

An Assessment of Challenges and Prospects of International Financial Reporting Standards (IFRS) in United Bank S.C

Tsion Tsehay, Eyuel Alemayehu and Hana Aynalem, St. Mary's University

Abstract

This study examines the implementation of International Financial Reporting Standards (IFRS) in United Bank S.C. by focusing on processes, practical challenges and prospects, of implementation IFRS as the way forward. The study adopts a qualitative research approach. Specifically, the study uses in-depth interviews with key informants from the Financial Department and other related offices, IFRS implementation team leaders, and from among those who prepare financial statements. In addition, the study employs data obtained through document reviews. The result of the study reveals that implementation of IFRS in United Bank benefits the bank as well as the country by enhancing the quality and comparability of financial reporting, reducing the inconsistent and fragmented financial reporting. Moreover, attracting foreign direct investments increases the Bank's performance. However, the overall finding shows that implementing IFRS is infested with a multitude of challenges of which lack of competent human resources with IFRS knowledge, lack of top management's support, lack of strong regulatory and enforcement institution, and, lack of strong accounting practices in the country are some of the prominent ones. This study suggests that to support the sustainable implementation of IFRS and to strengthen the regulatory body and enforcement institution, adequate resources must be put in place.

Keywords: International Financial Reporting Standards, United Bank, Ethiopia

I .Introduction

1.1. Background of the Study

Accounting provides companies, investors, regulators and others with a standardized way to describe the financial performance of their respective entities. Accounting standards is presented by preparers of financial statements according to relevant accounting standards. These standards are known as International Financial Reporting Standards (IFRS). The term International Financial Reporting Standards (IFRS) is basically known as a single set of accounting standards, developed and maintained by the International Accounting Standards Board (IASB) and globally applied on over 150 countries. Ethiopia accepted this standard on 5th December 2014. Ethiopia adopted IFRS as its financial reporting framework (Financial Reporting Proclamation 847/201), recognizing the importance of high quality financial reporting and its contribution to improved financial management and that it is necessary to attract investment and harmonization of financial reporting standards across the world.

The Government of Ethiopia, in 2014, passed the Financial Reporting Proclamation as 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. Also, related to the proclamation, the Council of Ministers issued a regulation setting up the oversight board – the

Accountants and Auditors Board of Ethiopia (AABE). The Board plans a three phase transition over a period of three years for reporting entities in Ethiopia.

Phase 1: (Mandatory Adoption of IFRS) Significant Public Interest Entities - Financial Institutions and public enterprises owned by Federal or Regional Governments

Phase 2: Public Interest Entities (ECX member companies and reporting entities that meet Public Interest Entities quantitative thresholds) and International Public Sector Accounting (IPSA) for Charities and Societies,

Phase 3: Small and Medium-sized Entities, IFRS for SMEs shall mandatorily be adopted as of July 8, 2018. This means that all Small and Medium-sized Entities in Ethiopia will statutorily be required to issue IFRS based financial statements for the year ending July 7, 2019. (AABE Nov. 2015)

Ethiopia has recognized the need for accepting those financial reporting standards that were set out by IASB and private banks in Ethiopia were required to report their financial reports based on IFRS to provide for banking business under Proclamation No.592/2008 which was issued on the 25th of August, 2008. United Bank was prepared in accordance with IFRS in June 2018.

1.2 Statement of the Problem

Due to lack of academic empirical studies on the association between changes in accounting standards convergence and Accounting quality of financial institutions such as banks, in terms of earnings management and value relevance has resulted in the precarious functional status of financial institutions particularly banks. Therefore, nowadays the necessity to adopt modern financial standards especially, IFRS has become quite crucial (Olano et al, 2014). Hence, the purpose of this study is to provide the theoretical and practical application of IFRS in relation to the United Bank S.C. Many researchers have conducted researches to know the advantages and disadvantages of these movements and the reasons for adopting and implementing them. IFRS improves the quality of financial reporting at country level, which improves the business environment in a country, contributing investment attraction and improved economic activity, ultimately reducing the level of poverty in a country. IFRS is a high quality financial reporting framework. It is an international language for financial reporting and as such investors and other users of financial statements 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 of high quality. Therefore, there is no need to have a separate language for developing countries.``(comments of Interviewee).

According to (IASB, 2014) as cited in (Olano et al, 2014), moving to IFRS has had a major challenge on the reporting requirements of financial institutions. According to (Bhattacharije and Islam, 2009; Grant Thornton LLP, 2011), IFRS are accounting rules that are principle based, market oriented and globally recognized and accepted, and published to require more extensive disclosure in comparison with the previous standards, generally accepted

accounting principle (GAAP). In addition to this, IFRS is a principle-based framework of international accounting standards; the standards themselves do not detail a work plan for firms on how to account for any given issue but to GAAPs which are rules-based. (Lundqvist et al., 2008). The standards contain a conceptual framework for their adoption and interpretation (The Framework for the Preparation and Presentation of Financial Statements (IFRS standards, 2010), which is not a process-oriented structure for implementation (Lundqvist et al., 2008; IFRS standards, 2010; Macve, 2010). So this may lead high cost of implementation of IFRS, low level of awareness among employees and institutions and users of Financial Statement, and difficulties in understanding the effect of IFRS on various institutions of the economy and their economic operations.

The levels of awareness and practice of implementation of IFRS by private banks in the country have not been sufficiently documented. In spite of the recognition of the immense contribution of private banks to sustainable economic development in the country, their performance in financial reporting still falls below the expectation of this study. Evidence abounds that many of the private banks in Ethiopia have prepared their reports using other reporting approaches that are not compatible with the principles of IFRS. Therefore, the move to IFRS has created huge research opportunities and this study similarly aims to assess the challenges and prospects of IFRS implementation in United Bank.

