Research Paper

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Implementation of Ifrs in Ethiopian Banks: an Assessement of Banks' Reluctance to Implement It, 2015

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ABSTRACT

IFRS represents the most important accounting regulatory change and demand in recent years globally.Since Ethiopian Banks are reluctant to implement IFRS, this study focused on reluctant factors. Descriptive research with partial explanatory design was conducted with structured questionnaire.This study identified IFRS implementing challenges like high implementation costs, the complexity of financial reporting, lack of IFRS implementation agent, lack of IFRS implementation guidance, increased volatility of earnings, lack of availability of competent specialists, high level training requirement, problem with the IT system in handling the transition to IFRS, lack of proper instructions from regulatory bodies, and problem with IFRS use of fair value accounting. Hence it is recommended the government of Ethiopia better to finalize the already started tasks of organizing a separate institute fostering the implementation of IFRS, and issuance of an enforcing legislation for the implementation of IFRS an Educational institutions should focus on curriculum revision accordingly.

INTRODUCTION

International Financial Reporting Standards (IFRS) are a set of accounting principles that is rapidly gaining acceptance on a worldwide basis. They are published by the London-based International Accounting Standards Board (IASB). IFRS is more focused on objectives and it is a principle based accounting practice (Nader & Robert, 2014), many Ethiopian banks are reluctant to adopt. Therefore, this research is focussed to assess the specific impeding factors that makes Ethiopian Banks reluctant to implement IFRS. It provides some induction about IFRS to various financial statements preparers and users of Ethiopian Banks' information

General objective: To examine the implementation of IFRS in Ethiopian Banks and to assess their reluctance to implement it, 2015

The specific objectives:

1) To describe the status of Ethiopian Banks in implementing IFRS,
2) To assess the awareness level of impeding factors of IFRS implementation in Ethiopian Banks,
3) To assess the educational and technical capacity of Bank to implement IFRS, and

Methods and Materials

Descriptive and explanatory study was designed for primary and secondary data with structured self administered questionnaire, interviews and review of concerned material. Data consists of both quantitative and qualitative nature. Data is analyzed with SPSS software.

Findings

This study is conducted on Ethiopian Banks to generate information about the status of IFRS implementation and to assess the reluctance of Banks to implement IFRS. The questionnaire of the survey has distributed to responsible officials of all Ethiopian Banks, to both those who are responsible for the preparation and assurance of financial statements; these are finance Directors/Managers and Auditors respectively.

Majority of the participant in responding the questionnaires are male. And also all of them are at least first degree holders in Accounting, or Management, or Economics or Banking & Insurance fields of study. The respondents who are participated in this survey are worked more than five years in the Banking industry.

More than twelve billion four hundred thousand birr of paid-up capital invested in Ethiopian banks. On the other hand a total 51,371 plus of employees are working in nineteen Ethiopian Banks.

Although, the FDRE issue legislation and NBE gives a direction, from the total of nineteen Banks, only nine are using IFRS in their financial statements presentation.

From the study point of view the survey result of the study shows low level of education & expertise, insufficient technical capacity of advanced financial Management, lack of familiarity with IT challenges, requirement of amending the existing tax law, absence of implementation agent institute with clear directive for the purpose and absence of proper plan of implementation are the main impeding factors that make Ethiopian Banks to implement IFRS

Conclusions

This study has discussed the background & profile of Ethiopian Banks', examined the historical background of both IFRS and Banking businesses of Ethiopia, the implementation of IFRS with its benefits & challenges and the impeding factors that make Ethiopian Banks reluctant to implement IFRS.

The main questions of the survey focused on the points that can serve to identify Ethiopian Banks' journey to IFRS, to understand the practical benefits of implementing IFRS for Ethiopian Banks, to understand the challenges faced by the Ethiopian Banks in the process of implementing IFRS, and finally to know the impeding factors that make Ethiopian Banks reluctant to implement IFRS.

As a general information the question that can serve to assess and understand the profile of the respondents, the current status & profile of Ethiopian Banks, and to understand the awareness of the respondent about IFRS.

The study has analyzed the data collected through document analysis (annual reports, legislations, directives, and other documents), observation of the researcher and distributed self-administered questionnaire to finance Directors/ Managers, Auditors and Finance officers. Questionnaire data were analyzed using descriptive statistics and data from observation and document reviews have interpreted qualitatively as a support for the descriptive analysis.

