependent and independent variables has significant correlation with the transparency, comparability and accountability of IFRS on quality of financial reporting. There should be AABE to collaborate with the ministry of education and Professional association outside Ethiopia in order to spread the promulgate knowledge of IFRS, since adoption of IFRS could lead to increased foreign direct investment and access to finance, which in turn may lead to economic growth of Ethiopia.

***Key Words**: IFRS, Adoption; Challenge; Opportunities; Quality; Transparency, comparability; accountability.*

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CHAPETER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

A country can change its existing accounting system to a globally recognized accounting standard called International financial reporting standards(IFRS) either fully 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. while in Convergence approach, gradual movement is made towards IFRS through customizing with the existing accounting standards to adopt IFRS gradually and allow time for necessary changes in local legal frameworks (Pacter, 2015). Especially in developed country, many or even all banks have legal obligation to prepare financial statement that conform to the required standards that are generally acceptable in the profession(Frank, 2002).IFRS is to develop, public interest, , understandable, enforceable and globally accepted a single set of high-quality financial reporting standards based upon clearly articulated principle.(Kalpash & Yassa, 2015).

In the IFRS adoption era, most countries had their own standards with local bodies responsible for developing and issuance of local standards even if some of them align largely with International accounting standards (IAS). The International Accounting Standards Board (ISAB)adopt the IFRS framework on 1 April,2001, the ISAB took over the setting IAS from the international Accounting Standards Committee(IASC)(ISAB, 2016).

In Africa, among the continents' 54 states, 24 states have adopted IFRS. However, the momentum of adopting IFRS in the continent looks to be much slower than that of the rest of the world.(Rooyen, 2016). Ethiopia is also moving towards implementation of IFRS starting from July 8, 2018 (Proclamation 847, 2014).

According to World Bank on the Report on the Observance of standards and Codes(ROSC), there is no specific set of accounting regulation in Ethiopia and therefore accounting practice vary across institution.(ROSC, 2007). But now, through the issuance of the Council of Ministers Regulation No. 332/2014, the Government has established the Accounting and Auditing Board of Ethiopia (AABE) to provide guidance for financial reporting and to determine the accounting and auditing procedures to be used in Ethiopia. (Proclamation 847, 2014). Accordingly, based on the relevant provisions of the proclamation, AABE has been established and an autonomous government organ having its own legal personality.

According to the studies conducted by researchers in our country, which focuses on the progress of IFRS adoption in Ethiopia(Alemi & Pasricha , 2016), implementation of IFRS in Ethiopia banks (Fareed & Zinabu, 2015),IFRS Adoption in Ethiopia issues, processes(Yitayew, 2016), benefits and key challenge in Ethiopia (Tesfu, 2012), they don’t indicate about adoption of IFRS on the quality of financial reporting. There are so many challenges in adopting IFRS on the quality of financial reporting in the banking sector in Ethiopia.. Accordingly, the current study is attempts to identify the challenge and opportunities of adopting IFRS and its contribution on the quality of financial reporting in the banking sector in Ethiopia.

1.2 Statement of the problem

In spite of the numerous studies about the Adoption and implementation of IFRS by developed and industrialized countries around the world, less attention has been given by developing countries. While adopting IFRS, countries have faced different challenges viz., cultural, legal, and political obstacles to an immediate full adoption of IFRS (Wayne, 2010). Recently there has been a push towards the adoption of IFRS developed and issued by the International Accounting Standards Board (IASB). IFRS are attracting significant scholarly attention to have quality financial reporting.(Phan & MasitilLe, 2014).

Number of studies have been made on the subject of IFRS adoption, its effect on financial reporting, benefits and challenges, etc. Just to mention a few, (okpala, 2012) investigates the effect of IFRS adoption on Foreign Direct Investment and Nigerian economy. (Matthew , 2015) assessed the impact of International Financial Reporting Standards (IFRS) adoption on the Financial Reporting practice in Nigerian Banking Sector.

Similarly, in Ethiopia, a few studies have been made in related topics. For instance,(Fareed & Zinabu, 2015) conducted a study on the assessment of the Implementation of IFRS in Ethiopian Banking sector; and IFRS adoption progress in Ethiopia (Alemi & Pasricha , 2016),IFRS Adoption in Ethiopia issues, processes(Yitayew, 2016), benefits and key challenge in Ethiopia (Tesfu, 2012), and this research work is similar in assessing challenge and benefits of IFRS but they didn't indicate about adoption of IFRS on the quality of financial reporting, there are challenges in adopting IFRS on the quality of financial reporting banking sector in Ethiopia. The financial institution is not capable to adopt IFRS with quality because there is lack of IFRS expertise and sufficient period to prepare quality financial reporting as required by IFRS standards.

The factors that initially contributed to the introduction of IFRS in Ethiopia seem external-attracting investment for economic development. According to a study conducted by(ROSC, 2007), Before 2016, there is no particular accounting standard in Ethiopia. Even though some of the laws indicate to use Generally Accepted Accounting Principles for example the income tax proclamation of Ethiopia article 58(1). Given this, moving out from such sophisticated and traditional way of report preparation of will not be smooth, so this study try to find out major challenges and opportunities of adopting IFRS with recommendation to facilitate the process of IFRS adoption on the quality of financial reporting in Banking sector in Ethiopia.

Therefore, this study is motivated on the absence of relevant study that assess the challenges and opportunities of adopting IFRS and its contribution on the quality of financial reports in the banking sector in Ethiopia. Moreover, it is important to notice that the Ethiopian environment is different from the developed countries environment where the accounting profession is more developed and where there is specific set of accounting regulation and an independent standard setting body. Therefore, it is better to see the problem in national and international context to enrich and understanding of IFRS and the issues related to its first time adoption in Ethiopian banking context.

1.3 Research question

This study has attempted to address the following basic research questions:

1. What are the constituents of quality financial reporting?
2. What are the challenges faced by banking sector in adopting IFRS on quality of financial reporting?
3. What are the opportunities in adopting IFRS on the quality of financial reporting in banking sector?

1.4 Objectives of the Study

IFRS are attracting significant scholarly attention especially in markets where decision making on its adoption is approaching"(Phan & MasitilLe, 2014). Accordingly, following the increase in the number of countries adopting IFRS, large number of research works has been conducted to know the merits and demerits of these movements and the reasons for adopting, and to identify the opportunities and challenges ahead in adoption of IFRS and its contribution on the quality of financial reporting in banking sector in Ethiopia.

1.4.1 General objective:

The main objective of this study is to assess the challenges and opportunities of adopting IFRS and its contribution on the Quality of financial reporting in the banking sector in Ethiopia.

1.4.2 Specific Objectives:

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

- To evaluate the adoption of IFRS on the quality of financial reporting banking sector in Ethiopia.

- To examine the challenge, encountered by banking sector in adopting of IFRS
- To assess the opportunities of adopting IFRS in the banking sector in Ethiopia.

1.5 Significance of the Study

The finding of the study is useful to:

Banks

This study necessary because would enable the managers of the banks to improve on their adoption of the IFRS standards on the quality of financial reporting. Finally, it would serve as a reference source to employee of the banks or other researchers who might want to carry out their research on the similar topic.

Government and Policy Makers

The government can use the finding of the study to assist in policy formulation and development for a framework used for improving the adoption of IFRS practices in relation to performance of financial reporting quality throughout the country. It also enables them to know what kinds of policies should be framed or formulated in order to enhance the performance of financial institution.

Academics/Researchers

This study is to assist academicians or other researchers to use as a base for further research or study hence it provides little understanding of the nature and influence of IFRS on quality of financial reporting of financial institution and other organization.

1.6 Scope of the Study

The unit of analysis for this study includes selected commercial banks' Finance department personnel, particularly those working directly in the adoption of IFRS. The study does not compare and contrast the finding of different financial institution with one another, since it is strongly believed that the banking sectors are homogeneous. Moreover, the scope of the study is also limited to analyzing the quality of financial reporting in relation with the challenges and opportunities of adopting IFRS and its contribution on the quality of financial reporting in banking sector in Ethiopia. The study doesn't assessed other IFRS related issue in the banking industry and it didn't analyze the whole problem for the adoption of IFRS in the sector.

1.7 Limitation of the study

Due to lack of sufficient researches and/or articles in the area in the country, this study tries to formulate the literatures by relying on other countries contexts and studies. Furthermore, the study does not include all banks, for the reason that among eighteen banks registered under NBE to conduct the banking service seven banks they didn't establish IFRS adoption team and they are reluctant for the adoption process, even if they are obliged by the law and the authority to start and prepare them self on adopting IFRS. Moreover, even if the researcher strives his best to get the current situation of IFRS adoption in banks, officials of NBE and AABE do not open their doors to disclose the information and shows their dissatisfaction to endure an interview. Due to the above all facts the researcher user purposive sampling method to get the result obtained from the study.

