Readiness and Challenges of Companies in Timor-Leste in Adopting International Financial Reporting Standards (IFRS)

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Abstract

There is a dire need to investigate the readiness, challenges, and obstacles faced by adopting the International Financial Reporting Standards (IFRS) in Timor-Leste. Being a country that obtained its independence not too long ago, it is in a slow but steady position to put in place many requirements. This has prompted the authors to investigate the adoption status of the IFRS by the companies operating in Timor-Leste and the challenges faced in adopting IFRS. Studies on adopting IFRS, especially in underdeveloped and developing countries, have identified several factors, including the regulatory environment, resource availability, and accounting professionals' education and training levels. This study was conducted using an online survey via social media. One hundred and seventeen respondents participated in the survey by providing valuable feedback via the options given to them through a five-point Likert scale. This study discovered that while some Timor-Leste companies have made significant progress in adopting IFRS, many others need help comprehending and putting the standards into practice. The findings, amongst others, noted some obstacles Timor-Leste businesses face in adopting the IFRS, such as restricted access to resources for training and education, lack of knowledge and experience on the comprehension of the standards and the existence of inconsistent regulations. These difficulties have been found to delay the adoption process of the IFRS, which has impacted the nation's financial reporting quality.

Keywords: Adoption of IFRS, Challenges, Obstacles, Regulatory Framework.

Introduction

Though Timor-Leste became an independent country only in 2002, it is progressing well with the government's initiatives. A lot depends on the investments of multinational companies. Given this, there is a need to transition towards adopting IFRS since the current accounting framework does not meet international benchmarks. The financial infrastructure, legal frameworks, technical know-how, resources, and organizational preparedness must be revamped rapidly for this. The Ministry of Finance has initiated the development of Timor-Leste's Accounting Standards based on the IFRS with modifications to meet Timor-Leste's

present financial and economic development. The companies operating in Timor-Leste, being multinational, are allowed to use IFRS. According to the Department of Economic and Social Affairs, it is imperative to comprehend the readiness levels and obstacles businesses in Timor-Leste face. This requires a thorough investigation of variables like the current financial reporting environment, flexibility, accessible resources, and regulatory support by the government.

Timor-Leste's process for adopting International Financial Reporting Standards (IFRS) presents a significant challenge for businesses due to a lack of readiness and preparedness. Many businesses still need help to align their accounting procedures with these globally accepted standards, though IFRS increases transparency, comparability, and credibility. For IFRS's smooth adoption and implementation in Timor-Leste, elements such as a lack of supportive regulatory frameworks, insufficient resources, and technical expertise should be overcome. In doing so, the difficulties in integrating accounting practices with IFRS would be further challenged by the heterogeneous character of industries and disparities in the organizational complexity among Timor-Leste enterprises. Small and medium-sized businesses (SMEs), too, would encounter unique challenges due to limited resources and the inability to handle the complexities of the IFRS transition. It is imperative to comprehend the extent of these difficulties, evaluate the present preparedness of businesses, and investigate workable alternatives to enable more seamless adoption of IFRS.

This study aims to evaluate the resources, technical capabilities, initiatives, and knowledge of IFRS principles and accounting practices to determine the current level of preparedness of the businesses operating in Timor-Leste. It also attempts to identify the businesses' challenges in harmonizing the financial reporting procedures with IFRS. This includes the variations in the challenges and approaches companies face in different industries and sizes. This study is very much needed as Timor-Leste has no choice but to implement International Financial Reporting Standards (IFRS) as soon as possible if it intends to advance economically. It has to consider integrating the world economy, increasing financial transparency, making better decisions, developing its capacity and enhancing regulations. This should be pursued by ensuring the nation's financial reporting practices comply with international standards. Encouraging trade and cross-border investments builds trust amongst global stakeholders. Additionally, it increases financial transparency, which fosters confidence among stakeholders, creditors, and investors. Initiatives to increase capacity can improve the knowledge and abilities of experts and businesses in Timor-Leste. It is essential to comprehend the difficulties of adopting the IFRSs successfully. The study can also point out weaknesses or strengths in the current regulatory framework, assisting legislators in creating or amending laws to encourage the adoption of IFRS.

