The Challenges and Prospects of First-Time Adoption of International Financial Reporting Standards (IFRS) in the Case of Selected Commercial Banks

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Abstract

This study aims to investigate the challenges and prospects of first-time adoption of International Financial Reporting Standards (IFRS) in financial institutions with particular reference to selected commercial banks. To answer research questions, the study adopted mixed research approach. Thus, to gather data, both primary and secondary sources have been used. As primary sources of data, questionnaires and interviews have been used while review of relevant documents as secondary sources. The closed-ended questionnaire data were analyzed and interpreted quantitatively using descriptive statistics – frequency distribution and percentages. Whereas, data gathered from semi-structured interviews and open-ended questionnaires were interpreted qualitatively. On the basis of the major findings, lack of preparedness for IFRS adoption both from the companies and the regulatory bodies' side, difficulty of understanding and implementing IFRS, existence of difference between the directives of the National Bank and the requirement of some IFRSs, lack of proper guidance from the regulatory bodies and fair value measurements are the major challenges during first-time adoption of IFRS. In addition, the requirement of the regulatory bodies is the major factor that influenced the companies to adopt IFRS not their own interest. Moreover, the study also found that improvement of the quality of financial reporting, reporting transparency and simplicity of raising capital are the main practical benefits (prospects) that the companies expect to derive from IFRS adoption. Finally, conclusion is made on the basis of the above major findings and also the study suggests recommendations that a combined effort from the concerned stakeholders to be put in order to successfully achieve practical adoption and implementation of the International Financial Reporting Standards.

Keywords: First-time Adoption, IFRS, Challenges, Prospects, Commercial Banks

1.1. Background of the Study

As the world became a globalized village for doing the day to day business transactions, it is beneficial to have a single set of standard for financial reporting of an entity. For that reason, "the need for a global set of high-quality financial reporting standards has long been apparent" (UNCTAD Secretariat, 2008). Over the years, there have been new introduction and additions to the contents of financial reporting as a result of the changes in the Socio-political and economic environment, across the globe (Adeghe, Gina and Kingsley, 2016). According to Abel (2011), "Financial accounting information are statutorily required to be prepared in line with universally accepted assumptions, principles and conventions of accounting which aid intra-firm, inter-firm and industry comparisons overtime". This comparison can cut across borders from one country to another when the international financial reporting standard is adopted.

In most countries especially developed ones, many or even all entities have a legal obligation to prepare financial statements that conform to the required standards or set of accounting principles that are generally acceptable in that county. The great majority of these entities are companies or organizations which are publically accountable especially the multinationals which need greater international uniformity in the regulations underpinning the preparation of company's financial statements (Frank, 2002). The quality of financial reporting is essential to the need of users who require them for investment and other decision making purposes (Fashina and Adegbite, 2014). Financial reports can only be regarded as useful if it represents the economic substance of an organization in terms of relevance, reliability, comparability, understandability, timeliness and simplifies interpretation of accounting numbers (Kenneth, 2012).

The process of financial reporting of business activities underwent a great change over the last few decades. In this regard most countries in the world have revolutionized their accounting practices especially during the last few decades of the 21st century (Nobes, 2004; Hoyle, et al., 2009). Such revolutions encompass the adoption and adaptation of local accounting practices and harmonizing it with that of the International Financial Reporting Standards (IFRS) formerly known as the International Accounting

Standards (IAS). This revolution is started in 2002 when the European Union made it mandatory for all publicly traded companies in Europe to present their consolidated financial statements in conformity with IFRS starting from January 01, 2005 (Jermakowicz, 2004; Susana et al., 2007; Apostolos et al., 2010).

It is in recognition of the need to have quality financial reports and other benefits such as its ability to significantly improve the comparability of entities, giving better access to global capital markets and reduced cost of capital, and provision of impetus to cross border acquisitions that the adoption of International Financial Reporting Standards is becoming a trend among countries (Larsen E., 2008; Baker et al., 2009; Apostolos et al., 2010; Iyoha et al., 2011). However, the conversion to IFRS also has many challenges such as increased volatility of earnings, high cost of implementation, complex nature of IFRS and problems related to the implementation guidance. (Jermakowicz, 2004)

When it comes to Ethiopia, according to the World Bank on Report on the Observance of Standards and Codes, there is no specific set of accounting regulations in Ethiopia and therefore accounting practices vary across institutions (World Bank, 2007). But now the first financial reporting Federal state regulatory body is established for the first time in Ethiopia by regulation entitled Council of Ministers Regulation to provide for the establishment and to determine the procedure of the Accounting and Auditing Board of Ethiopia (Council of Ministers Regulation No. 332/2014) pursuant to Article 4(1) of the Financial Reporting Proclamation No. 847/2014. Accordingly, provision of Article 3(1) of this regulation describes that “The Board is established as an autonomous government organ having its own legal personality.” AABE consists of 12 members which includes one representative from each of various Ministries.

The board, after establishment was empowered to register and license auditors, to conduct investigation to take measures on public auditors & entities having public interest and many other authorities. Consequently, it set out IFRS implementation roadmap which, as a result puts a requirement for prospective reporting entities to adopt IFRS based on the schedule set out for each respective entities on three phases. The first phase was set out for significant public interest entities (PIEs) – mainly public enterprises and financial institutions while the other two phases address other public interest entities and small & medium entities (SMEs) respectively. The main focus of this study was on one of the first phase of adopting entities – financial institutions with particular attention to selected commercial banks.

Thus, three commercial banks were conveniently selected for the study – Enat Bank, Wegagen Bank and Zemen Bank. Although Wegagen Bank is one of the earliest private banks in Ethiopia, the rest two are among the latest ones to join the banking industry with no more than a decade of operation though Zemen Bank had been established and started operation ten years ago. The study is undertaken at the headquarters of each bank located in the capital, in which all IFRS related activities at this transition period are performed such as training of the concerned staffs, consultancy, preparation of current period's and translation of prior periods' financial statements in to IFRS figures among others. Therefore, the study had tried to investigate the issue from source of the problem until its alternative solution with recommendations.

1.2. Statement of the Problem

According to Solomon (2016), "Like many developing countries, Ethiopia's financial reporting practices are driven by its tax laws and split accounting practices acquired from the higher learning institutions. These institutions use the Anglo-Saxon accounting textbooks, but left without a nationwide conceptual framework to guide the teaching process and the practical application by companies. Consequently, selection and application of an accounting principle for recognition, measurement and disclosure of financial statement elements is left to the company's management and its auditor; if the company has one." Perhaps it's with this absence of reporting framework that led to the official adoption of IFRS in the country.