1.8 Organization of Paper

This study is organized in to five chapters. The first chapter states the general introduction of the study. Chapter two presents the literature review regarding the research area of International Financial Reporting Standards and its adoption and therefore to set out the theoretical foundations for the research. The third chapter outlines the research methodology. The research results are presented in chapter four. The last chapter draws conclusions and recommendation and wind up the report by highlighting future research areas.

CHAPTER TWO

2 LITRATURE REVIEW

Introduction

In this chapter, a review of related literature about International Financial Reporting Standards (IFRS) and issues relating to the adoption of IFRS are presented. The literature review consists of historical background of IFRS, basic concept on IFRS, rationales and debates of IFRS adoption, the perceived opportunities and challenges of adopting IFRS, the enactment of Financial Reporting Proclamation and roadmap to IFRS implementation in Ethiopia context, the motivating factors in adopting IFRS, IFRS from other countries experience, and conclusion and research gap.

2.1 Historical Background of IFRS.

IFRS stands for International Financial Reporting Standards and they are standards for reporting financial results and are applicable to general purpose financial statements and other financial reporting of all profit oriented entities. The term IFRS comprises IFRS issued by IASB; IAS issued by IASC; and interpretations issued by the Standing Interpretations Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB(Hoyle, Thomas , & Timothy , 2009), (Baker, Lembke, & King, 2009) and(Larsen, 2006).

The first move towards accounting standards convergence can be traced back to 1966 when the Accounting International Study Group (AISG) was proposed to be formed by the professional accountancy bodies in Canada, the United Kingdom and the United State in order to develop comparative studies of accounting and auditing practices. Subsequently, the AISG was founded in 1967. After discussion and approval by the three AISG countries and representatives of accountancy bodies in Australia, France, Germany, Japan, and Netherlands, the ISAC was established in 1973 with the aim of issuing a single set of high quality and globally accepted International Accounting Standards (IASs).

Between the years 1973-2000, the ISAC issued 41 International Accounting Standards (IASs). In 1997, Standing Interpretation committee (SIC) was established to consider continuous accounting

Issues. ISAC and subsequently to take responsibility of issuing IFRS.

IFRS are key elements of economic reporting infrastructures that provide standardized format for listed companies in the European Union to provide their financial reporting in accordance with International Financial Reporting (IFRS). The global financial reporting system has been transformed significantly with unprecedented number of countries and enterprises around the world adopting IFRS as bases for the preparation of financial statements (UNCTAD, 2008)

2.1.1 Concept of IFRS

(Bowrin, 2007)defined International Financial Reporting Standards (IFRS) as; A series of accounting pronouncements published by the IASB to help preparers of financial statements, throughout the world, produce and present high quality, transparent, comparable and accountable financial statements for stockholders. The term harmonization means the reconciliation of different accounting and financial reporting system by fitting them in to common board classification. (Matthew , 2015).

Convergence means the process of converging or bringing together international standards issued by ISAB and existing standards issued by national standards setters, with the aim of illuminating alternatives in accounting for economic transaction and events.(Obezee, 2009) suggest that convergence could be either by adoption (a complete replacement of national accounting standards with IASB's standards) or by adaptation (modification of IASB's standards and disclosure requirements of the IASB standards and basis of conclusion.) The ultimate objectives of convergence if to achieve a single set of internationally consistent, high quality globally accepted accounting standards, issued by ISAB and adopted by the national standards setters. (ISAB, 2016).

The concern of harmonization of accounting standards and convergence with IFRS are due to the globalization of capital markets. In fact, it is believed the accounting harmonization in necessary for the globalization of capital market(Quigley, 2007). Investor now seek investment opportunities all over the world.

In spite of the various arguments against global convergence to IFRS, definitely the adoption of IFRS can reduce the cost of doing business across different national boundary by reducing the need of supplementary information, facilitating easy access to global capital, increasing the practice of transparency and public accountability, enhancing the understanding and the ability to generate value strategic processes and synergies, facilitating motivating and attracting of foreign investors(Baba, 2013). Accordingly, convergence to IFRS can help in maintaining creditability of financial reporting and increase in quality of financial reporting.(Obezee, 2009).

2.1.2 Debates of adopting IFRS on quality of financial reporting

The main objective of IFRS is to ensure that an entity's first financial statement, and its interim financial reports for part of period covered by those financial statements, contain high quality information that:

- Is transparent for users and comparable over all periods presented
- Provides a suitable starting point for adopting IFRS.
- Can be generated at cost that does not exceed the benefits

An entity shall prepare and disclose an opening IFRS statements of financial position at the date of transition to IFRSs. This is the starting point for accounting in accordance with IFRS. An entity shall use some accounting policies in its opening IFRS statement of financial position and throughout all period presented in its first IFRS financial statements. Those accounting policies comply with each IFRS effective at the end of its first IFRS reporting period.(Pacter, 2015).

This rationale of IFRS adoption has a notion that harmonization of international accounting standards would substantially contribute towards facilitating the process of global economic integration by removing the barriers to the cross border movement of goods, service and capital. This perspective of IFRS adoption agenda relates to multi-national corporations with cross border stock exchange listing and companies operating with transnational boundaries. While the adoption of IFRS is a manifestation of globalization associated with ensuring the financial health of global capital markets through transparent, accountable, and comparable financial information, the developing nations have no choice but to embrace the realities of globalization to participate in the globalize economic wealth highly enjoyed by developed countries,(Irvine & Lucas, 2006), argued with nation that accounting profession in developing countries is not developed to the point where it can regulate the profession and financial reporting practices effectively in a way that it helps the adoption of IFRS in those jurisdiction even though capability of accounting professionalism and its contribution to the effective implementation of IFRS could vary in developing nations depend on their level of development. Similarly, argued that the regulatory infrastructure of developing countries may not provide basic financial reporting bases. This argument shows the low level of accountancy professionalism and financial regulatory system existing in Ethiopia economic environment referring to the requirements of globalized financial reporting infrastructure (IFRS) as it was indicated by the World Bank report (ROSC, 2007).

(Zori, 2015)argues that the quality of financial reporting rationale of accounting standardization overemphasizes the benefits of adopting standards in contrast to the institutional perspective that considers the important institutions that must be in place to support the adoption and implementation of the standards to realize the expected economic benefits. This argument illustrates the lack of the necessary institutional arrangements in many of African counties and presumes that the institutional arrangements like the presence of capital markets and general level of economic development play a critical role in the decision of institutionalizing and adoption IFRS in African countries.

(Covrig, DeFond, & Hung, 2005) argued that foreign mutual fund ownership is significantly higher among IAS/IFRS adopters, which suggests a voluntary switch to IAS/IFRS aimed at attracting foreign investors by providing them with both more information and quality of financial reporting is more familiar to them.

2.1.3 Opportunities of adopting IFRS on the quality of financial reporting.

Various studies have been conducted in different countries to identify benefits realized and challenges faced in adopting IFRS for the first time. IFRS might provide the following benefits: organization problem between management and shareholders can be substantially reduced through implementation of IFRS as increased transparency causes managers to act more in the interest of the shareholders (Bhattacharje & Islam, 2009).and understandability, lower cost of capital to companies and higher share prices due to greater confidence of investors and transparent information), reduce national standards setting costs, ease of regulation of security markets, easier comparability of financial data across boarder and investment opportunities, increase credibility of domestic markets to foreign capital providers and potentials to foreign merger partners. It facilitate easier international mobility of professional staffs across national boundaries (Odia & Ogiedu, 2013).

(Armestrong, 2016)found that investors expected net benefits to IFRS adoption in Europe associated with increase in information quality, decrease in information asymmetry, more rigorous enforcement of the standards and convergence.(Baker, Lembke, & King, 2009) listed the benefits from adoption of IFRS in the world as: better financial information for shareholders and regulators, enhanced comparability, improve transparency of result, increased ability to secure cross border listing, better management of global operations and decreased coat of capital in the world.

2.1.4 Challenges of IFRS Adoption on the quality of financial reporting.

The adoption of IFRS is not an easy task due to the fact that several challenges could be faced in the adoption processes. The challenges of IFRS common to countries across the world even though there are some unique challenges that are specific to a particular country depending on its context (Baba, 2013). The main inhabiting factors in 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(Obezee, 2009).

Awareness about international practices: with the new system where we have GAAP for different countries users to view financial statements from different perspectives. It is important creating awareness among users of financial statements. Taxation: IFRS convergence can create problem. How do taxation laws address the treatment of tax?