This paper investigated the status of IFRS implementation in Ethiopian Banks. Using the survey result of the study, it is possible to conclude that, Ethiopian Banks have started the implementation of IFRS since 2010. NBE is, in turn, recognized as institute that fosters implementation of IFRS in Ethiopian Banks by the participants of the survey in responding the questionnaires.

The government of Ethiopia as a nation has expressed an initiative to integrate the financial statements of its companies with international standards. Intention of the government to implement IFRS in Ethiopian companies, including Banks, is manifested by the issued Proclamation No. 847/2014 called "Financial Report Proclamation of Ethiopia" which obliges companies to follow IFRS in their financial statement presentation.

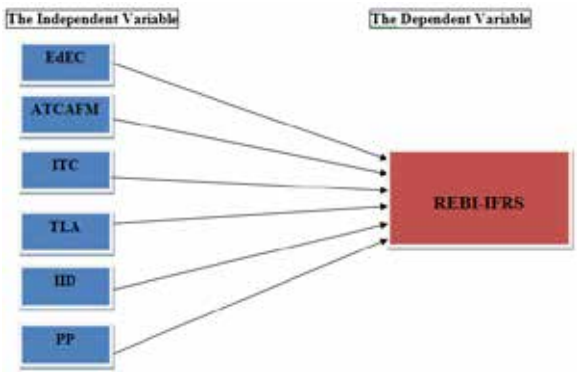
The study on the implementation of IFRS in Ethiopian Banks mainly shows that implementation of IFRS leads to improved comparability & reliability of financial statements, reduce cost of capital of firms through lower cost of information, facilitate easier international mobility of professional staffs across national boundary, greater marketability of shares, and reduced information asymmetry and others.

The survey result shows that the respondents identify various IFRS implementing challenges of Ethiopian Banks that 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.

From the challenges listed by the respondents of the questionnaire, lack of education & expertise, lack of adequate technical capacity of advanced financial management, insufficient familiarity with specific IFRS implementation IT challenges, absence of commitment & proper plan of Banks to implement IFRS and requirements of the existing Tax law amendment are identified as factors that makes Ethiopian Banks reluctant to implement IFRS.

Recommendations

- The government of Ethiopia better to finalize the already started tasks of organizing a separate institute fostering the implementation of IFRS that can enforce the legislation issue for the implementation of IFRS;
- The government also should give a clear direction to all concerned organs about the application of existing tax law that requires the application of GAAP and amend same in similar philosophy with IFRS practice;
- National Bank of Ethiopia has preferred to give a clear direction to Ethiopian Banks about the implementation of IFRS through the customary directive;
- Ethiopian Universities, Colleges and other training institutes should work in this regard and incorporate the concept of IFRS intensely in their academic curriculum;
- All expert, practitioner and academicians of Accounting and Finance shall discussed by themselves through their professional associations to create a common and excel understanding about IFRS in Ethiopia;
- Since Ethiopia as a country NBE as Banks' supervisor shows initiation and commitment to implement IFRS, Ethiopian Banks should set a proper plan for the implementation of IFRS and reflect it in their respective financial statements; and
- Ethiopian Banks should search a means to equip and periodically update their staff in the education, expertise, technical capacities and IT challenges in connection with IFRS.



The multiple regression model developed in this study from the survey result for further researchable issues is given as:

$$REBI\text{-}IFRS_i = \beta_0 + \beta_1 EdEC_{1i} + \beta_2 ATCAFM_{2i} + \beta_3 ITC_{3i} + \beta_4 TLA_{4i} + \beta_5 IID_{5i} + \beta_6 PP_{6i} + \varepsilon_i$$

Where:

- $REBI\text{-}IFRS_i$ → Reluctance of Ethiopian Banks to implement IFRS
- $EdEC_{1i}$ → low level of education & expertise,
- $ATCAFM_{2i}$ → insufficient technical capacity of advanced financial Management,
- ITC_{3i} → lack of familiarity with IT challenges,
- TLA_{4i} → requirement of amending the existing tax law,
- IID_i → absence of implementation agent institute with clear directive for the purpose,
- PP_i → absence of proper plan of implementation,
- β_0 → the intercept,
- $\beta_1 \ldots \beta_9$ → represent the coefficients of the independentvariables, and
- εi → error term.

This cause and effect relation of the dependent and independent variable will be studied by any interested researcher, since there in no any study conducted in this regard before.

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