St. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

FACULTY OF BUSINESS

KEY CHALLENGES OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) ADOPTION IN PUBLIC UTILITY ENTERPRISE IN ETHIOPIA

BY

MARU AYANAW ABATE

THESIS SUBMITTED TO St. MARY'S UNIVERSITY SCHOOL OF GRADUATE STUDIES IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR

THE DEGREE OF MASTER OF ACCOUNTING AND FINANCE

JUNE, 2020

ADDIS ABABA, ETHIOPIA

KEY CHALLENGES OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) ADOPTION IN PUBLIC UTILITY ENTERPRISE IN ETHIOPIA

BY

MARU AYANAW ABATE

A THESIS SUBMITTED TO St. MARY'S UNIVERSITY SCHOOL OF GRADUATE STUDIES IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR

THE DEGREE OF MASTER OF ACCOUNTING AND FINANCE

ADVISOR
Dr. ABEBAW KASSIE

JUNE, 2020

ADDIS ABABA, ETHIOPIA

St. MARY'S UNIVERSITY SCHOOL OF GRADUATE STUDIES FACULTY OF BUSINESS

KEY CHALLENGES OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) ADOPTION IN PUBLIC UTILITY ENTERPRISE IN ETHIOPIA

BY

MARU AYANAW ABATE

APPROVED BY BOARD OF EXAMINERS

______________________	_____________	_________________
Dean, Graduate Studies	**Signature**	**Date**
________________	______________	_________________
Research Advisor	**Signature**	**Date**
_________________	______________	________________
External Examiner	**Signature**	**Date**
_________________	______________	________________
Internal Examiner	**Signature**	**Date**

DECLARATION

I, the under signed, declare that this thesis is my original work, prepared under the guidance of Dr.Abebaw Kassie. All sources of material used while working on this thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any type of degree.

Maru Ayanaw Abate	June, 2020
Name	**Signature and Date**

ENDORSEMENT

To: St. Mary University

School of Graduates Studies

Title: key challenges of International Financial Reporting Standards (IFRS) adoption in public utility enterprise in Ethiopia

This is to certify that Maru Ayanaw Abate has worked on “key challenges of International financial reporting Standards (IFRS) adoption in public utility enterprises in Ethiopia” under my supervision. This work is original in nature and it is suitable for submission in the partial fulfillment of the requirement for the Degree of Master of Accounting in Finance

Research Advisor:

____

Signature

Dr.Abebaw Kassie

Assistant professor of Accounting and Finance

ACKNOWLEDEGMENT

First of all, I am thankful to the Almighty God for his glorious help and giving me opportunity to my academic advancement.

I would like to express my special appreciation and heartfelt thanks to my advisor, Dr. Abebaw Kassie, for availing his precious time, continues support, responsiveness and for his invaluable mentorship.

I would also like to acknowledge the two public utility enterprises that have participated in this assessment and to the staffs for filling the questionnaires and also appreciate Wasihun Teka, Ashenafi Melsew and Yibelta Alemu who coordinated and took part during data collection.

My special gratitude goes to my dearest wife Meron Hailu for her invaluable encouragement and great support throughout the study period to make these all happen and without her it would have been difficult for me to complete the program.

I would also like to take this opportunity to express my gratitude to all who have supported me with their guidance, constructive criticism and encouragement during this research work.

Table of Contents

LIST OF TABLES

LIST OF FIGURES

List of Acronyms

AABE	Accounting and Auditing Board of Ethiopia
ACCA	Association of Chartered Certified Accountants
BOD	Board of Directors
CEO	Chief Executive officers
CIA	Certified Internal Auditor
ECX	Ethiopian Commodity Exchange
ERCA	Ethiopian Revenue and Customs Authority
EU	European Union
FDI	Foreign Direct Investment
GAAP	General Accepted Accounting Principle
IAS	International Accounting Standards
IASB	International Accounting Standard Board
IASC	International Accounting Standard committee
IFAC	International Federation of Accountants Committee
IFRS	International Financial Reporting Standards
IIA	Institute of Internal Auditors
IMF	International Monitory Fund
IOSCO	International Organization of Securities Commissions
IPSAs	International Public Sector Accountant
ISAC	International accounting Standard committee
IT	Information System
MOFEC	Ministry of Finance and Economic Cooperation
NAO	National Audit Office
NBE	National Bank of Ethiopia
NGOs	None Governmental Organizations
PIE	Public interest entities
PWC	Price water house coopers
ROSC	Research on Observance of Codes and Standards
SMEs	Small and Medium Enterprises
SPSS	Statistical Package software for social science studies
UNCTAD	United Nations Conference on Trade and Development

ABSTRACT

International Financial Reporting Standards (IFRSs) have been adopted by more than 200 countries across the globe. The main objective of IFRSs is to enhance comparable, transparent and accountable financial information for users. However, its adoption and implementation bring opportunities and pose challenges to the adopter(s). The objective of this study is to assess key challenges of IFRS adoption in public utility enterprises in Ethiopia. A descriptive survey design is used for this study. The target population of the study was the three public utility enterprises which are Ethiopian power utility, Ethio-telecom and Addis Ababa water and sewerage authority as target population for this study. But the Addis Ababa water and sewerage authority are yet to start conversion to IFRS. Due to this excluded from target population. 36 respondents from IFRS project team members and finance staffs of the enterprises who were fully engaged in IFRS adoption and who have IFRS knowledge were selected using purposive sampling. Primary data were collected through questionnaire while secondary data were collected through documentary evidence and primary data is analyzed by using different descriptive statistical tools. Finally, the result of the study revealed that cost of IFRS implementation, system incompatibility and support from regulatory body and professional association, nature of IFRS requirement, weak institutional level support, knowledge gap and Poor project management were key challenges that hinder the adoption of IFRS in public utility enterprises. And recommend on importance of strong professional accountancy body that can have a professional membership with IFAC, collaboration and coordination of AABE with different stakeholders.

Key words: Key challenges, adoption, IFRS, Public utility enterprise.

CHAPTER ONE

INTRODUCTION

1.1. General background of the study

Adopting a single set of global accounting language will confirm relevance, completeness, understandability, reliability, timeliness, neutrality, verifiability, consistency, comparability and transparency of financial statements and these bring about a qualitative change in the accounting information reports which will sustenance the confidence and empower investors and other users of accounting information around the world (Ahmad & Khan 2010).

Financial statements prepared in different jurisdictions of the world would not be influenced by the thought of converging to a single set of global accounting standards and, due to nationalistic approaches to accounting standard setting, a financial statement issued in one country under their own national accounting standards was vastly different in terms of accounting treatments and disclosures compared to a financial statement issued in other parts of the world. In other words, the name that was given to the set of accounting standards used in the preparation of financial statements did material for various countries since their national standard setters strongly believed that their own national accounting standards were appropriate for their needs and were well-suited to other globally preferred accounting standards.

However, due to the beginning of globalization and the much-awaited response to the global financial crisis, together with calls by world leaders, things have changed dramatically in terms of the preferred set of standards of accounting universally. The accounting and financial world is now extremely considering the notion of using a single set of financial reporting standards that would be used by most, if not all, the nations around the world, it appears that in all possibility the name of that set of global accounting standards may be the International Financial Reporting Standards (IFRS®).

With this transformation of our world into the magical phenomenon of globalization has led to the emergence of a “global village” that we all live in now. The robust waves of globalization surging through the world seem to have transformed businesses across the globe as well as the manner in which they deal with each other across boundaries. If therefore, as the old adage goes, “accounting is the language of business,” then businesses around the world cannot afford to be speaking in different languages to each other while exchanging and sharing financial results of their international business activities with each other, and also while reporting the results of business and trade to their international stakeholders. As one school of thought believes, since business enterprises around the world are so highly globalized now and need to speak to each other in a common language of business, there is a real need for adopting a single set of accounting standards to unify the accounting world under one canvas and more importantly, solve the problem of diversity of accounting practices across borders.

Historically, countries around the world have had their own national accounting standards. However, with such a compulsion to be part of the globalization movement, wherein businesses across national boundaries are realizing that it is an astute business strategy to embrace the world as their workplace and marketplace, having different rules (standards) of accounting for the purposes of reporting financial results would not help them at all rather, it would serve as an impediment to smooth flows of information, and therefore, businesses have realized that they need to talk to each other in a common language. Thus, there is an urgent need for a common set of global, or even universal, accounting and financial reporting standards that are understood, used, and interpreted by different people around the world in the same manner.

The adoption of accounting standards that require high-quality, transparent, and comparable information is welcomed by investors, creditors, financial analysts, and other users of financial statements. In an increasingly global economy, the use of a single set of high-quality accounting standards facilitates investment and other economic decisions across borders, increases market efficiency, and reduces the cost of raising capital. International Financial Reporting Standards (IFRS) are increasingly becoming the set of globally accepted accounting standards that meet the needs of the world's increasingly integrated global capital markets (Mirza & Holt,2011).

The Government of Ethiopia has a plan to sustain and further improve the economic growth of the country to realize its goal of making Ethiopia a middle income country by 2025. The move to manufacturing and Industry sectors will require the mobilization of huge financial resource for investment, both from domestic resources and from Foreign Direct Investment (FDI). Therefore, to keep FDI inflow sustained, there is a need to improve the investment climate. Among other prerequisites for the sustained growth and improved business climate is high quality financial reporting underpinned by a robust accountancy profession regulated by a strong independent oversight body. High quality financial reporting in Ethiopia will also contribute to more efficient tax collection, an area of public financial management identified as requiring improvement. Furthermore, high quality financial reporting underpins most of the action areas that are recognized in the Addis Ababa Action Agenda of the 3rd International Conference on Financing for development.

Accordingly, implementing high quality International Financial Reporting Standards (IFRS) is critical to meeting and sustaining Ethiopia's economic growth potential. In general, implementation of IFRS contributes to Government efforts of improving good governance and reducing the level of corruption and rent seeking behaviors. All of these will in turn help to remove major impediments to growth that are common in emerging economies like Ethiopia.

Strong financial reporting infrastructure will support the Government's agenda by providing quality financial information, which will facilitate investment decisions and help to reduce risk of financial crises and corporate failures together with their associated negative economic impacts that have been witnessed in many industrial and developing countries (ROSC, 2007).

Recognizing the importance of high quality financial reporting and its contribution to improved business environment necessary to attract investment, the Government of Ethiopia in 2014 passed the Financial Reporting Proclamation—a groundbreaking piece of legislation enshrining the accounting profession's role in fostering the growth of the economy and ensuring the stability of the economy; and the related Council of Ministers Regulation setting-up the oversight Board – the Accountants and Auditors Board of Ethiopia (AABE). The Proclamation sets out financial reporting frameworks applicable to different reporting entities and mandated AABE with the responsibility of regulating the accountancy profession and ensuring its development in the country (AABE, 2015).

The Ethiopian government has issued two proclamations, establishment of Institution of "Accounting and Auditing Board of Ethiopia" and "Financial Reporting Proclamation No. 847/2014" with the following objective:

- To establish sound, transparent and understandable financial reporting system applicable to private and public entities.
- To have a uniform financial reporting law enhancing transparency and accountability by centralizing the decentralized financial reporting structures of Ethiopia.
- To support various building blocks of the economy and to reduce the risk of financial crisis, corporate failure and associated negative economic impact, it is necessary to ensure that the previous of financial information meets internationally recognized reporting standards.
- To establish a body that undertakes regulatory responsibility in financial reporting.

As business entities, public enterprises are expected to exhibit prudent accounting practices. The fact that they are created to attain a certain social policy goal on the behalf of the public makes them amenable to high degree of compliance with established accounting principles and marks the importance of external auditing system over the financial record of the public enterprise. The emergence of public enterprise sector in Ethiopia is contemporaneous with the modernization attempts of the state itself in the early twentieth century. Though there was no clear economic policy of the state during that time, the state established some enterprises to somehow satisfy its growing administrative needs

As per my knowledge, very little empirical research on the challenges of IFRS adoption has been conducted in Ethiopian public enterprise. The purpose of this study, therefore, is to look at and explore prospects and key practical challenges faced by the stakeholders in the process of IFRS adoption in Public Enterprise in Ethiopia. The major economic condition would be ensuring the consistency of the enterprise with national plan or the national economic policy. Because public utility enterprises provide essential services needed by every individual and every institution in the country and would also play a great role in the economy, they should not emerge as undermining the policy. It is about making an economic choice, and this choice, whether positively or adversely, would have a direct impact on employment, consumption, savings, foreign exchange, income distributions and other macroeconomic matters of national significance. The public utility enterprises typically have substantial costs due their massive infrastructure.

1.2. Statement of the Problem

The adoption of IFRS benefit is intended to provide high quality information like financial statements, provide transparent statement for users and easily comparable over all periods presented; provides a suitable starting point for accounting under IFRSs; and can be generated at a cost that does not exceed the benefits to users.

Irvine and Lucas (2006); Zhang et al. (2007) stated that the emerging economies, subsequent to the global financial advantages offered by the adoption of IFRS, face challenges in adapting their controlling infrastructure and culture to western oriented accounting standards. Michas (2010) highlights that, in emerging market countries, there are often lacks in the accounting and auditing practices. Furthermore, Alp and Ustuntage (2009) and Zhang et al. (2007) all stated that, implementing IFRS by developing countries had posed various challenges. Such difficulties include the complex structure of the international standards, potential knowledge shortfall and other difficulties in the application and enforcement issues. While accepting globalization, and adopting IFRS, it nevertheless has challenges ahead as it makes necessary reforms to its regulatory, legal and economic structures and adapts its culture to westernized forms of expression (Irvine and Lucas, 2006).