According to Thi Phana and Mascitellib (2014), "IFRS is attracting significant scholarly attention especially in markets where decision making on its adoption is approaching". This is because of the fact that adoption of IFRS brings a lot of benefits to adopting entities in a country. Among those benefits of IFRS adoption includes: credibility of financial information provided by the reporting entities to foreign investors and other users, more cross-border investment, comparability of information at the international level, financial reporting transparency which reduces agency problem and lowering the cost of capital.

However, from the preliminary survey conducted on the selected banks, the researchers realized that there are various challenges faced by the financial institutions during the first-time adoption of IFRS. Among the challenges faced during the adoption period include: lack of preparedness made both by the entities and the regulatory bodies during the adoption, challenges of understanding and applying the theory of IFRS in to practice due to its complex nature and existing circumstance of the entities, the existence of differences between the requirements of some IFRS standards and the directives issued by National Bank, absence of professionals such as valuation experts to ascertain fair values and also actuaries, and lastly the absence of structured financial markets. Thus to achieve the objectives of the study and suggest alternative solutions for the problem, the study has tried to answer the following research questions.

1.3. Research Questions

- What are the essential aspects of lack of preparedness for IFRS adoption from both the reporting entities and the regulatory bodies' perspective?
- What are the features of difficulty in understanding & implementing the theoretical aspects of IFRS?
- What are the areas where the directives of National Bank contradict the requirements of IFRS?
- What are those practical benefits the adopting entities expect to derive from the adoption of IFRS (Prospects of IFRS adoption) in the existing circumstance?

1.4. Objectives of the Study

1.4.1. General Objective

The main objective of this study is to investigate the challenges and prospects of first-time adoption of IFRS in the case of selected commercial banking businesses.

1.4.2. Specific Objectives

To achieve the general objective, the study will have the following specific objectives:

- To explore the essential aspects of lack of preparedness for the adoption of IFRS from both the reporting entities and the regulatory bodies' perspective.
- To identify aspects of the difficulty of understanding and implementing theoretical aspects of IFRS.
- To determine those areas where the directives of National Bank contradict the requirements of IFRS.
- To describe the practical benefits the adopting entities expect to derive from the adoption of IFRS (Prospects of IFRS adoption) in the existing circumstance.

1.5. Scope of the Study

As the major objective of the study is to investigate the challenges and prospects of first-time adoption of International Financial Reporting Standards (IFRS) in Ethiopian financial institutions particularly the commercial banking businesses, its scope will be limited to those of the commercial banking businesses. Thus the study will cover as much aspects of the issue of first-time adoption of IFRS as well as the factors affecting the adoption in the case of selected commercial banking businesses at their headquarters as the nature and timing of the study is not appropriate to be conducted at a branch level.

1.6. Limitations of the Study

Since the main objective of the study was to investigate the challenges and prospects of IFRS adoption in the case of previously mentioned commercial banking businesses, yet the data was collected from relatively small number of banks due to inconvenience to conduct research and collect the required data from the renowned banks. The other limitation is the situation of the respondents during the time of data collection, i.e. as they are responsible for the overall conversion of the bank to IFRS, they have very busy schedule and task overload because of which some of them were less interested in filling some open-ended questions properly which might affect the findings of the study to some extent.

1.7. Significance of the Study

As mentioned in the background and problem statement, as per the knowledge of the student researchers very few empirical researches have been conducted on the area of IFRS adoption in Ethiopia. Based on this fact and other factors, the student researchers believe the study will have the following advantages: The study will have enormous advantage to the researchers, academic practitioners and any individual who is interested on the issue of IFRS by providing useful information and enhancing knowledge about the International Financial Reporting Standards and the issues related to its adoption. The study will help the researchers or any other researcher who already conducted research on this subject to do further research on this area in the future on a large scale covering various aspects related to the subject and encompassing even a wider study areas. Finally, the study can also help other researchers who wish to conduct research on this area by filling the literature gap and providing a basis for reference in their study.

1.8. Research Design and Methodology

1.8.1. Research Design and Approach

In order to achieve objective of the study and to adequately answer the research question, the student researchers have adopted both quantitative and qualitative (Mixed) research approach. The rationale behind adoption of mixed approach is to gather data that could not be obtained by just only using a single approach and for triangulation purpose. In addition, mixed approach helps to better understand a research problem by combining both numeric values from quantitative research and the detail and mere verbal description of qualitative research and to neutralize limitations of applying any of the single approach. Moreover, the student researchers had used descriptive research design in order to describe comprehensive aspect of the issue based on the mixed approach employed.

1.8.2. Data Type and Sources

The student researchers had used both qualitative and quantitative types of data gathered from both primary and secondary sources. For primary sources of data, the student researchers had used questionnaires and interview with finance directors and senior finance officers of each selected banks. For secondary sources, the student researchers had used published and unpublished documents from internal sources such as company's annual report and external sources which include various reference materials on the subject, articles, journals, research papers and other empirical studies conducted on the subject.

1.8.3. Data Collection Methods

In this study, the student researchers used both primary and secondary data collection tools. Questionnaire and semi-structured interviews have been used as primary data collection instruments. Whereas, as a secondary sources, review of relevant documents had been made.

1.8.4. Target Population

Target Population: The target population selected for this study is all the IFRS adoption team members, trained employees and other concerned staffs from three selected commercial banks - Enat Bank S.C., Wegagen Bank S.C. and Zemen Bank S.C. Thus, the study had employed census survey instead of sample survey. Therefore, the study has neither sample size nor applied any sampling technique.

1.8.5. Data Analysis and Presentation

As mentioned earlier, the study had employed mixed research approach. Thus the data collected from the above mentioned sources had been analyzed using both qualitative and quantitative data analysis tools. The data collected from closed-ended questionnaires had been analyzed quantitatively using descriptive statistics such as frequency distribution, percentages, and other appropriate techniques. On the other hand, the data gathered through interviews and open-ended questions had been analyzed and interpreted qualitatively. In analyzing data using qualitative technique, narrative approach has been employed. Finally, the data analyzed had been presented in tables showing the frequency distributions and percentages.

1.9. Organization of the Study

The study had been organized in to four chapters. The first chapter deals with the introductory part which includes background information about the study and the organization, problem statement, research questions, objectives of the study, significance of the study, scope and limitations of the study, operational definitions, as well as the methodology used to conduct the study. The second chapter presents review of the related literatures which describes the theoretical and empirical review of the study. The third chapter deals with the analysis, interpretation and presentation of the data gathered in which the student researchers analyze, interpret and present the findings from the respondents. The fourth and last chapter summarizes the findings of the study and provides conclusions and recommendations.