The reason for the selection of this bank is, because United Bank has a vision to be one of the top 5 private banks in east Africa based on asset size; and one of their objectives is to comply with international accounting standards. In order to achieve such an objective, it has stated and adopted accounting policy that follows IFRS and has communicated this to all users. But they lack adequate empirical evidence in the convergences of their existing accounting system to IFRS Ethiopia context, which supports the research finding as one of the limitations. Therefore, this study is initiated to study the challenges and prospects of implementing IFRS in United Bank.

1.3 Research Questions

1.3.1 What are the key challenges of implementing (practically applying) IFRS in United Bank?

1.3.1 What are the factors affecting the implementation of IFRS?

1.3.2 What are the prospects of implementing international financial reporting standard (IFRS) in United Bank?

1.4 Objective of the Study

General Objective

1.3.3 The major objective of the study is to assess the challenges and prospects of IFRS implementation in United Bank.

Specific Objective

1.3.4 To assess the key challenges of implementing (practically applying) IFRS in United Bank;

- 1.3.5 To determine factors that affect the implementation of IFRS in the bank; and
- 1.3.6 To identify general prospects for IFRS implementation in United Bank.

1.5 Significance of the Study

The result of the study will help the bank to understand the challenges and prospects of its implementation of IFRS. Therefore, hopefully that United Bank will take all the necessary measures to overcome the problems of implementing the system in the future following the findings and recommendations. Furthermore, the findings of this study may help the second and third phase adopters to prepare and get ready for implementing IFRS by taking proactive actions on potential challenges and prospects that may happen during their implementation; and it will also be used as an additional reference material and a spring board for other researchers who may wish to conduct research on similar areas.

1.6 Scope or Delimitation of the Study

It would be vital to conduct a study in the case of all significant public interest entities which are in the first phase of implementation of IFRS. However, due to time and financial constraints, and seeking the flexibility of the data collection method, this study will cover the challenges and prospects of IFRS implementation of United Bank. In light of the limited research that exists on International Financial Reporting Standards and its implementation within the bank context, the study is built on the current body of knowledge and studies conducted in the context of other countries. Geographic boundary is a very relevant concept to express the research whether it is nation wide or regionally based research. To understand the research, the focus tends to be the head office, because this research paper will enhance the performance of the head office as a functional institution.

2. Research Design and Methodology

2.1 Research Design

- This research was a descriptive research; it used questionnaire and interview as data collection tools. The survey was a qualitative one and as a result of that, the research questions were intended to suit qualitative analysis.

2.2 Population and Sampling techniques

- The sampling technique used for the purpose of this study was smack random sampling technique. In order to select relevant respondents, accurate random sampling was employed; the population was the Head Office and samples were selected from each stratum. From each of the few samples from the Bank, the researcher selected 69 respondents who have understanding and expertise in the banking sector. Employees working in the banking /financial/ operation who are expected to give answers to the research questions were selected in this study.

2.3 Data Sources

- For the purpose of this study, both primary and secondary data were used. The questionnaire and interviews were used as the principal source of primary data gathering.
- Data were collected from annual report of the Bank and other related materials from different published and unpublished research papers, books published by scholars, teachers and professionals. Internet web sites were the source of unpublished books, journals, and research papers.

2.4 Data Collection Procedures

○ Questionnaire

- For this research, a total of 69 questionnaires were distributed to the head office financial managers, employees and members of the implementation and analysis team during the working hours. Due to various reasons, a total of 63 questionnaires were collected.

○ Interview

- In undertaking this research, face-to-face semi structured interview was used to gather information from the top financial management.

2.5 Data Analysis

Most of the data were more of qualitative in nature, thus they were summarized and presented using descriptive statistical tools like percentage of frequency counts and ratio. Furthermore, tables were used to facilitate the analysis and to make it presentable for the readers. After the responses were analyzed on the respective table, explanation was given regarding the practice of challenges and prospects of implementing IFRS in United Bank. Then, conclusion was arrived at based on the responses.

2.6 Limitation of the Study

The major limitation of the study was lack of time and finance, to accessibility of the respondents, and the data was collected from a small convenience sample of employees in United Bank. In addition, the study was conducted under the current situations and knowledge of the subject matter because researches on the implementation of IFRS were very limited in developing countries particularly for banks in Ethiopia.

3. Review of Related Literature

Theoretical Literature Review

The increasing growth in cross-border financial transactions, international trade, and investments unavoidably involves the preparation and presentation of accounting reports. With the increasing globalization of the market place, international investors need access to financial information based on harmonized accounting standards and procedures (Bekel, 2011). These reports are useful across various national borders and have brought about the development of International Accounting Standard (IAS) which was first published in 1975

by the International Accounting Standards Committee (IASC). Since then, the process for setting international accounting standards has undergone substantial evolution, culminating in the 2001 restructuring of the IASC into the International Accounting Standard Board (IASB). International Financial Reporting Standards (IFRSs) are accounting standards developed by the International Accounting Standards Board (IASB). Many countries have adopted the IFRS as their official domestic accounting standards. Each country adopting IFRS undergoes a transition process in the year of adoption. This process may be fairly disruptive for users of financial statements as accounting treatments of similar items may vary, and impair comparability and trend analysis. The IFRSs provide provision to remove allowable accounting alternatives (that existed in most countries under their respective local GAAPs) and requires accounting measurements that better reflect a firm's economic position and performance (Taibat and Adikwu, 2018).

International Financial Reporting Standard (IFRS)

IFRS stands for International Financial Reporting Standard's and they are standards for reporting financial results, and for general purpose financial statements and other financial reporting. In an increasing global economy, the use of a single set of high-quality accounting standards facilitates investment and other economic decisions across borders, increases internationalization of economic trade and the globalization of businesses and financial markets; financial information prepared according to a national accounting system may no longer satisfy the needs of users whose decisions are more international in scope (zeghal & mhedhbi 2006).