Previous accounting researches like Irvine and Lucas, (2006); Gyasi (2010); Laga (2012); Owolabi and Iyoha (2012); Okpala (2012); Schachler *et al.* (2012) have investigated the influences of several environmental issues on implementation of IFRS. These studies identify several factors, such as availability of capital market and degree of external economic openness, economic and political influences, legal systems, taxation, culture, and accounting education and training system that looks to affect the adoption of IFRS in emerging nations. For instance, Gyasi (2010) and Laga (2012) and Schachler *et al.* (2012) all specified some challenges that facing the adoption of IFRS in developing countries. There including the following:

- Since the standards are new to the local staff, extensive training must be done to ensure that these accountants are adept with handling these new standards. This leads to increase in the cost of training. Also, the services of consultants must be purchased so as to complete compliance with the new standards adopted which also increases the consultancy cost immensely,
- Some standards do not fit the accounting and financial requirements of the developing countries, and

- The variances in local regulations as one major challenge to the compliance to IFRS in developing countries.

According to Eyob (2017), The adoption of IFRS faces several challenges and obstacles including, lack of technical skills and inadequate knowledge of companies professional accountants, the difficulty to develop its existing accounting systems, and a regulatory framework to cope with economic and social development, recent evolution in accounting profession including international financial reporting standards application, and inadequate education and training of accountants.

Public utility in Ethiopia, like no other industrial force, shaped the future of the Ethiopian Economy and these services are one of the pioneering areas and play an important role in the economic development, since they provide infrastructure for the socio-economic advancement.

In addition, Ethiopia as one of many emerging countries late to adopt IFRS, faces challenges of culture, regulation and transparency and fraud, all of which threaten to damage the process of the implementation of IFRS. On the other hand, implementing high quality International Financial Reporting Standards (IFRS) is critical to meeting and sustaining Ethiopia's economic growth potential, and the public enterprises has the lion share on the emerging economy of Ethiopia. It is about making an economic choice, and this choice, whether positively or adversely, would have a direct impact on employment, consumption, savings, foreign exchange, income distributions and other macroeconomic matters of national significance.

Only few researchers were conducted their study on the benefits, challenges and progress of IFRS adoption in Ethiopia (Fantahun 2012, Kassa et al, 2015, Mihiret, 2016, Hailemichale, 2016, Deyuu and Pasricha, 2016, and Bekelle, 2016). According to these studies implementation costs, complexity of standards, lack of IFRS implementation guidance, increased volatility of earnings, lack of technical skills and inadequate knowledge of professionals, Resistance to Change, Absence of Professional Institutions, high level training requirement, lack of proper instructions from regulatory bodies, and problem with IFRS use of fair value accounting were identified as the major challenges IFRS adoption in Ethiopia. However, all these researchers conducted their study based on theoretical justification and the perceptions of the respondents on IFRS adoption. As a result, they missed to show the practical challenges of IFRS as the adoption begin recently. Therefore, the focus of this study is to assess key practical challenges of IFRS adoption in public utility enterprise in Ethiopia.

1.3. Basic Research Questions

The following research questions were raised and investigated through the research process and study in order to get deep insight and a throughout picture to attain the research objectives. The questions were:-

RQ1. What are the key practical challenges in the implementation of International Financial Reporting Standard (IFRS) in public utility Enterprises?

1.4. Objective of the Study

1.4.1 General objective of the study

The general objective of this study is to assess the practical challenges of IFRS adoption process in public utility enterprises in Ethiopia.

1.4.2 Specific objective of the study

The specific objectives of this study include the following:

1. To assess the status of System Compatibility and support and evaluate knowledge level in public utility enterprises in Ethiopia.
2. To assess the status of institutional level support and the project management gap in public utility enterprise in Ethiopia.
3. To assess Compliance Cost of IFRS Implementation and evaluate the nature of IFRS requirements in public utility enterprise in Ethiopia

1.5. Scope of the Study

Public utility in Ethiopia, like no other industrial force, shaped the future of the Ethiopian Economy and these services are one of the pioneering areas and play an important role in the economic development, since they provide infrastructure for the socio-economic advancement.

Given the shortage of time and resources, the research was limited to assessing the key challenges of international financial reporting standards (IFRS) adoption, implementation and factors that influence the adoption of IFRS in public utility enterprises Ethio-telecom, Ethiopian electric power utility and Addis Ababa water and sewerage authority which have been adopting or going to adopt this standard. But one of the public utility Addis Ababa water and sewerage authority is excluded from the study due to that the enterprise doesn’t start the implementation yet. Had there been adequate time, more data could have been collected from other stakeholders, and might have been relevant to further point of views, but time didn't allow for that.

1.6. Significance of the Study

As the main objectives of this paper is to show the practical key challenges in the adoption process of IFRS in Ethiopia specifically in Public Utility Enterprises. This will have great importance for those who are interested to conduct a detailed and broad study regarding the adoption of IFRS in Ethiopia. And it would enable regulators and auditors to know the various key challenges in the adoption process and provide a lesson from it and by this to increase the level of awareness among managers and other stakeholders on the merits of adopting the IFRS to enhance the degree of compliance with the financial reporting and accounting requirement.

In addition, the study will also enable to gauge the effectiveness of the financial reporting system in place such as training and development for practitioners and new members, due diligence for accounting standards and the overall institutional and professional organization conducive for effective standards application. More over the study may become useful for the governing body, specifically the higher responsible body, and the managements of enterprises to be aware of the perceived and actual benefits of IFRS and give insight on how to adopt these international standards most efficiently.

1.7. Limitation of the study

Due to COVID-19 pandemic the researcher was unable to conduct qualitative research to get in-depth overview about the adoption of IFRS in public utility enterprises and five of the respondents failed to return back the questionnaires.

1.8. Organization the Study

This thesis is presented in five chapters. Chapter one presents the introductory part which contains background of the study, statement of the problem, basic research questions, objectives of the study, significance of the study, scope, limitation and organization of the study. Chapter two presents the review of the related Literatures about the research area of the study, IFRS and its adoption. Chapter three presents the research design and methodology including data source and method of data collection, sampling techniques used, type and source of data, data analysis and presentation and reliability test. Chapter four summarizes data analysis and discussion of results. And the last, Chapter five includes the conclusions, recommendations and implications for future study.

CHAPTER TWO

LITERATURE REVIEW

2.1. Introduction

This Section will present the theoretical and empirical findings of various researchers about the International Financial Reporting Standards and its related issues to the adoption process. The literature review consists of the general overview and history of IFRS, approaches to IFRS adoption, roadmap to IFRS Implementation in Ethiopia, challenges of IFRS adoption other countries experience, Other factors affecting IFRS adoption, challenges and factors for adopting IFRS in Ethiopia, the preconditions of IFRS adoption with empirical evidences from other countries experience and research gap.

2.2. General Overview and History of IFRS

The International Financial Reporting Standards (IFRS) started with the establishment of the International Accounting Standards Committee (IASC) in 1973 as a result of an agreement by professional accountancy bodies of major countries like United Kingdom and Ireland, United States, Australia, Canada, France, Germany, Japan, The Netherlands and Mexico to develop a set of accounting principles worldwide. In its early stages, the IASC were designed at promoting best practices in the preparation of financial statements while authorizing different treatments for given transactions and events.

Aghator and Adeyemi (2009) indicated that with the beginning of globalization and increasing demand for transparent, comparable financial information in the markets, the IASC was restructured in the year 2001 by creating the International Accounting Standards Board (IASB). The IASB is accountable for developing, in the public interest, a single set of high quality, comprehensive and enforceable global accounting standards that require transparent and comparable information in general purpose financial statements and other financial reporting to help participants in the various capital markets of the world and other users of the information to make economic decisions.

Accordingly the IASB has since beginning issued a number of IFRS and interpretations. In fulfilment of its objectives, the IASB cooperates with national accounting standards setters to achieve convergence in accounting standards across the world. IFRS are developed through an international due process that involves accountants, financial analysts and other users of financial statements, the business community, stock exchanges, regulatory and legal authorities, academia and other interested individuals and organizations from around the world.

Aghator & Adeyemi (2009), opined that International Financial Reporting Standards (IFRS) refers to a series of accounting pronouncements published by the International Accounting Standards Board to help preparers of financial statements, throughout the world, produce and present high quality, transparent and comparable financial information. Currently, most financial statements prepared for reporting in Nigeria especially for Public Listed Entities and Significant Public Interest Entities in Nigeria and other public Interest Entities are drawn up in accordance with requirements of IFRS would enhance the relevance of their reports in the international arena. In recent times, many countries in Africa as well as in European Union countries adopting IFRS as the financial reporting framework, though this adoption is subjected to some modifications in alliance to countries national standards to aid credible and reliable information.

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. Since inception of IFRS, many developed and developing countries like Nigeria, Benin, Burkina Faso, Botswana, The Democratic Republic of Congo, Cote d'Ivoire, Ethiopia, Kenya, Togo, Tanzania, Uganda, Zambia, Korean, Bangladesh, Libya e.t.c. have adopted International Financial Reporting Standards (IFRSs) as their basis for financial reporting. The foremost countries to adopt the IFRS standards were countries around Europe. This was due to the derivatives of the European Union (EU), which mandated all listed companies in the year 2005. In fact the year 2005 to 2009 was regarded by the IASB to provide a stable platform for EU companies that started implementation in 2005. Presently more 120 countries are reported to have adopted or converged with at least IFRS1. The adoption and implementation of international standards in a country takes place in an environment that is affected by factors unique to that country; for example the economy, politics, laws and regulations and cultures. A reason that seems to cut across countries for not fully incorporating IFRS is the irresistible urge to amend the international standards to rove for national specificities and the various challenges be it financial and otherwise that the convergence will bring.

2.3. Approaches to IFRS Adoption

There is a difference between adoption and convergence to IFRS. Adoption means using IFRS as issued by IASB. Convergence means that a country accounting standard board and IASB would continue working together to develop high quality, compatible accounting standard over time. A country can change its existing accounting system to a globally recognized accounting standard either by totaling replacing or customizing it with IFRS over time. The first approach is adoption or 'big bang' approach while the latter is called a convergence approach. Adoption or 'Big bang' approach is a strategic decision to adopt IFRS on a single date or, perhaps, a series of dates applied to companies of different sizes. Under this approach, once IFRS are adopted, all IFRS standards should be complied while preparing financial statements and the existing accounting standard should be replaced with IFRS; while in Convergence approach, gradual movement is made towards IFRS through customizing with the existing accounting standards and IFRS are applied gradually. Converging a few local standards to IFRSs each year can allow local preparers and auditors to learn a few topics at a time rather than immersing themselves in the full set of IFRSs and convergence approach can also allow time for necessary changes in local legal frameworks (IFRS Foundation Guide, 2013).

2.4. Roadmap to IFRS Implementation in Ethiopia

The Accounting and Auditing Board of Ethiopia believes that it will be in the best interest of the nation to adopt IFRS as issued by the International Accounting Standard Board. The Board plans a three phase transition over a period of three years for reporting entities in Ethiopia. The transition plan is prepared on the basis of Article 54(1) of the Proclamation and anchored on the understanding that the Board and all stakeholders will follow the milestones and timelines as described above and explained hereunder. It is also important to state here that the transition within this earliest possible period to effective and meaningful adoption may be derailed if any of the milestones and timelines is ignored.

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

Accordingly, reporting entities are not allowed to make such unreserved reference to IFRS unless they fully comply with all the requirements of the IFRSs applicable to their circumstances. The reference to IFRS by such entities prior to the national mandatory requirement date shall be referred herein as ―voluntary‖ adoption and treated accordingly. Such claim by reporting entities and their auditors shall be scrutinized strictly and any infraction shall be dealt with firmly. The following three phases stated as mandatory adoption of IFRS in Ethiopia (AABE 2015);

Phase 1: Significant Public Interest Entities**:** those Financial Institutions and public enterprises owned by Federal or Regional Governments July 8, 2016 is recommended as the date for adoption of IFRS for all financial institutions and large public enterprises. The choice of July 8, 2016 is anchored on the need to give sufficient period (22 months) over which to effectively transit to IFRS.

Phase 2: Other public interest entities: ECX member companies and reporting entities that meet the qualitative thresholds for PIE and Charities and Societies are expected to mandatorily adopt IFRS and IPSAs (for Charities and Societies), for statutory purposes, by July 8, 2017. This means that all other public interest entities and Charities and Societies in Ethiopia will statutorily be required to issue IFRS and IPSAs based financial statements respectively for the year ending July 7, 2018.

Phase 3: Small and Medium-sized Entities**:** IFRS for SMEs shall mandatorily be adopted as at 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.

2.5. Challenges of IFRS Adoptin Other Countries Experience

In spite of the various benefits, adoption of IFRS is a difficult task and has many challenges. As evidenced by the global experience, convergence with IFRS would have significant challenges common to all countries and companies across the world even though there are also certain specific challenges that are unique to particular countries depending on its contexts (Robyn and Graeme, 2009; cited in Baba, 2013).

According to A. Vinayagamoorthy (2014) Opportunities and Challenges in Adopting IFRS in India, PP 132-136 identified the following as key challenges;

- **Difference in GAAP and IFRS:** Adoption of IFRS means that the entire set of financial statements will be required to undergo a drastic change. The differences are wide and very deep routed. It would be a challenge to bring about awareness of IFRS and its impact among the users of financial statements. While IGAAP has been converging with IFRS as much as possible in recent years, differences still remain, and some of these were viewed as significant challenge to overcome. Participants noted concerns in the following areas.

a) IFRS is more principles based, and therefore more 'liberal' than Indian GAAP. More choice under IFRS will mean the increased need to use professional judgement, and this will require a fundamental change in mindset for Indian accountants.

b) Initial transition will be a challenge given differing recognition and measurement criteria for assets and liabilities. These will not only impact earnings, but it is important to be able to capture those differences through appropriate information systems.

c) Specific accounting areas that will be more complex included business combinations and financial instruments. Many of the problems associated with them arise from the greater use of fair value accounting under IFRS.