Fair Value- in IFRS format, Fair value if used in measurement of most items of financial statements and this lead to volatility and subjectivity in financial statements in arriving at the fair value. where this adjustment is reflected in income statements as gain or losses, it remains a contentious issue if it should be applied in computing distributing profit. (Ikepefan & Akande, 2012)

According to(Odia & Ogiedu, 2013) the challenge affecting the IFRS adoption include: the timely interpretation of standards continuous amendment to IFRS, accounting knowledge and expertise possessed by financial statement user, preparers, auditors and regulators and managerial incentive.

According to (Baba, 2013), among others, the challenges of IFRS adoption includes the regulatory requirements to amend the existing tax laws of a country in line with the requirements of new standards, level of education and experience, level of awareness, in adequate technical capacity, implementation cost, weak enforcement and compliance mechanisms.

2.1.5 Motivating Factors for Adopting IFRS in Ethiopia

In Ethiopia's context it was found that there are different factors that motivate the adoption of IFRS in Ethiopia which can be divided into internal and external factors.

From internal factors, the most motivating factors is the absence of national accounting standards in the country. Agreeing with what is argued for by academics, practitioners pointed out additional reasons stating that while debate was going on among different stakeholders, another pressure comes from external forces.

The most external pressure, according to them, comes from, lenders and donors, international correspondent organization, World Bank and IMF, International Audit Firm (such as Earnest and Young, KPGM International, and Delliotte). Association of Chartered and Certified Accountants (ACCA) through its affiliate office and Ethiopian who are working as professional auditors in Ethiopia and pushing banks to use IFRS.

(World Bank, 2007) Among the efforts made by the government, implementing high quality IFRS is critical to meeting and sustaining Ethiopia's economic growth potential. IFRS provides quality financial reporting to international investors, shareholder of the banks with a brand of trust in the quality of financial reporting. That trust in financial reporting is essential if investors, shareholders are to be encouraged to step in to promote continued economic growth. IFRS have a profound impact on the country's growth potential, because nationally supported IFRS increases stability, accountability and transparency, comparability both at institutional and government level.

2.2 The Conceptual Framework for Financial Reporting

The ISAB Framework was approved by the ISAC Board in April 1989 for publication in July 1989,(ISAB, 2016), as part of a bigger project to revise the Framework the ISAB revised the objectives of general purpose financial reporting and the qualitative characteristics of useful information. This conceptual Framework sets out the concepts that underlie the preparation and presentation of financial statements for external users.(Pacter, 2015).

The Conceptual Framework deals with;

1. The objective of financial reporting:
2. The qualitative characteristics of important financial information:
3. The definition, recognition and measurements of the elements from which financial statements are prepared; and
4. Concepts of capital and capital maintenance.

The objectives of general purpose financial reporting are to provide financial information about the reporting entity is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. Those decisions involve buying, selling or holding equity and debt instruments, and providing or settling loans and other forms of credit. Many existing and potential investors, lenders and other creditors cannot require reporting entities to provide information directly to them and must rely on general purpose financial reports for much of the financial information they need. The usefulness of financial information is enhanced if it is transparent, comparable, accountable, timely reporting and understandable to all users across the world.

In Ethiopia context Proclamation(Proclamation 847, 2014) sets out financial reporting frameworks applicable to different reporting entities and mandated (AABE, 2015) with the responsibility of regulating the accountancy profession and ensuring its development in the Ethiopia with primary purpose of protecting the public interest. To achieve this, AABE is responsible for regulating the profession as well as for issuing a national professional accountancy qualification that is recognized internationally. Among others, its responsibilities include setting accounting and auditing standards and code of conduct to regulate the behavior of professionals; register and certify professionals and firms to provide such services; review and monitor the work of professionals and firms rendering accountancy and/or audit services and reporting entities; providing professional qualification training, supporting education and continuous professional development programs; enforcing the financial reporting law and taking disciplinary measures on those who do not comply with the provisions of the law and the regulation set by the Government and directives, other relevant policies and guidelines issued by the Board.

2.2.1 Enactment of Financial Reporting Proclamation

The enactment of a Proclamation to provide for financial reporting (proclamation no. 847/2014) is the current development in the accounting, auditing and financial reporting history in Ethiopia. Before the promulgation of this proclamation, there if no single organized body responsible for regulating the accounting and auditing professions and financial reporting practices in Ethiopia and very minor provisions have been issued in various separate laws that are not found in a single place and issued by AABE and NBE.

The government of Ethiopia issued this proclamation (Proclamation 847, 2014). AABE is the statutory body established in terms of the Financial Reporting Proclamation 847/2014 to achieve the following objectives as stated in Article 1 of the proclamation; to establish a sound, transparent and understandable financial reporting system application to entities in both private and public sectors; to have a uniform financial reporting lows that structures of Ethiopia; to support various building blocks of the economy and to reduce financial crisis risks, corporate failure and associated negative economic impacts; and to ensure that the provision of financial information meets internationally recognized reporting standards.

The board shall be accountable to the Ministry of Financial and Economic Development (Atr.3/2 of Regulation 332/2014). According to the Article 5 of the (Regulation No. 332, 2014), the board shall have the following objectives:

- Promoting high quality reporting of financial and related information by reporting entities;
- Promoting high professional standards among auditors and accountants;
- Promoting the quality of auditing and accounting service;
- Ensuring that the accounting profession is used to keep public interest; and
- Protect the accountants and auditor's professional independence.

Recognizing the importance of high quality financial reporting and its contribution to improved financial management is necessary to attract investment and to exploit International opportunities, the Government of Ethiopia in 2014 passed the Financial Reporting Proclamation—a ground breaking piece of legislation enshrining the accounting profession's role in fostering the growth of the economy and ensuring the stability of the economy; and the related Council of Minsters Regulation setting-up the oversight Board – the Accountants and Auditors Board of Ethiopia.(AABE, 2015).

2.2.2 Roadmap to IFRS Implementation in Ethiopia

Although some reporting entities in Ethiopia says they are already using IFRS for their financial statements, during the world bank 2007 review of financial statements that focused on issues of presentation and disclosure (not issues of recognition and measurement which are not detectable through a review of financial statements requirements) on sample of 35 financial statements from financial institutions, share companies and NGOs revealed that there were significant differences, public enterprises between the actual accounting in Ethiopia differ from IFRS.

The deference in IFRS adoption period by such entities prior to the national mandatory requirement date shall be referred herein as "voluntary" adoption and treated accordingly. Such claim by reporting entities and their auditors shall be scrutinized strictly and any infraction shall be dealt with firmly.

The following three phases stated to adopt IFRS in Ethiopia (AABE, 2015).

Phase 1: Significant public interest Entities and financial Institution and public enterprises owned by Federal or Regional Governments at July 8, 2016 is recommended as the date for adoption of IFRS for financial institution and large public enterprises.

Phase 2: Other Public Interest Entities (ECX member companies and reporting entities that meet PIE quantitative thresholds) and IPSAs for charities and societies in Ethiopia will statutorily be required to issue IFRS and IPSAs based financial statements respectively for the year ending July 8,2018.

Phase 3. Small and medium size entities IFRS for SMEs shall mandatorily be adopted as at July 8,2018. This mean that all small and medium-sized entities in Ethiopia ill statutorily be required to issue IFRS based financial statements for the ending July 7, 2019.

This seems, Ethiopia is recognizing the significant influence that corporate reporting has on investment decisions; the country is now attaching greater importance to transparency in corporate accounting and reporting. Adopting IFRS leads to improved quality of financial reporting. The availability of relevant information on potential investment targets has a bearing on the efforts to mobilize investment for financing economic and social development. (UNCTAD, 2008).

2.3 **Empirical Evidences: as International and National level.**

2.3.1 Evidence from international level case studies;

According to the case studies conducted by the United Nation covering Brazil, Germany, India, Jamaica, Kenya, Pakistan, South Africa and Turkey, the factors that initially contributed to the introduction of IFRS in the countries covered vary(UNCTAD, 2008).

According to the case studies, in Brazil, the central Bank's intention of adopting IFRS was to bring financial reporting in line with international best practice to facilitate comparability of financial reporting and fostering investor confidence.

In Germany, a number of large companies began to provide their financial statements in accordance with IAS in order to able to access financial markets abroad Germany. In 1998, The adoption of IFRS for the preparation of consolidated financial statements of listed companies in Germen become mandatory following the European Union to implement the IAS regulation of 2002. Since the case study of Germany illustrate, a European Union wide approach of implementing IFRS, the implementation challenge extended beyond its domestic factors (UNCTAD, 2008).

According to the case study of Kenya, the aim was to raise national financial reporting requirements to international best practice following significant collapses in the country's financial service sector in the 1980s and 1990s. The case study of Kenya also indicates the intention of the standard setting body to reallocate resources away from setting national accounting standards to strengthening other activities aimed at more effective implementation of international accounting and auditing standards (UNCTAD, 2008).

