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IFRS Adoption Progress in Ethiopia

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Abstract
International Financial Reporting Standards (IFRSs) have been adopted by more than 100 countries across the globe. The main objective of IFRSs is to converge the diverse business language being used by the business communities all over the world. However, its adoption and implementation bring opportunities and pose challenges to the adopter(s). Accordingly, as Ethiopia is moving toward implementing IFRS within the next five years, this paper, therefore, aims, inter alia, to assess the IFRS adoption progress in Ethiopia and investigate factors that motivate Ethiopia to adopt IFRS, and advantages and challenges ahead of IFRS adoption in Ethiopia to provide an input for stakeholders and serve as stepping stone for future researches on this field of study. Both primary and secondary sources of data have been used for the study. Primary data were collected through open-ended interview whereas secondary data were collected using document analysis techniques from the annual reports of companies reporting under IFRS, and proclamations and regulations that deal with financial reporting issues in Ethiopia. The study found that some companies in Ethiopia have started using IFRS voluntarily for the preparation of their financial statements since 2002/03 without making necessary preparedness but nationally; IFRS is adopted officially in December, 2014 through enactment of Proclamation. The result of the study will provide a good lesson for other developing countries that are on the way to join or will join the IFRS network.
Keywords: IFRS, Ethiopia, Adoption, Opportunities, Challenges, Progress.

1. Introduction

The need for a global set of high-quality financial reporting standards has long been apparent (UNCTAD Secretariat, 2008). Bhattacharje and Islam (2009) explained that the process of international convergence towards a global set of standards started in 1973 when 16 professional accountancy bodies from Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom and the United States of America agreed to form the International Accounting Standards Committee (IASC).

Since outset, International Accounting Standards have been produced by two bodies: IASC and International Accounting Standard Board(IASB) (Outa, 2011). Before the establishment of IASB, international standards were issued by the IASB's predecessor organization, the International Accounting Standards Committee (IASC), a body established in 1973 through an agreement made by professional accountancy bodies. Up to 2000, the IASC's rules were described as "International Accounting Standards" (IAS) (Bhattacharje and Islam, 2009). The International Accounting Standards Committee (IASC) came up with 41 accounting standards during its existence periods (between 1973 and 2000).

The International Accounting Standards Board (IASB) was established in 2001 as part of IASC Foundation which renamed IFRS Foundation in 2010(IFRS Foundation, 2015). "The newly established Board embarked on a review processes aimed at refining the standards that results in a reduction in the number of standards from 41 in the year 2000 to 28 by the year 2008" (Outa, 2011). The first IFRS was issued in 2003, by which time at least 19 countries required compliance with the international standards (Ramanna and Sletter, 2009). IFRS are sets of Standards for the preparation of financial statements by business entities and IFRS are accounting rules that are principle based, market oriented and globally recognized and accepted, and published to require more extensive disclosure in comparison with prior standards, i.e. local generally accepted accounting principles (GAAP) (Bhattacharje and Islam, 2009; Grant Thornton LLP, 2011; Okpala, 2012; Dimitropoulos et al, 2013) and prescribe: (i) the items that should be recognised as assets, liabilities, income and expense; (ii) how to measure those items; (iii) how to present them in a set of financial statements; and (iv) related disclosures about those items (Pacter, P., 2015). IFRSs are principle-based accounting standards in contrast to GAAPs which are rules-based.

IFRS are also mandatory pronouncements and comprising: (i) International Financial Reporting Standards (IFRSs), (ii) International Accounting Standards (IASs), (iii) International Financial Reporting Interpretation Committee (IFRICs) and Standing (iv) Interpretation Committee (SIC). By 2015, 15 standards have been issued by the board as International Financial Reporting standards (IFRS) and generally IFRS includes: 15 IFRSs, 26 IASs, 14 IFRICs and 7 SICs until July 1, 2015(IFRS Foundation, 2015). IFRSs are developed by the International Accounting Standards Board (IASB), which operates under the oversight of the IFRS Foundation.

The objective of the IASB is to develop a single set of high quality, understandable, enforceable and globally accepted financial reporting standards that bring transparency, accountability and efficiency to financial markets around the world. Those standards serve the public interest by fostering trust, growth, and long-term financial stability in the global economy (IFRS Foundation, 2015, pA8). According to a guide of IFRS Foundation (2015), IASB generally allows an entity to apply the new requirements of new standards issued before the mandatory effective date. IFRS have been developing by International Accounting Standard Board (IASB) since 2001 and according to IFRS website (www.ifrs.org) accessed in September, 2015 and Pacter (2015, p4), 94% (130/138 jurisdictions) have made a public commitment to IFRS[1] as the single set of global accounting standards, 83% (114/138 jurisdictions) already require the use of IFRS by all or most public companies, with most of the remaining jurisdictions permitting their use and $41 trillion combined GDP of IFRS jurisdictions, representing more than half of the worldwide GDP.