- **Interaction between Legislation and Accounting:** There are concerns about the compatibility of Indian laws with IFRS in certain matters pertaining to accounting, such as formats and presentation requirements. Similarly, there is uncertainty over tax treatments of items arising from convergence such as unrealized gains and losses and the move from a tax basis for depreciation (IGAAP) to one of useful economic life (IFRS).

- **Training and Education:** Lack of training facilities and academic courses on IFRS will also pose challenge in India. A key challenge is to ensure companies, auditors, regulators and the investment community is appropriately skilled to apply and interpret IFRS.
- **Efficient Financial Reporting Processes:** Although many Indian companies have still not thought about the impact on their information systems. These will require a fundamental review and initial costs could be significant. At the same time, it is important to have in place sound systems in order to ensure that subsequent generation of reporting information is efficient.
- **Legal and Regulatory Considerations:** The reporting requirements are governed by various regulators in India and their pro- visions override other laws. IFRS does not recognize such overriding laws. The regulatory and legal requirements in India will pose a challenge unless the same is been addressed by respective regulatory. IFRS convergence would affect most of the items in the financial statements and consequently the tax liabilities would also undergo a change. Thus the taxation laws should address the treatment of tax liabilities arising on convergence from Indian GAAP to IFRS.
- **Fair Value Measurement:** IFRS uses fair value as a measurement base for valuing most of the items of financial statements. The use of fair value accounting can bring a lot of volatility and subjectivity to the financial statements. It also involves a lot of hard work in arriving at the fair value and valuation experts have to be used.
- **Re-negotiation of Contract:** The contracts would have to be re-negotiated which is also a big challenge. This is because the financial results under IFRS are likely to be very different from those under the Indian GAAP.

Korea Accounting Standards Board and Financial Supervisory Service (2012) in their report entitled "IFRS country report on IFRS Adoption, Implementation and the lessons learned" has shown that Korea had faced the following challenges at the earlier stages of adoption process: (1) there were troubles relating to unexpected additional costs, (2) lack of accounting professionals, and (2) unwelcoming public sentiment, etc. as the users, preparers and auditors of the financial statements encountered numerous challenges and difficulties in adapting to the new accounting standards (IFRS) as they were required to leave behind the accounting practice they were so familiar with and adapt to a new accounting paradigm that emphasizes: principles rather than specific rules; economic substance rather than legal form; consolidated financial statements rather than individual financial statements; and fair value measurement rather than historical cost measurement. However, to solve the third difficulty, the KASB employed multidimensional channels to improve the general perception of IFRS in Korea, for example, the KASB carried out on and off-line education sessions and held numerous seminars and conferences to improve the understanding of IFRS.

The education centers in Nigeria have been found to be insufficient to produce the number of qualified accountants required by businesses in Nigeria (World Bank, 2011). The lack of educational infrastructure to fulfill with IFRS requirements shows that the purpose of IFRS adoption by Nigerian companies can be hindered by a lack of IFRS knowledge. Uwadiae (2013) identified that more challenges are expected from the growing use of IFRS by Nigerian companies. These challenges include the issue of subjectivity on how accounting items are recognized, measured and disclosed in compliance with IFRS requirements.

Interpretation and application of IFRS have been a global issue since 2005 when IFRS became extensively implemented. The IASB has recognized the challenges in IFRS application. One of the concerns is the differences of market data for measurement and valuation and its effects on the comparability of financial statements (IFRS Foundation, 2012). The need for accessibility of market data is mostly true in the case of fair value accounting standard (IFRS-13). IASB confirmation of challenges in IFRS application is consistent and reliable with the report from the Nigeria Stock Exchange (2013a).

Ball (2006), Choi & Meek (2005), Armstrong et al. (2007) and Soderstrom and Sun (2007) have examined that cultural, political and business differences may carry on to enforce considerable barriers in the progress towards a single global financial communication system because a single set of accounting standards cannot reflect the differences in national business practices arising from differences in institutions and cultures. The insight of IFRS quality by users is serious to IFRS adoption. For instance, in a recent survey by McEnroe and Sullivan (2011), individual investors unsatisfied with the current US accounting model and do not want progress towards IFRS adoption. Similarly, Winney et al (2010) provide that small businesses in the US were not prepared for IFRS because they do not see benefits in converting from GAAP to IFRS.

Others major challenges to IFRS adoption include the following:

- *IASB funding, staffing and governance structure, consistent adoption:* Adopters need assurance of IASB true independence with stable funding, expert staffing, appropriate governance to ensure standards setting process is free from undue influence and politicization maneuvers. This will confirm IASB authority and pledge the confidence of market participants and adopting nations around the world Saudagaran (2006).

Dominance of the developed countries and Political lobbying: The developed countries want to dominant the IASB structure and standards setting process to the detriments of the developing countries. There is also strong lobbying and opposition by these groups to IASB's standards Ball (1995), Nobes and Zeff (2008).

- *Consistent adoption, application and regulatory review*: Presently most IFRS adoptions are in labels Daske et al (2007) and with various versions which are inconsistent with IASB's prescription Ball (2006). Besides there are lots of uneven applications, breeding different IFRS versions Tsakumis et al, (2009). Nobes (2006) has indicated the motivations and opportunities for different IFRS to continue. There must a coordinated regulatory review and enforcement mechanism to facilitate consistent application. The complexity of certain IFRSs and tax orientation of most nations have been identified as the two most significant impediments to convergence Larson and Street, (2004).
- *Compliance issues and enforcement mechanisms:* There have been varying levels of compliance with IFRS despite claims by companies that their financial statements complying with IFRS. Equally disturbing is auditors failed to express opinion on IFRS compliance or non-compliance (Cairns, 2001). A major challenge is enforcement mechanisms of IFRS especially in jurisdictions with weak institutions and enforcement agencies.
- *Cultural and structural changes in the various institutions in a country*: The challenges face in adopting IFRS in terms of changing culture and developing systems of regulation and accountability are quite enormous. There are cultural, language, regulatory and accounting profession challenges as well as demands for greater accountability and wider political participation and embracing of necessary political reforms faced by countries in adopting IFRS. In fact embracing globalization and adopting IFRS has challenges as it makes necessary reforms to a country's regulatory, legal and economic structures and adaption of its culture to the West. There is increased need for training and education for investors, accountants, auditors, preparers and users of financial reports etc, development of IFRS curricula at the university and other levels, adjustment of the accounting training

and education to incorporate IFRS. The legal system must be conversant with the new IFRS standards as it applies to tax issues and other applications of laws. The adoption of IFRS must involve the strengthening of the various institutions which will enhance its effective implementation such as: preparers and enforcers (auditors), legal systems and courts, regulators, accounting boards, ownership structure, politicians, law-makers, analysts, rating agencies, accounting professional bodies, tax authorities and capital market regulators), corporate governance structure, the press, public, educational institutions and business schools, financial market etc (Ball,2006).

Many researches, mainly on compliance, implementation issues, market-based, the consequences of the implementation, have been conducted on IFRS adoption using data from countries where IFRS has been adopted or started implementation. Areas examined include significance of accounting data, accounting reporting quality in pre and post IFRS adoption, impact on cost of capital and market liquidity, market responses to IFRS adoption, impact on group accounting and the net profit and equity of companies, comparison between local and IASB/IFRS (Deloitte has conducted extensive, comparative studies of many countries), economic consequences and capital market outcomes of voluntary or obligatory disclosures and adoption etc Barth et al. (2008); Daske, Hail, Leuz and Verdi (2007); Negash (2008); Epstein (2009). Leuz and Wysocki (2008:71-72) suggested that reporting quality is formed by many factors in countries' institutional environments and relations between these elements. Also, Irvine & Lucas (2006:13) conducted research to study challenges involved in implementing IFRS in emerging economies. Along this line, Hail, Leuz and Wysoki (2009) highlight exceptional institutional features of U.S. markets to assess the potential effect of IFRS adoption on the quality and comparability of U.S. reporting practices, ensuing capital market effects, and possible costs of changing from U.S. GAAP to IFRS. They show that decision to adopt IFRS mainly involves a cost benefit tradeoff between (1) recurring, albeit modest, comparability benefits for investors, (2) recurring future cost savings that will largely accrue to multinational companies, and (3) one-time transition costs borne by all firms and the U.S. economy, including those from adjustments to U.S. institutions. Daske, Hail, Leuz and Verdi (2007) also study the impact of IFRS adoption in 26 countries on market liquidity, and cost of equity capital. They find that, on average, market liquidity and equity valuations increase around the introduction of mandatory IFRS in a country. However, these market benefits exist only in countries with strict enforcement governments and institutional environments that provide strong reporting motivations.

2.6. Other Factors affecting IFRS adoption

Various studies have been conducted in different countries to identify factors affecting IFRS adoption for the first time. Ramanna and Sletten (2009) for instance, documented that a country can decide to adopt IFRS, inter alia, because of IFRS network effects i.e., a country is more likely to implement IFRS if other countries in its geographical region are IFRS adopters and they found that a country is more likely to adopt IFRS if its trade partners are IFRS adopters while Zehri and Abdelbaki (2013, p4) argued that Jemakowicz and Gornik (2006) had shown that countries with financial market that are open to foreign investors are more likely to adopt the IFRS.

In recent literature, Results indicate that the extent of IFRS adoption changes from one emerging economy to another (Shima and Yang, 2012; Ramanna and Sletten, 2010; Judge et al., 2010; Clements et al., 2010). The decision to adopt IFRS by a country does not essentially mean a full adoption or a partial adoption. There are countries that harmonize their accounting standards with IFRS (e.g. Iran and Tunisia). Others allow voluntary use of IFRS (e.g. Morocco and Turkey), or entail IFRS adoption for only some groups of listed companies (Saudi Arabia). It is remarkable that the nature of IFRS adoption by a country differs across jurisdictions and across time.

Several factors can affect the status of IFRS adoption, studies focused on the special relationship between the extent of IFRS adoption and its country-level determinant. Some of these studies examined the economic determinants of IFRS adoption (e.g. Shima and Yang, 2012; Ramanna and Sletten, 2010; Zeghal and Mhedhbi, 2006). Others focused on the institutional backgrounds of IFRS adoption (e.g. Ritsumeikan, 2011; Bogdan et al., 2010; Judge et al., 2010). Though previous researches provide some insight into the country-factor determinants of IFRS usage around the world, there is a dearth of studies in the determinant factors of IFRS adoption in emerging economies.

According to Ritsumeikan (2011) review and addressed the relationship between the decisions of 46 developing countries to adopt IFRS and those countries' institutional contexts. And drawing upon the institutional isomorphism theory of DiMaggio and Powell (1983), he discovered that IFRS adoption by developing countries is significantly related to institutional pressures. Particularly, his findings show that coercive isomorphism (as measured by the weight of foreign aid in the economy), normative isomorphism (as measured by the secondary education level) and mimetic isomorphism (as measured by the size of capital market) are strong analytical factors of developing countries' decision to adopt IFRS. Moreover, the results supported that the country's IFRS adoption decision is motivated more by institutional and social pressures, than it is by economic factors (as measured by economic growth and foreign direct investment inflows).

2.7. Empirical Evidence

Several studies examine the challenges on adoption of IFRS in countries. Larson and Street (2004), studied convergence with IFRS in an expanding Europe: progress and obstacles identified by large accounting firm study finds that two most important impediments to convergence recognized by the survey seem to be insufficient guidance on first time application with tax driven nature of national accounting requirements and the complex nature of certain IFRS. The case study of South Africa surveys conducted in 2005 and 2006 by Ernst and Young on the readiness of entities to implement IFRS and Turkey discusses similar findings. These studies indicate that implementation of IFRS is a complex process that requires extensive preparations, including staff training and changes in information systems. Thus, an IFRS implementation plan needs to take into account the time and resources needed for efficient and effective implementation at the entity level (UNCTAD 2007).

Weaver and Woods,(2015), conducted a study entitled "the Challenges Faced by Reporting Entities on Their Transition to International Financial Reporting Standards in Europe" revealed that lack of adequate education, training, Knowledge of IFRS and securing executive level support and resources are the major challenges faced by reporting entities on their transition to IFRS.

Siaga (2012), conducted a study entitled Factors Influencing the Adoption of International Financial Reporting Standards by African Countries categorized challenges of IFRS adoption that were experienced by different African Countries under five specific categories namely financial, Educational, technical, institutional and enforcement challenges. He mentioned that there are financial constraints to adopt IFRS which seems also play a negative role in education and technical capacity. Lack of coherence between the educational and professional programs are the source for skill shortage in the accounting professional in Africa. This problem also results the shortage of technical knowledge to implement the standard. The coherence between Accounting authorities and government/regulatory bodies appears to be challenge in Africa.

