

IMPACT OF INTERNATIONAL FINANCIAL REPORTING
STANDARD IMPLEMENTATION ON FINANCIAL
REPORT QUALITY: IN THE CASE OF SELECTED
COMMERCIAL BANK IN ETHIOPIA



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MSC IN ACCOUNTING AND FINANCE

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IMPLEMENTATION ON FINANCIAL REPORT QUALITY: IN THE CASE OF
SELECTED COMMERCIAL BANK IN ETHIOPIA

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A THESIS SUBMITTED TO THE DEPARTMENT OF ACCOUNTING AND
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Statement of Declaration

I, Etifwork Birhan, have carried out independently a research work on “The impact of international financial reporting standard implementation on financial report quality: In the case of selected commercial bank in Ethiopia.” in partial fulfillment of the requirement of the MSc program in Accounting and Finance with the guidance and support of the research advisor.

This study is my own work that has not been submitted for any degree or diploma programs in this or any other institution, and that all reference materials contained therein have been duly acknowledged.

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Advisors' Approval Sheet
(Submission Sheet-1)

This is to certify that the thesis entitled “**The impact of international financial reporting standard implementation on financial report quality: In the case of selected commercial bank in Ethiopia**” submitted in partial fulfillment of the requirements for the degree of Master of Science in **Accounting and Finance**, the Graduate Program of the Department/School of Accounting and Finance, and has been carried out by **Etifwork Birhan** Id. No **DDU1300367**, under my/our supervision. Therefore, I recommend that the student has fulfilled the requirements and hence hereby can submit the thesis to the department.

Meka Fikadu (Assistant. Professor) _____

Name of advisor

Signature

Date

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Finally, I take the responsibility for all comments, errors or opinions within this research paper.

Abstract

This study was mainly focused on impact of IFRS on financial reporting quality in Ethiopian commercial banks. Accordingly, the study used primary data through questioner. The study was used purposive sampling method, by using judgmental sampling selected 8 banks. The study have 3 independent variable namely IFRS adoption, internal control and accounting information system ,Data were analyzed by using descriptive statistics, correlation matrix and regression analysis by using SPSS. The results regression analysis shows that IFRS has positive and significant effect on financial reporting quality in Ethiopian Commercial banks. In addition to IFRS adoption accounting information system and internal control has positive and significant effect on financial reporting quality. Based on the finding recommended that, Commercial banks needs to continues development and give serious attention to IFRS development and should expand and strength IFRS team to improve financial reporting quality. Also researcher recommends it need strong internal control and use advanced accounting information system to improve commercial bank financial reporting quality.

Keywords: financial reporting quality

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List of Abbreviations and Acronyms

FRQ Financial Reporting Quality

IFRS International Financial Reporting Standard

AIS accounting information system

IC Internal control

CLRM Linear Regression Model

FASB Financial Accounting Standard Board

IASB International Accounting Standard Board

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Chapter one

Introduction

1.1 Back ground of the study

International Financial Reporting Standards (IFRS), a single set of high quality, understandable and globally accepted reporting standards, have been adopted by more than 166 countries across the globe (IASB, 2021). The main rationale behind the evolvement of IFRS is the coordination and junction of the diverse business languages used by the business communities all over the world. IFRS offer a single set; principle based reporting standards, which offer high quality, transparent and comparable financial information for users. The adoption of IFRS have plenty of value propositions that has to be assessed through empirical studies including access to capital, minimized data integration costs, transparent information, improved decision quality and reduced cost of capital. However, its adoption poses challenges to the adopter that shadows the value proposition of such reporting standards.

According to FASB International convergence of accounting standards is not a new idea. The concept of convergence first arose in the late 1950s in response to post World War II economic integration and related increases in cross-border capital flows. After different movements, process and institutional changes IASB established in 2001 which independent standard setting body of IFRS foundation. The objective of IASB is to develop a single set of high quality, understandable, enforceable and globally accepted financial reporting standards based upon clearly articulated principles. As per the same report, IFRS adoption act began when the European Union (EU) adopted legislation requiring all listed companies to prepare their consolidated financial statements using IFRS starting in 2005, becoming the first major capital 2 markets to require IFRS. According to IFRS foundation (2018) currently about 166 countries are adopt IFRS standards.

IFRS across Africa is mandatory adoption of IFRS for domestic public companies, voluntary use of IFRS for domestic public companies, the use of IFRS for listing by foreign companies and the use of IFRS for SMEs in respectively. Based on the data from www.ifrs.org, the 18 or (33%) countries that do not require public companies to use IFRS while the other 36 or (67%) countries that require public companies to use IFRS. The following outliers are identified. All the countries

in North Africa do not require domestic public companies to report using IFRS. All countries in South Africa require IFRS for domestic public countries. All countries in Central Africa except Sao Tome & Principe require the use of IFRS. All countries in West Africa except Cape Verde and Mauritania require the use of IFRS for domestic public countries. Nine out of eighteen countries in East African require IFRS for domestic public companies while the remaining nine do not require IFRS .Madagascar is the only country that permits the voluntary use of IFRS for domestic companies. This means that the rest of 53 (98%) Africa countries either mandate the use of IFRS or do not permit the voluntary use of IFRS for domestic companies.(Omotola et.al,2020)

Ethiopia has officially adopted IFRS as a means of its corporate reporting through proclamation number 847/2014. Hence, the Accounting and Auditing Board of Ethiopia (AABE) has designed IFRS implementation road map and announced the beginning dates of 5 different groups of reporting entities. Based on this roadmap, Government development organization and public interest entities have been started to IFRS transition in July, 2016 and expected to close their financial reports as at June 30, 2018 based on IFRS requirements.

The FDRE Peoples House of Representative under proclamation No. 847/2014 declare to change the existing financial reporting standards to IFRS and establish regulatory body responsible to undertake regulatory responsibilities of financial reporting named Accounting and Auditing Board of Ethiopia. Even if the FDRE Peoples House of Representative declare IFRS as one of eligible criteria for engagement in Banking business under proclamation No. 592/2008 eight years back, the exertion of enforcement to adopt IFRS as financial reporting standard takes time. AABE had prepared a five years road map for implementing IFRS in Ethiopia. As per the road map high public interest entities such as banks shall produce IFRS based report and the opening balance as of July 01, 2016 shall be according to IFRS and they shall prepare their financial reports as per IFRS requirements by taking July 01, 2016 as the transition date. Accordingly, all private commercial banks in Ethiopia adopt IFRS as account reporting base and have prepare their financial statements based on IFRS as of June 2018 which was comparative financial statement prepared together with year ended 2017 performance, that is 2017 was the transition year.

Many researchers conduct research related to IFRS and Financial reporting quality in the world and some researchers tries to investigate in Africa and Ethiopia. Tambingon, et al, (2018) have studied to determine factors influencing the quality of financial reporting on local government in

Indonesia. The factors studied consist of commitment apparatus, role of internal audit, IFRS adoption and accounting information system. The result showed that, IFRS, internal audit and commitment apparatus have a significant effect on the quality of accounting information systems.

Aminu,et al,(2020)assessed IFRS impact on financial reporting in Nigeria The results obtained from the structured Likert scale questionnaires were analyzed using T-Test. It was found that, all the qualitative characteristics of financial reporting which were used as reporting quality variables in the study have improved with the adoption of IFRS with the exception of the extent of the ability of financial reports to confirm or correct prior user's expectation which was discovered to be better during SAS regime.

Henok(2020)studied by aiming to examine the determinants of financial reporting quality in Ethiopian private banks. To done the research used Ten years data from 2010 to 2019. The finding shows that financial reporting quality influence by liquidity, bank size and IFRS adoption positively and leverage, profitability, non-performing loan and bank age negatively.

Goshu.D (2020) studied to analyze IFRS adoption and quality of financial reporting by commercial banks in Ethiopia using qualitative characteristics of accounting information such as: Relevance, Understandability, Comparability, and Faith Representation. More specifically, the study used purposive sampling technique to collect a data; the data was collected through primary and secondary source of data. The data was analyzed using descriptive statistics. The finding of the study reveals that; the quality of financial report which is measured through (relevance, understandability, comparability and faith representation) was improved after adoption of international financial reporting standards.

All the above researchers try to shows determinant of financial reporting quality and IFRS impact on financial reporting quality by using firm specific characteristics, this study seeks to take it one-step further in Ethiopian banking sector.

1.2 Statement of problem

IFRS are a set of international accounting standards stating and reporting rules that defines how business transactions recorded and reported and what information a company should disclose in its financial statements. Unlike the US GAAP, which rely on rule based, and historical cost, IFRS as a

new standard focus on principle based and fair value The proponents of IFRS argue that this standard provides more value relevance than the old one (Ball et al., 2003). The international accounting standards board (IASB) issues IFRS, and they specify exactly how accountants must maintain and report their accounts. It is the most accepted and widely followed accounting standards all over the world. Globalization of capital markets requires a unified global accounting, reporting and disclosure set of standards. As noted in (Surianti and Yadiati 2017).

Some researchers argued that IFRS improves transparency and comparability of companies financial statements, reduce cost of capital, increasing of cross border transaction and improve the efficiencies of corporate investment (Daske and Gebhardt, 2006 Dodiya, 2013).