1.1. Objective of the study

"The International Financial Reporting Standards (IFRS) are attracting significant scholarly attention especially in markets where decision making on its adoption is approaching" (Thi Phana and Mascitellib, 2014). Accordingly, following the increase in the number of countries adopting IFRS, large number of research works has been conducted to know the merits and demerits of these movements and the reasons for adopting, and to identify the opportunities and challenges ahead. To mention few of these, for instance, Alsaqa and Sawan(2013) conducted a study to identify the advantages and challenges of adopting IFRS in United Arab Emirate (UAE) stock market. Okpala (2012) conducted a study to investigate the effects of IFRS adoption on foreign direct investment and Nigeria economy. Similarly, Zehri and Abdelbaki (2013) examined whether adoption of IFRS promote economic development in developing countries where Ethiopia was not part of the sampled countries and Ramanna and Sletten (2009) on their working paper examined the reasons why countries adopt IFRS. However, to the best knowledge of the researcher, no empirical study has been conducted to access the progress of IFRS adoption in Ethiopia and accordingly this paper aims at achieving the following objectives: (1) to study the progress of IFRS Adoption in Ethiopia; (2) to investigate factors that motivate corporate entities in Ethiopia to adopt IFRS; (3) to examine preparedness made to adopt IFRS; and (4) to identify benefits and challenges ahead of adopting IFRS.

1.2. Methodology

Both primary and secondary sources of data have been used. Primary data were collected through open -ended personal interview conducted with professionals and officials from audit firms whose name was frequently indicated on annual reports of Companies using IFRS, Chief finance Officers and Chief Internal auditing Officers of 18 entities currently reporting under IFRS, and Accounting and Auditing Board of Ethiopia or hereafter the 'Board' and the foreign consultant providing consultancy services to the board representing the World Bank. Secondary data were collected from the annual reports of companies using IFRS, and proclamations and regulations that deal with financial reporting issues in Ethiopia using document analysis techniques. Accordingly, the researcher has collected the data from the annual reports of 40 companies over the period of ten years.

2. Literature Review

Because of globalization, the world's financial markets are becoming borderless from time to time and as a result companies, regardless of their size, seek capital at the best price wherever it is available. Investors and lenders seek investment opportunities wherever they can get the best returns commensurate with the risks involved. To assess the risks and returns of their various investment opportunities, investors and lenders need financial information (Pacter, 2015). Fritz and Lammle (2003) also indicated that growth in international trade and capital flows has triggered a rising economic integration in reaction to these developments; there has been an international homogenizing effect upon many customs, practices and institutions. In business life, this led, inter alia, to a desire to harmonize Accounting Standards among countries across the globe.

According to Stephen Zeff in The CPA Journal, the term Generally Accepted Accounting Principles (GAAP) was used for the first time in 1936 by the American Institute of Accountants (known as the AICPA since 1957). Federal endorsement of GAAP began with legislation like the Securities Act of 1933 and the Securities Exchange Act of 1934, laws enforced by the U.S. Securities and Exchange Commission (SEC) that target public companies (http://www.accounting.com/resources/gaap/). In 1973, Financial Accounting Standard Board (FASB) became the designated organization in the private sector for setting standards that govern the preparation of corporate financial reports along with not-for-profit organizations. In 1984, the Government Accounting Standards Board (GASB) was formed under the Financial Accounting Foundation (FAF) umbrella to

1 Various literatures indicated that currently IFRSs are adopted by more than 100 countries around the world.

issue standards and other communications that result in decision-useful information for users of government financial reports. (http://www.accountingfoundation.org).

A lot of previous literature (e.g. Ball, 2006; Jeanjean and Stolowy (2008); Ramanna and Sletter, 2009; Li, 2010; Shabana and Samant, 2011; Quta, 2011; UNCTAD, 2012, and Rawat, 2013) argued for the necessity of single accounting standard for the globe. Shabana and Samant (2011,p46-47), for instance, argued in favor of the global convergence of accounting standards asserting that convergence in accounting standard is a very positive development as it: (i) contributes to the free flow of global investment and achieve substantial benefits for all capital markets stakeholders; (ii) improves the ability of investors to compare investments on a global basis and thus lower their risk of errors of judgment; (iii) has the potential to create a new standard of accountability and greater transparency, which are values of importance to all market participants including regulators, and (iv) creates an unprecedented opportunity for standard setters and other stakeholders to improve the reporting model. In backing of this view, Jeanjean and Stolowy (2008) indicated that with the globalization of international financial markets across the globe, the idea of adopting a common language for financial reporting to enhance international comparability has become widespread. Li (2010) also observed and explained that countries have permitted their domestic companies to use International Financial Reporting Standards (IFRS)[1], an international reporting language in recent years.

2.1. Approaches to IFRS Adoption

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

2.2. Benefits and Challenges of IFRS Adoption

Various studies have been conducted in different countries to identify benefit realized and challenges faced in adopting IFRS for the first time. Bhattacharje and Islam (2009), for instance**,** conducted a research focusing on the adoption and application of IFRs and problems relating thereto regarding adoption and application of IFRS in the context of Bangladesh and found that IFRS might provide the following benefits: i) Agency problem between management and shareholders can be substantially reduced through implementation of IFRS as increased transparency causes managers to act more in the interests of the shareholders; ii) IFRS adoption could reduce the cost of investors for processing financial information and the improving financial reporting quality in turn allows the small investors to compete better with professionals, and hence reduces the risk they are trading with a better-informed professional (known as “adverse selection”); iii) adoption of IFRS in Bangladesh could reduce accounting diversity and encourage the foreigners for cross border investment which in turn may improve the liquidity of the capital markets and enlarge firm’s investor base to improve risk-sharing and lowers the cost of capital.

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.