Gyasi (2009), conducted a research entitled Adoption of IFRS in developing countries in the case of Ghana. The study aims at understanding the development of accounting in Ghana and how accounting has evolved over the years. However, the main objectives of the study were: to assess the factors that influenced the adoption of IAS/IFRS in Ghana, the benefits of the adoption of these standards and the demerits as well. More importantly the question as to whether accounting standards are relevant to developing countries was subtly considered in the study. And state that capital market, economic growth and globalization as factors that influence the adoption of IFRS in Ghana. Further, the study result that the influence of the legal system and ineffective previous standards as very minimal to the adoption of IFRS in Ghana. The result found that consistency, comparable, consolidation and transparency in reporting financial statements among subsidiaries in different countries were mentioned to be a measurable benefit in the adoption of IFRS by companies especially international or multinational companies. Besides, Ghana complying with International Financial Reporting Standards would go a long way in helping to attract foreign investments into the country and also easy access to capital and loans from international organizations. Finally, the result stated that the variances in local regulations, the complexity and high cost of implementing these news standards are among the challenges that Ghana faced at the adoption of IFRS as major challenges to the compliance to IFRS in developing countries.

Fantahun (2012), attempted to see the Adoption of International Financial Reporting Standards (IFRS) in Ethiopia: Benefits and Key Challenges, these, including the factors that could influence its adoption, with particular reference to companies which adopted this Standard. In order to achieve the above intended objective, the study tried to answer the following specific research questions.

- What are the practical benefits of adopting IFRS for companies and other stakeholders?
- What are the problems faced by the stakeholders in the process of adoption of IFRS?

- What are the underlying factors (i.e., Government Policy, Professional Bodies, Company Size, Capital Market, and Educational Level) that could affect the level of adoption of IFRS?

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. On the other hand the institutions which are required to use IFRS in preparing their financial reports are not applying all the standards. In other words there is a serious compliance problem with IFRS in Ethiopia. The result of the study also revealed main challenges in the process of adopting IFRS include significant cost of adoption of IFRS, need for training, the complex nature of some of the IASB‟s standards and the lack of adequate implementation guidance. This lack of guidance creates risks for different local or national interpretations of IFRS and increases the risk for manipulation in interpretation of financial statements.

Other key challenges include increased volatility of earnings, tax driven nature of previous standards and problem with IFRS's use of fair value accounting. IFRS's use of fair value accounting instead of historical cost is considered as a challenge because some conditions in developing countries like Ethiopia are not favorable for implementing fair value accounting such as achieving observable market prices and accurate estimates of liquid market prices due to less perfect market liquidity. The result reveals that variables factors including capital market, professional bodies, education level, and company size have significant effect on the adoption of IFRS in Ethiopia. The study also found statistically insignificant relationship between government policy and adoption of IFRS in Ethiopia.

Mihret (2016), conducted a research entitled IFRS adoption in Ethiopia: The study aims to explore the overall IFRS adoption process in Ethiopia, related issues and implications. The following objectives among others were formulated:

- To highlight and articulate the Ethiopian IFRS adoption process rhetoric;
- To explore the progress of IFRS adoption process in Ethiopia;
- To identify the stakeholders involved in the Ethiopian IFRS adoption process and their roles as well as interests; and
- To identify the phases and components of IFRS adoption process in Ethiopia.

The study shows that the Ethiopian IFRS implementation activities need to have more enrollments of national actors involving all the concerned stakeholders of the accounting profession, academia, private sectors, government, public enterprises and organizations, etc. and international actors in terms of experience sharing and technical assistance in coordinated manner to achieve the IFRS implementation strategic objectives. The role of the accounting profession in the country's macroeconomic management and IFRS implementation in particular would be very significant. The study shows that there is also little commitment and low capacity among accounting professionals to contribute to the development of the profession and the practice as well.

Hailemichael (2016), made an assessment on the adoption, challenges and perception of IFRS on the quality of financial reporting of financial Institution in Addis Ababa, Ethiopia. The study found that the Adoption of IFRS is motivated by both internal and external factors: internally, the demand of professionals, academics and preparers to work with international trends and externally pressure from global audit firms and other international organizations.

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

According to Deyuu and Pasricha, (2016), a research conducted focusing on the IFRS adoption progress in Ethiopia there to regarding factors affecting IFRS adoption in the context of Ethiopia and it was found that there are different factors that motivate the adoption of IFRS in Ethiopia which can be divided into internal and external factors. From internal factor, the most motivating factor is the absence of national accounting standards in the country. Another pressure comes from external forces. The most external pressure, according to the researcher, comes from, lenders and donors, international correspondent organizations, World Bank and IMF, International Audit Firms (such as Earnest and Young, KPMG International, and Delloitte), ACCA through its affiliate offices and Ethiopian graduates who are working as professional auditors in Ethiopia and pushing companies to use IFRS.

2.8. Summary and Gap in the Existing Literature

Adoption of a new set of financial reporting standards brings a lot of benefits to the business organization and also to the country but sacrifices need to be made. The challenges on adoption of IFRS differ from one country to others and cannot be generalized. Generalizing these challenges may not provide to maximum resolution to specific countries. The adoption of IFRS continues with many countries setting timetable for adoption expecting to gain the benefits of IFRS adoption. However, there are various challenges a country must provoke and overcome. A critical valuation of countries where IFRS has been adopted and implemented discloses that countries like Ethiopia which has just adopted IFRS. There is lack of empirical study in the areas of IFRS adoption in Ethiopia. Only few researchers were conducted their study on the benefits, challenges and progress of IFRS adoption in Ethiopia (Fantahun 2012, Weaver and Woods ,2015,Simegn, 2015, Kassa et al, 2015, Mihiret, 2016, Hailemichale, 2016, Deyuu and Pasricha, 2016, and Bekelle, 2016). According to these studies implementation costs, complexity of standards, lack of IFRS implementation guidance, increased volatility of earnings, lack of technical skills and inadequate knowledge of professionals, Resistance to Change, Absence of Professional Institutions, high level training requirement, lack of proper instructions from regulatory bodies problem, and problem with IFRS use of fair value accounting were identified as the major challenges of IFRS adoption in Ethiopia. However, all these researchers conducted their study based on theoretical justification and the perceptions of the respondents of IFRS adoption.

.

CHAPTER THREE

REREACH DESIGN AND METHODOLOGY

3.1. Introduction

This chapter introduces the research methodology used to collect data in order to achieve the objective of the study. This chapter discussed on the research method that the study employed, and it consists of four sections and is organized as follows: The first section presents the research approach employed in the study to assess practical key challenges exist in the adoption of IFRS in Ethiopia specifically in Public utility enterprises, section two specifies the survey design of the study. The third section present population, sample and sampling techniques and finally section four deals with method of data analysis and interpretation.

3.2. Research Design

Research design comprises the gathering and examining of data. The purpose of the design is to establish a connection between the research questions, the data gathered, and the conclusion arrived. (Yin),1994.

From the three types of research design (exploratory, descriptive and casual) the study adopted descriptive survey research design. According to Mugenda and Mugenda (2003), descriptive design is a process of collecting data to test hypothesis or to answer the questions of the current status of the subject under study. Descriptive research design was chosen because it enables the researcher to generalize the findings to a larger population. The descriptive research design approach credited because it allows to analyze of the relations of variables. This enabled the researcher to assess the key challenges of IFRS adoption in public utility enterprise in Ethiopia.

The study used quantitative research approach. The quantitative data collected through distribution of a questionnaire which is believed to give respondents the freedom to reply to questions genuinely. The questionnaire has designed and developed by the researcher to address the main research question and partly adopted a few statements from Fantahun Tesfu (2012) paper.

3.3. Target population and Sampling Techniques

The researcher selected three public utility enterprises in Ethiopia which are Ethio-telecom, Ethiopian power utility and Addis Ababa water and sewerage authority. However, the Addis Ababa water and sewerage authority were excluded from the study because of the enterprise doesn't start the conversion yet. Even though Neuman (2003) recommend that 10-20% is an adequate sample to make analysis in descriptive study, given the limited number of individuals or groups of individuals who have especial knowledge and experience with a phenomenon of interest was selected through purposive non-probability sampling technique. Tongco (2007) discovered that purposive non-probability sampling technique is most effective when one needs to study a certain cultural domain with knowledgeable experts within.

As IFRS is a new accounting standard to Ethiopia. Hence, the participants of the study need to have specialized expertise and Knowledge in the areas of IFRS to enable the researcher to answer the research questions and to meet the research objectives. Zeghal & Mhedhbi (2006), argued that the adoption financial reporting standards is a very strategic and critical decision; it requires a high level of education, competence, and expertise to be able to understand, interpret, and then make use of these standards.

The two public utility enterprises have organized IFRS project implementation team to facilitate their accounting standard transition process. These IFRS team members have facilitated the implementation in addition to their regular activities.

Therefore, based on their responsibility and close participation in the process of IFRS adoption, the target populations of this study were IFRS project implementation team members of the two-public utility enterprise in Ethiopia. The two-public utility enterprise have organized project implementation team consists from 11 to 25 members. From these 10 members who are non-finance or staffs from engineering department are excluded from the study and 5 finance staffs which are not member of the project team were included in the survey. Accordingly, the 36 participants for this study were from IFRS project implementation team members of the two public utility enterprises which are 26 in number and 5 finance staffs from each public utility enterprise. Hence, the researcher distributed questionnaires to 36 IFRS project team members and finance staffs of the two public utility enterprises. And the researcher believed that the sample size was enough to collect data to achieve the objectives of the study and to make an inference about the population.

Table 3.1: IFRS project implementation team formation and finance staffs of the public utility enterprises

S.N	Name of public utility	No. of IFRS implementation project Team Members	Finance staffs	Excluded	Total	Remark
1.	Ethio-telecom	11	5	-	16	
2.	Ethiopian electric power utility	25	5	10	20	The excluded team members are non-finance staffs from engineering department
Total					**36**	
	Addis Ababa water and sewerage authority	Excluded from study				

Source: Survey result, 2020

As shown on the table above these public utility enterprises have organized IFRS implementation team consists of 11 to 25 members.

3.4. Type and Source of Data

This study used both primary and secondary data. Primary data was obtained by using five-point likert scale survey questionnaires by asking respondents to indicate their level of agreement. This enabled the researcher to get unbiased or close to the fact response from the respondents. A study conducted by Murray (2013), entitled “Likert Data: What to Use, Parametric or Non-Parametric?” concluded that parametric and non- parametric tests conducted on Likert scale data do not affect the conclusions drawn from the results (Murray, 2013).In the same vein, Norman (2013) explained that parametric tests are sufficiently robust to yield largely unbiased answers that are acceptably close to ‘‘the truth’’ when analyzing Likert scale responses (as cited Murray.J, 2013**)**. The researcher used purposive sampling technique by identifying those participants of IFRS implementation team members and finance staffs of the enterprises. Those team members and finance staffs were the main source of data for the study and this process help the researcher to secure first-hand information about key challenges of IFRS adoption and factors that can influence the adoption of IFRS. In addition, secondary data obtained through published and unpublished materials from a regulator body ABBE, by accessing website and reports to gain additional insight into the process of adoption, laws and regulations, and status and deadline of IFRS adoption.

3.5. Data Analysis and Presentation

The data collected through survey categorized and summarized to make it useful for analysis. And the data collected through questionnaires summarized in excel sheet and coded in to Statistical package for social science version 20 for analysis and interpretation purposes. The data analyzed using descriptive statistical methods. This includes Frequencies, percentages, means and standard deviations. And mean is used to analyze key challenges of IFRS in public utility enterprise response found from questionnaire. Mean scores 4.51-5.00 excellent or very good, 3.51-4.50 good, 2.51-3.50 average or moderate, 1.51-2.50 fair and 1.00-1.50 is poor (poonlar btawee:1987).

3.6. Reliability Testing

For this research Cronbach's alpha is used to test the consistency or reliability of the responses. Cronbach's alpha is a measure of internal consistency. A reliability coefficient test of .70 or higher is considered "acceptable" in most social science research situations Cronbach (1951).

Accordingly reliability testing in order to check the consistency of the responses was made using the data collected in SPSS and the following table provides the result of the test.

Table 3.2 Scale: All variable Case Processing Summary

		N	%
Cases	Valid	31	100
	Excluded [a]	0	0
	Total	31	100

List wise deletion based on all variables in the procedure

Table 3.3 Reliability Statistics

Cronbach's Alpha	N of Items
.886	44

As stated above a minimum result of reliability coefficient test of .70 was set as an acceptable range for this research and result shows a .886 reliability test result as shown in table 3.2. Hence, the research is highly reliable.

CHAPTER FOUR

DATA ANALYSIS AND DISCUSSION OF RESULTS

This study was done to assess key challenges of IFRS adoption and implementation in public utility enterprises in Ethiopia and this chapter presents the findings of collected data and analysis and interpretation performed based on the findings. To make the analysis, a total of 36 questionnaires were distributed to the IFRS implementation team members and finance staffs who largely include finance managers, chief Finance Offices (CFOs), Senior Accountants and Chief Internal audit function of the two public utility enterprises. Therefore, out of the total questionnaires, 31 questionnaires were filled and returned to the researcher, which means the overall response rate of the study was 86%. This shows the response rate result is enough to make the analysis.

The results of the data collected from IFRS project implementation team members and finance staffs of the two public utility enterprises through structured questionnaire are analyzed below.

4.1 Demographic Characteristics of Respondents

The respondents demographic features include four key features which were: The respondent's gender, age, academic qualification, and year of experience.

4.1.1 Gender Distribution of Respondents

Table 4.1.1 Gender Distribution of Respondents

S.N	**Variable**	**Type**	**Response**	**%**
1	**Gender**	Male	28	90
		Female	03	10
Total			**31**	**100**

Source: Survey result, 2020

Table 4.1.1: shows that out of 30 respondent's 28 respondents representing 90% were males and while 3 respondents representing 10% were females. The result indicated that the majority of respondents are represented by male.