Literature Review
The dependable variable – Adoption of IFRS in Timor-Leste
Timor-Leste is one of the youngest nations in Asia, having gained independence in 2002. According to the European Commission and the United Nations, Timor-Leste is an underdeveloped country primarily dependent on oil and gas. The United Nations defines under-developed countries as countries with low-income levels. The European Commission finds that 53% of the population lives on less than USD1.25 a day.

The International Accounting Standard Board developed the International Financial Reporting Standards to establish a common accounting standard to regulate business activities (Armstrong et al., 2010). This standard is expected to assist in the preparation of financial statements that are consistent in every country.According to the International Financial Reporting Standard Foundation, Timor-Leste applied to adopt IFRS on February 15th, 2017, but it has yet to be adopted. It was presented in a letter by the Chairman of the International Accounting Standard Board (IASB) on this day to the Minister of Finance of Timor-Leste. To "meet Timor-Leste's present financial and economic development stage," the Ministry of Finance prepares Timor-Leste Accounting Standards based on IFRS Standards. Companies are currently allowed to use IFRS Standards. For example, the Petroleum Fund of Timor-Leste and a few other sizable state-owned enterprises must adhere to IFRS Standards Timor-Leste Accounting Standards adoption laws have been drafted and are ready to be presented to the Council of Ministers once the necessary protocols have been completed. By the proposed legislation, MOF will determine which IFRS Standards can be applied in Timor-Leste without modification and which Standards would be changed to consider Timor-Leste's economic and financial system development stage. All proposed Standards will be presented for feedback to all interested parties. The National Accounting Standards Board (to be established) will receive the Timor-Leste Accounting Standards (based on IFRS Standards with modifications) for adoption and issuance. To achieve full IFRS adoption, the modified standards will be updated as Timor-Leste's financial sophistication increases.

The Independent Variables
Understanding and Knowledge of IFRS by Companies in Timor-Leste
Adopting IFRS in under-developed countries has been difficult due to the need for more resources (Prather-Kinsey et al., 2022). According to Professor Lin from Florida International University, in under-developing countries, the adoption, implementation, and practices of IFRS are weak and challenging due to the country's legal jurisdiction. These under-developed countries are developing nations with a lower socioeconomic development indicator (Adhikari et al., 2013). According to Bova & Pereira, 2012, the IFRS plays an essential role in the preparation of the financial statements of a company. The financial reporting is designed based on these standards. Understanding the use of IFRS in underdeveloped countries will increase the confidence of global investors and investment analysts (Okpala, 2012). Bova (2006) asserted that adopting IFRS will be advantageous for many developing nations where local governance institutions are inadequate.

Based on global standards such as IFRS, Timor-Leste is creating Timor-Leste Accounting Standards to address the nation's financial and economic development needs. For ease of comprehension, the standards will be published in English after being written and distributed in Portuguese. All businesses in Timor-Leste will have to abide by these new rules once they are finalized. The nation needs a stock exchange, making it impossible for businesses to buy or sell ownership shares on a formal market. Nonetheless, businesses can now refer to the IFRS Standards when determining how to handle accounting procedures.

The exposure and comprehension of accounting and finance professionals is limited in underdeveloped nations as they need more financial means to invest in extensive training programs or educational materials linked to International Financial Reporting Standards

(IFRS) (Alsaqqa & Sawan, 2013). There can be differences in the quality of educational programs and institutions; some may not offer specialized courses or resources (Derek et al., 2020). The regulatory landscape can also differ; for example, certain nations may find it difficult to enforce compliance because of a lack of funding (Miraj & Wang, 2018). Understanding can also be hampered by linguistic and cultural barriers, such as English (Lin, 2012). A lower comprehension of IFRS may also result in professionals in developing nations needing more access to opportunities for professional development and continuing education, as well as from their limited practical experience implementing IFRS.Based on the discussion above, the first null hypothesis is formulated as follows:

Null Hypothesis 1
$H_{1.0}$: Understanding and knowledge of IFRS by companies in Timor-Leste does not have an impact on the adoption of IFRS
$H_{1.1}$: Understanding and knowledge of IFRS by companies in Timor-Leste does have an impact on the adoption of IFRS

Qualified and Experienced Accounting Personnel
In a developing country, one of the main challenges is the need for accounting personnel in accountancy (Hopper et al., 2009). Hopper & Bui (2016) found that there has been a growth of accounting studies in less developed countries. The area of accountancy in underdeveloped countries has been an important field of research in the economic development of the country).