In Nigeria,(Ocansey & Enahoro, 2014) carried out a comparative study of IFRS adoption between Nigerian and Ghana and noted that the national standards of Ghana and Nigeria were closely related and had both suffered lack of certain standards and disclosure requirements, thereby, not being able to add sufficient value to financial reporting, because of lack of new set of skill and expertise, transitional challenges, dealing with inconsistencies in applicable laws.

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

The case study of Jamaica also indicated the intention of harmonization corporate reporting practice across countries in the Caribbean in accordance with international requirements(UNCTAD, 2008).The case studies of Pakistan, South Africa and Turkey showed that the intention was to raise their financial reporting requirements to internationally recognized bench marks (UNCTAD, 2008).

According to(UNCTAD, 2008)case study reports of the countries covered, a number of practical Challenges were faced by countries while implementing IFRS in their respective jurisdiction. These issues can be grouped in to three main areas.

1. **Institutional Issues**:

When IFRS are introduced in a given jurisdiction, the preexisting law and regulations in the country relating to the governance of business entities. According to (UNCTAD, 2008) report, often, the law and regulation overlap or become inconsistent, with each other especially when the role and responsibility of different institution are not clearly defined and coordination mechanism are not in place. Lack of consistency in regulatory system, banking policy and procedure with IFRS/IAS become cause for serious misunderstanding and inefficiency in the adopting of IFRS.

2. **Enforcement Issues**:

Enforcement of standards is also one of the critical elements in the implementation of IFRS. The full benefits of a global set of financial reporting standards such IFRS would be realized only when these standards are consistently enforced. The institutions responsible for enforcing IFRS need to realize that, as a result of the growing globalization of financial market, their enforcement efforts often protect both domestic and international investors to attract foreign direct investment as a result of enforcements of concerning bodies and effective monitoring of financial reporting preparers.

3. **Technical Issues:**

Practical adoption of IFRS requires adequate technical capacity among preparer, users and Regulatory authorities. Countries implementing IFRS face a variety of capacity related issues, depending on the approach they take. According to(UNCTAD, 2008) reports, the case studies showed a number of challenge in the practical adopting of IFRS on quality of financial reporting; one of the main difficulties encountered in the practical implementation process was the shortage of accountants and auditors who are technically competent in implementation IFRS and IASs, this would result low transparency and comparability of financial reporting.

2.3.2 Evidence from National level case studies;

According to the research conducted by (Alemi & Pasricha , 2016)identified IFRS implementing challenges like high implementation costs, the complexity of financial reporting, lack of IFRS implementation agent, lack of IFRS implementation guidance, increased volatility of earnings, lack of availability of competent specialists, high level training requirement, problem with the IT system in handling the transition to IFRS, lack of proper instructions from regulatory bodies, and problem with IFRS use of fair value accounting. Hence it is recommended the government of

Ethiopia better to finalize the already started tasks of organizing a separate institute fostering the implementation of IFRS, and issuance of an enforcing legislation for the implementation of IFRS an Educational institutions should focus on curriculum revision accordingly.

On the other hand, (Alemi & Pasricha , 2016)the transition to IFRS in Ethiopia will be challenging. The study also discusses the prospect of IFRS implementation in Ethiopia and the result showed that the transition plan to IFRS and its implications for preparers, users, educators and other stakeholder has to be effectively coordinated and communicated.

Similarly, (Yitayew, 2016) shows that while the Ethiopian IFRS adoption experience illustrates the macro-economic rationale driven nature of IFRS adoption, the rationales and the processes of translating the idea into Ethiopian context illustrates the socially constructed nature of IFRS adoption. This study suggests that more resources and stakeholders need to be coordinated by AABE to build the capacity of preparers in terms of IFRS reporting practices to achieve the IFRS implementation strategic objectives.

2.3.3 IFRS and Financial Reporting Quality.

IFRS is a high quality financial reporting framework. It is an international language for financial reporting and as such investors, regulators, policy makers and other users of financial reports benefit from its use. Since the global business world including developing countries (Ethiopia included) are competing for the same international capital, the financial language used must be consistent and no need to have a separate financial language for developing countries to provide high quality financial statements.

2.3.4 IFRS and Transparency of Financial Reporting.

(Covrig, DeFond, & Hung, 2005)If markets are to function properly and capital is to be allocated efficiently, investors require transparency and must have confidence that financial information accurately reflects economic performance. Investors should be able to make comparisons among companies in order make rational investment decision. In a rapidly globalizing world, it only makes sense that the same economic transactions are accounted for in the same manner across various jurisdictions. On the other hand, that low transparency financial reporting can increase the scope for agency conflicts between shareholders and managers, thereby necessitating a greater proportion of outside directors to monitor management in situations where earnings are less timely.

2.3.5 IFRS and Comparability of Financial Reporting.

The comparability of financial reporting quality is a key issue given the widespread acceptance of IAS/IFRS all over the world. However, despite the advantages of convergence(Barth . Mary & Lang, 2008) argued for the adoption of IFRS by reasoning out that singe set of internationally accepted accounting standards is expected to reduce the cost of processing financial information and auditing to users of capital markets, increase uniformity and comparability of financial statement across companies operating in different national boundaries thereby ease investment analyses activities and facilitate easy access to foreign direct investment (FDI) and liberalization of capital markets. The trend toward IFRS as a single set of globally accepted accounting standards is clear and strong comparability of quality Financial reporting throughout the world,(Palea, 2013).

2.3.6 IFRS and Accountability of Financial Reporting.

IFRS have been widely implemented as another measure of addressing corporate fraud. The strict measures to increase accountability have some consequences to prepares of financial reports in terms of the cost of complying with the reporting requirements(Salman & Carson , 2009). IFRS are body of prescriptive rules and guidelines with global reach and appeal which provide direction and guidance on how business enterprise in a globalized world could achieve the goal of proper record keeping, transparency, accountability and enhancing public confidence in financial reporting (Tendeloo & Vanstraelen, 2005).

Thus, failure on the part of the firm to apply the requirements of IFRS would result in inconsistencies, lack of accountability brings distortion in financial reports, which in turn results into poor financial reporting practice and dissemination of accounting information that is less value to any particular group of users. This is because the preparation and presentation of financial information should be bereft of objectivity, reliability, credibility and comparability, and thus results in fraudulent business practice which subsequently lead to business failure and become devastating on the national economy (Atu, Atu, & Atu, 2014).

2.4 Summary and Research Gap

Following the rapidly growing adoption of IFRS by various jurisdictions around the world, this globally rising financial reporting architecture has attracted significant research attention for the last decades. The review of the literature shows various deliberations and perspectives about the IFRS adoption and implementation practices based on international and national context. It reflects some of the issue relating to the debates, challenges and opportunities of IFRS adoption by countries with varying legal, and socio-economic contexts. It highlights the preconditions of IFRS adoption to be fulfilled by adopting jurisdictions in terms of transparency, comparability and accountability issues.

Ethiopia has been undertaking various financial reforms and projects to enhance its financial reporting environment in line with IFRS. However, few studies were conducted to assess such processes that led to the adoption of IFRS in Ethiopia. Previous studies such as,(Fareed & Zinabu, 2015) conducted a study on the assessment of the Implementation of IFRS in Ethiopian Banking sector; and IFRS adoption progress in Ethiopia (Alemi & Pasricha , 2016),IFRS Adoption in Ethiopia issues, processes(Yitayew, 2016), benefits and key challenge in Ethiopia (Tesfu, 2012), they did not indicate that the challenges and opportunities of adopting IFRS on quality financial reporting in Ethiopia banking sector, how the Ethiopian IFRS adoption translated into practice and the challenge faced by legal framework, lack of IFRS expertise, having inconsistence financial reporting practice and the overlaps of AABE roadmap for official adoption(AABE, 2014). This implies that there is knowledge gap in the Ethiopian context about the IFRS adoption processes on the quality of financial reporting Hence, this study aims to narrow the knowledge gap by putting point of reference in terms of assessing IFRS adoption and its contribution on the quality of financial reporting in the banking sector in Ethiopia.