4.1.2 Age Distribution of Respondents

Table 4.1.2 Age Distribution of Respondents

S.N	**Variable**	**Type**	**Response**	**%**
1	**Age**	31-40	16	52
		41-50	15	48
	Total		**31**	**100**

Source: Survey result, 2020

As we can see from above table 4.1.2 around half of the respondents age were between 31 years up to 40 years 16(52%) of the total respondents, and the remaining 15 (48%) of respondents age between 41 years up to 50 years. This result indicate that all the respondents age fall under the productive and experienced age group, so since the productive and experienced age group prone to technology and change, it was an advantage to the transition process since the conversion from national (GAAPs) to IFRS requires high technical IT skill and soft skill on accounting software programs, therefore, the existence of majority of productive staff was an advantage to transition of IFRS.

4.1.3 Educational level of Respondents

Table 4.1.3 Educational level of Respondents

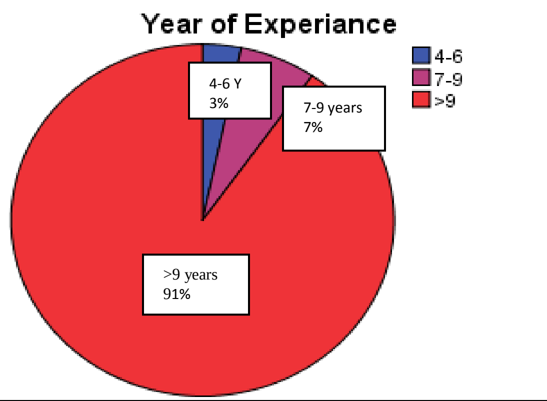
S.N	**Variable**	**Type**	**Response**	**%**
	Educational level	Degree	12	39
		Masters	19	61
	Total		**31**	**100**

Source: Survey result, 2020

The table above 4.1.3 shows that most of the respondents 19 (61%) hold their second degree and the rest 12(39%) with first degree. It can be observed that IFRS implementation team members of the utility enterprises have the required level of educational background and qualification to address the questions on the questionnaire which needed in-depth knowledge of IFRS implementation.

4.1.4 Year of Experience

Figure 4.1.1: Work Experience of Respondents

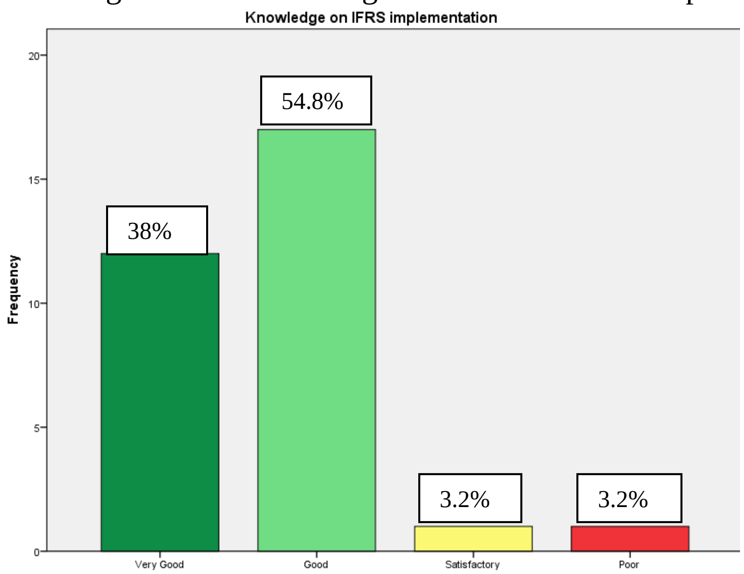


Source: Survey result, 2020

Figure 4.1.1 presents the work experience of IFRS implementation team members and finance staffs working in the enterprises. Based on the result majority of the respondents have been working with the enterprise more than nine years. Majority of the teams are experienced which would have positive contribution for the success of IFRS adoption process. IFRS requires data for a long period of time back from the adoption period, having those experienced team members enables to extract the required data well than those who have little experience.

4.1.5 Training on IFRS standards and knowledge on IFRS implementation

Figure 4.1.2: knowledge in the area of IFRS implementation



Source: Survey result, 2020

All the respondents take training on IFRS standards. And regarding their knowledge on the area of IFRS implementation as shown on the above figure 4.2.2, 92.88% of the respondents agreed and strongly agreed that they have good or very good knowledge in IFRS implementation, whereas the 3.2% are satisfactory and the remaining 3.2% are poor. This implies that majority the respondents have a very good knowledge to understand IFRS conversion related actual challenges and provide reliable response.

4.1.6 Preferred accounting standards

Table 4.1.4 Preferred accounting standards

S.N	Variable	Type	Response	%
	Preferred accounting standard	IFRS	30	96.8
		Previously used	01	3.2
	Total		**31**	**100**

Source: Survey result, 2020

The table above 4.1.4 shows that majority of the respondents 30 (96.8%) prefer IFRS and the remaining 1(3.2%) prefer previously used standards. This implies that majority of the respondents prefer IFRS standards due to the comparable benefits it provides to management, stakeholders and users of the information. Also it promotes the comparability, reliability and quality of financial statements and information.

4.2 Key Challenges of IFRS adoption by public utility enterprises

In this section challenges of IFRS adoption by public utility enterprises are discussed based on the responses of IFRS project implementation team members and finance staffs of the enterprises.

4.2.1 System Compatibility and Support requirement

This refers the in placement of a regulatory and professional association's which strictly enforced; specify the financial reporting standards, minimum requirements for recognition, measurement and disclosure of financial statements which reporting entities shall comply to be IFRS adoption success full. The researcher constructed nine statements that assumed to describe and reliably measure the existence of strong regulatory and professional associations in the country for successful implementation of IFRS. These are transition road map, effectiveness of monitoring and review process, Lack of technical guidelines & interpretation, lack of collaboration from regulatory bodies, lack of strong professional accountancy bodies, software compatibility problem and IT support, lack of market and IFRS reporting compatibility with tax reporting. The statements consist of the scale expressing the level of agreements or disagreements of the respondents.

The determination of whether there is lack of system compatibility and support or not is decided by taking the average score (Mean) of the responses of respondents. Therefore, the higher score implies that the existence of lack of system compatibility and support and being a potential challenge for successful adoption of IFRS by the enterprises.

Table 4.2.1: System Compatibility and support requirement

Label			SA		A		N		DA		SDA		Total	
		N=31	Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
1	The IFRS Transition Road Map developed by AABE is not realistic and not takes into account the capacity and readiness of the nation in general and the entities in particular	31	5	16.1	19	61.3			7	22.6			31	100
2	There is no effective monitoring and review process from AABE side during IFRS implementation process	31	5	16.1	18	58.1	6	19.4	2	6.5			31	100
3	There is lack of technical guidelines, interpretations and tools and other supporting materials that takes into consideration national context and sectorial issues from AABE	31	7	22.6	11	35.5	5	16.1	8	25.8			31	100
4	There is lack of collaboration from regulatory bodies (including AABE, ERCA and NBE) on current laws and regulations including how to handle tax related transactions.	31	6	19.4	11	35.5	11	35.5	3	9.7			31	100
5	There is a lack of strong Professional Accountancy Bodies in the country that otherwise support the transition to IFRS through awareness creation, training and challenging regulatory bodies on issues that needs resolution	31	6	19.4	20	64.5	3	9.7	2	6.5			31	100

6	There is a compatibility problem of existing accounting software with IFRS requirement	31	7	22.6	7	22.6	6	19.4	10	32.3	1	3.2	31	100
7	There is lack of IFRS comply accounting software and other information technology to support the adoption	31	6	19.4	7	22.6	7	22.6	9	29	2	6.5	31	100
8	There is lack of market to provide market information (Like market price…) to support the adoption.	31	10	32.3	17	54.8			4	12.9			31	100
9	IFRS reporting is not compatible with the tax reporting of the country.	31	6	19.4	15	48.4	6	19.4	3	9.7	1	3.2	31	100
													31	**100**
	MEAN= 3.66													

Source: Survey result, 2020

Table 4.2.1 displays results of data analysis regarding the system compatibility and support challenges on adoption and implementation of IFRS.

Results indicate that majority of 78% of the respondents agreed or strongly agreed that IFRS transition road map developed by AABE is not realistic and 22% disagreed, 74.2% agreed or strongly agreed that there is no effective monitoring and review process from AABE whereas 6.5% disagreed and 19.4% neutral, 58.1% agreed or strongly agreed that there is lack of technical guidelines, interpretations and tools 25.8% disagreed and 16.1% neutral, 55% agreed or strongly agreed that there is lack of collaboration from regulatory bodies 9.8% disagreed and 35.5% nutral, 84% agreed or strongly agreed that there is a lack of strong professional accountancy Bodies in the country and 6.5% and 9.8% neutral, 45.2% agreed or disagreed that there is a compatibility problem of existing accounting software with IFRS requirement and 35.5% disagree or strongly disagreed and 19.4% neutral, 42% agreed or strongly agreed that there is lack of IFRS comply accounting software and IT support 35.5% disagreed or strongly disagreed and 22.6% neutral, 87.1% agreed or strongly agreed that there is lack of market to provide market information to support the adoption and 12.9% disagreed, 67.8% agreed or strongly agreed that IFRS reporting is not compatible with the tax reporting of the country 12.9% disagreed and 19.4% neutral.

As shown on the mean result of respondents on system compatibility and support shows that, on average respondents agreed (3.66) that lack of strong regulatory and professional accountancy body poses a challenge for IFRS adoption. Since, no work has been done to have well-organized professional body, as the existing one are club of professionals, the accountancy professions fail to contribute what it was purported to contribute for economic growth and development of the country. Non-existence of such institutions in the country will enforce the Board to play extra roles (such implementing, training, setting standards, compliance monitoring roles) besides regulating the accountancy professions and enforcing IFRS implementation.

As per the result the statement that assumed to describe the lack of market to provide market information like market prices and other relevant data which will be useful to support the adoption were rated first scoring 87.1%. This implies that the lack of market in the country to provide useful marketing and financial information is major challenge for successful IFRS adoption.

In line with these finding, important papers shown that lack of strong regulatory and professional accountancy body giving rise to improper application of the IFRS standards and are significant challenges for effectiveness of IFRS implementation (deyuu and pasricha, 2016 and siaga, 2012).

4.2.2 Institutional level support

This refers to the role of board of directors and other top-level management in the implementation of IFRS in the Enterprises. These are strength of BOD, commitment of top-level management at institutional level, well-established IFRS project team, lack of incentive and high resistance. The statements consist of the scale expressing the level of agreements or disagreements of the respondents.

The determination of whether there is lack of institutional level support or not is decided by taking the average score (Mean) of the responses of respondents. Therefore, the higher score implies that the existence of lack of institutional level support and being a potential challenge for successful adoption of IFRS by the enterprises.

Table 4.2.2 Institutional level support

Label			SA		A		N		DA		SDA		Total	
		N=31	Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
10	The company lacks strong Board of Directors which is expected to decide on strategic and policy issues and undertakes regular follow up on the process of IFRS implementation.	31	10	32.3	7	22.6	10	32.3	4	12.9			31	100
11	The company's top-level management is not committed for IFRS adoption through availing resources and information needed, monitoring the conversion work and deciding on issues that need their attention.	31	7	22.6	15	48.4	3	9.7	6	19.6			31	100
12	There is lack of commitment at institutional level to be transparent over the conversion process.	31	5	16.1	12	38.7	3	9.7	11	35.5			31	100
13	There is no well-established IFRS project management office in terms of manpower, resource and expertise	31	5	16.1	6	19.4	5	16.1	12	38.7	3	9.7	31	100
14	There is lack of incentive or recognition for each achievement at each level of the conversion process.	31	6	19.4	13	41.9	8	25.8	4	12.9			31	100
15	There is high resistance to go in line with the new reporting Standard requirement	5	16.1	15	48.4	3	9.7	7	22.6	1	3.2		31	100
		31											**31**	**100**
	MEAN= 3.52													

Source: Survey result, 2020

Table 4.2.2 displays results of data analysis regarding institutional level support challenges on adoption and implementation of IFRS.

Results indicate that majority of 55% of the respondents agreed or strongly agreed that the companies lack strong board of directors which is expected to decide on strategic and policy issues and to undertakes regular follow up on the process of IFRS implementation and 13%

disagreed while the remaining 32% of the respondents are neutral, 71% agreed or strongly agreed that the Enterprise's top-level management is not committed for IFRS adoption through availing resources and information needed, monitoring the conversion work and deciding on issues that need their attention whereas 19.6% disagreed and the remaining 9.7% are neutral, 55% agreed or strongly agreed that there is lack of commitment at institutional level to be transparent over the conversion process, and 35.5% disagreed while 9.7% are neutral, 35.5% agreed or strongly agreed that there is no well-established IFRS project management office in terms of manpower, resource and expertise and 48.4% disagreed while the remaining 16.1% are neutral, 61.3% agreed or strongly agreed that there is a lack of incentive or recognition for each achievement at each level of the conversion process and 12.9% disagreed and remaining 25.8% neutral, 64.5% agreed or disagreed that there is a high resistance to go in line with the new reporting Standard requirement and 3.2% disagreed and while the remaining 22.6% are neutral.

As shown on the mean result of the respondents to the Institutional level support statements, most of statements which are 5 out of 6 challenge statements were rated above the mean this shows that most of the Institutional level support challenges are the major challenges for implementation of IFRS in public utility enterprises. Whereas the remaining one challenge statement is rated below the mean imply that it is not a major challenge for the implementation.
In general, result shows that on average respondents agreed (3.52) that weak institutional level support is challenge for IFRS adoption.