Accounting has been deemed vital in identifying and developing projects to enhance an organization's efficiency and productivity (Roslender, 2017). According to the study, accounting graduates have mastered two-thirds of the skills required for the accounting profession. Six of the 18 skills, however, still needed to be fully developed, demonstrating that accounting graduates' professional skills, ethics, values, and attitudes were the main determinants of their overall development (Kwarteng & Mensah, 2022). According to Lim et al. (2016), employers believed accounting graduates needed help with their technical skills (technical knowledge and applying knowledge to practice).

Underdeveloped nations such as Timor-Leste encounter difficulties attracting and developing proficient accounting professionals because of insufficient educational resources, training opportunities, and financial limitations (Carmona, 1999). Nonetheless, competent people continue to contribute substantially to the accounting industry in these areas. These professionals frequently pursue accounting education through universities, colleges, or professional certification programs to earn certifications such as Certified Public Accountant (CPA) and Chartered Accountant (CA).

By working in various industries, including public accounting firms and governmental organizations, they can obtain real-world accounting experience (Sisaye, 2021). Despite these difficulties, competent accountants are essential to help companies follow local laws, help with financial decisions, and promote economic growth. Their performance may also be impacted by inadequate infrastructure, regulatory frameworks, and restricted resource access (Prather-Kinsey,2006). Through training programs, scholarships, and capacity-building

initiatives, the government and non-governmental organizations offer support. Within regional accounting associations, experts cooperate to exchange information and encourage one another's career advancement (Hopper & Tanima, 2017).
This discussion leads to the following null hypothesis:

Null Hypothesis 2
$H_{2.0}$: Qualification and experience of accounting personnel do not have an impact on the adoption of IFRS
$H_{2.1}$: Qualification and experience of accounting personnel do have an impact on the adoption of IFRS

Accountant's Level of Compliance with IFRS
The Accounting Framework is formulated by the International Accounting Standards Board (IASB) to standardize the preparation of financial statements that could be used globally. As a result of globalization, investors worldwide rely on financial statements in their investment decision-making. In adopting the IFRS in Timor-Leste, the Ministry of Finance is developing Timor-Leste Accounting Standards based on the International Financial Reporting Standards with modifications to meet the country's present financial economic development (International Financial Reporting Standard Foundation, 2017).

This research demonstrates that adopting IFRS would boost the confidence level of international investors and investment analysts. This would help raise more funds abroad. For this, the government should release more funds to the Financial Reporting Council (FRC) to educate the stakeholders, with particular reference to the academics and accounting students, to uphold IFRS in the nation and also to develop and equip the companies for upcoming challenges (Carnegie et al., 2022). The regulators should also ensure that training facilities for Professional Accountants are available on this concept.

International Financial Reporting Standards (IFRS) are challenging to enforce in developing nations because of a lack of support from the regulatory body, inadequate training and education, resource shortages, linguistic and cultural barriers, difficulties with adoption and transition, initiatives to build capacity, regional business practices, and ethical issues (Tashnazarov, 2021). The existence of regulatory agencies, difficulties with adoption and transition, and ethical issues can all impact compliance.

A country such as Timor-Leste has a weak regulatory framework, which makes it more challenging for accountants to enforce IFRS compliance. It can also be challenging for accountants to stay current with standards due to a lack of resources, such as opportunities for professional development and updated accounting software.