Factors Affecting Adoption of IFRS

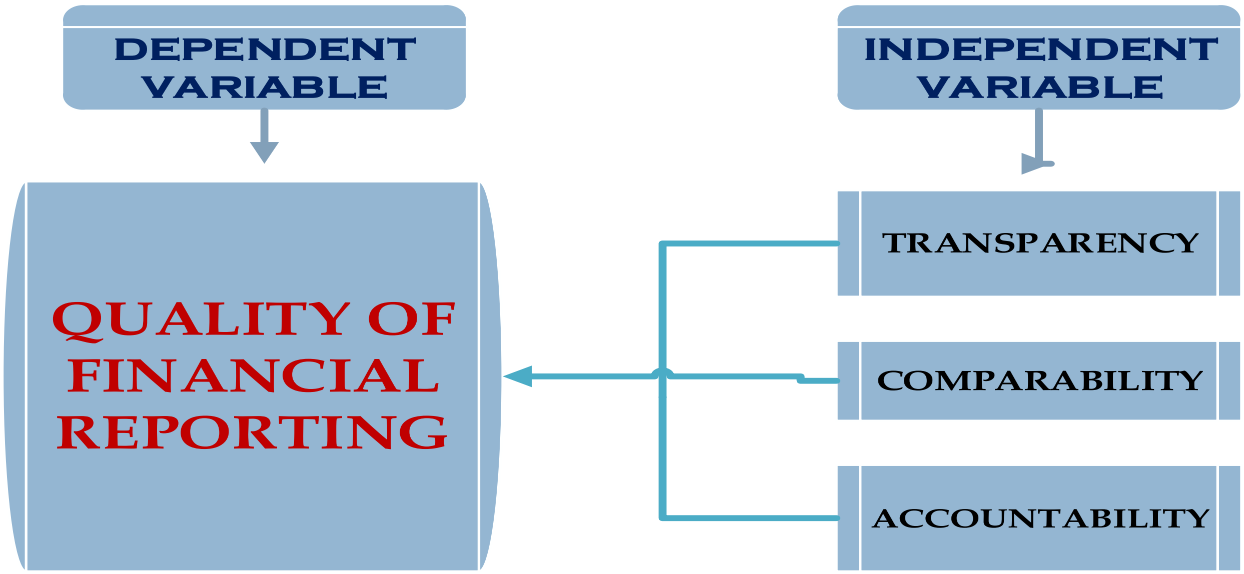

Figure 3.1 Dependent and Independent Factors.

Table 3.2 Independent Variable Factors.

Independent Variable	Factors
Transparency	Enhancing high quality of information
	Enable shareholder easily understand financial information
comparability	As a source of globally comparable information
	Enable shareholders oversees capital market,
	Attract foreign direct investment,
	IFRS would reduce the cost of preparing worldwide consolidated financial statements.
Accountability	Standards provide information that is needed to hold management to account
	Vital importance to regulators around the world
	Enable preparers or auditors committed for their profession

Source: (ISAB, 2016)**.**

CHAPTER THREE

3 RESEARCH MYTHODLOGY

3.1 Introduction

This chapter describes the methodology used in order to conduct the study. It describes the types of methods selected for data collection and analysis and the reasons for why these methods were chosen in comparison to the other alternative methods. The chapter consists of nine sections. The first four sections present the study setting, research design, study population and the sample size of the study. The sections fifth and sixth outline the data collection instrument and procedure of the study. The seventh section presents theoretical frame work measurements of variable for this study and the eighth and ninth section is about the data analysis and validity of the study. The purpose of this study is to assess the challenge and opportunities of adoption IFRS and its contribution on quality of financial reporting in the banking sector in Ethiopia.

3.2 Research Design

To conduct this study, researcher adopted descriptive statistics quantitative research approach, According to (Creswell, 2003). Quantitative research takes a particular approach to theory, answering research question and setting up a research strategy, making conclusion from results, and so forth.

3.3 Study Setting

Currently, there are about 18 private and public banks registered under the NBE. Accordingly, from the total of 18 banks, the researcher have sampled 11 banks purposively selected those who establish IFRS implementation team, that means 61% from the total number of entire population. viz. Commercial bank of Ethiopia(CBE), Awash bank(AB), Dashen Bank(DB), Bank of Abyssinia(BOA), United Bank(UB), Wegagen Bank(WB), Nib International Bank(NIB), Oromia

International Bank(OIB), Cooperative Bank of Oromia(CBO), Zemen Bank(ZB), and Enat Bank(EB).

Table 3.1: Number of Banks in Ethiopia.

	Governmental	**Private**	**Total**
Bank	1	17	18
Total	**1**	**17**	**18**

Source; NBE Annual Report, 2016.

3.4 Study Population

According to (Creswell, 2003) covering the entire companies in the study makes the study difficult. For a homogenous population this much sample size is believed to be representative. Among the 18 registered banks in the country, the researcher selected 11 banks, the population considered on this study top level, middle level and lower level managers of the selected banks IFRS implementation team under investigation.

3.5 Sample Size

Sampling is the process of choosing from a much large population, a group about which the researcher wishes to make statements so that the selected part will represent the total group(Leedy, 2013). Purposive sampling is a non-probability sampling method and it occurs when elements selected for the sample are chosen by the judgment of the researcher. Researchers often believe that they can obtain a representative sample by using a sound judgment, which result in saving time and money. So that the study used descriptive statistics from the total of 112 sample respondents selected from 11 banks who were a member of the IFRS adoption team in their respective banks, From each of the 11 sample banks, the researcher selected 13 respondents from CBE because of the volume of the bank and each 5 respondents from the rest 10 banks. Accordingly, a total of 63 respondents which represented about 56% of the target population (112) were selected.

3.6 Data Collection Instrument.

Here the researcher were employee both primary and secondary data. Primary data were collected from the appropriate sources by using predesigned questionnaires and interview, the primary data also supplemented by secondary data from all banks recent Annual Report, scientific journal and proceeding relevant to the study.

3.7 Data collection Procedures.

In order to work this research, the researcher first develop a research proposal and submitted to advisor; next the researcher incorporate comments given by advisor. The required data have been collected after obtaining permission from concerned authorities of selected banks. In this research all issues of ethics confidentiality would be respected. Data were collected from 11 banks those who have IFRS implementation team at their finance department are chosen for respondents to the research questionnaires, the researcher believes that those personnel are appropriate respondents for responding the questionnaires.

3.8 Theoretical Framework on Measurement Variable

Theoretical framework explores, describes, explains, analyzes and presents fact, principle and provisions of phenomena for better and background understanding of such phenomena(Frank, 2002) To achieve part of the research objective and to test the research hypotheses, this study used the theoretical framework with some minor modifications. In this study the dependent variable is the adoption of IFRS on quality of financial reporting, while the independent variables are transparency, comparability, and accountability. The study is interested in testing the variability of these variables. Do these variables truly in any way affect /assess the adoption of IFRS on quality of financial reporting in banking sector or not.

3.9 Data Analysis.

As explained in the preceding part, the research is designed to follow a mixed methods approach. To this end, both qualitative and quantitative analyses were used. Data collected using questionnaire were analyzed through descriptive statistics, frequency distribution, correlation and multiple logistic regression using Statistical Package for Social Scientists (SPSS-21). It helps to describe what the data look like, where the center (mean) is, how broadly they are spread in terms of one aspect to the other aspect of the same data(Leedy, 2013). The SPSS is used to find out percentages, mean values, frequencies, correlations, etc. as main means for summarizing the data. Data collected from the interview and reviews of documents are interpreted qualitatively. In analyzing the data from interviews, narrative approaches including quotations from respondents have been used.

3.10 Assessing Reliability

The reliabilities of challenges and opportunities of adopting IFRS and its contribution on the quality of financial reporting in the banking sector in Ethiopia were assessed with Cronbach's Alpha. Table 3.3, report means, standard deviations, correlations, and reliability values for each of constructs. The reliability values for all constructs are all greater than .70, which are considered acceptable.

Table 3.3 Item-Total statistics for reliability

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Squared Multiple Correlation	Cronbach's Alpha if Item Deleted
IFRS on the quality of financial reporting	13.03	4.304	.960	.925	.930
Transparency	13.07	4.097	.849	.785	.960
Comparability	13.05	4.252	.941	.897	.933
Accountability.	13.10	3.922	.866	.816	.957

Source: Statistical Package for Social Scientists (SPSS-21)

CHAPTER FOUR

4 RESULT ANDDESCUSION

This chapter include the analysis of data gathered, the research finding or result, based on the results the researcher gives discussion on the finding and also some interpretation of the result. In order to present the finding and the discussion about the Challenge and opportunities of adopting IFRS and its contribution on quality of financial reporting in the banking sector in Ethiopia: Among the 18 registered banks in the country, the researcher selected 11 banks, the population considered on this study top level, middle level and lower level managers of the selected banks IFRS implementation team under investigation, and the AABE official are conducted in the interview for this study. the researcher uses SPSS form of table and figures .