Data Analysis, Interpretation and Presentation

This chapter deals with the analysis of the data gathered from questionnaires and interviews, discussion of the findings of the study, interpretation of those findings as well as presentation of the data gathered based on the appropriate quantitative and qualitative data analysis and presentation techniques. Since the study adopts census survey, the data were collected from what is expected to be the whole population and thus no sample is selected from the population neither any sampling technique is employed to select samples. Thus to gather data, a total of 25 questionnaires was distributed to concerned staffs of three selected commercial banks (Zemen Bank, Enat Bank and Wegagen Bank) and out of which 20 of them were completely filled and returned which implies that a response rate of 80% (20/25) was achieved. The data obtained from the respondents are summarized and presented using descriptive statistics where the raw data are computed using frequency distribution and their respective percentage level and the data computed are then presented in tables followed by some brief explanation of the contents of the tables and their interpretations. Finally critical analysis and interpretation is made to illustrate implications of the major findings.

3.1. General Information

S/No.	**Category**	**Description**	**Frequency**	**Percentage**
1	Gender	Male	18	90%
		Female	2	10%
		Total	**20**	**100%**
2	Academic Level	Bachelor’s Degree	12	60%
		Master’s Degree	8	40%
		Total	**20**	**100%**
3	Work Experience	5 – 10 years	2	10%
		11 – 20 years	18	90%
		Total	**20**	**100%**
4	Age Bracket	25 – 34 years	6	30%
		35 – 44 years	14	70%
		Total	**20**	**100%**
5	Work Position	Manager	10	50%
		Senior Finance Officers	4	20%
		Section Head, General Accounts	2	10%
		Directors, Finance and G. Acct’s	4	20
		Total	**20**	**100%**

Table 3.1 General Background Information of the Respondents (Source: Primary data, 2018)

Table 3.1 illustrates background characteristics of the respondents which are discussed as follows:

- From the table above with regards to gender distribution of the respondents, 18 (90%) of the respondents are males and the remaining 2 (10%) of the respondents are females.

- With regards to academic level of the respondents, 12 (60%) of the respondents are bachelor's degree holders (BA/BSc) and the remaining 8 (40%) of the respondents are master's degree holders.
- With regards to the respondents' work experience, 18 (90%) of the respondents have 11 to 20 years of working experience, whereas only 2 (10%) of the respondents have experience of 5 to 10 years.

- As far as age bracket of the respondents is concerned, 14 (70%) of the respondents are in the interval of between 35 to 44 years old and the remaining 6 (30%) of the respondents are between 25 to 34 years of age. This implies that majority of the respondents are adults who are supposed to carry huge responsibilities and the rest of 30% of the respondents are still at the younger age.

- With regards to the respondents' current work position, 10 (50%) of the respondents are managers either division, financial, or other medium level managers, 4 (20%) of the respondents are senior finance officers, whereas 2 (10%) of the respondents are section heads for general accounts and the remaining 4 (20%) of the respondents are directors either for general accounts or finance.

3.2. Analysis of the Major Findings of the Study

Issues Related to the Adoption and Practice of IFRS

3.2.1. Adopted Reporting Standard before IFRS

What was the reporting standard which your company uses before adopting IFRS?	**Frequency**	**Percentage**
US GAAP	8	40%
UK GAAP	2	10%
Canadian GAAP	0	0
Other (Specify)	10	50%
Total	**20**	**100%**

Table 3.2 Responses on Adopted Reporting Standard before IFRS (Source: Primary data, 2018)

Table 3.2 illustrates the company's adopted reported standard before the adoption of IFRS. Thus, 8 (40%) of the respondents respond that their respective institution use the US GAAP before IFRS, whereas 2 (10%) of the respondents believe that their respective company use the UK GAAP but half of the respondents that is 10 (50%) of the respondents had chosen the 'other' alternative which means they define their reporting standard as unknown GAAP, local GAAP, the company's own policy and procedure or simply GAAP without referring to any local standard. According to Teferi and Pasricha (2016), there is neither local standard setting body nor nationally adopted standard in Ethiopia before the adoption of IFRS. Thus most of the financial institutions disclose that their financial statements are prepared in accordance with GAAP but do not state which GAAP they are referring to.

Based on the finding, it can be generalized that the reason for the difference of responses is mainly because of unavailability of locally adopted reporting framework in Ethiopia. In spite of this, according to the latest annual reports of all the three banks, it states that their financial statements have been prepared based on their own accounting policies, the requirements of the National Bank of Ethiopia, the provisions of the Commercial Code of Ethiopia of 1960 and also the requirements of the income tax proclamation specifically to Wegagen Bank as well. In addition, independent auditors of the respective banks provide opinion on the fairness of financial statements by referring to the above mentioned banks' own accounting policies and the regulatory requirements not to either of the GAAP or IFRS. Moreover, the banks state their own accounting policy as a basis of preparation due to prevention from the regulatory bodies.

3.2.2. Preference of IFRS over the Previous Reporting Standard

Which one do you prefer – IFRS or previous reporting standard?	**Frequency**	**Percentage**
Previous Standard	0	0
IFRS	19	95%
Not Sure	1	5%
Total	**20**	**100%**

Table 3.3 Respondents' Preference of IFRS over GAAP (Source: Primary data, 2018)

As shown in the table 3.3 above, 19 (95%) of the respondents prefer IFRS as compared to the previous reporting framework but no respondent has chosen the previous reporting standard as preferable for the reason that it's probably worse than IFRS. However, 1 (5%) of the respondents is not sure which one is preferable most probably because he is not sure which one has more benefit exceeding its cost. Thus, this finding implies majority of the respondents of the respondents believe that IFRS is preferable as compared to the previous reporting framework for the following reasons as discussed below:

3.2.3. The Rationale behind respondents' preference (Source: Primary data, 2018)

Reasons for preference	**Frequency**	**Percentage**
Fair presentation	8/20	40%
International acceptance	6/20	30%
Enables comparability	4/20	20%
Reporting transparency	2/20	10%
Makes FSs more understandable to users	4/20	20%

Table 3.4 Rationale behind Respondents' Preference of IFRS over the Previous Reporting Standard

Table 3.4 illustrates the main reasons of the respondents for their preference of IFRS over the previous reporting standard and the above 5 benefits are frequently mentioned as reasons by the respondents for their preference.

Thus 8 (40%) of the respondents state fair presentation of financial statements as their reason, whereas 6 (30%) of the respondents state global acceptability of the standard, while 4 (20%) and 2 (10%) of the respondents mention comparability of financial statements and reporting transparency respectively, and lastly 4 (20%) of the respondents state understandability of FSs to users as their reason for preference. In addition to these, other reasons are also mentioned by the respondents such as disclosure requirement of IFRS which enables users to get more detailed information about the company's financial statements, principles-based nature of IFRS which makes it globally enforceable depending upon the situation of each country and lastly IFRS, unlike before enables Ethiopia to standardize its financial reporting.