Improving education and training, allocating sufficient funds, bolstering regulatory supervision, and increasing public awareness of the significance of adhering to international accounting standards for financial transparency and global integration are necessary to improve compliance (Bova & Pereira, 2012 Following the above discussion, the following hypothesis is formulated:

Null Hypothesis 3

$H_{3.0}$: The accountant's level of compliance with IFRS does not impact the adoption of IFRS.

$H_{3.1}$: The accountant's compliance level with IFRS does impact the adoption of IFRS.

Challenges Encountered in the Adoption of IFRS

In Timor-Leste, formal guidelines for how businesses should manage their accounting and keep track of their funds and financial information have yet to be adopted. The Ministry of Finance is creating what is known as the Timor-Leste Accounting Standards. These standards, which are based on a set of global guidelines known as IFRS, will be altered to satisfy Timor-Leste's needs and take into account the current state of financial and economic development. Timor-Leste's official language is Portuguese. Therefore, that is the language in which the new accounting regulations will be published. Since English is a working language in Timor-Leste, the accounting standards will be published in English for easier accessibility and understanding (International Financial Reporting Standard Foundation, 2017).

As soon as these new Timor-Leste accounting standards are completed and adopted as official regulations, all businesses in Timor-Leste will be required to follow them. The IFRS Standards may now be used by businesses in Timor-Leste as a guide for their accounting practices. The nation does not have a stock exchange. As a result, there is no formal market where businesses can buy or sell shares (Lukito & Ramadhan, 2023). This is another challenge for Timor-Leste. The lack of accounting professionals in underdeveloped nations is caused by the shortcomings or low standards in accounting education (Zakari, 2014). This is another factor that impacts the accounting systems in underdeveloped nations (Elhouderi, 2014). Another factor that affects the accounting systems in underdeveloped nations is the culture. Due to cultural differences, adopting accounting standards from one country might not be appropriate for another.

The collectivist culture of underdeveloped nations needs a higher level of accounting professionals. It is also commented that underdeveloped nations have a significant power distance and a high degree of uncertainty avoidance. This may impact the amount of information and disclosure in these nations. As a result, it may be difficult for external auditors to obtain the exceptionally accurate information they need, which could affect businesses. This discussion leads to the formulation of the following hypothesis:

Null Hypothesis 4

$H_{4.0}$: Challenges encountered on the adoption of IFRS does not have an impact on the adoption of IFRS

$H_{4.1}$: Challenges encountered on the adoption of IFRS does have an impact on the adoption of IFRS

Research Methodology

The questionnaire was designed in two sections: the demographic section and the section for the respondents' feedback. Section 1 comprised the demography of the respondents, including gender, age, qualifications, nationality, and occupation. Section 2 comprised statements related to the independent and dependent variables of the research. This includes the opinions of the respondents regarding adopting IFRS, the understanding and

knowledge of IFRS by companies in Timor-Leste, the qualifications and experiences of accounting personnel, and the challenges encountered in adopting IFRS (Arthal,)2022 The respondents are given a 5-point Likert scale for all the statements with the options of (1=Totally Disagree; 2=Disagree; 3=Slightly Agree; 4= Agree; 5= Totally Agree).

This study's population comprised those who would be affected by adopting the IFRS in Timor Leste. This included the auditors, accountants, business owners, professionals, accounting managers, authorities and investors. The respondents targeted for this study are those who are currently domiciled in Timor-Leste. One hundred and fifty respondents were originally targeted for this study. More than two hundred and fifty questionnaires were distributed via different social platforms like WhatsApp, Telegram, and email. It is reported that distributing questionnaires online is easier and more convenient for the respondents to respond. Online surveys allow the respondents to keep their identity anonymous. They can also complete their responses at their comfort. One hundred and seventeen feed backs were collected. This study used the SPSS Version 29 to analyze the demographic and inferential information. SPSS enables users to conduct survey analysis, facilitate predictive modelling, generate reports, manage datasets effectively and employ various statistical techniques (Haverkamp & Beauducel, 2019). Using methods like regression, decision trees, and neural networks, SPSS also allow users to create and validate predictive models and provides essential visualization tools for charts, graphs, histograms, and plots. Users with different levels of statistical expertise can use it because of its intuitive interface (Chapman, 2017).