The enterprises board of director and the top-level management's lack of commitment on IFRS adoption in developing policy and procedure, strategy formulation and undertaking regular follow up on the adoption process. For example, if the implementation process of IFRS lacks a regular follow up by the higher governing body of the enterprise (BOD), the implementation leads to be delayed. Because, IFRS requires timely adjustment of inconsistent internal policies and procedures (mainly the change of the accounting and HR manuals), and strengthening internal control which the responsibility mainly lies on the BOD.

In line with this finding, important papers shown that weak of institutional level support giving rise to improper application of the IFRS standards and are significant challenges for effectiveness of IFRS implementation (deyuu and pasricha, 2016 and siaga, 2012).

4.2.3 Knowledge Gap

This refers to the knowledge gap in IFRS among various stakeholders such as preparers, users, and professionals. The researcher constructed nine statements that implied to describe and reliably measure the existence of knowledge gap in the enterprise for successful implementation of IFRS. These are adequacy of IFRS training and reference materials, lack of personnel with IFRS knowledge and expertise, shortage of consultants, lack of well-trained professional like auditors, unawareness among different departments, and implementation team members access to awareness sessions.

Each statement has been analyzed by taking the percentages of respondents choosing each response options and the Mean of the summing score of an individual's response to all items comprising in this variable has been taken to Evaluate and conclude the influence of knowledge gap towards the success of IFRS implementation in the enterprise.

The statements are wording with unfavorable to knowledge gap. Therefore, the higher score implies that knowledge gap is a challenge for the success of IFRS implementation.

Table 4.2.3 Knowledge Gap

Label			SA		A		N		DA		SDA		Total	
		N=31	Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
16	Adequate IFRS training were not provided at company level	31	1	3.2	14	45.2	4	12.9	11	35.5	1	3.2	31	100
17	There is lack of personnel with IFRS knowledge and expertise in th e company.	31	3	9.7	11	35.5	6	19.4	11	35.5			31	100
18	There is a shortage of (Limited access) IFRS expert and consultant for adoption	31	4	12.9	14	45.2			11	35.2	2	6.5	31	100

19	There is lack of well-trained professional like Auditors, Trainers on IFRS matters.	31	1	3.2	25	80.6	1	3.2	3	9.7	1	3.2	31	100
20	Adequate trainings were not provided to the IFRS implementation team.	31	3	9.7	13	41.9	5	16.1	9	29	1	3.2	31	100
21	Adequate reference materials related to IFRS Implementation couldn't be obtained.	31	4	12.9	14	45.2	1	3.2	10	32.3	2	6.5	31	100
22	The company's different departments and employees are unaware of the implication of IFRS implementation in the company's reporting, business, process, policy and system.	31	7	22.6	10	32.3	3	9.7	10	32.3	1	3.2	31	100
23	The project team couldn't get access to IFRS implementation awareness sessions in those companies that adopted IFRS due to unavailability of such companies in the country.	31	8	25.8	13	41.9	5	16.1	5	16.1			31	100
24	The project team couldn't get access to IFRS implementation awareness sessions due to management's lack of attention to the project.	31	6	19.4	12	38.7	6	19.4	7	22.6			31	100
	MEAN=3.38													

Source: Survey result, 2020

Table 4.3.3 displays results of data analysis regarding Knowledge Gap challenges on adoption and implementation of IFRS.

Results indicate that 48.4% of the respondents agreed or strongly agreed that adequate IFRS training were not provided at company level and 38.7% disagreed and remaining 12.9% neutral, 45.2% agreed or strongly agreed that there is lack of personnel with IFRS knowledge and expertise in the company whereas 35.5% disagreed and 19.4% neutral, 58.3% agreed or strongly agreed that there is a shortage of (Limited access) IFRS expert and consultant for adoption 41.7% disagreed, 83.8% agreed or strongly agreed that there is lack of well-trained professional like Auditors, Trainers on IFRS matters and 12.9% disagreed while the remaining 3.2% are neutral, 51.6% agreed or strongly agreed that adequate trainings were not provided to the IFRS implementation team and 32.2% disagreed while remaining 16.1% neutral, 58.1% agreed or strongly greed that adequate reference materials related to IFRS Implementation couldn't be obtained and 38.8% disagreed while the remaining 3.2% are neutral, 54.9% agreed or strongly agreed that company's different departments and employees are unaware of the implication of IFRS implementation in the company's reporting, business, process, policy and system and 35.5% disagreed and the remaining 9.7% are neutral, 67.7% agreed or strongly agreed that the project team couldn't get access to IFRS implementation awareness sessions in those companies that adopted IFRS due to unavailability of such companies in the country and 16.1% disagreed and the remaining 16.1% neutral, 58.1% agreed or strongly agreed that the project team couldn't get access to IFRS implementation awareness sessions due to management's lack of attention to the project and 22.6% disagreed while the remaining 19.4% neutral.

As shown on the mean result of respondents on knowledge gap shows that, the statement were rated by respondents more than the average which means that respondents agreed that knowledge gap is a major challenge for IFRS adoption with a magnitude of moderate this is due to the lack of experience sharing with abroad and accesses to reference materials and also due to management's lack of attention to the implementation process.

Besides, shortage of professionals, experts, consultants and Auditors at national level to provide the required level support for smooth IFRS implementation in the public enterprises are the other major challenges for adoption.

This result is in conformity with (weaver and woods, 2015) which states that lack of adequate education, training and knowledge on IFRS is a challenge faced by reporting entities.

4.2.4 IFRS project management composition

This refers to establishment of well-organized project management team which includes competent and qualified professionals who have better understanding on IFRS within the enterprise for successful adoption of IFRS. The researcher constructed five parameters that assumed to describe and reliably measure the capacity of IFRS project management team. The parameters are emphasized on competency and inclusion of qualified professionals in project management teams, adequacy of training, realistic and comprehensiveness of the enterprise and dual assignment of team members.

Similar with the above variable, the parameters used to describe this variable also measured by five-point Likert scale comprising the level of agreements or disagreements of the respondents.

Each statement has been analyzed by taking the percentages of respondents choosing each response options and the Mean of the summing score of an individual's response to all items comprising in this variable has been taken to evaluate and conclude the strength of IFRS project management team composition towards the success of IFRS implementation in the enterprise.

The statements are wording with unfavorable to the IFRS project management and team composition. Therefore, the higher score implies that the weakness of IFRS project management and team composition.

Table 4.2.4 IFRS project management and team composition

Label			SA		A		N		DA		SDA		Total	
		N=31	Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
25	The IFRS Project Management office is not well organized, have not enough resources and manpower required.	31	2	6.5	12	38.7	2	6.5	13	41.9	2	6.5	31	100
26	Competent and qualified professionals are not included in the project team.	31	1	3.2	3	9.7	9	29	17	54.8	1	3.2	31	100
27	Members of the IFRS Project are not trained enough to implement IFRS or follow-up IFRS implementation in the company.	31	3	9.7	5	16.1	4	12.9	19	61.3			31	100
28	The company didn't prepare realistic and comprehensive Project Plan/Road Map for IFRS implementation.	31	1	3.2	15	48.4	2	6.5	11	35.5	2	6.5	31	100
29	Conflicting or dual assignments are given to the IFRS project team.	31	7	22.6	12	38.7	5	16.1	5	16.1	2	6.5	31	100
		31											**31**	**100**
	MEAN=2.97													

Source: Survey result, 2020

Table 4.2.4 displays results of data analysis regarding project management and team composition challenge on adoption and implementation of IFRS.

Results indicate that 45.2% of the respondents agreed or strongly agreed that IFRS Project Management office is not well organized, have not enough resources and manpower required, and 48.4% disagreed and the remaining 6.5% are neutral, 12.9% agreed or strongly agreed that Competent and qualified professionals are not included in the project team, whereas 58% disagreed while 29% neutral, 25.8% agreed or strongly agreed that Members of the IFRS project are not trained enough to implement IFRS or follow-up IFRS implementation in the company and 61.3% disagreed while the remaining 12.9% neutral, 51.6% agreed or strongly agreed that the company didn't prepare realistic and comprehensive Project Plan/Road Map for IFRS implementation, and 42% disagreed while 6.5% neutral, 61.3% agreed or strongly agreed that conflicting or dual assignments are given to the IFRS project team, and 22.6% disagreed while remaining 16.1% neutral.

In general, as shown on the mean result of respondents on IFRS project management and team composition shows that, on average respondents agreed (2.97) that IFRS project management and team composition is not major challenges for IFRS adoption.
However, as indicated above the respondents disagreed and strongly disagreed on the first three challenge statements out of five assumptions provided to the respondents. They argue on the first three statements on the IFRS project management team's capacity, competency and qualification parameters. This concur with the above figure 4.1.2 result 92.88% of respondents agreed that IFRS implementation team members have good knowledge in the areas of IFRS implementation.

On the other hand respondents also agreed and strongly agreed on the last two statements indicated that the enterprises fail to prepare realistic IFRS implementation project plan and assigning dual responsibilities to project team members are the major challenges for adoption.

This implies that the enterprises couldn't prepare practical implementation plan for smooth and successful project implementation process and also were not managed IFRS implementation team in an organized way to implement the adoption successfully.

4.2.5 Compliance cost of IFRS implementation

This refers the amount of money required by the enterprises to converge the existing accounting frame work in to IFRS. Therefore, measuring the magnitude of the costs and its impact on IFRS adoption would be essential. In this study Cost of IFRS adoption is measured by five important cost parameters. These are cost of hiring new staffs and consultants, training and other project management cost, IT and Accounting system adjustment. The parameters comprises Likert type item which ranked from very low to very high cost.

Table 4.2.5 Compliance cost of IFRS implementation

Label		N=31	Ex. Low (1)		Low (2)		Neutral (3)		High (4)		Ex. High (5)		Total	
			Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
30	Cost of hiring new staff and consultants	31	4	12.9	1	3.2	1	3.2	18	58.1	7	22.6	31	100
31	Training and other project management costs	31	1	3.2	3	9.7	3	9.7	21	67.7	3	9.7	31	100
32	Cost of changing IT system (acquisition cost of new technology) to comply with IFRS requirement.	31			5	16.1	4	12.9	15	48.4	7	22.6	31	100
33	Cost incurred in relation to collecting and analyzing information and data needed for the conversion work.	31	1	3.2	6	19.4	3	9.7	14	45.2	7	22.6	31	100
34	Cost expected to be incurred in preparation of financial statements as per IFRS requirements unlike the local GAAP.	31	3	9.7	3	9.7	2	6.5	20	64.5	3	9.7	31	100
	MEAN=3.68													

Source: Survey result, 2020

Table 4.2.5 displays results of data analysis regarding compliance cost of IFRS implementation challenge on adoption and implementation of IFRS.

Regarding with cost of hiring new staff and consultants 22.6% of the respondents rated very high, 58.1% high, and 3.2 % didn't know the magnitude (neutral), 16.1% of the respondents rated low. In terms of training and other project management costs majority of the respondents 77.4% rated high or very high and 9.7 % didn't know the magnitude (neutral), 12.9% of the respondents rated low, 71% rated very high for cost of changing IT system (acquisition cost of new technology) to comply with IFRS requirement, 12.9 % didn't know the magnitude (neutral), 16.1% of the respondents rated low. 67.8% rated high and very high for cost incurred in relation to collecting and analyzing information and data needed for the conversion work, and 9.7 % didn't know the magnitude (neutral), while 22.6% of the respondents rated low, 74.2% rated very high for cost of expected to be incurred in preparation of financial statements as per IFRS requirements unlike the local GAAP, and 6.5 % didn't know the magnitude (neutral), while 19.4% of the respondents rated low.

The mean of the response of the respondents on this variable reveal that, on average (3.68) IFRS implementation cost is high. This shows that cost of IFRS adoption is one of the challenges for the enterprises as cost affects IFRS implementation negatively. These enterprises incurred significant cost for training their employees in the preparation of IFRS based financial statements, hiring external consultant due to lack of in-house knowledge and IFRS experience, updating accounting policies, customizing IT systems and needed to recruit additional staff to organize dedicated IFRS implementation project teams.

Therefore, the result of this study shows that IFRS adoption requires significant cost which negatively affected the success of the implementation. This study also confirmed the results of Tesfu (2012), revealed IFRS adoption increase internal staff and costs in the case of Ethiopia.

4.2.6 Nature of IFRS Requirements

This stands for the nature of IFRS requirements. This is measured by six series of parameters which the researcher believed that can describe the nature of standards and its impact on the adoption IFRS. The parameters are complexity of standard to apply, tax consideration associated with IFRS conversion, frequent revision of standards. The parameters were measured by five point Likert scale expressing the level of agreements or disagreements of the respondents. Each statement has analyzed by taking the percentages of respondents choosing each response options; and the Mean of the summing score of an individual's response to all items comprising in this variable has been taken to evaluate and conclude the nature of IFRS requirements towards IFRS adoption. The statements are wording with against nature of IFRS requirements. Therefore, the higher score implies that the natures of IFRS requirements are complex and difficult to apply.