3.2.4. Major Difficulties Encountered at the First-time Adoption of IFRS

(Source: Primary data, 2018)

What are the major difficulty/ies you encountered at the first-time adoption of IFRS?	**Frequency**	**Percentage**
Difficulty to understand the theoretical framework of IFRS	12	60%
Difficulty how to implement the reporting standard	20	100%
Lack of proper guidance/consultancy on how to implement IFRS	20	100%
Other (Specify)	8	40%

Table 3.5 Responses on Major Difficulties Encountered at the First-time Adoption of IFRS

Table 3.5 illustrates the responses to the question of the major challenges/difficulties encountered at the first-time adoption of IFRS. Thus, 12 (60%) of the respondents stated that the difficulty to understand IFRS's theoretical framework as one of the major challenge. However all (100%) of the respondents replied that apart from understanding its theory, knowing how to implement the reporting standard and lack of proper guidance on how to implement it were the major challenges as well. In addition, 8 (40%) of the respondents mentioned some other challenges such as lack of valuation experts and actuaries in areas of fair value measurements and determination of post-retirement benefit plan, task overload to personnel's who are engaged in working with IFRS adoption and lack of experience among others. Based on this finding, we can generalize that understanding the theory of IFRS, knowing how to implement it as well as lack of proper guidance were the major challenges to the institutions during first-time adoption of IFRS.

3.2.5. The Company's Stance on the Financial Reporting Proclamation No. 847/2014 (Source: Primary data)

Does your company understand and perform in accordance with Proclamation No. 847/2014 regarding financial reporting regulation?	**Frequency**	**Percentage**
Yes	20	100%
No	0	0
Total	20	100%

Table 3.6 Responses on the Company's Stance Concerning the Financial Reporting Proclamation

From the table 3.6 above, 20 (100%) which is all of the respondents replied that their respective companies understand and perform in accordance with financial reporting proclamation No. 847/2014. This question was posed to realize whether the companies understand that they adopt IFRS because of the requirement of the proclamation or not and whether they perform in accordance with its requirements knowing the adoption and transition period for the institutions and other requirements concerning the financial institutions.

3.2.6. The Factor/s that Influenced or Motivated the Company to Adopt IFRS (Source: Primary data)

What factor/s influenced or motivated your company to adopt IFRS?	**Frequency**	**Percentage**
The requirement of National Bank of Ethiopia or the government organ (AABE)	20	100%
Recommendations from independent auditors	0	0
The company's own interest to standardize and improve the quality of financial reporting	2	10%
Other (Specify)	0	0

Table 3.7 Responses on the Factors that Influenced or Motivated the Company to Adopt IFRS

From table 3.7 above, all (100%) of the respondents stated that it's either the requirement of National Bank of Ethiopia and/or the newly established government organ (AABE) that influenced their respective companies to adopt IFRS. However, only 2 (10%) of the respondents stated the company's own interest to standardize and improve the quality of financial reporting as another factor besides the requirement of the two regulatory bodies. On the basis of this finding, the student researchers realized that it's mainly the requirement of the two regulatory bodies, the National Bank and Accounting and Audit Board of Ethiopia, AABE that forced or influenced these financial institutions to adopt IFRS not their own personal interest or willingness to standardize and improve the quality of their financial reporting.

3.2.7. The Practical Benefits Expected to be derived from Adoption of IFRS (Source: Primary data, 2018)

What are the practical benefits you expect the company to derive by just adopting IFRS under the existing circumstances?	**Frequency**	**Percentage**
Improvement of the quality (reliability, comparability etc.) of financial reporting	20	100%
Transparency of financial reporting which reduces agency problem	14	70%
Simplicity of raising capital abroad/ lowering cost of capital	10	50%
Other (Specify)	4	20%

Table 3.8 Responses on the Practical Benefits Expected to be derived from Adoption IFRS

From Table 3.8, all (100%) of the respondents expect that adoption of IFRS will improve the quality of financial reporting, whereas 14 (70%) of the respondents also believe that IFRS increases the transparency of financial reporting which reduces agency problem, while 10 (50%) of the respondents believe that adoption of IFRS will simplify raising of capital for their company abroad which in turn lowers cost of capital. In addition 4 (20%) of the respondents also mentioned other benefits such as attracting FDI, improving efficiency and effectiveness of financial reporting etc. Based on this finding, improvement of the quality of financial reporting is the major practical benefit to the companies in the existing circumstance.

3.2.8. Benefits vs. Cost of Implementing IFRS

The benefit of IFRS exceeds the cost of implementing it in the context of your company (assuming that both the benefit and costs are/maybe long-term)	**Frequency**	**Percentage**
Strongly Agree	10	50%
Agree	6	30%
Neutral	0	0
Disagree	4	20%
Strongly Disagree	0	0
Total	20	100%

Source: Primary data, 2018

Table 3.9 Respondents' Opinion on the Benefit vs. Cost of Implementing IFRS

From Table 3.9, 10 (50%) of the respondents strongly agree that the benefit of IFRS exceeds the cost of implementing it, whereas 6 (30%) of the respondents agree while the remaining 4 (20%) of the respondents disagree with the statement that the benefit of IFRS exceeds the cost of implementing it. On the basis of this finding, most of the respondents agree that the benefits of IFRS exceeds the cost of implementing even though the cost of implementing IFRS obviously exceeds its benefits in the short run but assuming the cumulative benefits to be derived from adopting IFRS will exceed its cost in the long run.

The rationale for most of the respondents who believe the benefit of IFRS exceeds its cost is that the benefits are realized mainly in the long-run and in turn they outweigh the cost over time. Among the major reasons the respondents stated for their opinion include: IFRS increases transparency & reliability of financial reporting and makes financial statements more understandable to users which builds confidence of the present investors (shareholders) that the management is performing in their interest and persuade them to invest more and also enables potential investors to make investment decision which in turn make the company financial strong and profitable in the long run. The other reason which is stated by the respondents is the experience of foreign countries who already implemented IFRS years ago that they also had faced the same challenge at the initial stage but finally they realized the benefits mentioned earlier in the long run and in addition the experience & knowledge that will be gained through time will enable the adopting entities to realize more benefits. Moreover as there is no developed standard in Ethiopia, to adopt internationally recognized standard will obviously have enormous advantage. However, there are yet some respondents who still disagree with this scenario and the reason for their opinion is that future benefits are uncertain and difficult to estimate the benefits which in turn may not outweigh the cost.

3.2.9 The Status of IFRS Adoption in terms of Complexity of Financial Reporting

How do you describe the status of IFRS in terms of complexity of financial accounting and reporting as compared to the previous reporting framework? – It	**Frequency**	**Percentage**
Complicates financial reporting	14	70%
Simplifies financial reporting	6	30%
Remains the same as compared to the previous standard	0	0
Total	**20**	**100%**

(Source: Primary data

Table 3.10 Responses on the Status of IFRS Adoption in Terms of Complexity of Financial Reporting

From table 3.10 above, 14 (70%) of the respondents believe the adoption of IFRS complicates financial accounting and reporting as compared to the previous reporting standard while the remaining 6 (30%) of the respondents describe the status of IFRS in terms of complexity as though it simplifies financial reporting as compared to the previous with one exception of the respondents who think IFRS's simplification of financial reporting is in terms of its disclosure requirement which helps users to get better and more detailed information about the company's financial statement but not necessarily to the company's according to his view. On the basis of this finding, the student researchers realized that most of the respondents believe the adoption of IFRS complicates financial reporting in terms of the recognition, measurement and disclosure requirement of the standard as compared to the previous GAAP which in turn is cost inefficient.