Moreover, in relation with reducing agency problems while adopting IFRS, Leung (2013) argued that

[1] IFRSs are developed through an international due process that involves accountants, financial analysts and other users of financial statements such as the business community, stock exchanges, regulatory and legal authorities, academics and other interested individuals and organizations across the globe (IFRS Foundation, 2015).

"to protect shareholders' interests against improprieties in mandatory IFRS adoption, it becomes important to monitor internal corporate governance and oversee management behavior. This monitoring requires independent board members with financial expertise to control the audit committee and remuneration committee, separation of duties between the chairman and CEO, and good risk management and control. Therefore, a broad assessment index including comprehensive internal corporate governance is important to measure the board of directors' commitment to mandatory IFRS adoption."

3. Results and Discussions

This section presents the results and discussions of data from interview and secondary sources about the trends in applying IFRS, preparedness made to adopt IFRS, motivating factors for adopting, and opportunities and challenges ahead in implementing IFRS in Ethiopia.

3.1. IFRS Adoption and Implementation in Ethiopia[1]

According to IFRS Foundation(2013, p5) in its Adoption guide, adopting IFRS is like starting a family as it requires careful planning, commitment and complete understanding of its implications. There are three steps that new adopters of IFRS should pass through before adopting it. According to this guide, the first step is making policy decisions through building consensus among concerned stakeholders. The second step is preparing a plan by building in targets and deadlines, and making them public and helps to identify obstacles that must be overcome. The third step is identifying the resources that we have on hand and what we need to implement the new standard (such as availability of local professionals at company and national level, finance for capacity building, and source of finance, materials and technical supports).

From this standpoint, this research is carried out to study how IFRS is being adopted and implemented in Ethiopia and to identify the benefits to be realized and also the challenges to be faced in adopting IFRS in Ethiopia. From the analysis of the annual reports of companies in Ethiopia, the researcher has learned that IFRS is voluntarily adopted as there was no law which enforced them to use IFRS which were adopted at national level in 2014-15 only.

3.1.1. Trends of IFRS Application in Ethiopia

According to the analysis of the annual reports of corporates in Ethiopia, Corporates in Ethiopia has started to use IFRS in their financial reporting for the first time in 2002/03. The first organizations that used the term IFRS for the first time in their annual report in Ethiopia are government owned entities such as Commercial Bank of Ethiopia, Construction and Business Bank, Ethiopian Insurance Corporation and Ethiopian Airlines[2].

The analysis of the proclamations, regulations and directives, however, indicated that there was no national or regional law that required companies to adopt and implement IFRS in Ethiopia. Even in 2008, Article 23(1) of the Proclamation to Provide for Banking Business (Proclamation No. 592/2008) stipulates that "the National Bank may direct banks to prepare financial statements in accordance with the international statements standards, whether their designation changes or they are replaced, from time to time." This showed that Ethiopian Government was not interested to adopt IFRS officially in 2008 when the proclamation was enacted and postponed the adoption for another time. Similarly after four years Article 26(1) of a Proclamation to provide for Insurance Business Proclamation No. 746/2012 stipulated "the National Bank may direct insurers to prepare financial reports in accordance with international reporting standards, regardless of the change."

Even though IFRS is not officially adopted at national level, auditors indirectly enforce the same upon management of the organizations who have little or no accounting knowhow about accounting standards. This fact was succinctly explained by one of the higher CEO of Audit firm in Ethiopia as follows:

> "IFRS is not officially adopted or customized at national level but auditors are using IFRS by referring IFRS materials from websites and enforcing organizations to prepare the financial statements as per the requirements of IFRS. No standard exists in the country and each organization prepares based on its own interest and to minimize this, some auditors are using IFRS. Preparers prepare draft Balance sheet and Income Statement only and the remaining parts (Statements of Cash Flows, Statements of Owners' Equity and the notes to the financial statements) are prepared by auditors as companies lack professionals that prepare the whole parts of financial statements. Using this as an opportunity, auditors prepare the financial statements in accordance with IFRS, let the management of the company to make

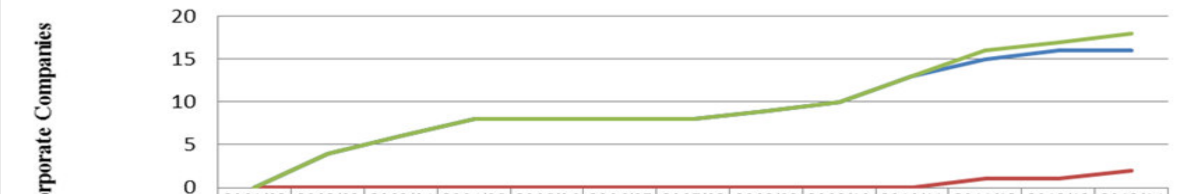
[1] This paper focuses on only the progress of IFRS adoption in Ethiopia and the researcher is preparing another paper that analyzes whether the IFRS user entities have been complying with IFRS requirements or not.