Even though many researches conduct about IFRS in world but in Africa including Ethiopia most of IFRS implementation and researches are at infant stage (Monday and Nancy, 2016). Most studies focus on the benefits, challenges, prospect and progress of IFRS, but few studies about adoption of IFRS on quality of financial reporting.

Few researchers conducted research related to financial reporting quality in Ethiopia. (Kirubel, 2016); assess the determinants of financial reporting quality of large manufacturing in Addis Abeba. The Second one is conducted by (Yetneberk, 2018) focused on challenge and opportunity of adopting IFRS and its contribution to quality of financial reporting in banking sector.(Goshu,2020) analyze IFRS adoption and quality of financial reporting quality in commercial bank.(Henok ,2020)examine determinants of financial reporting quality in Ethiopia.

Although the above-mentioned researchers conducted, research related to determinant of FRQ in banking sector except Kirubel, studied in manufacturing company not related with banking sector. From above researchers tries to see FRQ with IFRS only three researchers namely Henok(2020),Goshu(2020) and Yitbark (2018), The remaining shows determinant factor of FRQ.

Banks plays an important role in the Ethiopian economy and it have largest public interest sectors with significant economic contributions, that is why the government more focused and forced to implement IFRS on banking sector than other sector. Considering the need for high quality financial statements in the Ethiopian economy, the effect of IFRS on FRQ of Ethiopian banks need to be more investigation. In the case of Ethiopia very few Research works made on the issue. This implies that there is knowledge gap in the Ethiopian context about the IFRS and FRQ.

The study was investigating more on the title by clearly showing financial reporting quality before and after adopting IFRS in Ethiopian commercial banks. In addition tries to shows factors that affect financial reporting quality in banks namely, accounting information system and internal control. Empirical FRQ studies for banks yet considered little as compared to FRQ study on other sectors (Abdul Majid and Ismail, 2008). Consequently, a study to convey insights' regarding this spring of research specifically in the banking industry of developing countries is needed (Denisova *et al.*, 2017).

Past studies made more on the manufacturing industry and some studies on banks, but most of studies done before adaptation of IFRS or focused only on determinants of FRQ. The available literatures and most of studies regarding with FRQ and IFRS is in developed countries and in some Africa counters, those adopt IFRS before Ethiopia, it is different from Ethiopian context. IFRS is very recent reporting standard and it needs more investigation to expand the practice in banks and other industries.

In addition to this, the study tried to show as match as possible the impact of IFRS before and after IFRS adoption clearly and as well as add other fundamental factors affecting financial reporting quality and less explored by above researchers namely internal control and accounting information system.

1.3 Research Objective

1.3.1. General Objective

The General Objective of the research was examining the impact of IFRS implementation on financial reporting quality of Ethiopian commercial banks.

1.3.2. Specific Objectives

In line with the general objective mentioned above, the following specific objectives were Developed

1. To examine the impact of IFRS on financial reporting quality before and after IFRS adoption.
2. To examine the impact of accounting information system on financial reporting quality in Ethiopian banks.

3. To examine the impact of internal control on financial reporting quality in Ethiopian banks.

1.4 Significance of the study

Now time number of countries adopting IFRS, in Ethiopia few researches conduct studies related to IFRS and large number of research works has conducted to know challenge, progress, merits and demerits of these movements. Also for policy, makers and the government can use the study findings in building and widening the awareness of the impact of IFRS on financial reporting quality.

This study was contributes to knowledge, as IFRS is very recent reporting standard especially to Ethiopia, by increasing awareness about its IFRS contribution to financial report quality in Ethiopia banking sector. Today in Ethiopia all commercial banks adopt IFRS fully starting from 2016, but most sectors still in progress, this study seeks to take it one-step further in Ethiopian banking sector.

In addition, it helps to improve internal control and accounting information system to improve financial reporting quality in Ethiopia bank sectors.

1.5 Scope of the Study

The study was focused only on banking sector rather than other sector. The study limited by 8 sampled banks from total 27 banks and 9 banks are excluded, because established and start their operation at the end of 2021 and beginning of 2022. resercher believe, it have not significant contribution to the study.

In addition to this there are many factors that affect financial reporting quality, but the study mainly focused on IFRS adoption and in addition to this other two variables accounting information system and internal control.

1.6 problems and limitations of the study

Due to lack of sufficient researches and articles in the area of FRQ and IFRS in the country, this study was trying to formulate the literatures and model by relying on Own countries contexts and studies.

1.7 Organization of the Paper

These studies organize in to five chapters. The first chapter introduced the study. It covered the background of the study, statement of the problem, the objectives of the study, scope, significance, problem and limitation of the study.

The second chapter presents the literature review regarding the research area of International Financial Reporting Standards and financial reporting quality and determinant factors in addition set out the theoretical, empirical and conceptual framework.

The third chapter outlines the research methodology. The chapter described how the data were collected and the expected research method used and research hypothesis.

The fourth and fifth chapter is finding and discussion on the result, the last the fifth chapter wind-ups the paper summary of finding and conclusion followed by recommendations for further studies.

Chapter Two

Literature review

2.1 Theoretical reviews

2.1.1 Definition of financial reporting quality

According to FASB & IASB the FRQ is a financial reporting that produce useful information to users, complete, transparent and not misleading, and meets the characteristics of financial information quality that is relevant, reliable, comparable and understandable: FASB and IASB (2008) is explicitly explained his desire to build a comprehensive assessment tool for assessing the quality of financial reporting related to all qualitative characteristics decision because these characteristics determine the usefulness of financial reporting information (IASB, 2008). Usefulness decision paradigm explains the relationship between users of accounting information, accounting information relevance, understanding decision-makers regarding accounting information, and others that affect the use of information in decision making.

Financial reporting quality requires companies to voluntarily expand the scope and quality of the information they report, to ensure that market participants are fully 16 informed in order to make well-grounded decisions on investment, credit, etc. This high quality information facilitates greater transparency and this greater transparency reduces the information asymmetries and satisfies investors and stakeholders 'needs.

Financial reporting quality research can be conducted by two approaches (Cohen, 2003) &(Francis, 2004). The first Approach, research that relates with investigating what factors that leads to good quality financial reporting & the second approach, how far the financial reporting quality is responded by financial statement users. The first approach relates with determinants factors that produce good quality financial reporting. This research focus relates with internal factors of company that relate with firm specifics or firm characteristics terms.

In order to have a certain degree of quality, financial statements should meet certain qualitative criteria. These criteria are stated by both boards of IASB and FASB in their conceptual frameworks, where they conclude that high quality is achieved by adherence to the objective and the qualitative characteristics of financial reporting information (IASB, 2008).

2.1.2 Theories related to the financial reporting quality

The Theory shows the existence of different theories related to the financial reporting quality and concept of International Financial Reporting Standard. These theories include positive accounting theory, signaling theory, theory legitimacy theory, proprietary costs theory and agency theory.

Positive accounting theory (PAT)

The Positive accounting theory is based on the inconsistency between the interests of shareholders (but also other users of financial statements) and those of managers. According to this theory, outside users of accounting information always wish to have relevant, reliable and comparable financial statement presenting a true and fair view of the financial position and performance of firm.

Signaling Theory (ST)

The signaling theory describes the behavior of two parties with access to different information. In this context, one party (the sender) must choose whether and how to communicate (or signal) that information and the other party (the receiver) must choose how to interpret the signal (Kamwenji, 2014). Companies with superior performance may use financial reporting to signal to the market while adoption of accounting standards may signal the company's good management (Oluoch, 2014). The theory is applicable in the context that top management of banks may be tempted to manipulate financial statements in order to project a positive image of the company to agents Empirically, several studies have been done on signaling influence on disclosure. These are Watson, Shrikes and Marston (2002) and Haniffa and Cooke (2002). The disclosure literature identifies several variables as a proxy for signaling theory including profitability, liquidity and leverage. The theory argues that directors who believe their company can perform better than other companies will want to signal this to shareholders in order to attract more investments. Signaling theory suggests that when a corporation's performance is good, managers will signal the company's performance to their investors, stakeholders and the market by making disclosures that companies with poor performance cannot make. By improving disclosures, directors wish to receive more benefits: a better reputation and the firm's value will increase (Abdulla, 2011). In contrast, firms with poor performance may choose to keep silent rather than reveal unflavored

performance. However, investors may misinterpret this silence as withholding the worst possible information (Verrecchia, 1983).

Agency theory

Agency theory is the relationship between the principals and agents where shareholders are the principals and the company executives and managers are the agents. In agency theory, shareholders expect the agents to act and make decisions in the principal's interest while on the contrary; the agent may not necessarily make decisions in the best interests of the principals. It focuses on reciprocity (self-interest), and its primary objective is to minimize agency cost. It is an individualistic model with opportunistic behavior (Aigienohuwa & Ofuan 2018)

Legitimacy Theory

According to Toukabri, Ben and Julani (2014) the theory of legitimacy is based on two fundamental ideas; companies need to legitimize their activities, and the process of legitimacy that confers benefits to businesses. Thus, the first element is compatible with the idea that social disclosure is related to the social pressure. In this context, we say that the need for legitimacy is not the same for all companies due to the degree of social pressure to which the company is exposed, and the level of response to this pressure.

There are a number of factors that determine the degree of social pressure on companies, and responses to that pressure. These factors are potential determinants of corporate social disclosure. The second component is based on the idea that companies can expect to benefit by a legitimate behavior based on the social responsibility activity.)