Achieving consistency in financial reporting worldwide is a timely issue, especially if meaningful implementation is to be made of financial information emanating from different countries. Using accounting standards that have been used until recently, were vastly different from each other. Thus, there has arisen the urgent need for promulgation of a common set of global accounting standards or in other words global convergence into a common language of accounting for the financial world (Mirza et al.2006).

Overview of the Ethiopian Banking System

Modern banking in Ethiopia started in 1905 with the establishment of the Bank of Abyssinia, which was based on a fifty year franchise given to the British-owned National Bank of Egypt. It has landmark significance in introducing financial services, which were hitherto unknown in the country (Alemayehu, 2006).

The change of government in 1991 and the consequent changes in economic policy witnessed another transformation in the banking industry. Monetary and Banking Proclamation of 1994 established the National Bank of Ethiopia (NBE) as a judicial entity, separated from the government and outlining its main functions. Monetary and Banking proclamation No.83/1994 and the Licensing and Supervision of Banking Business No.84/1994 laid down the legal basis for participation of the private sector in banking business, which had been completely prohibited during the Dergue regime. Shortly, the first privately owned commercial bank, Awash International Bank, was established in 1994. Afterwards, additional

seven privately owned banks were established. The state owned Commercial Bank of Ethiopia (CBE) dominates the market in terms of assets, deposits, bank branches, and total banking work force. NBE aims to foster monetary stability and a sound financial system, maintaining credit and exchange conditions conducive to the balanced growth of the economy. United Bank is one of the private share companies (commercial bank) domiciled in Ethiopia. The Bank was established on 10 September, 1998 in accordance with the provisions of the Commercial code of Ethiopia of 1960 and the Licensing and Supervision of Banking Business Proclamation No. 84/1994.

Ethiopia Status in the Adoption

Even though Ethiopia has existed as an independent country throughout its recorded history, it has had periods of very open relationships with Western powers – especially Britain and USA. Modern accounting was introduced into Ethiopia in 1905. After going through a process the last 6 years, the Ethiopian government issued Proclamation No.847/2014 Article 5(1) to adopt International Financial Reporting Standards (both full-IFRS and IFRS for SME) for the purpose of preparing financial statements in December, 2014. Article 5 of Chapter Three of the proclamation which is entitled as “Applicable Financial Reporting standards” stipulates the following: “The financial reporting standards to be used when preparing financial statements shall be: a) International Financial Reporting Standards; or b) International Financial reporting Standards for Small and Medium Enterprises, issued by International Accounting Standards Board or its successor; and c) International Public Sector Accounting Standards Applicable to Charities and Societies issued by International Public Based on the proclamation AABE, which is accountable to the Ministry of Finance and Economic Development (Art.3/2/ of Regulation 332/2014). According to Article 5 of 332/2014, the Board shall have the following objectives: (1) Promoting high quality reporting of financial and related information by reporting entities; (2) Promoting the highest professional standards among auditors and accountants; (3) Promoting the quality of accounting and auditing services; (4) Ensuring that the accounting profession is used in the public interest; and (5) Protecting the professional independence of accountants and auditors. According to Article 4(2) of proclamation No.847/2014, the Accounting and Auditing Board of Ethiopia (AABE) shall have the following powers and duties to: (1) Issue standards and directives related to financial reporting and auditing and ensure compliance therewith; (2) Conduct inquiry or investigation and impose administrative sanction in accordance with the provisions of the proclamation, where appropriate, on public interest entities and public auditors to enforce compliance with financial reporting and auditing standards; and (3) Cooperate with, or become a member or an affiliate of, any international body, the objectives or functions of which are similar to or concerned with those of the Board.

Implementation of IFRS

In the preparation of AABE’s Five Years Strategic Plan Document (2015/2016 to 2020/2021), implementation of IFRS in the country is not uniform and is still in the early stages of transition, requiring a Road Map and implementation support. The Road map is already set by AABE.

There are few audit firms in the country and all firms are small size practitioners and are weak in terms of technical capacity and other resources. The quality of services provided by authorized accountants and auditors are not at par with the international standard; and the accountancy profession has been rules - based and moving to principles based IFRS requires cultural changes supported by extensive education over the years.

Criteria for implementing IFRS

Expertise Finance and Accounting (2008) consider the following criteria to assess countries'/companies' readiness to implement IFRS:

1. Tone at the top set by senior management

Helping top executives understand the operational and decision-making value of implementing IFRS will ensure that appropriate resources are available for the transition effort.

2. Well-documented policies and procedures

If companies have good policies and procedures in place, the amount of restructuring and consolidation work to implement IFRS will be significantly reduced. Good policies and procedures are the foundation for assessing the impact of IFRS on the organization and gaining efficiencies from the globalization of the finance function.

3. Existence of skilled IFRS resources

While reducing the overall implementation cost by reducing dependence on outside resources, this experience will be key to completing the initial financial statement impact assessment to determine how quickly the organization needs to begin preparing to file under IFRS.

4. Existence of IFRS knowledge in key line and operational positions outside of finance

One risk is that companies focus on training finance personnel on IFRS while business managers are untrained and unable to understand their internal reporting results. Companies should identify the extent to which financial information is distributed within the enterprise and articulate a strategy for preparing key stakeholders to use the financial information.

5. Existence of other key skilled resources

The implementation will require a broad range of skills project management, process management, information technology, tax, internal controls, etc. It is wise to pull teams together during the assessment phase to cover the breadth of issues faced.

6. Organizational capacity for making accounting judgments

These restrictions also apply to the more principle-based IFRS. Locking in those relationships early may prevent resource shortages, audit issues and material weaknesses later.