[2] The remaining companies that started using IFRS were: United Bank, and Ethiopian Fruits and Vegetable Marketing SC in 2003/04; Africa Insurance Co.SC and Nyala Insurance Co.in 2004/05; Wegagen Bank in 2008/09; Global Insurance Co.in 2009/10, Horizon Addis Tyre SC, Oromia Credit and Saving and Wisdom Microfinance in 2010/11; Bank of Abyssinia, Agricultural Equipment and Technical Services and National Insurance Company of Ethiopia in 2011/12; Cooperative Bank of Oromia in 2012/13 and Construction Design Co in 2013/14.

necessary adjustment to comply with IFRS and sign the financial statements prepared after the adjustments, if any."[Comments of interviewee]

The analysis of 10 years annual reports of 40 companies has shown that four organizations have started preparing their financial statements in accordance with IFRS in 2002/03 and increased gradually from time to time. By 2013/14, the number of corporates using IFRS has reached 18 (16 are using the full IFRS while the remaining 2 are using IFRS for SME) as per the accounting policy of the companies disclosed to their annual reports (see chart 1 below).

Chart 1: Trends of Corporate Companies using IFRS over last 13 years (from 2001/02 to 2013/14)



	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
IFRS	0	4	6	8	8	8	8	9	10	13	15	16	16
IFRS for SME	0	0	0	0	0	0	0	0	0	0	1	1	2
Total	0	4	6	8	8	8	8	9	10	13	16	17	18

Source: Primary Data collected from annual reports (2013/14)

Latter in 2009, Ethiopian Commodity Exchange Authority through it directive No. 2/2009(2/2001)(as amended) on its Commodity Exchange's Independent Auditor Procedure, under Article 13(2) stated that " the audited report of the ECX member should state that the financial statements are prepared in accordance with International Financial Reporting Standards (IFRS for SME)" and further Art.13/3/ of ECXA's directive No.2/2009 required independent auditors to express their opinion on the audited report whether the financial statements of the auditee are prepared in accordance with IFRS for SME or not. This directive issued by Commodity Exchange authority in 2009 is the only legal framework that officially requires usage of IFRS for SME in Ethiopia.

3.1.2. Preparedness Made During IFRS Adoption at Company Level

Adopting IFR involves policy decision to adopt, planning and making all necessary resources required available to handle all the changes that will result in changes in system, procedures, and operation. But the interview conducted with interviewees from corporates' finance officers of sample companies revealed that their companies started using IFRS without passing through these steps which indicated that no previous systems, processes, procedures and preparation of human resources has occurred in relation to IFRS except the natural changes that occur in relation to the internal operation and external situation of the company explain the following:

"In relation with the change in accounting standards from earlier GAAP to IFRS, in our organizations, the only change made is the notes to the financial statements. The accounting system is not changed. Accounting process and procedures are as they are. Charts of accounts, computer programs, transaction recording processes are not changed, and no training has been given on IFRS to the employees in the finance departments in audit and inspection department. We simply changed our accounting standard from GAAP to IFRS as per the recommendation of the independent auditor and we have also learned that other organizations are using it and the world is moving toward it. We adopted IFRS to go in line with international trend and there is a change in financial reporting." [Comments of CFO interviewees].

Professionals from audit entities and the newly established Board also agree with practitioners and pointed out that organizations started to use IFRS without making adequate and necessary preparedness discussing under:

" As far as we know, all accountants in Ethiopia are not familiar with IFRS and organizations cannot use IFRS in measuring and recognizing transactions and presenting and disclosing this information according to the requirements of IFRS but what is going on here is (except Ethiopian Airlines), few auditors are qualified from ACCA and this auditors are preparing financial statements for them by preparing adjusting entries to convert their summarized financial information in drafted Balance Sheet and Income Statement into IFRS requirements. And the notes to the financial statements are also prepared by the external auditor of that firm. "[Comments of Professional interviewees]

An Official of Accounting and Auditing Board of Ethiopia also agree with the professionals IFRS is used without making necessary preparedness saying:

"IFRS is not adopted in Ethiopia but auditors were simply saying in compliance with IFRS as there is no one who was reviewing their works and there were no actions being taken on those who were giving or saying so. Even though there was no adopted or developed accounting standards in Ethiopia, they were saying in accordance with GAAP but it was not clear to which GAAP they were referring and they

> repeated the same in IFRS case, too. Of course, Office of General Auditor was certifying professional accountants and auditors but was not regulating them and this was the basic gap. However, now the newly established Board will fill this gap."[AABE General Manager Comment]

The researcher realized that Companies in Ethiopia have started to apply IFRS in preparing their financial statements without accessing its impact on their financial performance and making policy decisions, and providing training on IFRS to their staffs.

3.1.3. Motivating Factors for Adopting IFRS in Ethiopia

Previous literatures, for example Ramanna and Sletten(2009) 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.

However, in Ethiopia's context it was found that there are different factors that motivate the adoption of IFRS in Ethiopia which can be divided into internal and external factors. From internal factor, the most motivating factor is the absence of national accounting standards in the country. The response provided by four interviewees from different universities in Ethiopia are summarized and presented below:

Interviewees from Four Universities in Ethiopia

> "Since long period of time, different stakeholders were asking to have accounting standards in Ethiopia using all opportunities obtained both formally and informally. Regulators, professionals, researchers and academics have been claiming to have national accounting and auditing standards in the country and debate was going on different events (such as workshops, conferences, panel discussions, and peer - discussions) whether to have homemade standards or import from somewhere else that is already in use and can suit in Ethiopia's context.[Comments of academic Interviewees].