Proprietary Costs Theory

Teixeira and Lima (2007) stated that proprietary costs theory considers the costs of disclosures as well as its benefits. Managers take into account the costs of disclosing information and do not disclose when costs outweigh the benefits. These costs include not only those of preparing and disseminating the information, but also costs of appropriation of the information by competitors. Investors know this and do not apply adverse selection. Proprietary cost theory applied to disclosure is analytically developed by Verrecchia (1983), Dye (1985), Darrough and Stoughton (1990) and Wagenhofer (1990).

Conservative method theory (CMT)

The principle of conservatism is a pervasive concept in modern accounting theory, and is probably a carryover from the day when banks were the primary users of firms' financial statements. Conservatism reflects the idea that, given two equally likely outcomes, a firm should use the accounting method that results in smaller reported income or smaller reported net assets (Mabruk 2011). As noted in Bernstein, and Subramanyam (2001) the quality of conservatively determined earnings is perceived higher because they are less likely to overstate current and future performance expectations compared with those determined in an aggressive manner". Comiskey (1971) concluded that "The particular set of accounting alternatives can be thought of as adding a unique 'quality dimension' to the earnings. The following section discusses the empirical reviews of the study area.

Generally, signaling theory is pertinent theory in Ethiopian banking industry, because the theory related to information asymmetries, the bank should provide good financial information and make full disclosures to users. There is little evidence to support the agency theory. Therefore, banks should give more consideration to provide better financial reports to their users

2.1.3 Elements of Quality

According to IASB, the essential principle of assessing the financial reporting quality is related to the faithfulness of the objectives and quality of disclosed information in a company's financial reports. These qualitative characteristics enhance the facilitation of assessing the usefulness of financial reports, which will also lead to a high level of quality. To achieve this level, financial reports must be faithfully represented, comparable, verifiable, timely, and understandable. Thus, the emphasis is on having transparent financial reports, and not having misleading financial reports to users; not to mention the importance of preciseness and predictability as indicators of a high financial reporting quality (Gajevszky, 2015).

As it is defined in the Conceptual Framework for Financial Reporting of the FASB and the IASB, there are agreed upon elements of high quality financial reporting. The qualitative characteristics of financial reporting quality include: relevance, faithful representation, understandability, comparability, verifiability, and timeliness. They are divided into fundamental qualitative characteristics and enhancing qualitative characteristics. A theoretical explanation for each of these terms emphasizes their importance as qualitative characteristics, and also indicates what qualities are considered fundamental among different frameworks.

2.1.3.1. Relevance

Relevance is closely associated with the terms usefulness and materiality. Relevance illustrates the capability of making decisions by users. When information in financial reports influences users in their economic decisions, it is said that this information has the quality of relevance. Also, when this information assists users to evaluate, correct, and confirm current and past events, it is useful. The usefulness of making a decision an important part of relevance is consistent with the conceptual framework (Cheung & Wright, 2010). Fair value is considered one of the highly significant indicators of relevance. Using Fair Value in an entity, as a basis for measurement, is an indicator of a high level of relevance in financial reporting information (Beest et al., 2009). Annual reports have a crucial role in determining the level of relevance by disclosing forward-looking information, disclosing information about business opportunities and risks, and providing feedback on how major market events and significant transactions affected entities (Beest et al., 2009).

2.1.3.2 Understandability

Understandability is one of the essential qualities of information in financial reports. Achieving the quality of understandability is through effective communication. Thus, the better the understanding of the information from users, the higher the quality that will be achieved (Cheung & Wright, 2010). It is one of the enhancing qualitative characteristics that will increase when information is presented and classified clearly and sufficiently. When annual reports are well organized, users can comprehend what their needs are (Beest et al., 2009).

2.1.3.3 Timeliness

Timeliness is another enhancing qualitative characteristic. Timeliness illustrates that information must be available to decision makers before losing its powerful and good influences. When assessing the quality of reporting in an annual report, timeliness is evaluated using the period between the year-end and the issuing date of the auditor's report—the period of days it took for the auditor to sign the report after the financial year-end (Beest et al., 2009).

2.1.3.4 Faithful Representation

Faithful representation is the concept of reflecting and representing the real economic position of the financial information that has been reported. This concept has the value of explaining how well the obligations and economic resources, including transactions and events, are fully represented in

the financial reporting. Moreover, this quality has neutrality as a sub notion which is about objectivity and balance.

2.1.3.5 Reliability

Reliability is another critical factor of financial reporting quality. In financial reporting, information must have the quality of reliability in order to be useful, it is free from bias and material mistakes. Reliability is analyzed based on the qualities of faithful, verifiable, and neutral information (Cheung & Wright, 2010).

2.1.3.6 Comparability

Comparability is the concept of allowing users to compare financial statements to determine the financial position, cash flow, and performance of an entity. This comparison allows users to compare across time and among other companies in the same period. As Cheung & Wright (2010) remarked: Comparability demands that identical events in the two situations will be reflected by identical accounting facts and figures different events will be reflected by different accounting facts and figures in a way which quantitatively reflects those differences in a comparable and easily interpretable manner.

2.1.4 The Objectives of Financial Reporting

The objective of financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decision about providing resources to the entity (FASB, 2010). These users of financial information want to make decisions about buying or selling both equity and debt instruments, they want to know how much interest or dividend to expect, they also want to know when to expect the payment of these interest and dividends. Other users that may also find general purpose financial reporting useful are regulators, customers, government agencies and general public (FASB, 2010)

According to International Accounting Standard Board (IASB), the objective of financial reporting is —to provide information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions.

The following points sum up the objectives & purposes of financial reporting

1. Providing information to the management of an organization which is used for the purpose of planning, analysis, benchmarking and decision making.
2. Providing information to investors, promoters, debt provider and creditors which is used to enable them to make rational and prudent decisions regarding investment, credit etc.
3. Providing information to shareholders & public at large in case of listed companies about various aspects of an organization.
4. Providing information about the economic resources of an organization claims to those resources (liabilities & owner's equity) and how these resources and claims have undergone change over a period of time.
5. Providing information as to how an organization is procuring & using various resources.
6. Providing information to various stakeholders regarding performance management of an organization as to how diligently & ethically they are discharging their fiduciary duties & responsibilities.
7. Providing information to the statutory auditors which in turn facilitates audit.
8. Enhancing social welfare by looking into the interest of employees, trade union & Government.

2.1.5 Historical Background of IFRS.

IFRS stands for International Financial Reporting Standards and they are standards for reporting financial results and are applicable to general purpose financial statements and other financial reporting of all profit oriented entities. The term IFRS comprises IFRS issued by IASB; IAS issued by IASC; and interpretations issued by the Standing Interpretations Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB (Hoyle, Thomas, & Timothy, 2009), (Baker, Lembke, & King, 2009) and (Larsen, 2006).

The first move towards accounting standards convergence can be traced back to 1966 when the Accounting International Study Group (AISG) was proposed to be formed by the professional accountancy bodies in Canada, the United Kingdom and the United State in order to develop comparative studies of accounting and auditing practices. Subsequently, the AISG was founded in 1967. After discussion and approval by the three AISG countries and representatives of

accountancy bodies in Australia, France, Germany, Japan, and Netherlands, the ISAC was established in 1973 with the aim of issuing a single set of high quality and globally accepted International Accounting Standards (IASs). 8 Between the years 1973-2000, the ISAC issued 41 International Accounting Standards (IASs). In 1997, Standing Interpretation committee (SIC) was established to consider continuous accounting Issues. 2.1.4 Related Theories.

2.1.5.1 Concept of IFRS

(Bowrin, 2007) defined International Financial Reporting Standards (IFRS) as; A series of accounting pronouncements published by the IASB to help preparers of financial statements, throughout the world, produce and present high quality, transparent, comparable and accountable financial statements for stockholders. The term harmonization means the reconciliation of different accounting and financial reporting system by fitting them in to common board classification. (Matthew , 2015).

Convergence means the process of converging or bringing together international standards issued by ISAB and existing standards issued by national standards setters. with the aim of illuminating alternatives in accounting for economic transaction and events.(Obezee, 2009) suggest that convergence could be either by adoption (a complete replacement of national accounting standards with IASB's standards) or by adaptation (modification of IASB's standards and disclosure requirements of the IASB standards and basis of conclusion.) The ultimate objectives of convergence if to achieve a single set of internationally consistent, high quality globally accepted accounting standards, issued by ISAB and adopted by the national standards setters. (ISAB, 2016).

2.1.5.2 IFRS and Financial Reporting Quality

The move from country specific Generally Accepted Accounting Standards (local GAAPs) to an internationally accepted financial reporting standard will result in a big change in the business environment (International GAAP , 2016). Providing value worthy and useful for decision making financial information about an economic entity's asset, mainly financial in nature is the principal aim of preparing a financial report (IFRS, 2008). The value of accounting information increases when the information is assist for making important economic decision (Ionaşcu et.al, 2014).

IFRS aim to prepare financial situations, performance and cash flow of business in the most realistic way; correctly display each operation affecting the financial statements; and to present the information in a suitable, reliable, comparable and understandable manner (Kahan, 2016).

Studies suggest that, the timely disclosure of relevant information minimizes the unevenness of the financial statement. In this regard, International Accounting System will give us a remarkable condition to evaluate the economic consequences of heterogeneity in financial reporting and economic effectiveness among countries. Analysis of the determinants of accounting quality has important policy implications.