3.2.10 Lack of Preparation for IFRS Adoption & its Impact on Financial Reporting

Do you think lack of preparation for IFRS adoption (either at the company or national level) is the major challenge during first-time adoption of IFRS?	**Frequency**	**Percentage**
Yes	20	100%
No	0	0
Total	20	100%

(Source: Primary data)

Table 3.11 Responses on the Challenges arising from Lack of Preparedness for IFRS Adoption

From the table 3.11 above, 20 (100%) that is all of the respondents agree that lack of preparation for IFRS adoption both at the company or national level is the major challenge during the *first-time* adoption of IFRS to the institutions. This finding implies that both the regulatory bodies that require reporting entities to adopt IFRS and the entities that are required to report in accordance with IFRS are entered in to the adoption process without making the necessary preparation such as making policy decision to adopt the reporting standard, preparing a plan & making gap analysis, accumulation of the necessary resources etc.

According to the responses the companies lack preparedness in the following aspects as mentioned below:

✓ Lack of awareness made to the concerned staffs, the management at the company level and to other stakeholders at the national level since the transition period.

✓ Lack of proper training of the concerned staff, adequate guidance, consultancy and support.

✓ Lack of professionals such as valuation experts, actuaries and other professional who can assist in various aspects of measurement of fair values determination of post-retirement benefits etc.

✓ The very limited time given by the regulatory bodies to adopt the reporting standard without facilitating the required resources.

In addition to the above frequently raised issues, various other issues have also been mentioned such as approval of instantaneous adoption of all the standards at once instead of gradual adaption over time since the standards have been developed back from the 1970’s to date, , lack of sufficient prior year data that could assist in the change of accounting policy and other issues, lack of proper regulation, policy developed, & professional associations, absence of separate project team dedicated for this cause especially at the initial stage, the directives of National Bank and the tax laws not being aligned with IFRS which poses another challenge, lack of experience sharing and supportive materials etc. On the basis of all this findings, we can easily generalize that IFRS have been adopted in the country without making any preparation from both the regulatory bodies and the institutions but only with blind adherence to the global trend.

The interviews conducted with interviewees of the respective institutions reveal that there is a substantial lack of preparedness from both sides – the companies and the regulatory bodies. From the regulatory body’s side – the government organ or AABE, the board did not have sufficient manpower and expertise to guide the adoption process whether by facilitating training programs and consultancy service for the prospective adopting entities or to provide other practical guidance to the entities. But rather the board set IFRS implementation roadmap to entities without providing enough transition periods and allowing them makes the necessary preparation. On the other hand, the institutions lack preparedness in various aspects such as: there was no any prescribed accounting policy or reporting standard to follow previously because of which instantaneous adoption of all the standards instead of gradual adaption was an absolute nightmare to the companies. Moreover, there was insufficient transition period to do the necessary activities such as training staffs, accumulating the required resources etc. in relation to the adoption process. What the board wants them to do is to produce IFRS based financial statements within the specified time in any way or the other.

3.2.11. The Impact of Lack of preparedness for IFRS Adoption on the Quality of Financial Reporting and on the Degree of Compliance with IFRS

On the basis of the above mentioned issues, we can understand that this lack of preparation will obviously have serious impact both on the quality of financial reporting & on the degree of compliance with IFRS. Thus, according to the view of the respondents, it does have some serious negative impacts such as: non-compliance problem with some IFRS standards, missing some relevant disclosures, complication of the implementation process, lowers the quality of financial report with regards to some aspects of completeness, reliability of the financial report will be reduced, it may also affect decision making of the management and the board of directors in some way, it may affect in not meeting the schedule etc. However, according to one respondent, it does have no impact because either we comply or not, so we have to comply in one way or another for the reason that IFRS adoption requires full compliance with all its requirements.

3.2.12. The Challenges of Understanding the Theoretical Framework of IFRS and Implementing in Accordance with its Requirements

Do you think it's difficult to understand the theoretical framework of IFRS and implement in accordance with the requirement of the standards?	**Frequency**	**Percentage**
Yes	10	50%
No	10	50%
Total	20	100%

Source: Primary data, 2018

Table 3.12 Responses on the Challenges of Understanding and Implementing IFRS

From the table 3.12 above, 10 (50%) of the respondents believe it's difficult to understand both the theoretical framework of IFRS and implement in accordance with the requirement of the standards while the other half (50%) of the respondents think in a different way that it's not that much difficult to understand the theory nor to implement accordingly. This finding implies that there is a difference of opinion between the respondents as to the challenge/difficulty of understanding the theory of IFRS and implementing with its requirement. Such difference of opinion with regards to this issue might arise due to a gap in the level of awareness about IFRS between the respondents that some of the respondents hold a diploma in ACCA DipIFR apart from their academic background because of which they are much internalized with the theoretical frameworks of the standards in addition to the normal training they had taken with other staffs. While the others were not familiar with the concepts, terminologies and the like because of which there was a great confusion not only on how to implement the theory but also to understand it as well. Among those respondents who replied positively (Yes) to the above question, the following standards of IFRS are most frequently mentioned as being difficult to understand and implement.

Reasons for preference	Frequency	Percentage
IAS 19 – Employee Benefits	6/10	60%
IFRS 9 – Financial Instruments	8/10	80%
IFRS 13 – Fair Value Measurements	10/10	100%

Table 3.13 List of IFRS Standards that are Difficult to Understand and Implement (Primary data, 2018)

As shown in the table 3.13 above, out of those respondents who replied positively to the question, 6 (60%) of the respondents quoted IAS 19 as one of the most challenging IFRS standard, whereas 8 (80%) of the respondents mentioned IFRS 9 while all (100%) of the ten respondents who replied positively to the question stated IFRS 13 as one of the most challenging standard both to understand theoretically and implement practically. In addition to the above frequently mentioned standards, the respondents also stated other IFRS standards such as IAS 16, other financial instruments standards apart from IFRS 9 (such as IAS 32, IAS 39 and IFRS 7), standards on Leases (IAS 17/IFRS 16) etc. as being difficult.