Agreeing with what is argued for by academics, practitioners pointed out additional reasons stating that while debate was going on among different stakeholders, another pressure comes from external forces. The most external pressure, according to them, comes from, lenders and donors, international correspondent organizations, World Bank and IMF, International Audit Firms(such as Earnest and Young, KPMG International, and Delloitte) , ACCA[1] through its affiliate offices and Ethiopian graduates who are working as professional auditors in Ethiopia and pushing companies to use IFRS. The following confirmed these claims stating the following arguments:

> "The first groups of organizations that are motivating IFRS adoption in Ethiopia are International Audit firms and training Centers who are in the country under "Consulting Firms" and "Qualification Center", respectively. These international organizations (Earnest and Young, KPMG International, Delloitte, and ACCA) are training people in Ethiopia and indirectly exerting pressure toward the adoption of IFRS in the country. The second other enforcing forces are foreign institutions. Ethiopian Banks, for instance, work with international organizations and these correspondent organizations are requesting them financial statements prepared in accordance with IFRS. Another example is Ethiopian Airlines that is working on international aviation industry and is expected to prepare its financial statements to fulfill the interest of its international stakeholders." [Comments of Interviewee]

However, the official interviewee from Finance department of Commercial Bank of Ethiopia argued that Commercial Bank of Ethiopia started reporting financial statements in compliance with IFRS and adopted it making policy decision to include it in its Accounting Policy for following reasons:

> "Because Commercial Bank of Ethiopia (CBE)'s vision is to become World Class Bank in 2025 and one of our objectives is to comply with international accounting standard. In order to achieve such objective, first we have stated and adapted in our accounting policy that we follow IFRS accounting standards. Then we revise CBE's accounting procedure into consideration of IFRS and communicate to all users. It also reviews the progress by including in one of the process initiatives of Finance."[Comments of Interviewee]

Regarding the pressure from the World bank, in promoting IFRS in Ethiopia, the Private Consultant who is currently working with Accounting and Auditing Board of Ethiopia(AABE) representing the world Bank in Ethiopia, stated, during the course of interview by the researcher as under:

> "This is consistent with the Bank's fight against poverty. IFRS improves the quality of financial reporting at country level, which improves the business environment in a country, contributing investment attraction and improved economic activity, ultimately reducing the level of poverty in a

[1] According to ACCA –Ethiopia, in addition to its ACCA qualification program, ACCA is offering corresponding study to its Ethiopian students on the following programs – IFRS Diploma, IFRS Certificate, IPSAS Certificate and IFRS for SME Certificate in Ethiopia.

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

3.1.4. IFRS Adoption and Implementation At National Level

According to Proclamation No.847/2014 Article 5(1), Ethiopia has adopted International financial Reporting Standards (both full-IFRS and IFRS for SME) for the purpose of preparing financial statements in December, 2014. Article 5 of chapter three of the proclamation which is entitled as "Applicable Financial Reporting standards" Stipulates the following:

"The financial reporting standards to be used when preparing financial statements shall be:

a) International Financial Reporting Standards; or
b) International Financial reporting Standards for Small and Medium Enterprises; issued by International Accounting Standards board or its successor; and
c) International Public Sector Accounting Standards Applicable to Charities and Societies issued by International Public sector Accounting Standards Board or its successor as adopted, adapted or amended by the Board."

3.1.4.1. Enactment of the Financial Reporting Proclamation

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

The government of Ethiopia issued this proclamation (No.847/2014) to achieve the following objectives as stated in Article 1 of the proclamation: to establish a sound, transparent and understandable financial reporting system applicable to entities in both private and public sectors; to have a uniform financial reporting law that enhances transparency and accountability by centralizing the hitherto decentralized financial reporting structures of Ethiopia; to support various building blocks of the economy and to reduce the risk of financial crisis, corporate failure and associated negative economic impacts; and to ensure that the provision of financial information meets internationally recognized reporting standards.

The newly enacted Proclamation (proclamation No. 847/2014) has eight Chapters where the first chapter provides for general Provisions. The second chapter contains the provisions concerned with establishment of the Accounting and auditing Board of Ethiopia or simply "Board". The third chapter encompasses provisions that prescribe the financial and auditing standards to be used in Ethiopia. The fourth chapter deals with procedure for adopting, adapting and amending standards. The fifth chapter provides for licensing and accreditation of Professional Auditors and Accountants. The six chapter deals with standards of practice for auditors(consisting of Auditors' Report and Opinion, Period of time for Giving Opinion, Material irregularities, Independence of auditor, Conflict of Interest of Auditors, and Professional misconduct by Auditors). The seventh chapter contains provisions related with enforcement of the proclamation and lastly, the eighth part of the proclamation comprises provisions that deal with miscellaneous issues (such as conflict of interest, confidentiality, power of the Council of Minister to issue Regulations and that of Board to issue directives, Transitory Provisions and repealed and inapplicable laws).

The board shall be accountable to the Ministry of Finance and Economic Development (Art.3/2/ of Regulation 332/2014). According to the Article 5 of the 332/2014, the board shall have the following objectives: (1) Promoting high quality reporting of financial and related information by reporting entities; (2) Promoting the highest professional standards among auditors and accountants; (3) Promoting the quality of accounting and auditing services; (4) Ensuring that the accounting profession is used in the public interest; and (5) Protect the professional independence of accountants and auditors.