7. Centralization of operations and complexity of organization

Companies with centralized finance and control functions that have begun implementing common accounting systems and processes will be substantially ahead of the curve. They will be able to reap the benefits of a faster implementation of IFRS, leveraging the standards to institutionalize this approach further.

Empirical literature

The principle-based characteristic of IFRS is a demerit, as reporting entities can easily manipulate the financial report through creative accounting. IFRS is, however, a fair-value,

principle-based standard with the potential to improve reporting qualities enhance international comparability, exhibit more information disclosure, and increase transparency of accounting information.

According Jermakowicz, (2004), IFRS conversion has many challenges such as increased volatility of earnings, high cost of implementation, complex nature of IFRS and problems related to the implementation guidance. The adoption and implementation of international standards in a country takes place in an environment that is affected by factors unique to that country (the economy, politics, laws and regulations and cultures).

Research Gaps

With the advent of globalization, global capital markets have witnessed rapid expansion, diversification and integration. This has brought about a shift away from local financial reporting standards to global standards. Because of the advantages it provides to countries, multinational companies and regulators, many countries adopt International Financial Reporting Standards.

The financial reporting process is concerned with providing information that is useful in the business and economic decision-making process. IFRS are meant to facilitate the financial reporting process. United Bank have started preparing IFRS financial statements since 2018. The financial reporting standards started when the NBC recommended after six years. This shows the good implementation of IFRS. Nevertheless, it doesn't mean there was no gap or challenge. The study mentions that the implementation was so hard due to so many reasons. Those challenges were growing bodies of literatures reveal that more complex financial reporting requirements resulted in increased implementation costs, and shortage of resources with expertise in IFRS. The ability of amendments to regulatory requirements, tax laws, and impact on IT systems are the main challenges of International Financial Reporting Standards (Iyoha and Faboyed 2011). Although the implementation of IFRS renders many benefits, it poses many challenges. Various literature revealed challenges in the process of IFRS adoption and implementation. There is a need for amendment to regulatory requirements and tax laws, high implementation cost, more complex financial reporting requirements, shortage of IFRS specialists. These are the major challenges and should be considered as a gap. IFRS implementation is not an easy task as it requires a country's huge amount of resources, and results change the laws of the countries and the bank. Although a few studies have been conducted to assess the Bank's implementation of IFRS, most of the studies focus on the analysis of the data on implementation and they tried to see its challenges from cost perspectives. They failed to see practical challenges of implementing IFRS in United Bank S.C. by taking the complete set of IFRS implementation teams. Therefore, this study makes an attempt to bridge this gap and offer an explanation that could influence the implementations of IFRS in United Bank.

Conceptual Framework

A conceptual framework is a structure which the researcher believes can best explain the nature of progression of the phenomenon to be studied (Camp, 2001). In this section, we will try to depict any variable that illustrates the key relationship between the dependent variable

(the implementation of IFRS in United Bank) and independent variables (factors affecting the implementation of IFRS such as institutional capacity, enforcement issues, technical issue etc).

3. Presentation and Analysis of Data

3.1 Introduction

This section explains and discusses the result of findings based on the analysis done on the data collected from private banks. The results of the study were discussed by summarizing the different results obtained from questionnaire. The discussion tried to complete the objectives of the study and answer the research questions. For this research, a total of 69 questionnaires were issued to the head office financial department. Due to several reasons, a total of 63 questionnaires were collected.

3.2 Demographic Characteristics of the Respondents

3.2.1 Gender Distribution of Respondents

The demographic data for gender depicted that out of the 63 respondents, there were 42 males and 21 females. The male respondents formed the majority of the target population with a percentage of 66.67 %, while female respondents were represented by 33.33 %

3.2.2 Age Distribution of Respondents

The population was largely dominated by respondents of 26 – 33 years of age, which means 35 employees constitute 55.4%, followed by age group of 34 -41, 16 employees i.e. 25.4 % , and also 7 employees were between the age of 18 – 25 which is 11.11 %. The rest of the respondents were beyond 42-59 years which means 5 employees 7.9%.

3.2.3 Education level of Respondents

Most of financial employees of the Bank are Bachelor and Master's degree holders. The majority of the group hold Bachelor degree which accounts to 53 (84 %), and 10 (15.8%) of the respondents hold master's degree in accounting and finance. And since the entire respondents were educated, it can be concluded that all groups are capable of understanding and answering the questions in the questionnaires.

3.2.4 Working Experience of Respondents

Work experience is the experience that a person has in a job, or working in a specific field or occupation; and the work experience of respondents were found that 27 of the employees had five to eight years work experience, which is 42.9%.; 22 employees had more than eight years, which is 35 %. This for the bank means there was a number of experienced employees; and the rest 14 had under one year up to four years. Such experienced respondents have assisted to clear identification of the challenges and prospect of implementing IFRS in the bank industry. All the work experiences focus only the time employees were working for the Head Office.

3.3 Analysis of the Respondents Answer on Implementing of IFRS in United Bank

The survey asked respondents questions related to general knowledge about the implementation of International Financial Reporting Standards (IFRS) in their company. The first question that they were asked was, ‘when did your Company start using IFRS and state the year’, respondents stated that the Bank started implementing IFRS on 30 June, 2018, and it was the first report that the bank had prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Respondents were also asked to mention the previous accounting standards they used to prepare financial statements; and most of them mentioned that the bank was applying Accounting Framework of Generally Accepted Accounting Principle (GAAP) which was the requirements of commercial code of Ethiopia, 1960 and the banking business proclamation no, 592/2008 as their previous standard. This result shows that before starting implementing IFRS, the banks were using a collection of commonly followed accounting rules and standards for financial reporting called GAAP.