The accounting standards in practice, the legal and political system employed and incentives of financial reporting all have an impact on the accounting quality (Soderstorm & Sun Ear, 2007). Even though the importance value of high quality financial report is stressed by both FASB and IASB, But there was a problem on how to operationalize and measure this quality because of its context specificity since users will perceive the importance of an identical information in their own way (Van best et.al, 2009).

By referring the study of (Barth et. al.,2008; Schipper and Vincent,2003; Cohen et.al.,2004) Van best et.al, 2009 stated that, consequently many researchers measure the quality of financial reporting indirectly by focusing on attributes that that are believed to influence quality of financial reports, such as earnings management, financial restatements, and timelines.

IFRS believed to be of high quality financial reporting standard. The call for (the necessity of having) higher comparability, better transparency and quality of financial reporting throughout the globe, provoked the forceful adoption of IFRS. The higher quality of financial report obtained from IFRS offer an opportunity to obtain market gain, improve stock market liquidity and lowers the cost of capital (Kahan,2016). (Barth et. al. 2006) suggests that, eliminating alternative accounting methods used by managers to manage earnings is the way to improve accounting quality.

2.2. Empirical Review

Empirical literature review explores past studies in view of attempting to answer specific research questions.it is based on observed and measured phenomena and derives knowledge from actual experience rather than from theory or belief.

Eden (2017) studied by aiming to assess the impact of firm specific (profitability, liquidity, leverage, nonperforming loan, bank age and auditor change) determinants of financial reporting quality in Ethiopian private banks. Accordingly, the study used document review of banks audited financial statements.

The results of panel least square regression analysis show that profitability and non-performing loan have statistically significant and negative effect on Ethiopian private banks' financial reporting quality. On the other hand, liquidity and bank age have statistically significant and positive effect on Ethiopian private banks financial reporting quality. However, leverage and auditor change have statistically insignificant effect on financial reporting quality of Ethiopian private banks.

Tambingon, et al, (2018) have studied to determine factors influencing the quality of financial reporting local government in Indonesia. The factors studied consist of commitment apparatus, role of internal audit, IFRS implementation and accounting information system. The sample is picked up randomly by a random sample technique. The data collected is then tested for its validity and reliability so that the data is valid to be processed. The unit of analysis in the study was 66 unit tool of city Indonesian local government. The results showed that the commitment apparatus, role of internal audit and IFRS implementation have a significant effect on the quality of accounting information systems.

Aminu,et al,(2020)assessed IFRS impact on financial reporting in Nigeria The results obtained from the structured Liker scale questionnaires were analyzed using T-Test. It was found that, all the qualitative characteristics of financial reporting which were used as reporting quality variables in the study have improved with the adoption of IFRS with the exception of the extent of the ability of financial reports to confirm or correct prior user's expectation which was discovered to be better during SAS regime.

Goshu(2020) the study analyzed International Financial Reporting Standard (IFRS) adoption and quality of financial reporting by commercial banks in Ethiopia ,the finding of the study reveals that; the quality of financial report which is measured through (relevance, understandability, comparability and faith representation) was improved after adoption of international financial reporting standards.

Henok(2020)studied by aiming to examine the determinants of financial reporting quality in Ethiopian private banks. To done the research used Ten years data from 2010 to 2019 were collected from National bank of Ethiopia and banks audited financial statements. To determine use variables of Profitability, liquidity, leverage, non-performing loan, bank size, bank age, auditor change and IFRS adoption. And the finding shows that financial reporting quality influence by liquidity, bank size and IFRS adoption positively and leverage, profitability, non-performing loan and bank age negatively.

2.2.1 Summary and Research Gap

Because of the problems associated with worldwide accounting diversity, attempts to reduce accounting differences across countries have been ongoing for decades (Nobes, 2004 cited by (Tesfu, 2012). The rapidly growing adoption of IFRS by various jurisdictions around the world has attracted significant research attention. The review of the literature shows various deliberations and perspectives about the IFRS adoption and financial report quality in a little. It reflects some of the issues relating firm specific with in various demographic conditions.

The above all researchers are except, Goshu all study focused on IFRS adoption and financial reporting quality by using firm specific. Today in Ethiopia from other sector financial institutions specially bank sector are fully apply IFRS since 2016/17.most researcher's argued by IFRS improve and enhance financial report quality through increase the level of faith fullness, comparability, verifiability, timelines, and understandability. This paper tries to show The IFRS effect on financial reporting quality.

Various research works about the challenges and prospects of adopting IFRS has been conducted throughout the world but most of them are mainly based on the data from developed countries. Ethiopia has been undertaking various financial reforms and study projects to enhance its financial reporting environment in line with IFRS. As per the knowledge of the researcher, In the case of Ethiopia very few Research works made on the issue. This implies that there is knowledge gap in the Ethiopian context about the IFRS adoption and financial reporting quality. Since IFRS is very recent reporting standard especially to Ethiopia, there is low level of awareness. Therefore, this study attempts to bridge the gap on adoption of IFRS and FRQ in Ethiopia commercial bank.

2.3 Conceptual Framework

To achieve part of the research objective and to answer research questions, this study developed conceptual framework Banks financial reporting quality and IFRS adoption.

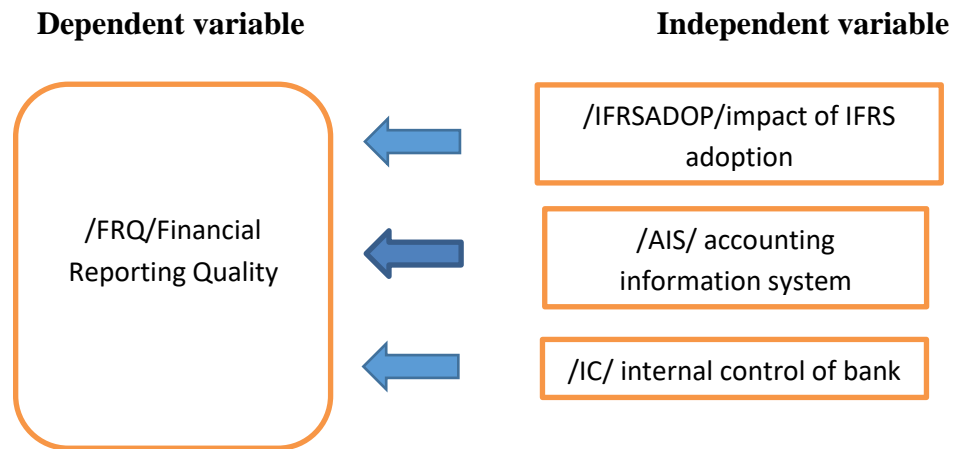


Figure1: Conceptual Frame Work

Source: Empirical Literatures

Chapter Three

Research Methodology

3.1. Research Design

Research design is a master plan specifying the methods and procedures for collecting and analyzing the required data. In fact, research design is the conceptual structure within which research conducted.it constitutes the blueprint for the collection, measurement and analysis of data (Kothari, 2004).

The study was used Qualitative and Quantitative approach and explanatory, which seeks to explain the relationship between financial reporting quality and IFRS adoption in Ethiopian banking and establishing the cause and effect relationship between variables, to achieve the objective and test the hypothesis.

3.2. Data Source and Collection Method

The study was used primary source of data. The primary data was collected through questionnaire, directly distributed to head office employees of selected commercial banks, which are targeted as a respondent of the study. Those persons directly related to banks financial reports (accounting & finance officer, finance managers as well as IFRS implementation team members) to analyze about IFRS adoption in selected commercial banks.

The questionnaire was prepared in five different formats; the first format was be prepared to assessed the quality of financial information, the second questionnaire was prepared to assess the quality of financial information before adopting international financial reporting standard. The third questionnaire was prepared to assess the quality of financial information after adopting international financial reporting standard; fourth and fifth format was prepared to assess FRQ with internal control and accounting information system. All items was used 5-point Likert scales, such were strongly agreed, agree, neutral, disagree and strongly disagree.

3.3 Sampling Technique

The sampling technique to be used in this study was judgmental sampling. From 18 banks 8 banks selected based on judgmental sampling, which full fill the criteria; The selection criteria set by the researcher was first, banks adopted IFRS earlier on better structure and on well-organized form.

Second, those commercial banks should have prepared their financial statements and annual reports by using IFRS at list for last five years. Third, those commercial banks should have to train their accounting and finance team about IFRS. Fourth and the last those commercial banks should have an IFRS implementation team.

3.4. Target population

As noted in Jonker and Pennink (2010) it is clear that researchers are typically unable to study the entire population. Therefore, researchers typically study a subset or representative of the population, which is called sample.

Target populations of the study are 257 employees who work in head offices of sampled 8 banks, which are accounting and finance officers, managers and IFRS implementation members.