Results and Findings
Frequency and Demographic Statistics
Table 4.2.1
Frequency statistics of the study - Demographic

Statistics

		Respondent ID	Gender	Age of Respondendts	Nationality of Respondents	Respondents' Highest Qualification	Respondent's Occupation
N	Valid	117	117	117	117	117	117
	Missing	0	0	0	0	0	0

Table 4.2.1 shows the frequency table of the respondents' demography, including gender, age, nationality, highest qualification, and occupation. The value shows that there is no missing values.

Table 4.2.2
Gender

Frequency Table

Gender

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Female	55	47.0	47.0	47.0

Table 4.2.2 shows that the gender composition comprises 53% males, or 62 males, and 47% females, or 55 females, for a total of 117 respondents in this survey.

Table 4.2.3
Age of Respondents

Age of Respondendts

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 20	6	5.1	5.1	5.1
	21 – 30	69	59.0	59.0	64.1
	31 – 40	27	23.1	23.1	87.2
	41 – 49	15	12.8	12.8	100.0
	Total	117	100.0	100.0	

Table 4.2.3 shows the results of the age groups that were surveyed. This table shows that the majority of the respondents were in the age group between 21 and 30, which makes up 59% or 69 of the respondents. This is followed by 23.1% of the age group between 31 and 40, comprising 27 respondents. Those between 41 and 49 were 15 respondents or 12.8%, and 6 respondents were less than 20 years old, or 5.1%.

Table 4.2.4
Nationality of Respondents

Nationality of Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Timorese	117	100.0	100.0	100.0

Since the data was collected in Dili, Timor-Leste, the respondents were all Timorese citizens.

Table 4.2.5
Respondents' Highest Qualification

Respondents' Highest Qualification

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Secondary Diploma	7	6.0	6.0	6.0
	Bachelor's degree	80	68.4	68.4	74.4
	Master's degree	27	23.1	23.1	97.4
	Ph.D.	2	1.7	1.7	99.1
	Other (ACCA, CPA...)	1	.9	.9	100.0
	Total	117	100.0	100.0	

From Table 4.2.5, the respondents' education level ranged from Diploma to Professional qualifications. 80 respondents held the qualification of a Bachelor's degree which comprises 68.4%. 27 respondents held a Master's degree, 7 respondents were secondary diploma

holders and 2 respondents had a Ph.D. whilst only 1 respondent had a professional qualification.

Table 4.2.6
Respondents' Occupation

Respondent's Occupation

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Accounting staff	57	48.7	48.7	48.7
	ACCA/CPA/ICEW practitioners	2	1.7	1.7	50.4
	CFOs and Financial Managers	1	.9	.9	51.3
	Business owners and CEO's	21	17.9	17.9	69.2
	Regulatory authorities and government officials	26	22.2	22.2	91.5
	Academic Researchers	7	6.0	6.0	97.4
	Investors and Creditors	2	1.7	1.7	99.1
	Auditing Firms and Consulting industries	1	.9	.9	100.0
	Total	117	100.0	100.0	

Table 4.2.6 shows the occupations of the respondents. 57 out of the 117 (48.7%) respondents were accounting staff, while 26 (22.2%) respondents were attached to regulatory authorities and government officials. Twenty-one respondents, or 17.9%, were business owners, and the rest were from other occupations.

Descriptive Statistics of Dependent and Independent Variables
Dependent Variable – Adoption of IFRS in Timor-Leste
The descriptive statistics table provides information such as the minimum, maximum, mean, and standard deviation. Table 4.3.1 shows the results for the dependent variable, the adoption of IFRS in Timor-Leste. These statistics help understand the adoption rates within the sample (Fulk, 2023).