On the basis of this finding, the student researchers generalized that some standards of IFRS such as IAS 19, IFRS 9 and IFRS 13 are the most challenging standards to understand theoretically and implement in the current situation of the financial institutions mainly because of the nature of the standards, absence of structured financial markets or principal market for fair valuation of equity instruments and finally lack of professionals such as actuaries for determination of post-retirement benefits and asset valuation experts. Other standards such as IAS 16, IAS 32, and IFRS 16 etc. are also mentioned as the most difficult one accordingly depending upon the nature of the standards and the existing circumstance of the entities.

3.2.13. The Challenges of Fair Value Measurements during First-time Adoption of IFRS

Do you think IFRS requirement of measurement of fair values is the major challenge during first-time adoption of IFRS?	**Frequency**	**Percentage**
Yes	20	100%
No	0	0
Total	20	100%

Table 3.14 Responses on the Challenges arising from the Measurement of Fair Values during First-time Adoption of IFRS (Source: Primary data, 2018)

From table 3.14 above, 20 (100%) of the responses imply that measurement of fair values is the major challenge to all adopting entities during the first-time adoption of IFRS. Even though this IFRS requirement is intended for fair representation elements of financial statement, it is yet a major challenge for most of first-time adopters. Thus, based on the above finding, all the respondents unanimously agree that though fair value is a better measurement method it's yet the major challenges due to various reasons explained below.

3.2.14. The Practical Challenges Encountered in the Measurement of Fair Values

Since the emphasis given to fair value measurement is one of the most distinctive characteristics of IFRS, it's applied in various aspects of financial reporting. However, it has been the major challenge for first-time adopters. Thus, various practical challenges have been mentioned by the respondents with regards to measurement of fair values such as: absence of active principal markets, lack of valuation experts, the difficulty to set prices even in potential market and measurements in reference to some observable inputs with regards to valuation of equity instruments, lack of data/information required for this fair valuation and the huge amount of cost incurred which affects the companies financially etc.

3.2.15. The Status of IFRS Adoption in terms of Suitability to Developing Countries

Do you agree with the statement that IFRS is suitable to developed economies and not practical to developing countries like Ethiopia?	**Frequency**	**Percentage**
Strongly Agree	0	0
Agree	0	0
Neutral	8	40
Disagree	12	60%
Strongly Disagree	0	0
Total	20	100%

Table 3.15 Respondent's Opinion on whether IFRS is Suitable to Developing Countries (Own survey)

From table 3.9 above, 12 (60%) of the respondents do not agree (*disagree*) with the statement that IFRS is suitable for developed economies and not practical for implementation to developing countries like Ethiopia while the remaining 8 (40%) of the respondents neither agree nor disagree (are *neutral*) with the statement. This finding implies that majority of the respondents do not agree with the statement that IFRS is not practical to developing countries as it's developed with the mission to be globally enforceable.

The respondents who disagree with the statement that IFRS is suitable to developed economies and being impractical to developing countries like Ethiopia, raise various reasons to reject this claim such as: Even though it's at its first-time implementation phase, once the standards of IFRS are well understood and become coherent with the status of our country it will be suitable. In addition, IFRS have been developed in consultation with many countries at the draft level by taking feedback & comment from these countries and the reporting standard being currently enforceable in most part of the world; its applicability would not be under question. Moreover, even though there is substantial lack of resources for adoption of IFRS, alternative measures can be taken, globalization of world business and the motive to attract foreign direct investment which can no longer be possible without adoption of internationally recognized standard and finally despite its complexity in implementation yet it will have long lasting benefits in providing reliable and transparent financial information to wide range of users.

However, the other respondents who think differently by responding without agreeing nor disagree (or being neutral) also state their own reasons such as the benefit which is expected to be derived from IFRS adoption is not yet tested and difficult to predict in the existing situation and finally the challenges currently facing the adopting entities which have been discussed so far make it more uncertain as to whether it's suitable or not. Based on these findings, we can generalize that IFRS is suitable to developing countries as long as the required inputs are available providing that there is some uncertainties in this regard.

3.2.16. The directives of National Bank of Ethiopia vs. IFRS

The interviews conducted with interviewees with regards to the existence of differences between the directives issued by the National Bank and the requirements of some IFRSs reveal that the main conflict arises mainly and perhaps specifically from the treatment of some financial instruments mainly loans and advances. The bank and (of course all banks) follows the National Bank Supervision of Banking Business Directives SBB/43/2008 in determining the extent of provisions for impairment losses. The Directive classifies loans and advances into: Pass, Special Mention, Substandard, Doubtful, and Loss. The bank also classifies the loan categories in consistence to the National Banks criteria. NBE requires banks to adhere an incurred approach with regards to loans and advances that means the main issue is whether the debtor pays his obligation or not. If he pays just take no provision and it's known as pass loan. This type of loan the debtor pays is just a normal loan and thus the directive requires the banks to take a 1% provision for such kind of loan which in not in line with IFRS.

According to the directive of the National Bank of Ethiopia, if a normal loan which is a pass loan below 30 days is advanced to customers, the banks should take a 1% provision for this kind of loan, whereas if the loan aged between 30 days up to 90 days, it's known as Special Mention (SPM) and thus they should take 3% provision. On the other hand, but if the loan exceeds 90 days it is Non-performing which is supposed to default, so for this kind of loans aging from 90 to 180 days they should take 20% provision.

But if a loan exceeds 360 days (1 year or is long-term), banks should take 100% provision for the loan and all these are the directives governing the banking business until now. The main concern of NBE directives is the ability of the debtor to settle his obligation during the period. But the general principle of IFRS guiding financial instruments (loans) is will the debtor settle his obligation in the long-run which is forward looking and prevents adherence to 'incurred approach' while that of the NBE directive still stick to this approach which is outdated and this major conflict between these rules is difficult for accounting.

The main problem in this regard is to choose between which system or approach to follow – the principle set out by IFRS or the directive issued by the National Bank. To comply with IFRS, the system should completely be redesigned to meet IFRS needs and the current system was designed to fit the needs of National Bank as the requirement of National Bank is too few. This is because IFRS financial statement are prepared for general purpose and thus the requirement of data for this cause is huge while FSs prepared for regulatory requirements are of specific and thus less amount of data is required. Moreover, the system designed to work and produce financial statements for National Bank needs can never work for IFRS due to complexity of the data requirement of IFRS. According to an interviewee, because of the need to upgrade the system to meet IFRS needs, there was a huge controversy because it might result in conflict with the regulatory body. This is due to the fact that upgrading the system to meet IFRS needs is for the benefit of general purpose FS users while using the current system is just to meet regulatory requirements.

With regards to commitment from the National Bank of Ethiopia to reconcile these major differences between its directive and IFRS, according to the interviewees there is no any commitment from the regulatory body so far. This is due to the previous trend of NBE that it even restricts private banks to engage in introducing and delivering new products to customers before Commercial Bank of Ethiopia adopt it as a state bank and so same thing happens with regards to this issue of IFRS. Therefore, there is a complete backwardness from the National Bank in terms of civilizing the banking industry and to go in line with the international trend which consequently affected IFRS based financial reporting in the industry.