4.1 Response Rate of Respondents Banks.

A total of 63 questionnaires were administered to selected 11 banks who have IFRS project team, from the total number of questionnaires 60 were filled and returned. Data for the analysis in this study were collected from 11 banks of IFRS project team, the respondent were finance manager, division finance manager, auditors, accountants and other official. These banks are selected from registered under National Bank of Ethiopia. A response rate of 95% was achieved.

a. General Information

Table 4.2.1 General information

	Description of Value	Frequency	Percent	Valid Percent	Cumulative Percent
1. Respondent of Gender					
Valid	Male	48	80	80	80
	Female	12	20	20	20
	Total	60	100	100	
2. Age brackets of Respondents					
Valid	25-34 years	10	31.7	31.7	31.7
	35-44 years	30	50	50	81.7
	45-54 years	11	18.3	18.3	100
	Total	60	100	100	
3. Educational Background of Respondents					
Valid	BA/ BSC Degree	47	78.3	78.3	78.3
	MA/ MSC Degree	13	21.7	21.7	100
	Total	60	100	100	
4. Position in the Banks					
Valid	Top Level Management	20	33.3	33.3	33.3
	Middle Level Managements	27	45	45	78.3
	lower Level Managements	13	21.7	21.7	100
	Total	60	100	100	
5. Does your banks adopt full IFRS					
Valid	Yes	6	10	10	10
	No	54	90	90	100
	Total	60	100	100	
5. What is the difficulty encountered at the first time Adoption of IFRS					
Valid	Difficulty in understand how to implement IFRS	16	26.7	26.7	26.7
	Lack of regulation on how to implement IFRS	20	33.3	33.3	60
	Shortage of professionals in regarding to IFRS.	22	36.7	36.7	96.7
	Others	2	3.3	3.3	100
	Total	60	100	100	
7. How many years IFRS was introduced in your banks					
Valid	Less than 1 years	53	88.3	88.3	88.3
	2-5 years	7	11.7	11.7	100
	Total	60	100	100	
8. Does your Bank understand and uses proclamation No. 847/2014					
Valid	Yes	46	76.7	76.7	76.7
	No	14	23.3	23.3	100
	Total	60	100	100	
9. Did you get formal training when IFRS was introduced					
Valid	Yes	20	33.3	33.3	33.3
	No	40	66.7	66.7	100
10. If your answer for question No "9" is "No", why					
Valid	Lack of training Institutions	24	40	40	40
	Tight schedule of adoption	19	31.7	31.7	71.7
	Lack of readiness of your Bank	17	28.3	28.3	100
	Total	60	100	100	

Source: Statistical Package for Social Scientists (SPSS-21)

Based on the findings displayed on table 4.2.1 above a total of 60 respondents 80% or 48 of them are Males the remaining 12% or 10 of respondents were Females, this implies the gender distribution of officials in those banks is not balanced, on the other hand from total of 60 respondents 19 of them or 31.7% were found at the age bracket 25-34 Years, 30 or 50% of respondents were found at the age bracket 35-44 Years, and 11 or 18.3% of respondents were found at the age bracket 45-54 Years, this indicates most of respondents' in those banks were productive and Mature or from 35-44 age group are dominant with appropriate work experience and therefore they were well competent and qualified to give relevant information on IFRS which was needed for the study. Similarly educational level of the participants varied widely from a total of 60 respondents 47 or 78.3% of respondents have 1st degrees (BA/BSC Degree), and the remaining respondent 13 or 21.7% have 2nd Degree (MSc/MA Degree), this indicates most of officials are middle level professionals, this suggests our respondents give relevant and accurate information needed for the study of IFRS on the quality of financial banking sector in Ethiopia. Total of 60 respondents 20 or 33.3% of them are Top level management of the banks, 27 or 45% of them of our respondents were middle level managements and remaining respondents 13 or 21.7% were lower level managements of the banks. This implies the information gathered for this study was collected from the concerned bodies in those banks and the researcher believes that the information we get from those personals are truthful and appropriate for the study. While, a total of 60 respondents of banks were adopted or not. This question was Yes or No answer. 6 or 10% of respondent of banks were adopted or use IFRS and the remaining 54 or 90% of the respondents say that IFRS were not fully adopted by banks. With respect to the difficulty encountered at first time adoption of IFRS, 16 or 26.7% of the sample respondents reported difficulty in understanding how to implement IFRS; while 20 or 33.3% of the respondents stated that 'lack of regulation on how to implement IFRS', 22 or 36.7% of respondents' experience shortage of professionals in regarding to IFRS, and the remaining of respondents 2 or 3.3% experienced other factors.

When IFRS was introduced in this bank from a total of 60 respondents 53 of them or 88.3% of respondents were IFRS introduced in the banks less than 1 years.7 or 11.7% of them were IFRS introduced in the company's 2-5 years, this indicates most of officials in banks were not yet fully adopted IFRS and therefore they were not experienced related information on how to implement IFRS.

A total 60 respondents of banks were understanding and uses proclamation No 847/2014 dated December 5, 2014. This question was a Yes or No answer. 46 or 76.7% of respondents understands and uses proclamation No 847/2014 dated December 5, 2014 about IFRS and the remaining 14 or 23.3% of the respondents not understands and uses proclamation No 847/2014 dated December 5, 2014 about IFRS in the selected banks. On the other hand, the respondents were involved in training session or not. This question was a Yes or No answer. 20 or 33.3% of the respondents say that they were taking training activity when IFRS was introduced. 40 or 66.7% of the respondents could say that they were not involved in training activity when IFRS was introduced. 67% of respondents could say that they were not undergone training process when IFRS was introduced that means there hasn't to be a form of training when IFRS introduce banks in Ethiopia. From the total respondents of the banks 24 or 40% of respondents could say there is lack of IFRS training institution's to get formal training at the first time adoption of IFRS, 19 or 31.7% of respondents' tight schedule of adoption given by AABE, 17 or 28.3% respondents state that lack of readiness of your banks, this implies that there is high need to get training from financial institution workers.

b. Opportunities of IFRS Adoption on quality of financial reporting.

Table 4.3.1 Opportunities of Adopting IFRS.

Based on Respondent the opportunities of adopting IFRS on quality of financial reporting valuation.	N	Mean	Std. Deviation
The adoption of IFRS provides high quality financial reporting.	60	4.38	.640
IFRS improved the reporting practice in your bank better than GAAP.	60	4.32	.770
The adoption of IFRS brought about high quality with regards to transparency financial statements.	60	4.35	.755
The adoption of IFRS brought about high quality with regards to comparability of financial statements	60	4.37	.663
The adoption of IFRS brought about high quality with regards to accountability.	60	4.32	.792
IFRS helps shareholders to make better investment decisions than GAAP.	60	4.48	.792
Adoption of IFRS improves correspondent bank relationship.	60	4.22	.691
IFRS adoption improves regulation oversight and enforcement	60	4.10	.858
Valid N (list wise)	60		

Source: Statistical Package for Social Scientists (SPSS-21)

For this study eight questioners regarding opportunities of adopting IFRS also 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 4.3.1 above (with Mean=4.38; SD=0.640), the respondents agreed that the adoption of IFRS provide high quality financial statements. Similarly, majority of the sample respondents (with a Mean=4.32; SD=0.770) agreed that IFRS could really improve the reporting practice in banking sector compared to the GAAP. On the other hand, a significant number of respondents (Mean=4.35; SD=0.755) adoption of IFRS will brought about high quality financial reporting with regard to transparency of financial statements. Likewise, respondents with a Mean score of 4.37; SD=0.663, claimed that the adoption of IFRS could brought high quality financial reporting in terms of comparability of financial statements. While, respondents with Mean=4.32 & SD=0.792, indicated that the adoption of IFRS will bring about high quality financial reporting with respect to accountability. Still a significant portion of the sample respondents (Mean=4.48; SD=0.792) agreed that IFRS can help the local investors/shareholders to make better investment decisions to sell or buy shares compared to the GAAP. Some respondents (Mean=4.22; SD=0.691), on the other hand, agreed that the adoption of IFRS could improves correspondent bank relationship. Finally, moderately large number of bank officials (with Mean=4.10; SD=0.858) confirmed that the adoption of IFRS could improves regulation oversight and enforcement for regulators.

c. Challenge faced in adopting IFRS on the quality of financial reporting.