Table 4.2.6 Nature of IFRS requirements

			SA		A		N		DA		SDA		Total	
Label		N=31	Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
35	IFRS standards are complex to apply in Ethiopian context	31	1	3.2	16	51.6	4	12.9	9	29	1	3.2	31	100

36	IFRS require more professional judgment than the previous standards which may lead to bias due to the unavailability of required information	31	4	12.9	21	67.7			4	12.9	2	6.5	31	100
37	The tax considerations associated with IFRS conversion are complex.	31	4	12.9	20	64.5	3	9.7	4	12.9			31	100
38	IFRS Standards are not easy to understand which may lead to difficulty to apply.	31	2	6.5	15	48.4	4	12.9	10	32.3			31	100
39	The frequent revision of IFRS Standards makes financial reporting task complex	31	3	9.7	19	61.3	5	16.1	4	12.9			31	100
40	IFRS increase the complexity of financial reporting and requires much higher time and resource than the local GAAP.	31	1	3.2	23	74.2	2	6.5	5	16.1			31	100
		31											31	100
	MEAN=3.54													

Source: Survey result, 2020

Table 4.3.6 displays results of data analysis regarding nature of IFRS requirement challenge on adoption and implementation of IFRS.

Results indicate that 54.8% of the respondents agreed or strongly agreed that IFRS standards are complex to apply in Ethiopian context, and 32.2% disagreed while the remaining 12.9% neutral, 80.6% agreed or strongly agreed that IFRS require more professional judgment than the previous standards which may lead to bias due to the unavailability of required information whereas 19.4% disagreed, 77.4% agreed or strongly agreed that the tax considerations associated with IFRS conversion are complex, 12.9% disagreed and the remaining 9.7% neutral, 54.9% agreed or strongly agreed that IFRS Standards are not easy to understand which may lead to difficulty to apply, 32.3% disagreed and 12.9% neutral, 71% agreed or strongly agreed that the frequent revision of IFRS Standards makes financial reporting task complex, 12.9% disagreed and remaining 16.1% neutral, 77.4% agreed or strongly agreed that the frequent IFRS increase the complexity of financial reporting and requires much higher time and resource than the local GAAP, 16.1% disagreed and remaining 6.5% neutral.

As shown on the mean result of respondents on nature of IFRS requirement, shows that, on average respondents agreed (3.54) that nature of IFRS requirements is a challenge for IFRS adoption. The financial report preparation in conformity with IFRS is demanding more time and resources and more complex than reporting under GAAP due to the complex nature of IFRS standards, its difficulty to understand and also its frequent revision of IFRS standards nature.

In addition the tax considerations associated with IFRS adoption are also complex as it needs reconciliation of various differences in tax requirements. Hence, accountants are required to keep update themselves with the latest standards so as to prepare the quality and transparent financial statements in comply with IFRS standards and tax requirement within the given reporting period.

This result is in conformity with (Hailemichael, 2016), (Tesfu, 2012), which states that IFRS and requirements is a challenge faced by reporting entities.

Table 4.2.7 Summary of IFRS Challenges

S.N	Summary of IFRS Challenges	N	Mean	Rate
1	Lack of System Compatibility and Support requirement	31	3.66	2nd
2	Weak Institutional Level Support	31	3.52	4th
3	Knowledge Gap	31	3.38	5th
4	Project management Gap	31	2.97	6th
5	IFRS Compliance Cost	31	3.68	1st
6	IFRS Complexity	31	3.54	3rd
Valid N (listwise)		**31**		

Source: Survey result, 2020

Table 4.2.7 showed the overall summarized IFRS challenge descriptive statistics result based on the six-challenge category presented from table 4.2.1 to table 4.2.6. To summarize a total of 40 challenges and adoption checklist on international financial reporting standards were provided to respondents by the statement with a five-point Likert scale that is 5 for strongly agree, 4 – agree, 3 – neutral, 2 – disagree and 1 for strongly disagree. 4.51-5.00 excellent or very good, 3.51-4.50

good, 2.51-3.50 average or moderate, 1.51-2.50 fair and 1.00-1.50 is poor. Accordingly, A mean score of from 1 to 1.50 means respondents poor, from 1.51 to 2.5 means fair, from 2.51 - 3.50 means average or moderate, from 3.51 to 4.50 good and from 4.51 to 5 Very good or excellent.

As per the result presented in table 4.2.7 all the statements were responded within 2.5 to 4.5 ranges that means respondents agreed that from the lists graded 1-4 are key challenges for the implementation of IFRS in public utility enterprises and the last 5 & 6 graded are challenges but their level is moderate. As per the result IFRS has huge cost for implementing in Public utility enterprises is rated first and got a mean score of 3.68 , system incompatibility challenge and lack of support from regulatory body and professional association second most rated challenge by the respondents and got a mean score of 3.66, Complexity nature of IFRS were the 3rd major challenge of IFRS adoption in these firms, lack of Institutional level support is the 4th major and critical challenge rated by the respondents , knowledge gap is rated 5th by the respondents while Poor project management is the last rated challenge by the respondents..

CHAPTER FIVE

SUMMARY OF MAJOR FINDINGS, CONCLUSIONS, RECOMMENDATIONS AND IMPLICATION FOR FUTURE RESERCH

5.1 Summary of major findings

This study was to assess the key challenges of international financial reporting standards (IFRS) adoption, implementation in public utility enterprises in Ethiopia which have been adopting or going to adopt this standard. The questionnaire of the survey has distributed to finance staffs who largely include finance managers, chief Finance Offices (CFOs), Senior Accountants and Chief Internal audit managers, and IFRS implementation team members of the enterprises. In general, the questions were to assess the key challenges of IFRS adoption in public utility enterprises. The Data collected using questionnaires were analyzed through descriptive statistics, frequency distribution, percentage, mean and Standard deviations. And mean is used to analyze key challenges of IFRS in public utility enterprise on the adoption of IFRS response found from questionnaire.

5.2 Conclusions

IFRS become the financial reporting standard for so many countries around the world. The decision of IFRS adoption would be the right choice for country like Ethiopia to improve the efficiency and effectiveness of financial reporting, provides reliable and comparable financial statements, makes external financing easier, provides greater reporting transparency, enables greater effectiveness of the internal audit and reduces cost of capital. But, there are number of challenges which need to be addressed to utilize the full benefits of adopting IFRS. Thus, objective of this study was to assess key challenges of International Financial Accounting Standards (IFRS) adoption in public utility enterprises in Ethiopia.

The results of the study shown that cost of IFRS implementation, system incompatibility and support from regulatory body and professional association, nature of IFRS requirement, weak institutional level support were key challenges that hinder the adoption and implementation of IFRS in Ethiopian public utility enterprises.

5.3 Recommendations

The main objective of this paper is to identify the key challenges of international financial reporting standards (IFRS) adoption, implementation of IFRS in public utility enterprises in Ethiopia and suggest possible recommendations to overcome the challenges. Therefore, the following recommendations are suggested to the concerned stakeholders;

- The regulatory body (AABE) should recognize the importance of strong professional accountancy body that can have a professional membership with IFAC so as to intermediate with the implementers, developing and enforcing accounting and auditing standards, and monitoring the accountancy professionals, and also AABE should work toward its establishment and provide continuous support to the institution even after its establishment.
- Limited universities and professional accounting bodies in the country are designing their educational and training curriculum to provide IFRS implementation skills. These practices should address all universities in country so that to increase the IFRS awareness and intensify measures and to ensure compliance with the relevant requirements in all their dealings.
- To make the business and system environment suitable for IFRS adoption AABE should play the coordination and collaboration role with various stack holders such as ERCA on tax reporting clarification, and National bank of Ethiopia on inflation rate, borrowing rates and other information's.
- AABE should organize workshops, seminars and forums to raise awareness on IFRS and proclamation as well in country wide.
- AABE facilitate availability of training materials and facilities on IFRS transition and implementation issues for accounting and finance professionals.
- Enterprises should focus on the benefits of IFRS and work towards that.

5.4 Implications for future Research

This study was conducted on the key challenges of International financial reporting standards adoption in public utility enterprises only taking in to account time and financial limitation. However, it would be quite vital to extend similar researches in the public enterprises as a whole.

And, it would be highly appropriate for future research to be conducted on the issue of disclosure and compliance with IFRS in Ethiopian public utility enterprises. This would comprise the detailed application of the adopted standards and how well these public utility enterprises apply these standards. Other sector can also learn from the public utilities enterprises experience and utilize this research to improve their understanding of the issues that public utility enterprises encounter in implementing the IFRS.

Reference

Abbas Ali Mirza, Magnus Orrell and Graham J. Holt, (2011). IFRS Practical Implementation Guide and Workbook, 3rd Edition.

Abel, A.A (2011). Imperative of the new financial reporting framework. The official Journal of the Institute of Chartered Accountants of Nigerian. (44)4, 17-25.

Accounting and Audit Board of Ethiopia (AABE) Five Years Strategic Plan 2015

Aghator G.E & Adeyemi B. (2009): Comparative Study of Accounting Standards in Nigeria, United Kingdom and United States of America. An Unpublished Term paper presented in Igbinedion University, Okada.

Alessandro C, Elena M., Patrizia T. (2009), IAS/IFRS Adoption by Italian Listed Companies: First Empirical Evidences, International Review of Business Research Papers Vol. 5 No.3 Pp. 100-110

AlicjaJaruga, J.F, Malgorzata J. B & Maciej F (2007): The Impact of IAS/IFRS on Polish Accounting Regulations and their Practical Implementation in Poland, Accounting in Europe, 4:1, 67-78.

Alp, A. and Ustuntag, S. (2009): "Financial Reporting Transformation the Experience of Turkey, Critical Perspective on Accounting, Vol. 20, pp 680-699.

Al-Akra, M., Ali, M. J., Marashdeh, O., (2009),. Development of accounting regulation in Jordan. The International Journal of Accounting, 44, 163-186

Antwi Kofi Gyasi (2009): Adoption of International Financial Reporting Standards in Developing Countries - The Case of Ghana. UNIVERSITY OF APPLIED SCIENCES

Apostolos A. Ballas, Despina Skoutela and Christos A. Tzovas (2010), the relevance of IFRS to an emerging market: evidence from Greece. Managerial Finance Vol. 36 No. 11, pp. 931-948.

Armstrong C., M. Barth, A. Jagolinzer, and E. Riedl (2007), Market reaction to the adoption of IFRS in Europe, Working paper, Stanford University.

Assenso-Okofo,O., Ali,M.J., & Ahmed,K. (2011). The development of accounting and reporting in Ghana. The International Journal of Accounting, 46, 459-480.

Ball, R. (2006). International Financial Reporting Standards (IFRS): pros and cons for investors. Accounting and Business Research, 36(sup1), 5-27.

Barth, M. E. (2008). Global financial reporting: Implications for US academics. The Accounting Review, 83(5), 1159-1179.

Belkaoui, A. R., (2002), International accounting and economic development: the interaction of accounting, economic and social indicators. West Port: Quorum Books.

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, 4:12,165 – 175 [Online] available at www.ccsenet.org/journal.htlml.

Cairns, D (2001): IAS Lite is alive and Well. Accountancy ,127 (May), 98-99

Chamisa, E. E., 2000. The relevance and observance of the IASC standards in developing countries and the particular case of Zimbabwe. The International Journal of Accounting, 35 (2), 267-286.

Choi, F.D.S & Meek .G. (2005). International Accounting (5th Ed.). New York, NY: Prentice Hall

Daske, H., Hail, L., Leuz, C. & Verdi, R. (2007). Adopting a label: heterogeneity in the economic consequences of IFRS adoptions. Working paper, Goethe University of Frankfurt, University of Pennsylvania, University of Chicago, and MIT.

Deyuu,T. A.& Pasricha,J.S.(2016). IFRS Adoption Progress in Ethiopia

DiMaggio P.J. and Powell W. (1983). *The Iron Cage Revisited*. 1983.

Dimitropoulos, P., Asteriou, D., Kousenidis, D., Leventis, S., (2013). The impact of IFRS on accounting quality: Evidence from Greece, Advances in Accounting, incorporating Advances in International Accounting 29, 108-123

Esptein, BJ (2009). The Economic Effect of IFRS Adoption, CPA Journal March, pp26-3

Ethiopian Government (2014). A proclamation to provide for Financial Reporting, Proclamation No. 847/2014. Federal Negarit Gazette, 20th Year, No.81, Addis Ababa, December, 7714.

Ethiopian Government (2015). Council of Ministers Regulation to provide for Establishment and to determine the Procedure of the Accounting and Auditing board of Ethiopia, Regulation no.332/2014. Federal Negarit Gazette, 21st Year, No.22, Addis Ababa, 7958.

Eyob L. T. (2017) Benefit and Challenges of adopting IFRS in Case of commercial Bank of Ethiopia , St.mary's University, Addis Ababa

Fantahun Tesfu (2012). The Adoption of International Financial Reporting Standards (IFRS) in Ethiopia: Benefits and Key Challenges: MSC Research Paper, Addis Ababa University, Addis Ababa, Ethiopia

Gyasi, A. (2010): "Adoption of International Financial Reporting Standards in Developing Countries - The Case of Ghana", BSc Dissertation, University of Applied Sciences.

Hailemichael.M (2016). Adoption, Challenges and perception of International Financial Reporting Standards (IFRS) on the Quality of Financial Reporting of Financial Institution in Addis Ababa, Ethiopia. MSC Research Paper, Addis Ababa University, Addis Ababa, Ethiopia

IFRS: About Foundation Issues A Guide Through IFRS 2013. http://www.ifrs.org

Irvine, H. and Lucas, N. (2006): "The globalization of accounting standards: the case of the United Arab Emirates", *working paper*, 3rd International Conference on Contemporary Business, Charles Sturt University, Australia.

Iyoha, F.O. and 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, E., & Gornik-Tomaszewski, S. (2006). Implimenting IFRS from the Perspective of EU PubliclyTraded Companies. Journal of International Accounting, Auditing and Taxation, 15(2), 170-196.