Summary of the Findings, Conclusions and Recommendations

This chapter presents summary of the findings, conclusions and recommendations. Thus it has three parts: the first part presents the major findings, followed by the second part which presents conclusions made on the basis of the summary of the findings in such a way that achieves the overall research objectives and finally the third part presents the recommendations provided on the basis of the conclusions made.

4.1. Summary of the Findings

The findings of the study provide insights on the challenges and prospects of first-time adoption of IFRS in the case of selected commercial banks. The data collected for the study had been analyzed, interpreted and presented using the appropriate techniques in the previous chapter. Thus, this section presents the summary of the major findings already discussed in the previous chapter as follows:

❖ With regards to general background of the respondents, out of the total 20 respondents;

✓ 18 (90%) of the respondents are male while only 2 (10%) of them are female.

✓ On the other hand, 12 (60%) of the respondents are master's degree holders, while the rest 8 (40%) of the respondents are bachelor's degree holders.

✓ About their work experience, 18 (90%) of them have 11 to 20 years of working experience while only 2 (10%) of them have 5 to 10 years of work experience.

✓ As far as respondents' age interval is concerned, 14 (70%) of the respondents lies between the age of 35 to 44 years while the rest 6 (30%) found between 25 to 34 years.

✓ Finally, with regards to their work position; 10 (50%) of the respondents are managers, whereas 4 (20%) of them are senior finance officers while the remaining 2 (10%) and 4 (20%) of the respondents are section heads and directors of finance & general accounts respectively.

❖ With regards to the major findings about the issues related to the adoption and practice of IFRS:

- ✓ As far as the adopted reporting standard in the companies before IFRS is concerned, out of the total of 20 respondents 8 (40%) of the respondents say it's US GAAP, whereas 2 (10%) of them responded as if it's UK GAAP while the remaining 10 (50%) of the respondents say other than the previous one such as own policy & procedures, unknown GAAP etc.
- ✓ With regards to their preference between the previous reporting framework and IFRS, almost all or 19 (95%) of them had chosen IFRS as their preferable reporting standard while only 1 (5%) of the respondents chooses neither IFRS nor the previous reporting framework.
- ✓ With regards to the major challenges encountered at the first-time adoption of IFRS, all of the respondents believe that the difficulty how to implement the reporting standard and lack of proper guidance as the major challenges whereas 12 (60%) of them mention the difficulty how to understand the theory of IFRS in addition to the above mentioned challenges, while 8 (40%) of the respondents mention other challenges such as lack of valuation experts and actuaries, absence of structured financial markets in addition etc.
- ✓ As far as the company's stance on the financial reporting proclamation No. 847/2014 is concerned, all of the 20 respondents answered that their respective companies understand and perform in accordance with the financial reporting proclamation.
- ✓ With regards to the factors that influenced/motivated the company to adopt IFRS, 20 (100%) of the respondents mention the requirement of the regulatory bodies, National Bank of Ethiopia and the government organ (AABE) as the main factor while 2 (10%) of them mention the company's own interest to standardize and improve the quality of financial reporting as another factor.
- ✓ With regards to the practical benefits expected to be derived by the companies for adopting IFRS, 20 (100%) of the respondents believe improvement of the quality of financial reporting as the main practical benefit, whereas 14 (70%) and another 10 (50%) of the respondents mention financial reporting transparency and simplicity of raising capital/lowering cost of capital as another benefits respectively, while 4 (20%) of the respondents mention other benefits such as improvement of the efficiency and effectiveness of financial reporting etc.

- ✓ As far as the benefits vs. cost of implementing IFRS is concerned, out of the total 20 respondents 10 (50%) strongly agree and 6 (30%) of them agree that the benefits of IFRS exceeds the cost of its implementation, while the remaining 4 (20%) of the respondents disagree in this regard.
- ✓ With regard to the status of IFRS adoption in terms of the complexity of financial reporting, 14 (70%) of the respondents believe that the adoption of IFRS complicates financial accounting and reporting while the remaining 6 (30%) believe IFRS simplifies financial reporting.
- ✓ With regards to the challenges arising from lack of preparedness for IFRS adoption, all of the respondents believe that there is a substantial lack of preparedness at the national and company level from both the regulatory bodies (such as AABE) & the company side. Moreover, it was one of the major challenges during first-time adoption of IFRS and has significant adverse impact on the quality of financial reporting and on the degree of compliance with IFRS.
- ✓ According to the respondents and the interviewees, this lack of preparedness can be described by factors such as: lack of implementation guidance and awareness to the concerned stakeholders, lack of professionals, insufficient transition period given by the executive body/AABE etc.
- ✓ With regards to the issue of the difficulty of understanding theoretical frameworks of IFRS and implement in accordance with its requirements, 10 or half (50%) of the respondents believe it is difficult to understand IFRS and implement in accordance with its requirements while the other half don't consider it's that much difficult to understand IFRS and implement accordingly.
- ✓ Amongst those respondents who think IFRS is difficult to understand and implement, they mentioned some standards of IFRS such as: 6 (60%) of them mention IAS 19 (Employee benefit) whereas 8 (80%) of the respondents quote IFRS 9 (Financial Instruments) while all of the 10 respondents state IFRS 13 (Fair Value Measurements) as one of the most difficult standards. Other standards are also mentioned such as IAS 16 (PPE), IAS 17/IFRS 16 (Leases) etc.
- ✓ As far as the challenges of fair value measurement is concerned, the responses of 20 (100%) of the respondents imply that measurement of fair value is one of the major challenges to all first-time adopters even though it's intended for fair presentation of the elements of FSs. The practical

challenges encountered during fair value measurements include: absence of structured principal markets for fair valuation of PPEs & financial instruments, absence of valuation experts etc.

✓ With regards to the status of IFRS adoption in terms of suitability to developing countries like Ethiopia, 12 (60%) of the respondents don't agree (*disagree*) with the statement that IFRS is suitable to developed countries and not practical to developing countries like Ethiopia while the remaining 8 (40%) neither agree nor disagree (are *neutral*) in this regard.

✓ With regards to the existence of differences between the directives of National Bank and IFRS, according to the interviewees, the main conflict is with regards to financial instruments – the recognition of the amount to be held as provision for uncollectible loans and other related issues.

4.2. Conclusions

This study attempts to explore the challenges and prospects of first-time adoption of IFRS in financial institutions with particular reference to selected commercial banks which already adopted the standard. On the basis of the preliminary study undertaken during formulation of the research problem, four research questions were developed and tested: The first of which is what the essential aspects of lack of preparedness from both the reporting entities and the regulatory bodies' perspective are, the second question is intended to determine aspects of the difficulty of understanding and implementing IFRS, whereas the third question is posed to identify the areas/aspects where the directives of NBE contradict the requirements of IFRS, while the last question is intended to describe the practical benefits expected (prospects of IFRS) to be gained by the entities in the existing circumstance. To gather the relevant data, the study used interviews with directors of finance and self-administered questionnaires distributed to different finance personnels.