In relation to the respondents perception regarding the previous standards and IFRS, more than half of the respondents indicated that IFRS was more preferable to the previous one because it is transparent for users and important for great comparability. Banks should use the same standards to prepare their financial statements that can be compared to each other more accurately. This is particularly important compared to banks located in different countries, as they might otherwise be using different rules and methodologies to prepare statements. Also respondents mentioned that IFRS is more flexible than generally accepted accounting principles and gives a freedom to adapt IFRS to their particular situation, which leads to more easily read and useful statements. A few respondents stated that GAAP was their preference. They stated that most of the accounting professionals with job duties related to reporting financial information were well- versed and experienced in GAAP.

3.3 The Descriptive Analysis of Response on Factors that affect IFRS Implementation in United Bank S. C

Here it was tried to discuss the entire question regarding the challenges of implementing IFRS in United Bank with financial managers and employees assistant. The challenges of IFRS implementation show, as the average respondents agree, with the listed challenges existing during the implementation of the standard, with the standard deviation less than one and around one indicating that the respondents perception were close to one another.

3.4.1 Institutional Issue

In this context institutional issue refers to the overall company issues that were related to plans of the company on how to implement IFRS, the manager’s experience to the implementing of IFRS, IFRS implementation guidance to every employee in the Bank and the cost associated with implementing IFRS and the benefit of the company. As a result, 76% of the respondents strongly disagreed and 24% of them disagreed about the lack of proper

planning of the bank to implement IFRS. This result indicated that United Bank was taking proper planning guidelines for the implementation of IFRS.

Secondly, the respondents were asked “Does the manager have experience to the implementation of IFRS?” 25% were neutral with the statement, 9.5% strongly disagreed, 65% of the respondents disagreed . This result indicates that the managers have had lack of experience in the implementation process.

The majority (84%) of the respondents strongly agreed about the lack of local IFRS implementation guidance and 11.1% of the respondents agreed. This implies that it is a challenge to every employee in the bank.

52% of the respondents strongly disagreed that the cost associated with implementing IFRS outweighs the benefit of the company. The overall response indicates that the benefit of association with implementing IFRS outweighs the cost the company and this indicates that using IFRS was relevant and enhanced the capacity of the bank.

3.4.2 Enforcement Issues

Enforcement issue refers the governmental regulatory institutions that have bearing on the implementation of financial reporting standards. The responsibility of enforcing IFRS is mainly the Accounting and Auditing Board of Ethiopia (AABE) which is responsible for ensuring compliance with financial reporting standards. This authority plays important roles in enforcing financial reporting requirements. In the enforcement issue we were trying to collect respondent’s opinion related to the time period of transition of implementing IFRS, translating and ongoing updating of IFRS into local languages by the enforcement body and the collaboration AABE with the NBE, ERCA and other related bodies.

The respondents were asked whether there was lack of adequate and sufficient transition period of implementing IFRS. 69% of the respondents strongly agreed and 30.2% agreed on lack of sufficient transition period by enforcing body. Therefore, these findings reveal that the period that was given to the banks by the enforcement institution to translate the previous principle into the new accounting system was not adequate and sufficiently enough.

79% of the respondents strongly agreed and with the statement ‘lack of translating and ongoing updating of IFRS into local languages. From the above survey, we can conclude that there was a lack of translating and ongoing updating of IFRS into local languages by enforcement bodies.

Majority of the respondents i.e, 70% strongly agreed that there was some lack of collaboration AABE with the NBE and ERCA Therefore, these findings reveal about the weakness in collaboration, (AABE) which is responsible for ensuring compliance of financial reporting standards with other related parties like ERCA, NBE.

3.4.3 Technical Issue

Technical issue shows the overall technical capacity of the United Bank; the technical capacity among auditors, users and regulatory authorities. This issue is measured using the following parameters: specific knowledge, practical experience, the need for training and

consultancy services, accounting and reporting system, including enhancement of IT system, data collection to produce a set of IFRS compliant financial information.

There was lack of relevant specific knowledge and practical experience in United Bank. 90% of the the majority respondents strongly agreed with the statement. Therefore, there was problem of specific knowledge and lack of practical experience in implementing IFRS in United Bank.

96% of the respondents strongly agreed and 4% agreed with the statement of the need for training and consultancy services to implementing IFRS in this Bank. From this we concluded that due to the nature of complexity standard of IFRS, the need for training and consultancy services to implement IFRS was very important.

Impact on accounting and reporting system, including enhancement of IT system were one of the factors that affect the implementation process in the Bank. 77.7% of the respondents strongly agreed, and 15.8% agreed with this statement. This result indicates that the implementation of IFRS has impact on accounting and reporting system including enhancement of IT systems. Most (87.4%) of the respondents strongly agreed, and 12.6% agreed on the statement that there was lack of data collection to produce a set of IFRS compliant financial information. We concluded that there was a lack of data collection and financial information to implement IFRS in United Bank.

3.5 Analysis of the Challenges of IFRS Implementation in United Bank

United Bank encountered various types of challenges in implementing IFRS. These were related with high costs of implementation. Complex nature of IFRS and problems related to the implementation guidance, lack of academic experience to implement IFRS by its own employees, and identifying gaps by the Bank, lack of fair value measurement have a major impact to the implementation and lack of adequate professionals with practical IFRS conversion experience.

92% of the respondents agreed that there was lack of academic experience to implement IFRS by its own employees identifying the gaps in the Bank. Likewise, 7.9% of them expressed their agreement with this statement. Therefore, there was weakness on the academic experience to identify gaps and implement IFRS by its own employees.