According to Article 4(2) of the proclamation No.847/2014, the Accounting and Auditing Board of Ethiopia (AABE) shall have the following, inter alia, powers and duties to: (1) Issue standards and directives relating to financial reporting and auditing and ensure compliance therewith; (2) Conduct inquiry or investigation and impose administrative sanction in accordance with the provisions of the proclamation where appropriate on public interest entities and public auditors to enforce compliance with financial reporting and auditing standards; and (3) Cooperate with, or become a member or an affiliate of, any international body, the objectives or functions of which are similar to or concerned with those of Board.

The Board is also empowered to monitor the Financial Statements and Reports. Accordingly, the board may review the financial statements and reports filed with it to determine whether the financial statements and reports are in compliance with the requirement of the proclamation. Public interest entities[1] are required under article 5(2) of the proclamation (2014) to comply with international financial reporting standards. However, article 5(3) of the Proclamation No.847/2014 gives the mandate for AABE to specify, in the financial reporting standards, the minimum requirements for recognition, measurement, presentation, and disclosure in annual financial statements, group annual financial statements or other financial reports which every public interest entity or Small or Medium Enterprise shall comply with, in the preparation of financial statements and reports.

3.1.4.2. Establishment of the Board: Regulatory Body

The first financial reporting Federal state regulatory body is established for the first time in Ethiopia by regulation entitled" Council of Ministers Regulation to Provide for the Establishment and to Determine the Procedure of the Accounting and Auditing Board of Ethiopia (Council of Ministers Regulation No. 332/2014) pursuant to Article 4(1) of the Financial Reporting Proclamation No. 847/2014. Accordingly, provision of Article 3(1) of this regulation describes that *"The Accounting and auditing Board of Ethiopia (hereafter the 'Board') is hereby established as an autonomous government organ having its own legal personality."* According to Article 5 of the regulation No. 332/2014, the objectives of the board are: (1) promoting high quality reporting of financial and related information by reporting entities; (2) promoting the highest professional standards among auditors and accountants; (3) promoting the quality of accounting and auditing services; (4) ensuring that the accounting profession is used in the public interest; and (5) protecting the professional independence of accountants and auditors.

Accounting and Auditing Board of Ethiopia consists of 12 members which includes one representative from each of the following Ministries: Ministry of Finance and Economic Development(MoFED), Office of General Auditor(OFAG), National Bank of Ethiopia(NBE), Ministry of Justice(MJ), Ministry of Education(MoE), Ministry of Trade(MoT), Ethiopian Revenue and Customs Authority(ERCA), Ethiopian Commodity Exchange Authority(ECXA), Ethiopian Professional Association of Accountants and Auditors(EPAAA), Accounting Society of Ethiopia(ASE), and two representatives from Ethiopian Chamber of Commerce and Secretariat Associations(ECCSA) – one representing the Board and the other representing the office.

The analysis of the board composition, as indicated in table1, shows that 66 (58 percent plus 8 percent) percent of the board members are from regulators, 17 per cent are from professionals, and the remaining 17 percent are representing preparers and users as they are represented by the union of traders – ECCSA. And no one is assigned representing academics from Universities and Colleges in Ethiopia.

Table 1: Composition of member of Board of Directors

S.No	Representation from	Number	Percentage
1	Government Officials	7	58
2	Professionals	2	17
3	Preparers and Users	2	17
4	Academic(by Ministry of Education)	1	8
Total		**12**	**100**

Source: Accounting and Auditing Board of Ethiopia

3.1.4.3. Current Trends on Human Resource Development toward IFRS

There is a move to promote IFRS in Ethiopia through arranging various workshops, seminars, and panel discussions. The major organizations that are arranging these events are ACCA – Ethiopia, HST Audit and Consulting firm which is an affiliate of The United Kingdom professional services firm, Deloitte Touche Tohmatsu Ltd (Deloitte)[2], Ethiopian Commodity Exchange Authority, Privatization and Public Enterprises Supervising Agency, Earnest and Young Different training workshops are being arranged and conducted on IFRS in Ethiopia. From the interview conducted with lecturers of accounting from six Universities including Addis Ababa University stated that a seven days Training was offered to around 40 accounting lecturers from selected universities in the country on IFRS for SME by ACCA – Ethiopia in collaboration with Addis Ababa University- College of Business and Economics in August 2014. However, the trainings should be conducted on a coordinated way and serious attention should be given from all concerned bodies(government, regulators, board of directors, managements, shareholders, employees, NGOs, Development partners, media and so forth)

[1] Article 17(2) of the Proclamation No.847/2014 defines Public Interest Entity as "entity that is of significant public relevance as the Board may decide from time to time because of the nature of its business, its size or its number of employees, and includes, in particular, a company whose securities are admitted to trading on a regulated capital market, banks, insurance companies and any other financial institutions and public enterprises." Reporting Entity is also defined under Article 18(2) of the same proclamation as "any entity, other than public bodies and micro enterprises, required by law to submit financial reports."

[2] Addis Fortune Published on FEB 10,2013 [VOL 13 ,NO 667] http://addisfortune.net/articles/deloitte-hst-merger-final-for-consulting-services/ accessed 05/10/2014

and it should not be given for formalities and on short term-benefits basis.