As of 2022, there are twenty-seven banks in Ethiopia. They are, Abay Bank S.C, Addis International Bank S.C, Awash International Bank, Bank of Abyssinia, Berhan Bank, Buna International Bank, Commercial Bank of Ethiopia, Cooperative Bank of Oromia, Dashen Bank, Debub Global Bank S.C, Development Bank of Ethiopia, Enat Bank, Lion International Bank, Nib International Bank, Oromia International Bank, United Bank, Wegagen Bank, and Zemen Bank,Zemzem bank,hijira bank,Siineq bank,Shebelle Bank,Amara Bank, Tsdey Bank, Tesehay Bank, Ahadu Bank And Goh betoch bank.(www.nbe.et)

In this study those the last nine new banks namely, Zemzem bank,hijira bank,Siineq bank,Shebelle Bank,Amara Bank, Tsdey Bank, Tesehay Bank, Ahadu Bank And Goh betoch bank start its operation at the end of 2021& beginning of 2022 because of this the researcher believe that the last nine new bank have not significant contribution to the study and exclude from the study .

The banks are Awash bank, Bank of Abyssinia, United Bank, Zemen Bank, Nib International Bank, Commercial Bank of Ethiopia, Cooperative Bank of Oromia and Dashen Bank

Judgmental sampling also used for selection of employees work in head offices of sampled 8 banks which are (Accounting and finance officer, Manager and IFRS implementation team, the reason for Judgmental sampling is all the sampled bank structure and population(respondent) are not equal because of this, the study tried to take as Mach as possible from the bank that has a large no of respondent select more and vice versa to balance and make it representative.

3.5. Data Analysis and Presentation

As explained in the preceding part, the study was used primary data. Primary Data was collected by using questionnaire from head office of each respective sampled private bank. The data analysis was undertaken by using SPSSV-25 statistical package and it includes the descriptive statistics, correlation matrix analysis and regression.

3.6 Definition of variables

3.6.1 dependent variable: Financial reporting quality.

3.6.2 Operationalization of the qualitative characteristics

To construct a measurement tool, we use prior literature which defines financial reporting quality in terms of the fundamental and enhancing qualitative characteristics underlying decision usefulness as defined in the (IASB, 2008). The fundamental qualitative characteristics these are relevance and faithful representation. The enhancing qualitative characteristics are understandability, comparability, verifiability and timeliness; it improves decision usefulness when the fundamental qualitative characteristics are established. However, they cannot determine financial reporting quality on their own (IASB, 2008)

Each of the qualitative characteristics is measured using the multiple items that refer to the sub notions of the qualitative characteristics. To assure the internal validity of these items, the quality measures are based on prior empirical literature. We use a five point rating scales to assess the scores on the items. It provides an overview of the 16 measured items used to operationalize the fundamental and enhancing qualitative characteristic. It also includes the measurement scales used to assess the value of the distinct items. Subsequently, we compute a standardized outcome for the qualitative characteristics relevance, faithful representation, understandability and comparability by adding the scores on the related items and dividing by the total number of items.

3.6.3 Independent variable

IFRS Adoption: Impact of IFRS adoption is measured by using 5-point Likert scales, such were strongly agreed, agree, neutral, disagree and strongly disagree

Accounting information system: Accounting information system is measured by using 5-point Likert scales, such were strongly agreed, agree, neutral, disagree and strongly disagree

Internal control: Implementation of internal is measured by using 5-point Likert scales, such were strongly agreed, agree, neutral, disagree and strongly disagree

3.7 Hypothesis development

To achieve the objectives of this study the following three hypotheses has derived from the literature to give comprehensive factors that explain the variations of financial reporting quality in Ethiopian commercial banks.

3.7.1 IFRS adoption

Many researchers found that FRQ improved after adoption of IFRS and it has positive relationship between FRQ. (Ball et al., 2003), (Barth et. al. 2006), (Kahan, 2016), Aminu,et al,(2020), Goshu(2020)and Henok(2020).based on the above finding the researcher develop the following hypothesis.

H₁: IFRS adoption has a Positive and significant effect on financial reporting quality.

3.7.2 Accounting information system

Accounting information system should produce relevant and reliable information, recent and updated software helps to provide quality information (Sacer, Oluic, 2013). (Arens, 2012; Azhar Susanto, 2013) (Bentley & Whitten, 2007; Azhar Susanto,2009). Soudani, (2012) accounting information system provides information which are useful for decision-making and for other company operation (Mc Leod and Schell, 2007; Arens, 2012).all the above study's shows that AIS and positive and significant relationship with FRQ.

H₂: There is a positive relationship between Accounting information system and FRQ in Ethiopia banks

3.7.3 Internal control

Effective internal control increase financial reporting quality. (Lius, 2011). Internal control has a significant impact on FRQ in terms of detecting and preventing fraud (Church et al., 2001; Coram et al., 2008) Weak internal control link to financial crises (Beasley et al., 2000); Dechow et al., 1996) (Carcello et al., 2005; Gramling et al., 2004).

H₃: There is a positive and significant relationship between internal control and FRQ in Ethiopia banks.

3.8 model specification

This section covers the regression model used in the study. The model was used for this study is classica

Linear regression model and used to determine the effect of IFRS on financial reporting quality in Ethiopian commercial banks and other factors that affect financial reporting quality, presented as follows. The model is adopted from different studies conducted on the same area. Henok.T(2020), Yitbarek(2018) and Tambingon, et al, (2018) .

$$FRQ = \alpha + \beta_1 IFRSADOP + \beta_2 AIS + \beta_3 IC + \varepsilon$$

Where:

FRQ= Financial reporting quality

IFRSADOP=IFRS adoption

AIS= Accounting information system

IC = Internal control

α = constant or intercept; β_1 IFRSADOP, β_2 AIS & β_3 IC are regression coefficients

ε = Error Term acceptable

Chapter Four

Result and Discussion

Introduction

This chapter deals with the results and analysis of the findings. The first section deals with the reliability analysis to measure the internal consistency of the tools; the second portion deals with descriptive statistics of the variables; the third section presents the result of the fulfillment of the classical linear regression model (CLRM) assumptions and the regression results and the last part discusses the findings.

The data were collected from employees who work in head offices of sampled 8 banks, which are accounting and finance officers, managers and IFRS implementation members. The researcher distributed 87 questionnaires to the respondents and collected only 76 of them which were 87.4%, the remaining 12.6% was unreturned and not fully fill by the respondent.

4.1 Reliability Analysis

Reliability analysis was subsequently measured using Cronbach's alpha which measured the internal consistency by establishing if certain items with in a scale measures the same construct. Gliem and Gliem (2003) established the Alpha value threshold as between 0.50 to 0.60 marginal, between 0.61 and 0.70 good and between 0.71 to 0.85 very good as a bench mark for measuring the reliability.

Table 2: Reliability Analysis

Scale	Cronbach's Alpha	No. of Items
financial reporting quality	0.827	16
financial reporting quality in commercial banks before IFRS adoption	0.705	11
financial reporting quality in commercial banks after IFRS adoption	0.823	11
financial reporting quality and accounting information system	0.612	5
financial reporting quality and internal control	0.641	5
Over All	0.911	48

Source: SPSS output

The above table shows that indicators of financial reporting quality had the highest Cronbach's Alpha value ($\alpha = 0.827$) and indicators of quality of financial reporting quality and accounting information system had the least Cronbach's Alpha value ($\alpha = 0.612$). But all values were greater than 0.6 indicates that all the variables were reliable. This means that all indicators of each variable were internally consistent.

4.2 Socio-Demographic Characteristics

Table 3: Descriptive Analysis of Socio-Demographic Variables

Variables	Categories	Count	Percent
Commercial Banks	CBE	19	24.87%
	COOP	8	10.52%
	BOA	12	15.78%
	Dahen Bank	8	10.52%
	Awash Bank	11	14.47%
	United Bank	7	9.21%
	Zemen Bank	6	7.89%
	Nib Bank	5	6.57%
Gender	Male	43	56.6%
	Female	33	43.4%
Age	Less than 25 Years	17	22.4%
	26-30 Years	24	31.6%
	31-40 Years	26	34.2%
	41-50 Years	9	11.8%
Education	Degree	56	73.7%
	Masters and Above	20	26.3%
Experience	Less than 3 Years	33	43.4%
	3-5 Years	21	27.6%
	5-10 years	22	28.9%
Job Type	Manager	9	11.8%
	accounting And finance officer	36	47.4%
	IFRS implementation member	31	40.8%

Source: SPSS output

The result from the above table 3 Indicate that most of responden from CBE around 24.87% and the list respondent from Nib bank (6.57%) in addition to this the table indicates that most 43 (56.6%) of the respondents were males and only 33 (44.4%) of the respondents were females. This indicates that of the participants were males. The above table similarly indicate that majority of the respondents who gave their suggestions to the questions are between the age of 31-40 years which accounts around 34 percent. Around 32% of the respondent's age were between 26 and 30 Years, only 22 % of the respondents were less than 25 years old and around 12% of the respondent's age were between 41 to 50 years old. Regarding with the educational level of the respondents, the result revealed that around 74% of the respondents were attain first degree and around 34% of the respondents were attaining second (Masters) degree. This indicates that all the selected employers of the banks were attaining a minimum of first degree education.