A total of 88.8% of the sample respondents strongly agreed that lack of fair value measurement has a major impact on the implementation. Furthermore, 11.1% of the respondents agreed with this statement. This result indicates that there was a problem in fair value measurement and that this has impact on the implementation of IFRS. The respondents, were asked to indicate their level of agreement or disagreement on the lack of adequate professionals with practical IFRS conversion experience, and 90.5% of the respondents strongly agreed and 9.5 % agreed. Therefore, there is a lack of competent professionals with practical IFRS conversion experience.

3.6 Analysis of Prospects of Implementing IFRS in United Bank

This study further assessed the result of respondents on the prospects of implementing IFRS in United Bank. This prospect was viewed from different dimensions; prospects to the company, for Investors, for management and for stakeholders.

3.6.2 Prospects of IFRS Implementation for Investors

IFRS helps to make decision by providing better information, all the respondents agreed with this statement. So, IFRS provides better information to make decision by investors.

The respondents were asked if IFRS provides international investors with a brand of trust. 49.2% strongly agreed, and 31.7% of the respondents agreed with this statement. Therefore, IFRS provides international investors with a brand of trust quality. One of the prospect of implementing IFRS in United Bank is its improvement of its level of transparency. 96.9% of the respondents of this survey strongly agreed with this statement. Therefore, the survey result affirms that IFRS implementation improves the transparency level

3.6.3 Prospects of IFRS Implementation for Management

All of the respondents (100%) strongly agreed with the statement, “the management believes IFRS is very important”. Therefore, these findings reveal that United Bank’s management believes that IFRS is important for the company. The respondents were asked if they believe IFRS makes the management make decision easily. The respondents strongly agreed which accounted for 90.5%. Therefore, this principle makes management easier to make useful decisions.

Here 77.7% of the respondents of the survey agreed, and 17.4% of the respondents were neutral with the statement that IFRS makes easier to maintain financial performance. Therefore, the result shows that IFRS makes financial performance easier to maintain. For the management to improve every new developed standard to pursue and correct the errors, the majority (57.1%) of the respondents strongly agreed, and 33.3% agreed. So, the result of the study concluded that it is hard for the management to improve every new developed standard to pursue and correct the errors.

3.6.4 Prospects of IFRS for Stakeholders

The study shows that the majority respondents (90.5%) agreed and 9.5% of the respondents strongly agreed to the assertion that IFRS gives great credibility to the accounting profession. The result of the survey indicated that IFRS gives great credibility to the accounting profession. 87.4% of the respondents strongly agreed to the reverse, 12.6% respondents disagreed with the assertion that IFRS implementation prospect helps to present confidential information. The study shows that majority agreed to IFRS presented confidential information.

The respondents were asked to indicate their level of agreement or disagreement on the statement that IFRS is easily understandable for users. 79.4% strongly agreed and 20.6% of the respondents were neutral for this statement. Therefore, these findings reveal that one of the prospects of implementing IFRS is that it is easily understandable for users.

3.7 Analysis of Interview

This section presents results of interviews with a few strong questions that were gathered from bank magazines, IFRS conversion (PWC) report's since 2018, the bank annual performance report, and IFRS implementation team leaders of the United Bank gathered the questions making the interviews with the United Bank head office director of Finance and Accounting. He gave us good answers for those questions. The feedback of the director are analyzed properly.

The director was asked whether they believe in the benefits of IFRS or not. He suggested that IFRS is by far better than the mixed standard that had been used before by reporting entities in Ethiopia. He stated that previously there were no framed standards in the country that guide reporting. According to the director, there were fragmented and inconsistent financial reports and this was due to the mixed or well unknown standards. He also suggested that previously reporting has been influenced by tax proclamation to compute the depreciation expenses of their plant assets which couldn't signify the economic reality of the bank. According to the director of finance and accounting, financial statements that had been prepared previously were not comparable because of the stated mixed or well unknown standards. He noticed that the implementation of IFRS in the country avoids fragmented reporting and brings the uniformity of financial reporting across reporting entities including United Bank.

The director was also asked about the processes of IFRS implementation and to state its view with the prospect of the Bank IFRS implementation teams. He mentioned that the processes were not comfortable with their respective reporting entities to implement the standards. He argued that the process didn't consider the necessary conditions for the minimum requirements of IFRS implementation in the bank. He stated that the existing constraints for implementation like non availability of required manpower with IFRS knowledge in the country, the existing weak accounting practices in the country, non-availability of required infrastructure for the implementation were not considered in the process. In the same way, he suggested that with stated obstacles and constraints on implementations and the time given for reporting were too short. The director suggested that the process of implementation makes the project more expensive than it would be and created difficulties in transforming and spreading knowledge from consultants to employees and also the human and capital resources make the process very challenging and difficult.

The respondent was asked to explain the role of the Bank in facilitating the implementation processes in the Bank. Additionally, the researcher asked the key information to the Bank director of accounting and finance on the mechanism by which IFRS implementation could be better planned. As he suggested, the role of the Bank in facilitating the implementation process was not the same in other countries. The bank facilitates a new road map that was planned properly and carefully. He noted that the role of the Board in facilitating the implementation was appreciable given the capacity it has and the implementation process is continuously followed by both AABE and NBE.

Respondents were also asked to express their view on the progress of IFRS implementation in the Bank. Accordingly, the key informants from the Bank indicated that in the first transition phase, out of 2018 year reporting entities lack of strong regulatory and enforcement institution, lack of making necessary preparation, difficult to determine the fair market value of financial instruments, non-availability of stock market in the country, complexities of IFRS, resistance to change, absence of strong accounting system in the country, lack of commitment, high cost of implementation, lack of required IFRS materials, lack of integration among regulatory institutions are the challenges of practical implementation of IFRS. Otherwise the bank is responsible and as a first phase implementer, the implementation was very impressive and encouraging for the next implementation.