The Ethiopian government had expressed its initiative to integrate financial reporting system of the country with internationally recognized standard. This was manifested by the recently issued proclamation called "financial reporting proclamation, No. 847/2014" which resulted with the formation of an autonomous government organ, Accounting & Auditing Board of Ethiopia (AABE) and determination of its procedures. The newly established board with the implementation roadmap it sets out requires all significant public interest entities and SMEs to adopt IFRS in their financial reporting based on the schedule set out in the implementation roadmap for each category of entities. Even though IFRS is officially adopted with the expectation of the prospects in relation to the adoption, yet there are various inherent challenges facing the adopting entities especially during the first-time adoption as have been discussed so far.

On the basis of the major findings, there are various challenges facing the reporting entities during first-time adoption of IFRS. Among the challenges facing the entities include the challenges arising from lack of preparedness for IFRS adoption from the entities and the regulatory bodies' sides. This means there is substantial lack of preparedness in various aspects such as in terms of making policy decision, planning to set a firm deadline & making awareness to the concerned stakeholders and acquiring all the required resources as have been discussed earlier. This fact indicates that NBE and AABE as a regulatory bodies and financial institutions as a reporting entity are too early to adopt IFRS since they'd have to pass through the above steps before making any adoption decision. However, this problem is already identified by the entities and they are adopting IFRS only due to the requirement of the regulatory bodies (AABE) and not with their willingness even though they understand it has enormous advantages to them.

The other challenge comes from the difficulty of understanding the theory of IFRS and implementing in accordance with its requirements. In this regard there is a significantly huge problem of awareness both with understanding of the theory of some IFRS standards and implement in accordance with their requirements. Among the difficult IFRSs that are pose difficulty in this regard, the main one include: IAS 19 (Employee Benefits), IFRS 9 (Financial Instruments) and IFRS 13 (Fair Value Measurements) just to mention a few in addition to some other standards mentioned earlier in the previous sections.

Moreover, there is also another significant challenge facing the financial institutions with regards to the existence of conflict between the directives of National Bank of Ethiopia and the requirements of some IFRSs especially in areas of accounting for financial instruments such as recognition of provision for uncollectible loans etc. Such a conflict poses a real problem with regards to performing the commercial banking activity in accordance with the NBE directives on one hand and complying with IFRS on the other hand since financial instruments are the most significant elements of banks' balance sheet and the problem that arise with treatment of these elements will significantly affect the overall financial reporting.

From the findings, there are various practical benefits the financial institutions can derive from IFRS adoption such as simplicity of raising funds abroad or reduction of cost of capital by lowering cost of information for users, enhancing reporting transparency which reduces agency problem as increased transparency causes management to act in the interest of shareholders which in turn boosts shareholders' confidence, and last but not least is improvement of the quality of financial reporting etc.

In addition, based on the major findings it can also be concluded that there is no definite and unanimously agreed reporting standard before IFRS was officially adopted because of which IFRS is preferable reporting framework due to the fact that it will standardize the country's financial reporting system apart from its enormous benefits. Moreover, from the findings the student researchers also generalize that lack of proper guidance & instruction from the regulatory bodies and fair value measurements are the other major challenges. In spite of all its challenges and prospects, IFRS complicates financial reporting of the adopting entities. However, with all its major challenges during first time adoption IFRS has more benefits exceeding its costs since the challenges are short-term and the benefits are long lasting.

4.3. Recommendations

On the basis of the major findings of the study and the conclusions made earlier, the student researchers suggest the following recommendations:

- The reporting entities need to facilitate well organized training program of IFRS standards relevant to banking business and its conceptual framework to all the concerned staffs not just only for senior finance personnels at the head quarter but to all lower level accountants and other concerned staffs whose work is related to IFRS based financial reporting at the branch level.
- The banks in addition to facilitation of normal training program for all relevant standards, they should also pay due attention to some specific standards that are considered as difficult to trainees for understanding and implementation but yet have considerable importance to the banking business and financial reporting such as standards on financial instruments

like IFRS 9, IAS 32 and IFRS 7, about fair value measurements on IFRS 13 and one of the most ignored issue previously but very important one that is about employee benefits in IAS 19 just to mention a few.

- The banks apart from the normal training should also facilitate further IFRS executive briefing sessions and awareness creation programs to all top level management and other department staffs other than finance personnels so that they give due attention to IFRS financial reporting and since the issue of IFRS is not something left to one department alone but rather requires the collaboration of major institutional segments to achieve the real objective of financial reporting.
- In addition they should also create awareness about the recently issued proclamation on financial reporting No. 847/2014, its objectives and its importance to all the above mentioned parties.
- Since most of the reporting entities apart from financial institutions are adopting IFRS mainly due to the requirement of the Accounting and Auditing Board of Ethiopia (AABE) and other regulatory bodies not with their own initiative, the board and other stakeholders should provide or facilitate proper implementation guidance and support for the institutions.
- Moreover, since asset valuation & determination of defined benefit plan are two of the most difficult areas of IFRS based financial reporting due to absence of asset valuation experts and actuaries, the board and other stakeholders should facilitate the situation where the reporting entities can find these specialized professionals with a minimum possible cost or if possible instead of outsourcing professionals from abroad it should undertake/facilitate training on asset valuation and defined benefit plan on a continuous basis to concerned staffs of the reporting entities.
- On the other hand, the newly established board, AABE as an autonomous government organ should discharge the historical responsibility vested upon it by establishing a strong foundation for and providing due attention to the development of accountancy profession in the country.
- Besides recognizing the importance of professional accountancy institution in developing and enforcing accounting & auditing standards, and monitoring the accountancy professionals, the board should work toward its establishment and provide continuous support to the institution.
- The board should also conduct a study to identify the gaps in systems and processes to gather information needed under IFRS and the currently

available information in the country and develop IFRS Accounting manuals modifying charts of accounts, software packages to support accounting practices with IFRS and detailed instructions taking IFRS requirements into accounts.

- Since IFRS were developed with the presence of effective stock markets in mind, serious action should be taken by the concerned parties to let stock exchanges and other financial markets to come in to existence in the country if effective implementation of IFRS is seriously considered even though the current economic situation of the country makes it difficult to do this action.
- Finally, the National Bank needs to amend its directives with regards to treatment of financial instruments to go in line with IFRS requirements so that the banks comply with the reporting standard. In addition, the regulatory body should also work to give a clear direction to commercial banking businesses about the implementation of IFRS through its customary directives.

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