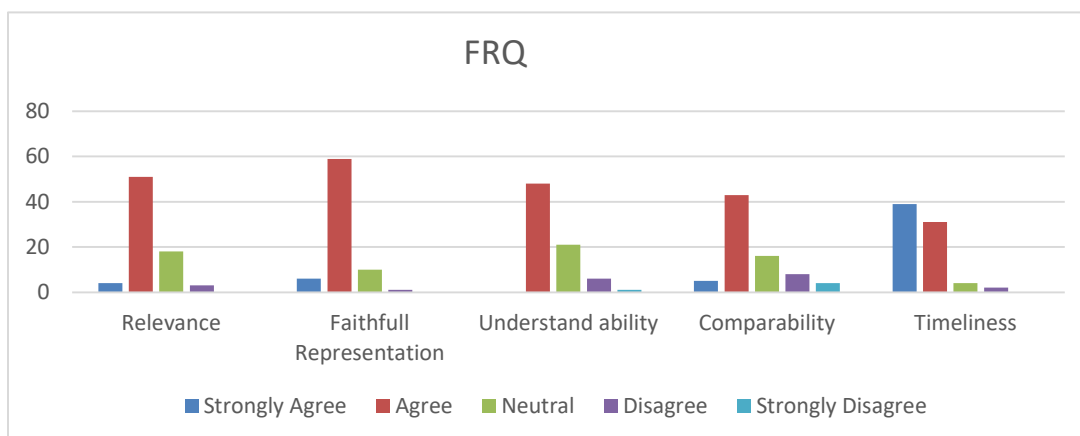
The above table 4.2 also demonstrated that the distribution of several years a respondent has worked within the selected commercial banks helped the researcher to know the respondent's level of experience and how they have made use of the standard available to the bank to which they belong. As it showed above greater part of the respondents has worked in their various commercial banks less than 3 years which accounts 43.4 %, followed by those who had worked between 5 to 10 years consisting of 29 % of the respondents. Those who worked between 3 to 5 years were about 27.6. % years' experience. This implies that the majority of preparers of financial reports in the selected commercial banks involved in the study have a good experience.

As it is also shown in the table 3 above the highest percentage of the respondents 36 (47.4 %) of the respondents were accounting and finance officers. Around 31 (40.8%) of the respondent's works were IFRS implementation members while 9 (11.8 %) of the respondents were finance directors/ managers. This implies that the majority of respondents involved were accounting and finance officers. Accounting (finance) officer & IFRS implementation members are drivers of financial reporting of the commercial banks in Ethiopia. The result shows that the banks have an employee who has the training of IFRS.

4.3 Assessment of financial reporting quality

To assess financial reporting quality of commercial banks in Ethiopia, five basic measurements were implemented. One is Relevance (have 3 indicators), the second was Faithful representation

(have 3 indicators), the third is Understanding ability (have 5 indicators), the fourth was Comparability (have 4 indicators) and lastly timeliness was considered.



Source: SPSS output

Figure 2: Bar graphs for Assessment of financial reporting quality

Relevance was assessed by analyzing whether the reports disclose forward-looking information in terms of business opportunities and risks; and whether the reports provide feedback information on how various market events and significant transactions affected the company.

Relevance was considered to be one of the key financial information that can be improve the adoption of IFRS in commercial banks in Ethiopia. The result from the above graph indicates that most of the respondents were agreed that annual reports were disclosure information for business opportunities and risks and it gives feedback information The result of this study was by the expected result by the researcher and inconsistent with the normative accounting theory that plays an important role in the accounting systems used today by finance managers and investors. A normative accounting statement would indicate how much money should be invested in those measures to sustain corporate growth. From this, the researcher concludes that the adoption of international financial reporting standards improves the relevance of financial information (relevance) by a greater frequency of response rates. This implies that; the relevance of financial information is improved with the adoption of international financial reporting standards.

To assess the faithful representation, the study investigated on whether the annual reports explained the assumptions and estimates clearly; whether the financial report explained the choice

of accounting principles clearly; the positive and negative events in a balanced way when discussing the annual results. The above bar chart also indicated that the data collected with this regard expose the faithfulness of financial information that was improved for the adoption of international financial reporting standards. The result indicates that most of the respondents also agreed that the improvement of Faithfull representation of financial information for the adoption of international financial reporting standards. From this, the researcher concluded that the adoption of international financial reporting standards improves the Faithfull representation of the financial information's but the level of responses implies that change in Faithfull representation is not that much happened because of the adoption of international financial reporting standards.

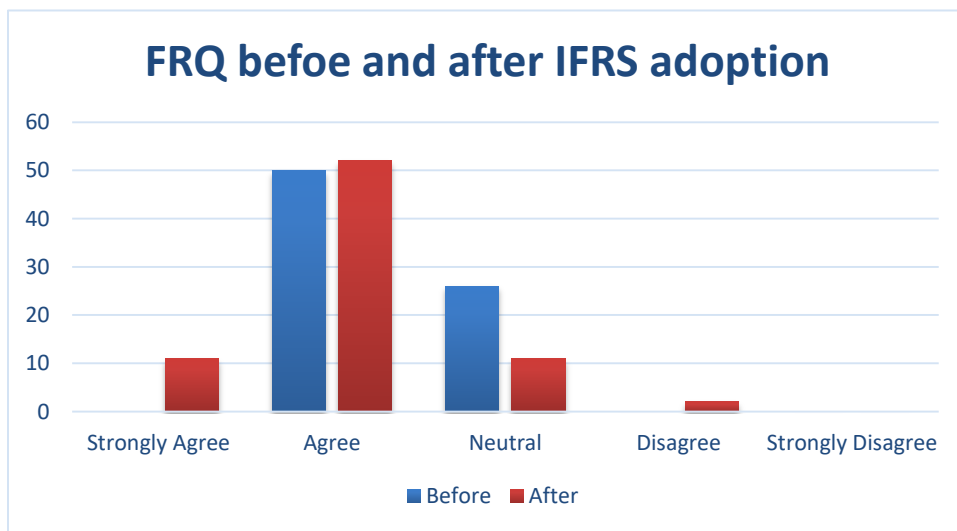
The result from the above graph also indicates that most of the respondents were agreed that the adoption of international financial reporting standards in improving the overall understandability of the financial information In this case, most of the respondents show their support for the adoption of international financial reporting standards in improving the overall understandability of the financial information. From this, it is possible to conclude that; the adoption of international financial reporting standards improves the overall understandability of financial information. The finding of the study was consistent with the different studies which suggests that the understandability of financial reports was increased after IFRS adoption.

Comparability of financial reports is one of the ways by which IFRS impact on financial reports. This study attempts to quantitatively measure the extent to which financial reports of IFRS adoption can be can improve the financial reporting quality. Accordingly, in the above graph the overall comparability of financial information was assess to the adoption of international financial reporting standards. The result indicates that most of numbers of respondents were agreed on the improvement of comparability of financial statements as the adoption of international financial reporting standards. While, few respondents were neutral that; the comparability of financial information was better. The evidence of data collected shows that; adopting international financial reporting standards improves the comparability of financial information was supported by a greater agreement responses.

In a similar way around 92 percent of the respondents agreed on Auditor signed the auditors' report after book-year end is relatively short.

4.4 Assessment of financial reporting quality in commercial banks before and after IFRS adoption

To assess financial reporting quality in commercial banks before and after IFRS adoption in Ethiopia, 11 different indicators on cost, reliability of the financial statements, clear dissemination of information to the users, whether IFRS provides greater credibility and others were assessed in pre and post adoption of IFRS.



Source: SPSS output

Figure 3: Bar graphs for Assessment of financial reporting quality before and after IFRS adoption

The result from the above graph indicates that relatively larger proportion of respondents were agreed that financial reporting quality in commercial banks were improved after the adoption of IFRS. This study investigated the change in financial reporting quality between the pre and post IFRS adoption in Ethiopian commercial banks using the qualitative characteristics of commercial banks in Ethiopian. The result shows that there is a difference in the quality of financial reporting between pre and post IFRS adoption in commercial banks in Ethiopian.

Table 4: Paired t-test result

IFRS Adoption	Mean	Mean Difference	Std. Dev.	t-Value	D.F	P-Value
Before IFRS adoption	2.3983	0.407	0.644	5.506	75	< 0.0001
After IFRS adoption	1.9916					

Source: SPSS output

The result from the above tab indicates the mean comparison of the financial reporting quality before and after the adoptions of IFRS. The result indicates that there were smaller mean on the respondent's opinion whether IFRS adoption improves the financial reporting quality standards which indicates more agreement level on the respondents opinion that IFRS adoption improve the financial reporting quality standards. The result also produces a smaller P-Value (P-value < 0.0001) which indicate there exists a significance difference and improvement on the financial reporting quality standards after the adoption of IFRS at 5% levels of significant.

4.5 Impact of accounting information system on quality of financial reporting quality

Table 5: Summery result for the assessment of accounting information system

AIS indicators		Count	Percent	Mean	Std. Dev.
All bank transaction and financial activity are computerized	Agree	58	76.3%	2.131579	1.170095
	Neutral	6	7.9%		
	Disagree	12	15.8%		
Banks use recent software packages and upgrade software periodically	Agree	70	92.1%	1.592105	0.715125
	Neutral	4	5.3%		
	Disagree	2	2.6%		
All accountants understand the function of soft wear regarding preparation of financial statement and to process transactions	Agree	68	89.5%	1.815789	0.687227
	Neutral	6	7.9%		
	Disagree	2	2.6%		
AIS provide all relevant information's clearly and in simple form	Agree	58	76.3%	2.131579	1.170095
	Neutral	6	7.9%		
	Disagree	12	15.8%		
Bank prepare continues training to finance staffs to increase the awareness about software.	Agree	63	82.9%	1.868421	0.822064
	Neutral	9	11.8%		
	Disagree	4	5.3%		

Source: SPSS output

In the above table 5 shows that the majority of the respondents 76.3 % of the employees have good attitude towards the existing computerized bank transaction and financial activity but 15.8% of the employees have good attitude towards the existing computerized bank transaction and financial activity. Similarly 92.1% of the respondents agreed that Banks use recent software packages and

upgrade software periodically. The above result indicates that more than 3/4th of the respondents agreed in all accounting information system indicators which is the accountants understand the software's; the AIS provide relevant information's clearly. This result indicates that most of the employees in commercial banks operating in Ethiopia were agreed that accounting information system had positive impact on financial reporting quality. This implies that the existing accounting information system were well implemented and improve the quality of financial reports in Ethiopian commercial Banks.