4. Summary of Major Findings, Conclusion and Recommendations

4.1. Summary of the Findings

The study examines the challenges and prospects that could be obtained from implementing IFRS for United Bank. The findings of the survey identified that the majority of 66.67 % of the respondents were male and ranging from 23 up to 33 years old. This seems very important since when different changes arise, young people are better equipped to respond to sudden change and have ability to apply and understand different technologies quickly. The majority of the group first and second degree holders and who were the IFRS implementation team members. This enhances the practical implementation process of IFRS by developing new ideas and methods to achieve the implementation objective in the United Bank. The current position of the respondents was determined by junior, officer, senior, team leader, manager, director and we found out this to be relevant to the research; 42.9% of employees had more than eight years working experience.

In this study, the respondents stated that the bank started implementing IFRS on 30 June 2018 and as a previous standard bank was applied Accounting framework of GAAP. In relation to the respondents perception regarding the previous standards and IFRS, more than half of the respondents indicated that IFRS was more preferable than the previous one because it is transparent for users and great comparability also it is more flexible than generally accepted accounting principles.

In this study, there are certain challenges which have encountered on the part of United Bank to implement IFRS. These challenges were related to IFRS need high costs of implementation, complex nature of IFRS and problems related to the implementation guidance, lack of Academic experience to implement IFRS its own employees and identifying gaps by the bank, lack of fair value measurement have a major impact to the implementation, lack of adequate professionals with practical IFRS conversion experience and the respondents were strongly agree on the above challenges.

The result on the prospects of IFRS implementation to the company identified that all of the respondents strongly agree on using IFRS enhance the efficiency of the bank performance. All of the respondents also agree on increase of the level of quality in terms of financial

reporting and 95.3% of the respondents were agree on obtaining a higher level of flexibility promote continued economic growth for the company.

The study identified on the prospects of IFRS implementation for investors, all of the respondents agreed on IFRS helps to make decision by providing better information. IFRS provides international investors with a brand of trust quality and it improvement the transparency level respectively. All of the respondent believe that IFRS makes the management easy to make decision.

The results show that IFRS gives great credibility for accounting profession; it helps to presented confidential information and easily understand for users respectively.

4.2. Conclusions

This study assessed the challenges and prospect of IFRS implementation in United Bank with practical investigation of those prospects and challenges in private owned enterprise and banks that fully used IFRS principles and standard for the preparation of yearend financial statements as of 2018. Three research questions were developed and assessed in this study. The first question is to understand the prospect of implementation IFRS in United bank first phase implementation related with companies, investor, management and other stakeholders and the second question is to understand the challenges that seem in the implementation period with respect to skills, level of education, finance, material and others legal issue faced in the process of implementing IFRS and the third question was the factors that affecting implementation of IFRS basically this finding was categorized into institutional capacity, enforcement and technical issues.

The results of the survey reveal that IFRS should have been implemented earlier in Ethiopia due to the greater benefits it has compared to the associated problems. According to the bank even though resources are committed, there are still challenges to fully implement the standard and this thesis focused in identifying the challenges and prospect of implementing IFRS .United bank is one of the first phase implementer bank. Therefore, based on the finding there are still challenges which should be addressed and the challenges are lack of knowledge, lack of competent training based on practical work of the standard, accounting data problem, cost of implementation and lack of adequate academic knowledge, this all make the bank laggard this challenges make the bank fully implement IFRS, and due to the factor that resistance from people who avoids changes are the challenge to the bank for smooth implementation of the standard. Since the challenges are not being addressed the bank and running their day to day operation without being fully compliant to IFRS which will create a continuous cost. Moreover, management, directors, team leader, officer and especially decision making bodies of the bank be able to utilize the prospect that the IFRS implementation brings to the banking environment a good decision making and comparing performances of world banks to himself rather than only considering IFRS as a regulatory requirement and to be compliant. Like top management ensure that the financial statements are prepared in compliance with the IFRS. Accordingly, research concluded that the factors affecting implementation IFRS that all the respondents were agreed that those three factors institutional capacity, enforcement and technical issues were exist in the bank many of the respondents reveal were the collaboration of those three issues will make the bank forward

and efficient and also will formed strong participants and make good relations with departments more over the institutional issue according to the respondent guidance was very difficult to every employee due to this the whole financial employee were become bored to death.

Ensuring a high quality corporate financial reporting environment depends on effective institutional control, enforcement mechanism and availability of technical skills. Merely the implementation of International Financial Reporting Standards is not enough. Each interested party, independent auditors and accountants and regulators and law makers will have to come together and work as a team for a smooth and fast IFRS implementation procedure.

Actively participation of all financial employees has great contribution to the proper implementation of IFRS. Triangular relationship among United Bank, AABE and NBE, was a good for the implementation the last two years. We can generalized that today globalization needs transparent, comparable and reliable financial statements, which is also lead to harmonization of accounting standards, therefore adoption of IFRS is inevitable. The processes tell us the need for establishment of capital market in the country. Moreover, IFRS based financial statements increase harmonization of financial statements all over the globe, therefore it increase investors, lender and donors confidence to relay on financial.