3.1.5. Opportunities and Challenges Ahead in Implementing IFRS in Ethiopia

3.1.5.1. Opportunities Ahead:

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

> *"Ethiopia is among the fastest growing countries in Sub-Saharan Africa and it has managed to sustain that growth over decades. This growth needs to be supported by high quality financial reporting and IFRS offers that. There is also the advantage arising from the high level of support to financial reporting reforms by the Government. In summary, if Ethiopia lags behind in implementation of IFRS, it may lose out in terms of attracting international investment capital which is necessary for investment. Successfully implementing the adopted IFRS will make Ethiopia part of the global world in terms of high quality financial reporting which is one of the key contributors to sound business environment, necessary to attract investment."*

The results of responses from interviews conducted with CFOs, audit firms and the Board representatives are summarized and presented as follows:

1. **High commitment from the Government:** which was manifested by issuing proclamation and regulation on financial reporting, having willingness to inculcate IFRS in Accounting Curricula of Universities, establishing state regulatory body through which enforcement of the corporate financial reporting will be made, making available financial and logistic support to the Board.
2. **Avoids current problems:** After full implementation of IFRS, there will be benchmark for determining and agreeing with client for auditors. For instance, in current scenario, professional interviewees indicated that it has been very difficult to agree on the depreciation rate as there is no agreed depreciation rate in the country except in case of for tax purposes. Moreover, according to them, financial statements don't have real users. But if IFRS is adopted and the regulatory body takes measures for their compliance, financial users begin to trust financial statement's information and their dependability on financial statements will be enhanced.
3. **Enhance Comparability –** all interviewees strongly expressed their expectation that the comparability of the financial Statements will be enhanced and can make financial statement analysis easy and understandable.
4. **Enhance FDI:** IFRS is an international business language that all international investor understand and if Ethiopia uses IFRS, these international investors can easily include Ethiopia among their potential alternatives for investment while making their investment decisions. If such consideration is there, hopefully Ethiopia will be their first choice and FDI will increase in Ethiopia
5. **Easy Access to Finance:** Since IFRS is carefully designed and becoming global language, it will be easy for companies operating in Ethiopia to get donations, loans and to work with international correspondent organizations.
6. **Helps to establish legal backing accounting and auditing system:** Because of the current conducive environment for having single high quality accounting standards both inside and outside, good financial reporting framework will be established which will result into well-established financial reporting system.

3.1.5.2. Challenges Ahead

Regarding the challenges that are ahead of the implementation of IFRS in the next five years according to Article 55 of Proclamation No.847/847, the response obtained from the interviews conducted from financial statements' preparers (CFOs), audit firms' representatives and the newly established Board is summarized and presented as under:

3.1.5.2.1. Challenges to Preparers and Auditor Firms

1. **IFRS Knowledge Gap:** Prevalence of knowledge gap in IFRS among various stakeholders such as preparers, users, academics, and professionals is one of the most important challenges. According to him *"the biggest challenge is education in IFRS----- from academic institutions, preparers of financial statements, auditors, regulators. There is need to improve the level of IFRS knowledge at all these levels, which currently is still very low. There is also need to increase the number of qualified professional accountants in the country."*
2. **Shortage of Qualified Professionals**: Shortage of competent and qualified professional accountants and auditors in IFRS is another challenge identified during the interviews. For instance, according to the interviewee from HST, "there is less number of Chartered accountants (almost only about 300 qualified professionals are available.)" This argument was supported by one author stating that "There are a few accountants who are graduates of ACCA-UK (The Association of Chartered Certified Accountants, United Kingdom) which provides IFRS based courses. According to ACCA - Ethiopia's record until March 2011, there were about 270 ACCA affiliates and members and the average number of graduates

is 15 per year" (Mulugeta, 2011)[1] and on top of that, Ethiopian Universities are not offering IFRS Courses. According to one interviewee from private audit firm "because of different reasons, almost half of the qualified ACCA professionals have already left the country and others joined international organizations from where they are getting high payment which the country can't afford to pay them."

3. **Resistance to Change**: Resistance from organizations who are benefiting from or confortable with the existing non-enforced and non-regulated accounting and auditing system in the country, and various groups of people who might not cope up with IFRS because of different reasons. The interviewees pointed out that there will be resistance because of two basic reasons. First, IFRS is even complex for countries whose native language is English and who have had experiences in using standards for long period. Moreover, as IFRS is developed having capital market economy in mind, understanding and applying it will be difficult. Second, Ethiopians are practicing accounting where there is no standard and enforcement, and they are new to standards but, now, when monitoring and follow up with actions are going to be taken on non-compliant, challenges are expected.
4. **Management Knowledge Gap**: There is a gap in the management (both Board members and Executive Officers) of corporate organizations as they have little or no understanding of accounting and financial reporting. Moreover, they are not giving their attention to accounting and financial reporting related issues and there will be shortage of experienced managers in accounting who are expected to play key role in implementing IFRS in their respective entities.
5. **Costs**: IFRS materials are available in foreign currencies and the materials are updated regularly. Moreover, training costs are there as trainers are from abroad who will be paid in hard currency as enough Ethiopian trainers will not be there. One audit professional interviewee indicated his view stating that "*World Bank and IMF don't want to give opportunity to Ethiopian Professionals due to the reasons known to them and they are bringing trainers either from Kenya or Tanzania or Europe and they don't want capacitate Ethiopian professionals*," and generally, there will be high costs in acquiring and disseminating IFRS materials, promoting, training of stakeholders (preparers, users, professionals, academics) on IFRS implementation. Even some interviewees asked "who will bear this huge amount of cost?" and according to them, the money required to implement IFRS in Ethiopia will be a great challenge.
6. **Absence of Professional Institutions**: Since no work has been done to have well-organized professional body, as the existing one are club of professionals, the accountancy professions fail to contribute what it was purported to contribute for economic growth and development of the country. 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. Having well established professional institutions in the near future is invisible and it will be another challenge to the accounting profession.
7. **Emergence of Unfair Competition among Professionals**: The summary of responses from the interviewees revealed that before IFRS is adopted and implemented in accordance with the proclamation No 847/2014, the board should equip itself with the capacity (both human capital and logistic) to enforce the provisions of the proclamation. Otherwise, unfair competition will emerge and the audit service quality will not improve as some audit firms seriously work to implement IFRS while others may not worry and engage in auditing with less audit fee. This may push the committed professionals to leave auditing business industry and shift to areas where IFRS is not a mandatory requirement and earn high income (e.g. engaging in auditing of group companies, NGOs, etc…).