4.6 Impact of accounting information system on quality of financial reporting quality

Table 6: Summery result for the assessment of accounting information system

Internal Control Indicators		Count	Percent	Mean	Std. Dev.
Bank internal control is very strong.	Agree	50	65.8%	2.263158	1.226033
	Neutral	12	15.8%		
	Disagree	14	18.4%		
All transactions are reviewed and verified by internal auditor.	Agree	55	72.4%	2.039474	0.915653
	Neutral	15	19.7%		
	Disagree	6	7.9%		
Bank has separate internal control (auditor) department or team.	Agree	58	76.3%	2.131579	1.170095
	Neutral	6	7.9%		
	Disagree	12	15.8%		
Bank has clear written rule and regulation regarding financial and non-financial transactions.	Agree	52	68.4%	2.315789	1.168595
	Neutral	10	13.2%		
	Disagree	14	18.4%		
All employee and management duty and responsibility are clearly stated to know responsible person.	Agree	55	72.4%	2.039474	0.972156
	Neutral	13	17.1%		
	Disagree	8	10.5%		

Source: SPSS output

In the above table 6 shows that the more than 65% of the employees have good attitude towards the implementation of internal control system in commercial Banks of Ethiopia. The highest rated dimension is that Bank has separate internal control (auditor) department or team in which more than 76% of the respondents agreed on existence of separate internal control (auditor) department. This result indicates that most of the employees in commercial banks operating in Ethiopia were agreed that Internal Control system had positive impact on financial reporting quality. This implies that the existing internal control were well implemented and improve the quality of financial reports in Ethiopian commercial Banks.

4.7 Linear Regression Analysis

4.7.1 Model Summery

Table 7: Model summery

Model Summary				
Model	R	R Square	Adjusted Square	Std. Error of the Estimate
1	.958	.918	.913	.15315609

Source: SPSS output

The research analyzed the impact of international financial reporting standard (Adoption of IFRS, Accounting information system, internal control) implementation on financial report quality in Commercial Banks in Ethiopia. The results showed that the adjusted R^2 value was 0.918 indicating 91.8 % of the variation in financial report quality was due to the variations in Adoption of IFRS, existence of accounting information system and implementation of internal control. The remaining 8.2% of the variations in in financial report quality of commercial Banks in Ethiopia was not due to variations in Adoption of IFRS, existence of accounting information system and implementation of internal control in Table 10 below.

4.7.2 Analysis of Variance (ANOVA)

An ANOVA analysis was done between financial report quality and the different factors (Adoption of IFRS, existence of accounting information system and implementation of internal control) to test the significance of all the slope coefficients (parameters) are equal to zero. The result shows that a very small P-value indicating that there exists at least one slope parameter which is not zero indicating that there exist at least on factor (Adoption of IFRS, existence of accounting information

system and implementation of internal control) which had significant effect on financial report quality in commercial Banks in Ethiopia shown Table 8 below.

Table 8: ANOVA table for Regression Analysis

ANOVA						
Model		Sum of Squares	d.f	Mean Square	F	Sig.
	Regression	18.598	4	4.649	198.214	0.000
	Residual	1.665	71	.023		
	Total	20.263	75			

Source: SPSS output

4.7.3. Basic assumptions of Linear Regression

4.7.3.1 Assumption of Multi co-linearity

This assumption of multicollinearity is that explanatory variables are not correlated with one another. But, if the variables are not uncorrelated with one another, it will be the violation of the CLRM assumption of multi collinearity. To test the independence of the explanatory variables or to detect any multicollinearity problem in the regression model the study used Tolerance and Variance inflation factor (VIF) measurements.

Table 9: Test of Multi Co-linearity

Variables		Collinearity Statistics	
		Tolerance	VIF
	BFIFRS	0.931	1.075
	AFIFRS	0.397	2.521
	AIS	0.491	2.035
	IC	0.276	3.620

Source: SPSS output

Tolerance is the amount of variability in one independent variable that is not explained by the other independent variables. Tolerance values less than 0.10 indicate multicollinearity. Tolerance is reciprocal of VIF. Variance Inflation Factor (VIF) values greater than 10 indicate

multicollinearity. The result from the above table indicates that all VIF values are less than 10 and tolerances were greater than 0.10 which indicates that there is no multi co-linearity among the independent variables

4.7.3.2 Normality Assumption

One of the assumptions of classical linear regressions was normality of the dependent variable and the error terms as well. The assumption are detected by using the respective Q-Q plots.

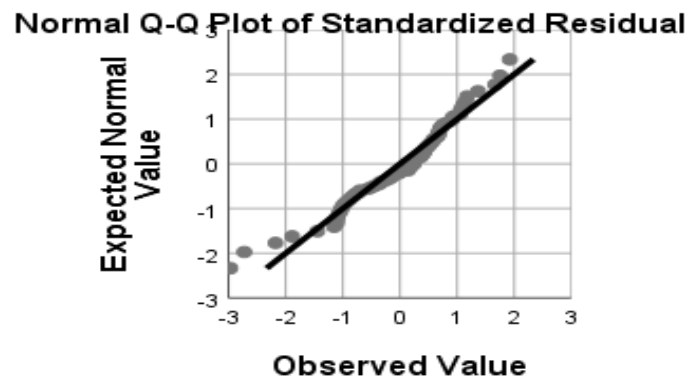


Figure 4: Q-Q Plots for residuals

Source: SPSS output

The result from above Q-Q plots indicate that the points are cluster around a straight line which passes through the origin indicating the validity of the normality assumption.

4.7.3.3 Homoscedasticity Assumption

The assumption of homoscedasticity is that the residuals are approximately equal for all predicted dependent variable scores the variance of the errors is constant, if the assumption are met the pattern of the residuals will have about the same spread on either side of a horizontal line drawn through the average residual (Wooldridge, 2006). Otherwise if the errors do not have a constant variance, it is said that the assumption of homoscedasticity has been violated. This violation is termed as heteroscedasticity. In this study Breusch-Pagan was used to test for existence of heteroscedasticity across the range of explanatory variables.

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity

Ho: Constant variance

Variables: fitted values of var1

$$\text{chi}^2(1) = 3.48$$

$$\text{Prob} > \text{chi}^2 = 0.1621$$

The result shows, X^2 , and $\text{Prob} > \text{chi}^2$ it reveals the absence of heteroscedasticity, because the p-values are greater than 0.05.

4.8 Results of Multiple Linear Regression Analysis

The multiple regressions on this study is generally built on around two sets of variables, namely dependent variables (financial report quality) and independent variables (Adoption of IFRS, existence of accounting information system and implementation of internal control). The basic objective of using regression equation on this study was to make the researcher more effective at describing, understanding, predicting, and controlling the stated variables.

Table 10: Results of Multiple linear regression models

	Unstandardized Coefficients		t	Sig.	95.0% Confidence Interval for B	
	B	Std. Error			Lower Bound	Upper Bound
(Constant)	0.003	0.168	0.020	.984	-0.329	0.332
BIFRS	0.086	0.067	1.295	0.200	-0.047	0.220
AIFRS	0.346	0.107	3.233	0.002	0.133	0.559
AIS	0.612	0.097	6.283	0.000	0.418	0.806
IC	0.503	0.080	6.287	0.000	0.346	0.659

Source: SPSS output

From the above table 4.8, we can easily compare the relative contribution of each of the different variables by taking the beta value under the unstandardized coefficients. The higher the beta value, the strongest its contribution becomes. Accordingly, post adoption of IFRS, accounting information system and internal control were found to have significant contribution to financial report quality. The result found that post adoption of IFRS, accounting information system and implementation of internal control would lead to improve the qualities of financial report in commercial Banks in Ethiopia since all the three slope Parameters ($\beta_1 = 0.346, \beta_2 = 0.612$ and $\beta_3 = 0.503$) respectively found to be positive and significant.

4.9 Summary of the analysis

Hypothesis Testing

In this study investigate and make predictions about the outcome of the results, and they may be written as alternative hypotheses specifying the results to be expected. Therefore, in order to verify the relationship between independent variables and dependent variables accept or reject the independent variables of the study.

The results revealed that the p-value was less than 0.05, $\rho=0.000$ which implies that the relationship was statistically significant and therefore null hypothesis was rejected.