Judge W., Li S. & Pinsker R. (2010). National Adoption of International Accounting Standards: An Institutional Perspective, Corporate Governance: An International Review, 18 (3), pp. 161–174. http://dx.doi.org/10.1111/j.1467-8683.2010.00798

Kim M. Shima and David C. Yang, (2012), Factors Affecting the Adoption of IFRS, California State University, East Bay and University of Hawaii at Manoa respectively

Laga, M. (2012): "Obstacles of Adopting and implementation of IFRS in Libya", *European Journal of Business and Economics*, Vol. 7, pp 1-3, available online at: www.journals.cz/

Larson, R K. & Street L. (2004), Convergence with IFRS in an expanding Europe: progress and obstacles identified by large accounting firms‟ survey. Journal of International Accounting, Auditing and Taxation, 13, 89-119

Leuz,C & Wysocki,P (2008), 'Economic Consequences of Financial Reporting and Disclosure Regulation: A Review and Suggestions for Future Research http://ssrn.com/abstract=1105398 pp1-91

McEnroe, JF & Sullivan, M(2011),'Individual investors' attitude towards the acceptance of International Financial Reporting Standards in the United States', Journal of International Accounting Auditing and Taxation Vol. 20 No.1 pp 20-31.

Michas, P. (2010): "Auditing in Emerging Market Countries: Does it Matter?", *Working Paper*, University of Missouri

Mugenda O. M. and Mugenda O. G. (2003).*Research Methods. Quantitative and Qualitative Approaches.* Nairobi. African Center for Technology Studies (ACTS).pp. 155-165.

Naseem A. and Nawab A. (2010), "Global convergence of financial reporting**"**). Journal of Arts Science & Commerce ISSN 2229-4686.

Negash, M 2008,' Liberalization and the Value Relevance of Accrual Accounting Information: Evidence from the Johannesburg Securities Exchange', Afro Asian Journal of Finance and Accounting, Volume 1 No. 1 pp 84-101.

Nobes, C.W., & Zeff, S. A. (2008). Adoption of IFRS around the World and the lack of Clear Audit Reports on the Issue. (Working paper), Royal Holloway University of London and Rice University.

Okpala, K. (2012). Adoption of IFRS and Financial Statements Effects: The Perceived Implications on FDI and Nigeria Economy. Australian Journal of Business and Management Research, 2(5), 76- 83

Outa, E. R. (2011). The Impact of International Financial Reporting Standards (IFRS) Adoption on the Accounting Quality of Listed Companies in Kenya. *International Journal of Accounting and Financial Reporting*, 1(1), 212-241.

Owolabi, A. and Iyoha, F.O. (2012): "Adopting International Financial Reporting Standards (IFRS) in Africa: benefits, prospects and challenges", *African J. Accounting, Auditing and Finance (AJAAF)*, Vol. 1, No. 1, pp.77–86

Perera, H. and Baydoun, N. (2007). Convergence with International Financial Reporting Standards: The case of Indonesia. Advances in International Accounting, 20, 201-224.

Ramanna, K. and Sletten, E. (2009). “Why do countries adopt International Financial Reporting Standards?”. Harvard Business School, Working Paper 09-102

Robyn P. and Graeme D. (2009). Implementing IFRS in local government: value adding or additional pain? Qualitative Research in Accounting & Management Vol. 6 No. 3, pp. 180-196.

ROSC (2007). Report on the Observance of Standards and Codes Ethiopia. Retrieved November 13, 2011 from http://www.worldbank.org/ifa/rosc_aa_ethiopia.

Saidi, F. (2013). " Accounting developments in Algeria: The Road to IFRS", *International Research Journal of Applied Finance*, Vol. 4, No. 1, pp 124-142

Saudagaran ,S (2006). ‘ Global Trends towards Accounting Convergence and Controversies in Developing International Standards for Corporate Reporting’, The International Journal of Accounting ,Governance and Society, 1:25-36

Schachler, M., Al-Abiyad, S. and Al-Hadad, A. (2012): "Evaluation of the Suitability of International Financial Reporting Standards (IFRSs) for Application in Emerging North African Countries: A Literature Review and a Research Agenda", *Journal of Modern Accounting and Auditing*, Vol. 8, No. 12, pp 1773-1779

Soderstrom, N.S & Sun, K.J (2007). IFRS adoption and Accounting Quality: A Review. European Accounting Review, 16 (4), 675-702.

Susana Callao, Jos´e I. Jarne, Jos´e A. La´ınez (2007) Adoption of IFRS in Spain: Effect on the comparability and relevance of financial reporting, Journal of International Accounting, Auditing and Taxation, 16: 148–178

Tyrrall, D., Woodward, D., Rakhimbekova, A., (2007), The relevance of International Financial Reporting Standards to a developing country: Evidence from Kazakhstan. The International Journal of Accounting, 42, 82-110.

Tsakumis, G.T., Campbell, D.R. & Douphik .T.S. (2009) IFRS: Beyond the standards. Journal of Accountancy, 207 (2), 34-39

UNCTAD, (2007). *Review of practical implementation issues of international financial reporting standards:* Lessons from Pakistan, South Africa and Turkey. Retrieved from http://.auditcommission.gov.uk/health/audit/financialmgmt/ifrs/pages/ifrsbriefingpaper.aspx on 24 April, 2013.

Uwadiae, O. (2013). IFRS Transition: Navigating Complexities. Retrieved from http://www.deloitte.com/assets/Dcom-Nigeria/Local/20Assets/Documents/Deloitte.

Vinayagamoorthy.A PhD (2014). OPPORTUNITIESAND CHALLENGES IN ADOPTINGIFRS IN INDIA. International Journal of Business and Administration Research Review, Vol.2, Issue.3.

William Judge, Shaomin Li, and Robert Pinsker (2010) National Adoption of International Accounting Standards: An Institutional Perspective corg Corporate Governance: An International Review, 18(3): 161–174

Winney, K., Marshall, D., Bender, B. and Swiger, J. (2010). Accounting Globalization: Roadblocks to IFRS Adoption in the United States. Global Review of Accounting and Finance. 1(1), September,167-178.

Yin. (1994). Case study research: Design and methods. London: Sage Publications Inc.

Yitayew Mihret (2016). IFRS Adoption in Ethiopia: A Critical Analysis of the Process, Issues and Implications. MSC Research Paper, Addis Ababa University, Addis Ababa, Ethiopia

Zehri, C. and Abdelbaki, A.(2013). Does adoption of international accounting standards promote economic growth in developing countries? International Open Journal of economics, Vol. 1, No. 1, July 2013, PP: 01- 13. http://acascipub.com/Journals.php

Zeghal, D. and Mhedhbi K. (2006), An analysis of the factors affecting the adoption of international accounting standards by developing countries, Published by University of Illinois.

Zhang, Y., Andrew, J. and Collier, H. (2007): "The Convergence of IFRS in China: A view on the influence of political ideology on Chinese accounting profession", *Working paper*, ACE International Conference, Hong Kong, China.

ST. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

DEPARTMENT OF ACCOUNTING AND FINANCE

SURVEY QUESTIONNAIRE

Dear respondents, I would like to express my sincere appreciation for your time and willingness.

This questionnaire is designed to gather information which is relevant to a research entitled **"key challenges of International Financial Accounting standards (IFRS) adoption in Public utility enterprises in Ethiopia."** The research is conducted for the partial fulfillment of the requirement of MBA in accounting and Finance from St. Mary's university.

No personality identifiable information is being collected from you and all information you provide will be combined with other respondents' data and analyzed in aggregate. Responses will be kept Confidential all the time and used only for academic purpose.

This questionnaire has two parts. Part I. is designed to assess the general profile of respondents; Part II is designed to assess the Key challenges of IFRS adoption using Likert scale. Values will vary from 5 (strongly agree) to 1(strongly disagree).

For any of your inquires or need of additional information I can be reached via email at: Maru ayanaw@gmail.com

Thank you in advance for your time and cooperation.

Please complete by ticking (√) the appropriate box (es) where applicable, or supplying the information requested.

A. GENERAL INFORMATION

1. Gender

☐ Male ☐ Female

2. Age

☐ Less than 25 ☐ 31- 40

☐ 21-30 ☐ 41- 50

☐ 51 or more

3. What is your highest level of education?

☐ High school certificate

☐ Diploma holder

☐ Bachelor degree

☐ Master's degree

☐ PhD

Others (specify)………………………

4. Total Years of experience:

☐ 1-3 years

☐ 4-6 years

☐ 7-9 years

☐ >9 year

5. Please state your job title

………………………………………………
………………………………………………

6. Please state your responsibilities with regard to the implementation of IFRS within your organization

…………………………………………
…………………………………………
…………

7. Did you get training on all IFRS standards?

Yes ☐ No ☐

8. How do you evaluate your knowledge in the areas of IFRS implementation?

Very Good ☐ Good ☐ Satisfactory ☐ Poor ☐ Very Poor ☐

9. How likely are the Enterprise able to meet the deadlines set by AABE (Closing of their books of accounts based on IFRS requirement for the year ended June, 2018)

Very Likely ☐ somewhat likely ☐ Not likely ☐

10. Which accounting standards do you prefer?

Previously USED standards ☐ IFRS ☐

11. What was the size of the project team *initially* appointed to manage the implementation of IFRS for your organization*?

Number of Persons: …………….

Part II: challenges of IFRS adoption in your Enterprise

The following are list of factors affecting the implementation of IFRS in your enterprise. Please provide your level of agreement or disagreements with each of the statements. Please put only one tick mark (✓) for each line in the labeled column where (1-Strongly disagree; 2- Disagree; 3- Undecided/Neutral; 4 Agree; 5-Strongly agree.

IFRS Implementation Challenges	**SA (5)**	**A (4)**	**N (3)**	**DA (2)**	**SDA (1)**
System Compatibility and support (Regulatory & Professional Associations) requirement.					
The IFRS Transition Road Map developed by AABE is not realistic and not takes into account the capacity and readiness of the nation in general and the entities in					
There is no effective monitoring and review process from AABE side during IFRS implementation process.					
There is lack of technical guidelines, interpretations and tools and other supporting materials that takes into consideration national context and sectorial issues from					
There is lack of collaboration from regulatory bodies (including AABE, ERCA and NBE) on current laws and regulations including how to handle tax related					
There is a lack of strong Professional Accountancy Bodies in the country that otherwise support the transition to IFRS through awareness creation, training and challenging regulatory bodies on issues that needs resolution.					

IFRS Implementation Challenges	SA (5)	A (4)	N (3)	DA (2)	SDA (1)
There is a compatibility problem of existing accounting software with IFRS requirement.					
There is lack of IFRS comply accounting software and other information technology to support the adoption					
There is lack of market to provide market information(Like market price…) to support the adoption.					
IFRS reporting is not compatible with the tax reporting of the country.					
Institutional level Support (Institutional attitude)					
The company lacks strong Board of Directors which is expected to decide on strategic and policy issues and undertakes regular follow up on the process of IFRS implementation.					
The company's top-level management is not committed for IFRS adoption through availing resources and information needed, monitoring the conversion work and deciding on issues that need their attention.					
There is lack of commitment at institutional level to be transparent over the conversion process.					
There is no well-established IFRS project management office in terms of manpower, resource and expertise.					
There is lack of incentive or recognition for each achievement at each level of the conversion process.					
There is high resistance to go in line with the new reporting Standard requirement.					
Knowledge Gap					
Adequate IFRS training were not provided at company level					

IFRS Implementation Challenges	SA (5)	A (4)	N (3)	DA (2)	SDA (1)
There is lack of personnel with IFRS knowledge and expertise in the company.					
There is a shortage of (Limited access) IFRS expert and consultant for adoption					
There is lack of well-trained professional like Auditors , Trainers on IFRS matters.					
Adequate trainings were not provided to the IFRS implementation team.					
Adequate reference materials related to IFRS Implementation couldn't be obtained.					
The company's different departments and employees are unaware of the implication of IFRS implementation in the company's reporting, business, process, policy and system.					
The project team couldn't get access to IFRS implementation awareness sessions in those companies that adopted IFRS due to unavailability of such companies in					
The project team couldn't get access to IFRS implementation awareness sessions due to management's lack of attention to the project.					
IFRS Project Management and Team Composition					
The IFRS Project Management office is not well organized, have not enough resources and manpower					
Competent and qualified professionals are not included in the project team.					
Members of the IFRS Project are not trained enough to implement IFRS or follow-up IFRS implementation in the					
The company didn't prepare realistic and comprehensive Project Plan/Road Map for IFRS implementation.					
Conflicting or dual assignments are given to the IFRS project team.					

IFRS Implementation Challenges	SA (5)	A (4)	N (3)	DA (2)	SDA (1)
Compliance cost of IRFS Implementation	**Extremely low**	**low**	**No impact**	**High**	**Very high**
Cost of hiring new staff and consultants					
Training and other project management costs					
Cost of changing IT system (acquisition cost of new technology) to comply with IFRS requirement					
Cost incurred in relation to collecting and analyzing information and data needed for the conversion work.					
Cost expected to be incurred in preparation of financial statements as per IFRS requirements unlike the local GAAP.					
Nature of IFRS Requirements					
IFRS standards are complex to apply in Ethiopian context					
IFRS require more professional judgment than the previous standards which may lead to bias due to the unavailability					
The tax considerations associated with IFRS conversion are complex.					
IFRS Standards are not easy to understand which may lead to difficulty to apply.					
The frequent revision of IFRS Standards makes financial reporting task complex					
IFRS increase the complexity of financial reporting and requires much higher time and resource than the local					