4.3. Recommendations

The implementation of IFRS continues with many business units according to AABE stated timetable or roadmap for implementation expecting to see the benefits of IFRS. Based on the results the researcher recommends that:

- As IFRS is a strategic decision which affects the overall corporate structure of the entities, there should be a strong and well organized team. Management should enhance its understanding and the bank managers and the employees have to participate in different trainings and seminars that focus on IFRS implementation guidelines to develop and maintain sufficient knowledge and professional skills with regard to the implementing process and give due attention for IFRS implementing team as bank strategic issue instead of leaving it only to accounting option. Moreover, a strong accounting institutional framework must be in place to compete and manage the IFRS change process.
- United Bank has to persuade AABE to create a strong enforcement institutions with adequate number of skilled and qualified professionals and resources to provide the technical support in the implementation process and contributes for the successful implementation of IFRS in the banks system and needs to coordinate and integrate to other regulatory body like NBE, ERCA. There are inconsistent laws and regulations developed by this organization; thereby must synchronize each other. It should also give adequate transition period for implementing IFRS; the length of the period should take into account the readiness of the institutions and availability of infrastructure. In addition there must a well-organized translating and ongoing updating of IFRS into local languages to understand the principle easily.
- IT changes is one essential aspects of concern in IFRS in order to meet IFRS implementation. So United Bank should consider the opportunity to make strategic

improvements in systems, process and controls and assess high level changed as IFRS needs.

- Effective implementation of IFRS requires careful planning and extensive public education, the allocation of resources, a legal and regulatory support system and institutional support with strong management systems. Unless the various stakeholders are integrally involved and included in development plans and how they are affected, they will be reluctant to support the change and IFRS may enhance to implement every standard. There is a need to impart education and training on IFRS and its application.
- Human-resources-development program and mechanisms should be established at the entire level of financial employees according to IFRS. Update of every standard training besides, management and financial department should recognize and motivate IFRS implementation team members for any efforts and delivery made. Bank management should ensure the establishment of independent team members by recruiting additional man power. So the bank management and financial department should follow up the process off the implementation and cooperate the team by responding for any of their enquiries faced by peer departments. They may also require additional budget to prepare financial report. Due to this United Bank should treat the issue of IFRS implementation with exception.
- Building a fair value measurement department that supports fast preparation of a financial report should be implemented.

5.Reference

- Accountants and Auditors Board of Ethiopia (AABE). (2015). Five years strategic plan 2015/16-2020/21. Addis Ababa, Ethiopia: AABE.
- Addison T, Alemayehu G (2001). “Ethiopia’s New Financial Sector and its Regulation”, Discussion Paper No. 2001/55, World Institute for Development Economic Research Wider.
- Admasu Bezabih, Asayehgn Desta; (2014, April). Banking Sector Reform in Ethiopia. International Journal of Business and Commerce, 3(8).
- Alemayehu Geda; (2006). The Structure and Performance of Ethiopia’s Financial Sector in the Pre and Post Reform Period: With Special Focus on Banking. Addis Ababa University.
- Bhattacharje S. and Islam, M.Z. (2009). Problem of Adoption and application of International Financial Reporting Standards (IFRS) in Bangladesh. Journal of Business and Management.
- CESR, 2003: CESR. (2003). European Regulation On The Application Of IFRS In 2005 - Recommendation For Additional Guidance Regarding The Transition To IFRS December 2003. Paris: CESR.
- Deloitte. (2017). Illustrative financial statements 2017. Directors’ statement and financial statements: Year ended December 31, 2017. Singapore: GAAP Singapore Ltd.
- Dulitz (2009) IFRS: A Preparer’s Point of View. Journal of Accountancy, April, pp 46-49.

- Experis Finance & Accounting (August 27, 2008), are you ready to adopt IFRS? Available at [Http:// www.Experis.com](http://www.Experis.com) and [http:// www. Manpowergroup.com](http://www.Manpowergroup.com). Accessed April 11, 2017.
- Firdawok Teshome(2017). Challenges and Prospects of International Financial Reporting Standards (IFRS) implementation in Ethiopia: MSC Research Paper, Addis Ababa University, Addis Ababa, Ethiopia.html.
- Financial Reporting Council. (2014). FRS 100 Application of Financial Reporting Requirements. Retrieved 30 September 2014, from <https://www.frc.org.uk/Our-Work/Publications/Accounting-and-Reporting-Policy/FRS-100-Application-of-Financial-Reporting-Require.pdf>.
- Gyasi, A. (2010). "Adoption of International Financial Reporting Standards in Developing Countries - The Case of Ghana", BSc Dissertation, University of Applied Sciences
- ICAEW: ICAEW, 2014. "Moving to IFRS reporting: seven lessons learned from the European experience"
- ICAEW. (2014b). EU IFRS adoption was beneficial. Retrieved 10
- IFRS Foundation. (2014a). About the IFRS Foundation and the IASB. Retrieved 13 September 2014, from <http://www.ifrs.org/About-us/Pages/IFRS-Foundation-and-IASB.aspx>
- International Journal of Accounting and Financial Reporting ISSN 2162-3082 2014, Vol.
- Iyoha, F.O. & Faboyede, S.O., (2011). Adopting international financial reporting standards (IFRS) a focus on Nigeria, International journal of research in commerce & management volume no: 2, issue no. 1 pp. 35-40
- Jermakowicz, Eva. K. (2004). Effects of adoption of international financial reporting standards in Belgium: the evidence from BEL-20 companies. Accounting in Europe, 1(1), 51-70
- Odia, J.O. and Ogiedu, K.O. (2013). IFRS Adoption: Issues, Challenges and Lessons for Nigeria and other Adopters, Mediterranean Journal of Social Sciences, vol. 4, no.3, pp.389-399.
- Romeny and Steinbart (2009). Accounting Information System, 11th Edition, pearson education Inc., Brigham young university and Arizona state university,USA
- The Framework for the Preparation and Presentation of Financial Statements (IFRS standards, 2010)
- United bank. Annual report of 2016-2019. Addis Ababa:
<http://www.ifrs.org/Alerts/PressRelease/Pages/IFRS-Foundation-Staff-Analysis-of-SEC-Final-Staff-Report-on-IFRS.aspx>
(<http://www.iasb.org/IFRSs/IFRs.htm>)
- Zeff, S. A. (2012). The Evolution of the IASC into the IASB, and the Challenges it faces. Accounting Review, 87(3), 807-837.