The proposed hypothesis test evaluates the overall contribution of each independent variable in the model; we can conclude that the independent variables (IFRS Adoption, internal control and accounting information system), were significant predictors since their corresponding p-value is less than 5% ($p<0.05$) therefore the null hypothesis was rejected whereas, (Waste) were not significant predictors since their corresponding p-values was 0.387. When the value of $p> 0.05$ there is no significant difference between the dependent and independent variables, therefore the null hypothesis was accepted

Table: 4.11. Summary of Alternative hypothesis testing of all independent variables

Hypothesis	B	P value	Conclusion
H1: IFRS adoption has a Positive and significant effect on financial reporting quality.	0.173	.022	Accept
H₂ : There is a positive relationship between Accounting information system and FRQ in Ethiopia banks	1.003	0.000	Accept
H₃ : There is a positive	-0.049	.387	Accept

and significant relationship between internal control and FRQ in Ethiopia banks.			
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Table: 4.12. Summary of Null hypothesis testing of all independent variables

Hypothesis	B	P value	Conclusion
H1: IFRS adoption has a Positive and significant effect on financial reporting quality.	0.173	.022	Reject
H₂ : There is a positive relationship between Accounting information system and FRQ in Ethiopia banks	1.003	0.000	Reject
H₃ : There is a positive and significant relationship between internal control and FRQ in Ethiopia banks.	-0.049	.387	Reject

Chapter five

Conclusion and Recommendations

Introduction

The preceding chapter presented the results and discussion, while this chapter deals with the conclusions and recommendations based on the findings of the study. Accordingly, this chapter is organized into two sub-sections. The first section presents the conclusions and the second section presents the recommendations.

5. 1. Conclusions

Financial reporting is central to economic activities; the main aim of financial accounting is to provide financial information for interested user thus interested user might be potential investor, government, policy maker, shareholders, Based on financial information all internal & external users make decisions. The main difficulty of this process is the quality of financial reporting; since there are various interests the financial report may have manipulation and mislead the users of financial information to the wrong decision. In order to avoid this problem financial reporting should keep its quality.

since it's not well studied topic in Ethiopia and also in developing countries. The basic question is IFRS adoption increase the financial reporting quality or not or what is the impact in accordance with our country case. Although there has been arrival in banking sector, it is an infant stage in other sector. The findings of prior empirical studies has confirmed that after IFRS adoption financial reporting quality increase, but in our country it need more study because still Ethiopia are not fully adopt IFRS still in progress and lack of skilled persons.

In order to conduct the empirical analysis, one dependent variable (FRQ), and three independent variables were selected from different prominent previous research works on financial reporting quality; namely; IFRS Adoption, Internal control and Accounting information System. The results of the multiple linear regression models showed the existence of the following relationship between FRQ and independent variables.

The relationship between financial reporting quality and IFRS adoption is positive and statistically significant, Also Both internal control and Accounting information system has positive and statistically significant relation with financial reporting in commercial banks of Ethiopia. This result was also consistent with prior expectation.

Generally, the finding of the study shows that after IFRS adoption financial reporting quality is increased, Also the finding shows that Accounting information system and internal control contribute high role for improvement of financial reporting quality in Ethiopian commercial banks.

5.2. Recommendations

Numerous advantages of providing high quality information have been obtained: FRQ reduces information risk and prevents managers from using discretionary powers for their own benefit and helps them make efficient investment decisions. Based on empirical evidence the quality of accounting information of Ethiopian commercial banks can be influenced by IFRS adoption, internal control as well as accounting information system. Thus, these show the above three factors should be given more attention by Ethiopian commercial banks. The following recommendations are made based on finding of this study.

- IFRS Adoption has significant effect on financial reporting quality of commercial banks in Ethiopia. Since it require adequate disclosure in financial reporting almost all sampled banks financial report provide sufficient information to users of financial reporting after adopting IFRS. It need consistently follow-up and to be encouraged their staff.

- From the result, it is noted that Ethiopian commercial banks showing adoption of IFRS may have a higher quality financial report than GAAP. It is therefore recommended that finance directors, accounting, finance officers and IFRS implementation teams shall consider intensive investigation on the accounting information.

- Even though the main objective of the study are impact of IFRS on financial reporting quality the result show positive relation between FRQ and internal control as well as AIS ,researcher recommend that banks should improve and give more attention to internal

control and accounting information system to increase quality of information and reduce the risk and cost of capital..

5.3 Suggestions for further research

Since limited studies conducted about IFRS and financial reporting quality Ethiopian commercial banks and in other sectors; it is suggested that it need further similar study be conducted by covering other firm and need detail investigation on the area. Due to resource and time limitation, this study mainly focused on examined IFRS impact on FRQ and in some portion FRQ and internal control and accounting information system of financial reporting quality of commercial banks in Ethiopia. Therefore, future researchers may address these deficiencies conducting more qualitative and quantitative investigation of each bank.

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Website

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Appendix

DIRE DAWA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

**PRESENTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE
DEGREE OF MASTER OF SCIENCE IN ACCOUNTING AND FINANCE**

Dear Respondents,

I am pleased to inform you that I am a graduate student at Dire Dawa University pursuing a Master's degree in Accounting and finance. As partial fulfillment of my degree course, I am conducting a research on "The impact of international financial reporting standard implementation on financial report quality: In the case of selected commercial bank in Ethiopia".

Please note that any information you give will be treated with confidentiality and at no instance will it be used for any other purpose other than for this research. Your assistance will be highly appreciated. I look forward to your prompt response.

Thank you for your cooperation.

Yours Faithfully

Etifwork Birhan

NOTE THAT

- No Need of writing your Name**
- Please Mark your response with "√"**
- If you need any information: - Mob. No. 09-36-49-62-15**

5	The annual report explains the choice of accounting principles clearly.					
6	The annual report highlights the positive and negative events in a balanced way when discussing the annual results.					
Understand ability						
7	The annual report is a well-organized					
8	The notes to the balance sheet and the income statement are clear.					
9	Graphs and tables clarify the information presented.					
10	The use of language and technical jargon is easy to follow in the annual report.					
11	The annual report included a comprehensive glossary.					
Comparability						
12	The notes to revisions in accounting estimates and judgments explain the implications of the revision.					
13	The company's previous accounting period's figures are adjusted for the effect of the implementation of a change in accounting policy or revisions in accounting estimates.					
14	The results of current accounting period are compared with results in previous accounting periods.					
15	Information in the annual report is comparable to information provided by other organizations.					
Timeliness						
16	Auditor signed the auditors' report after book-year end is relatively short?					

PART THREE: Assessment of financial reporting quality in commercial banks after IFRS adoption

To assess financial **reporting quality in commercial banks Before IFRS adoption** in Ethiopia. Please complete the questionnaire according to your experience in your job, in the Ethiopia banks by putting (√) in the suitable box

	Questionnaires	S.A	A	N	D	S.D
1	Bank use financial statement based on GAAP is fair value for valuation instead of the historical cost.					
2	Financial statements prepared based on GAAP are reliable.					
3	Financial statement based on GAAP is easy for auditors to give their audit opinion.					
4	GAAP based financial statement extensively disclose information clearly to users.					
5	GAAP have low cost of capital.					
6	GAAP have greater credibility					
7	GAAP are easy comparability of Financial statement produced by different entities					
8	GAAP enables improved economic prospect for the Accounting profession.					
9	GAAP enhances value of information with different aspect of business					
10	GAAP have good transparency					
11	GAAP disclose forward-looking information that helps in forming expectations and predictions concerning the future of the company					

PART THREE: Assessment of financial reporting quality in commercial banks after IFRS adoption

To assess **financial reporting quality in commercial banks after IFRS adoption** in Ethiopia. Please complete the questionnaire according to your experience in your job, in the Ethiopia banks by putting (√) in the suitable box

	Questionnaires	S.A	A	N	D	S.D
1	IFRS use fair value for valuation instead of the historical cost					
2	Financial statements prepared based on IFRS are reliable					
3	Adoption of IFRS is easy for auditors to give their audit opinion					
4	IFRS extensively disclose information clearly to users					
5	IFRS reduces cost of capital.					
6	IFRS provides greater credibility					
7	IFRS allows for easy comparability of Financial statement produced by different entities					
8	IFRS enables improved economic prospect for the Accounting profession.					
9	IFRS enhances value of information with different aspect of business					
10	IFRS improves transparency					
11	after the adoption of IFRS disclose forward-looking information that helps in forming expectations and predictions concerning the future of the company					

PART FOUR: Assessment of quality of financial reporting quality and accounting information system

To assess **quality of financial reporting quality and accounting information system** in commercial banks in Ethiopia. Please complete the questionnaire according to your experience in your job, in the Ethiopia banks by putting (√) in the suitable box

	Questionnaires	S.A	A	N	D	S.D
1	All bank transaction and financial activity are computerized					
2	Banks use recent software packages and upgrade software periodically					
3	All accountants understand the function of soft wear regarding preparation of financial statement and to process transactions					
4	AIS provide all relevant information's clearly and in simple form					
5	Bank prepare continues training to finance staffs to increase the awareness about software.					

PART FIVE: Assessment of quality of financial reporting quality and internal controlTo assess **quality of financial reporting quality and internal control** in commercial banks in Ethiopia. Please complete the questionnaire according to your experience in your job, in the Ethiopia banks by putting (√) in the suitable box

	Questionnaires	S.A	A	N	D	S.D
1	Bank internal control is very strong.					
2	All transactions are reviewed and verified by internal auditor.					
3	Bank has separate internal control (auditor) department or team.					
4	Bank has clear written rule and regulation regarding financial and non-financial transactions.					
5	All employee and management duty and responsibility are clearly stated to know responsible person.					