Table 4.4.1 Challenge faced in adopting IFRS

Based on Respondent the Challenges Faced in the Adoption of IFRS on quality of financial reporting valuation.	N	Mean	Std. Deviation
Adoption of IFRS makes your bank's chart of account more bulky.	60	4.52	.676
Existing NBE's minimum reporting directives do not match with IFRS standards	60	4.50	.770
There is a gap between local tax related proclamations and IFRS standards	60	4.30	.830
IFRS standards do not timely interpreted by local regulator.	60	4.52	.651
There is lack of proper instructions from local regulatory bodies.	60	4.43	.890
There is lack of expertise in setting IFRS standards	60	4.55	.675
Absence of independent valuators for fair value measurements. .	60	4.48	.701
There is delay in IFRS implementation and AABE's roadmap.	60	4.42	.743
Having no previous national Accounting standards makes the adoption process of IFRS more time consuming.	60	4.57	.647
There is no adequate number of IFRS specialists in your bank to guarantee high quality of financial Reports.	60	4.27	.800
Valid N (list wise)	60		

Source: Statistical Package for Social Scientists (SPSS-21)

For this study ten questioners for challenges faced in the adoption of IFRS on quality of financial reporting also asked for response 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 the respondents strongly agreed. Based on the findings clearly stipulated on table 4.4.1 above, most of the sample respondents (with Mean=4.52; SD=0.676) agreed that the adoption of IFRS makes the banks' chart of accounts more bulky. Likewise, a significant proportion of the sample banking sector financial executives (Mean=4.50; SD=0.770) claimed that the existing NBE's minimum reporting directives do not match with IFRS standards. Some of the sample respondents (with Mean=4.30; SD=0.830) revealed that there is a gap between the local tax related proclamations and IFRS standards, (M=4.52; SD=0.651) the respondents could strongly agree IFRS standards does not timely interpreted by local regulators, (M=4.43; SD=0.890) the respondents could agree there is lack of proper instructions from local regulatory bodies (M=4.55; SD= 0.675) the respondents could strongly agree there is lack of expertise in setting IFRS standards (M=4.48; SD=0.701) the respondents could agree Absence of independent valuators for fair value measurements. (M=4.42.; SD=0.743) the respondents could agree There is delay in IFRS implementation and AABE's roadmap. (M=4.57; SD=0.647) the respondent could strongly agree having no previous national Accounting standards makes the adoption process of IFRS more time consuming, (M=4.27; SD=0.800) the respondents could agree there is no adequate number of IFRS specialists in your bank to guarantee high quality of financial Reports.

In general, descriptive statistics of the study dependent variables is IFRS on the quality of financial reporting and the independent variable are Transparency, Comparability and Accountability. The following table (4.3.2) shows the descriptive statistics of the dependent and independent variables.

Table 4.3.2 Descriptive Statistics of dependent variable and independent variables.

Descriptive Statistics

	Mean	Std. Deviation	N
IFRS on the quality financial reporting	4.38	.640	60
Transparency	4.35	.755	60
Comparability	4.37	.663	60
Accountability.	4.32	.792	60

Source: Statistical Package for Social Scientists (SPSS-21)

The dependent variable (i.e. IFRS on the quality of financial reporting) has a mean response of 4.38 and std. of 0.640 from this it can be argued that most of the respondents were agreed that the adoption of IFRS have effect on the quality of financial reporting in the banking sector in Ethiopia. Similarly, all the independent variables (i.e. transparency, comparability and accountability) have a mean response from 4.32 (lowest) with std. of 0.792 to 4.37 (highest) mean with standard deviation of 0.663 indicating that most respondents are agreed with the question designed for each variable.

d. Correlation Analysis for IFRS on the quality of financial reporting

The researcher carried out a correlation analysis to test the relationship between the dependent and the independent variables. In this study the dependent variables is IFRS on the quality of financial reporting and the independent variable are transparency, comparability, accountability. The findings for this analysis are shown in the following.

Table 4.5.1 Correlation coefficient for determining IFRS on the quality financial reporting banking sector in Ethiopia.

Correlations

		IFRS on the quality financial reporting	Transparency	Comparability	Accountability
IFRS on the quality financial reporting	Pearson Correlation	1	.875**	.941**	.893**
	Sig. (2-tailed)		.000	.000	.000
	N	60	60	60	60
Transparency	Pearson Correlation	.875**	1	.856**	.747**
	Sig. (2-tailed)	.000		.000	.000
	N	60	60	60	60
Comparability	Pearson Correlation	.941**	.856**	1	.873**
	Sig. (2-tailed)	.000	.000		.000
	N	60	60	60	60
Accountability.	Pearson Correlation	.893**	.747**	.873**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	60	60	60	60

**. Correlation is significant at the 0.01 level (2-tailed).

Source: Statistical Package for Social Scientists (SPSS-21)

The Pearson correlation analyses confirm that there is a significant positive relationship between three independent variables (transparency, comparability and accountability) and the outcome variable. The bivariate correlation between subjective transparency and IFRS on the quality of financial reporting is 0.875, that of comparability and IFRS on the quality of financial reporting is 0.941 and accountability and IFRS on the quality of financial reporting 0.893, are significant at the 0.01 level of confidence.

e. Regression Analysis for IFRS on the quality of financial reporting banking sector in Ethiopia.

The researcher carried out a regression analysis to show the association between the independent variables with the dependent variable on the financial institutions data.

Table 4.6.1 Regression Analysis for IFRS on the quality of financial reporting banking sector in Ethiopia.

Coefficients[a]

	Unstandardized Coefficients		Standardized Coefficients		
Model	B	Std. Error	Beta	t	Sig.
(Constant)	.453	.157		2.891	.005
Transparency	.219	.060	.258	3.647	.001
Comparability	.440	.093	.455	4.717	.000
Accountability.	.245	.061	.303	4.039	.000

a. Dependent Variable: The adoption of IFRS on the quality financial reporting

Source: Statistical Package for Social Scientists (SPSS-21)

Table 4.6.2 Model summary IFRS on the quality of financial reporting.

Model Summary [b]				
Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
1	.962[a]	.925	.921	.180

a. Predictors: (Constant), transparency, comparability, accountability.

b. Dependent Variable: IFRS on the quality of financial reporting

Source: Statistical Package for Social Scientists (SPSS-21)

Table 4.6.1; shows there is significant association between the independent variables transparency, comparability and accountability with the dependent variable IFRS on the quality of financial reporting banking sector in Ethiopia; since the p-value for those independent variables are less than 0.05. And the resulting regression equation is as follows;

$$\mathbf{Y = 0.453 + 0.219X1 + 0.440X2 + 0.245X3 +} e$$

Where Y= IFRS on the quality of financial reporting,

X1= Transparency;

X2 =Comparability;

X3 = Accountability; and

e= the residual amount.

The regression equation above shows as by taking all factors into account constant at zero, the IFRS on the quality of financial reporting have a value of 0.453. And the findings presented also show that taking all other independent variables at zero, a unit increase in transparency would lead to a 0.219 increase in the IFRS on the quality of financial reporting; taking all other independent variables at zero, a unit increase in comparability would lead to a 0.440 increase in the IFRS on the quality of financial reporting; and taking all other independent variables at zero, a unit increase in accountability would lead to a 0.245 increase in the IFRS on the quality of financial reporting.

From table 4.6.2; R-Square which is the coefficient of determination is a commonly used statistic to evaluate model fitness. The adjusted R2, is also called the coefficient of multiple determination, is the percentage of the variation in the dependent variable explained uniquely or jointly by the independent variables. 92.1% of the variations in IFRS on the quality of financial reporting can be attributed to the combined effect of the predictor variables. This means that 7.9% of the changes in the changes can be attributed to other factors.

Table 4.6.3 ANOVA result for the quality of financial reporting.

ANOVA [a]

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	22.372	3	7.457	230.501	.000[b]
1	Residual	1.812	56	.032		
	Total	24.183	59			

a. Dependent Variable: IFRS on the quality financial reporting

b. Predictors: (Constant),Transparency, Comparability, Accountability.

Source: Statistical Package for Social Scientists (SPSS-21)

Table 4.6.3; show the P-value of 0.000 indicates that the regression relationship is significant in predicting how the three independent variables transparency, comparability and accountability influence the IFRS on the quality of financial reporting. The F critical at 5% level of significance is 0.03. Since F calculated is 230.501 is greater than the F critical (value = 0.03) thus showing that the model is significant.

CHAPTER FIVE

5 CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter presents conclusions and recommendations of the results. It has four sections; the first section presents conclusions of the study. The second section presents recommendations on conclusion of the study, the third section presents possible future research areas on IFRS.

5.2 Conclusions

This study is focus challenges and opportunities of adopting IFRS on quality of financial reporting in banking sector in Ethiopia, the study used document analysis (proclamations, legislations, directives, annual reports, papers on IFRS and other documents), and self-administered questionnaire distributed to top level, middle level, lower level managers of selected banks IFRS adoption team. questionnaire data were analyzed using descriptive statistics, correlations, and multiple linear regression

Three research questions were developed and tested in this study.

- ❖ The first question is to access the components of quality financial reporting (i.e. transparency, comparability, and accountability) that could affect quality financial reporting in the process of adopting IFRS.
  1. Transparency is one of independent variable that could affect the quality of financial reporting (dependent variable), the result indicate that all respondent could agree on transparency of financial reporting and quality of financial reporting have positive relationship.
  2. Comparability is the other independent variable that could affect the quality of financial reporting, the result show that all respondent could agree on comparability of financial reporting and quality of financial reporting have significant relationship.

3. Accountability is the last independent variable that could affect the quality of financial reporting and quality of financial reporting has positive relationship.

In general, ensuring quality financial reporting depends on effective Institutional Control, having transparency, comparability, accountability & availability of technical skills. Merely adopting IFRS is not enough. Each interested party, shareholders, independent auditors and accountants, training providers, regulators and standard setters will have to come together and work as a team for a smooth IFRS adoption in banking sector in Ethiopia.