3.1.5.2.2. Challenges Ahead of the newly Established Board

The board is starting to regulate Accountancy Professions for the first time in Ethiopian history at centralized level. As new entrant, obviously, challenges are expected to be faced. To know these challenges interview was conducted with the General Manager of the board and the results of the interview are presented below:

1. **The Board Structure:** Resistance were coming from accounting and auditing professionals from the various regions of the country not to be regulated by federal regulatory body (the Board) and as they claim to have their own regulatory body depending on the existing federal structure of the country under which regional general audit offices were regulating (issuing, renewing and canceling certificate of competence for both accountants and auditors) regional professionals. This was not taken into consideration while drafting and enacting the proclamation and regulation. During the visit to the office of the board, the researcher has learned the same from the officials of the board that the board faced such resistances from some regions during registration of the professionals for the first time in May and June, 2015.

[1] The efforts made many times by the researcher in October and December 2014 to get up to date information on the current number of ACCA qualified and on study were not fruitful because of refusal of ACCA-Ethiopia to provide the information.

2. **Member of Board Directors:** Twelve board members at the highest level of governance structure of the board are appointed and the General Manger is assigned to run the day to day operation of the newly established Board. However, the board members are government officials and they are very busy and it will be very difficult for them to conduct regular board meeting and their effectiveness will be in question. Even some professionals during the interview recommend that *"member of the board should not be there for politics rather they should play vital roles toward the development of the accountancy professions so that the professionals can contribute their share toward the economic growth and development of the country."*
3. **Lack of Experience in Setting Standards:** Ethiopia has no experience in setting accounting and auditing standards and this will have its own impact on the standard adopting and implementing processes of the Board. Incidence of skill gaps are expected to challenge the board from both the governing body side and the technical employees' side. That is, lack of qualified and competent board members in setting standards and board technical employees are accounting graduates but not professionals and expertise and constraints will be there in this regard, too.
4. **Resistance from Preparers and Auditors:** Resistance is expected from both the preparers and professionals to be bound by the provisions of the proclamations especially those who were playing game where there is no rule of the game in the accountancy profession. For instance, based on the previous experience, according to General Manager of the Board, some organizations are not willing to take any qualified opinion and they exert pressure on auditors but in the future, the board will enforce the auditors to give their free and independent opinion with regard to all companies regardless of their pressures.
5. **Employees Turnover:** Besides, the non-availability of the qualified and competent professionals, it will be difficult to retain them by paying them an amount to be afforded by the board in comparison with the amount the market can pay to them. When the board starts to enforce IFRS implementation, the demand for these professionals escalates which results in high payment to qualified professionals. One interviewee, the manager of the Board expressed his doubt on the effectiveness of the Board pointing out that "the board may find difficulty in acquiring competent and qualified professionals who may able to review the financial statements of preparers filed with it at the pay scale of Ethiopian Civil Servant Salary which is very low by all standards." Therefore, technical employees' turnover is expected to be the other challenge to the board.

4. Conclusions

The study found that some companies in Ethiopia have started using IFRS voluntarily for the preparation of their financial statements since 2002/03 without making all necessary preparedness. However, nationally, Ethiopia has decided to join the IFRS network with a 'big bang' approach to adopt IFRS through enactment of proclamation in December, 2014. 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 researcher recommends that the board members should seriously discharge the historical responsibility vested to them through establishing a noble foundation for accountancy profession in the country. The Board should identify and determine the key dates and the date of transition (i.e. prepare Roadmap) to IFRS through active participation of all stakeholders through bottom-up approach and effectively communicate these dates to the stakeholders and develop its own IFRS training plan for accounting and finance personnel. Besides, recognizing the importance of professional accountancy institution in developing and enforcing accounting and auditing standards, and monitoring the accountancy professionals, the board should work toward its establishment and provide continuous support to the institution even after its establishment.

The board should also conduct a study to identify the gaps in systems and processes to gather information needed under IFRS and the currently available information in the country and develop IFRS Accounting manual modifying charts of accounts and detailed instructions taking IFRS requirements into accounts. Practical action should be taken to integrate ISA and IFRS modules into Ethiopian higher institutions' accountancy education curricula. Since IFRS are developed having stock market in mind, a stock exchange should also be established in the country if effective implementation and application of IFRS is looked-for.

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