❖ The second question is to understand the challenges faced in the process of adoption IFRS on quality of financial reporting banking sector.

  The main challenges in the process of adopting IFRS on the quality of financial reporting include significant gap in minimum reporting requirements between NBEs and IFRS standards, lack of readiness to implement within the time frame set by the board, lack of adequate guidance from concerning bodies, lack of active market and independent valuators to know fair value of the asset, and lack of skillful IFRS professionals are some of the key challenges that affect the quality financial reporting.

❖ The last question the opportunities gained due to the adoption of IFRS on the quality of financial reporting in banking sector.

  The opportunity gained due to adoption of IFRS are it bring transparent, comparable and accountable quality financial reporting, it improves correspondent bank relationship, provide high information symmetry for investors to buy and sell their share, it attracts foreign direct investments, this would reduce foreign currency scarcity to balance the import and export activities of the banks.

Finally, all top Management of banks should ensure that the Financial Statements are prepared in compliance with the IFRS. Internal/External Auditors and Accountants should prepare and audit financial Statements in compliance with IFRS. Regulators and standard setters must implement efficient monitoring system of regulatory compliance of IFRS along with this the regulators should ensure that proper changes are to be made in existing laws for IFRS transition to smoothen adoption process. In order to ensure timely transition to IFRS the board has currently started to provide large number of trained Accountants and Auditors in IFRS. Why? Ethiopia financial institutions currently does not have the sufficient number of IFRS qualified professionals to prepare quality financial reporting for banking sector. Only enforcement mechanism will not help the adoption of IFRS with high quality but an external Advisor also required with all these systems in places, the IFRS adoption in banking sector in Ethiopia will become very smooth and accurate. "as per interview of NBE and AABE officials."

This paper has been conducted to critically examine the factors that could influence the adoption of IFRS on the quality of financial reporting banking sector in Ethiopia. The Pearson correlation and multiple linear regression analysis have been used for the study and the result reveals that variables including transparency, comparability, accountability have showed significant effect on the quality of financial reporting on the adoption of IFRS in Ethiopia banking sector.

5.3 Recommendation.

The conclusions also disclose that there is a grave problem in relation to the detailed application and adoption of IFRS on the quality of financial reporting banking sector in Ethiopia. This implies that the concerned regulatory bodies such as the NBE,AABE and others should strictly follow the application of all the standards. If these standards are adopted and not applied, they become valueless. To ensure a smooth switch from the existing inconsistent accounting Standards to IFRS, Continuous training to staff and addressing all the difficulties that would be experienced while carrying out the adoption of IFRS with quality financial reporting.

IFRS is principally meant to promote the interest of public interest entities and in particular to enhance their access to inexpensive funds from international capital markets through the presentation of transparent, comparable and accountable financial reporting attached in full disclosures and also public entities need to own the adoption process as well as work closely with professional bodies, so that they can positively impact the standard setting process.

Finally, the findings reveal that there are various factors that influence the adoption of IFRS on quality of financial reporting banking sector in Ethiopia. The study found statistically significant relationship between Independent variable and the quality of financial reporting in adoption of

IFRS. Based on the findings of the study, it is essential that the actors to support and engage themselves for smooth adoption of IFRS. There should be AABE to collaborate with the ministry of education and Professional association outside Ethiopia in order to spread the promulgate knowledge of IFRS, since adoption of IFRS could lead to increased foreign direct investment and access to finance, which in turn may lead to economic growth of Ethiopia.

5.4 Future Research Areas

IFRS is an extensive scope of accounting which cannot be dealt with in its entirety in one study alone. This study focused on the challenges and opportunities of adopting IFRS on the quality of financial reporting and Factors that could explain the successful adoption to IFRS standards in Ethiopia banking sector. However, it would be highly appropriate for future research to be conducted on the issue of having high quality financial reporting attracts; Foreign direct investment and participating in active capital market worldwide. This would reduce foreign currency scarcity to balance the import and export activities. How small and medium scale enterprises adopt and comply with IFRS tailored for them could also be considered as another area for future research. Finally, this study attempted to focus on the factors affecting the adoption of IFRS on the quality of financial reporting banking sector in Ethiopia. Even though the research found some important factors affecting the implementation of IFRS, the researcher advocates more studies to be conducted in the area.

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Annex .1

St Mary University

School of Graduate Program

Masters of Science in Accounting and Finance

Questionnaire on, Challenges and opportunities of adopting International Financial Reporting Standards (IFRS) and its contribution on the quality of financial reporting in the banking sector in Ethiopia.

Dear Respondents,

This questionnaire is designed to explore, the challenges and opportunities of adopting IFRS and its contribution on the quality of financial reporting in the Banking sector in Ethiopia. This study is conducted in partial fulfillment of the requirements for the Master's Degree in Accounting and Finance at St. Mary University school of Graduate studies.

Your response is vital to the outcome of the study and you are politely requested to answer all questions completely and objectively. The research is going to be carried out based on your response and other relevant data that could support it. It from of a major part of the research and the information you will enable the researcher to critically analyze challenges and opportunities of adopting IFRS on the quality of financial reporting in banking sector.

Your cooperation to respond genuinely is very valuable to this study because it represents in the sample. Please answer all questions. Spaces provided at the end of questionnaire for you to add further explanations or comments. I would promise that all information you provide would be strictly confidential. Please tick **(✓)** or provide your own answer applicable.

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

Name: ***Yetneberk Abebe***

MBA in Accounting and Finance student at St Mary's University school of graduate studies.

Telephone: **+251 913 83-86-09**

PART 1. General Information

1. Gender

☐ Male

☐ Female

2. Age Bracket

☐ Less than 25 Years

☐ 25-34 Years

☐ 35-44 Year

☐ 45-54 Years

☐ Over 55Years

3. Educational Background

☐ Diploma

☐ BA/BSC Degree

☐ MSc/ MA

☐ Other Specify _______________

4. Your Position in the banks.

☐ Top Level Managements.

☐ Middle Level Managements.

☐ Lower Level Managements.

5. Does your company fully adopt IFRS?

☐ Yes

☐ No

If No, why? ____

6. If your answer for question No.5 is ‘Yes’, What difficulty you encountered at first time adoption of IFRS?

- ☐ Difficulty in understanding how to implement IFRS
- ☐ Lack of regulation on how to implement IFRS.
- ☐ Shortage of professionals in regarding to IFRS.
- ☐ Other Specify ____

____

7. Number of years since IFRS was introduced in your Bank?

- ☐ Not applicable
- ☐ Less than 1 years
- ☐ 2-5 years
- ☐ 5-10years

8. Does your Bank understand and uses proclamation No. 847/2014 dated December 5, 2014 about IFRS on Share Company?

- ☐ Yes
- ☐ No

If No, please Specify ____

____

9. Did you get formal training or seminar on first time adoption of IFRS?

- ☐ Yes
- ☐ No

10. If your answer for question No “9” is “No”, why

- ☐ Lack of training Institutions
- ☐ Tight schedule of adoption
- ☐ Lack of readiness of your Bank

Other, please specify____

____

PART 2: Adoption IFRS on Quality of Financial Repotting

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

S.NO	Bases of Respondent for Opportunities of adoption of IFRS on Quality of Financial Reporting Evaluation	1	2	3	4	5
1	The adoption of IFRS provide high quality financial statements.					
2	IFRS has really improved the reporting practice in your bank better than GAAP.					
3	The adoption of IFRS has brought about high quality in financial reporting with regards to transparency financial statements					
4	The adoption of IFRS has brought about high quality in financial reporting with regards to comparability of financial statements					
5	The adoption of IFRS has brought about high quality financial reporting with regards to accountability.					
6	IFRS helps shareholders to make better investment decisions than GAAP.					
7	Adoption of IFRS improves correspondent bank relationship.					
8	IFRS adoption improves regulation oversight and enforcement.					

PART 3: Challenges Faced in the Adoption of IFRS in Banking Sector.

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

S.NO	Based on Respondent the Challenges Faced in the Adoption of IFRS on quality of financial reporting valuation.	1	2	3	4	5
1	Adoption of IFRS makes your bank's chart of account more bulky.					
2	Existing NBE's minimum reporting directives do not match with IFRS standards					
3	There is a gap between local tax related proclamations and IFRS standards					
4	Lack of IFRS standards timely interpreted by local regulator.					
5	There is lack of proper instructions from local regulatory bodies.					
6	There is lack of expertise in setting IFRS standards.					
7	Absence of independent valuators for fair value measurements.					
8	There is delay in IFRS implementation and AABE's roadmap.					
9	Having no previous national Accounting standards makes the adoption process of IFRS more time consuming.					
10	There is lack of adequate number of IFRS specialists in your bank to guarantee high quality of financial Reports.					