Table 4.3.1
Descriptive Statistics for the dependent variable (Adoption of IFRS)

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
1. Required changes in auditing standard	117	3	5	4.05	.471
2. Perceived uncertainties about IFRS	117	2	5	4.14	.742
3. Lack of sufficient involvement of global regulators in the IASB standard–setting process	117	2	5	4.21	.693
4. Transition plan and issues about IFRS	117	2	5	4.29	.683
5. Lack of education, understanding & experience by preparers of financial reports with the use of IFRS	117	2	5	4.23	.712
6. Lack of coverage of IFRS in financial accounting textbooks	117	2	5	4.28	.717
7. Minimize barrier to global competition for capital	117	1	5	3.97	.622
8. Increase global comparability promoting a more informed global marketplace	117	2	5	4.38	.679
9. Position IFRS to be the globally accepted accounting language	117	3	5	4.18	.551
10. IFRS enables management and auditors to exercise more professional judgment	117	2	5	4.31	.663
11. IFRS creates uniformity in global financial reporting including audit reports	117	2	5	4.27	.678
Valid N (listwise)	117				

Table 4.3.1 shows the results of the statistics for the dependent variable, readiness for the adoption of IFRS in Timor-Leste. The respondents generally agreed with all 11 statements.

Independent Variable – Understanding and knowledge of IFRS by companies in Timor-Leste
Table 4.3.2
Descriptive Statistics for Independent variable (Understanding and knowledge of IFRS by companies in Timor-Leste)

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
1. I have an interest in the IFRS	117	2	5	3.77	.747
2. I know the IFRS well	117	1	5	2.26	.984
3. Many companies are preparing well to adopt the IFRS	117	1	5	3.27	.837
4. IFRS adoption will affect financial performance	117	2	5	3.81	.787
5. IFRS adoption will affect operating performance	117	1	5	3.89	.774
6. IFRS will affect stakeholders such as investors or shareholders	117	2	5	4.07	.838
7. IFRS must be offered as a core curriculum in tertiary education	117	2	5	4.03	.765
8. I am willing to take an IFRS course if there are any institution that is offering.	117	1	5	4.21	.764
Valid N (listwise)	117				

Table 4.3.2 shows the statistics for the independent variable of the understanding and knowledge of IFRS by companies in Timor-Leste. Except for statement 2, the respondents generally agreed with the rest of the statements.

Independent Variable – Qualified and experienced accounting personnel
Descriptive Statistics for Independent Variable (Qualified and experienced accounting personnel)

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
1. I regularly read industry publications and journals to stay updated on accounting and finance advancement.	117	1	4	2.50	.962
2. I frequently attend seminars, webinars, or workshops related to accounting and finance topics	117	1	5	2.84	1.008
3. I consistently seek out online resources or educational materials to keep abreast of changes in accounting and finances.	117	1	5	2.36	.942
4. I occasionally engage in discussions or forums with peers or professionals to exchange knowledge about accounting and finance trends.	117	1	5	3.29	1.043
5. I rarely allocate time for staying updated on the latest developments in accounting and finance.	117	1	5	3.26	1.010
Valid N (listwise)	117				

Table 4.3.3 shows the results of the survey statements for the independent variable of the qualification and experience of the accounting personnel in Timor-Leste. The descriptive statistics provide the minimum, maximum, mean, and standard deviation. Except for statements 4 and 5, the rest of the statements were generally disagreed with by the respondents.

Independent Variable – Accountant's level of compliance with the IFRS
Table 4.3.4
Descriptive Statistics for Independent variable (Accountant's level of compliance with the IFRS)

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
1. I consistently adhere to IFRS guidelines in preparing financial statements and reports.	117	1	5	2.84	1.000
2. I frequently review and update our financial practices to ensure alignment with IFRS requirements	117	1	5	3.03	.905
3. I often see guidance or clarification on IFRS–related matters to ensure accurate compliance.	117	1	5	2.83	1.053
4. I occasionally encounter challenges in fully complying with IFRS standards in our financial reporting	117	1	5	2.96	.986
5. I rarely prioritize strict adherence to IFRS guidelines in our financial practices	117	1	5	3.08	1.092
6. I never actively ensure compliance with IFRS standards in our financial reporting processes.	117	1	5	3.11	1.057
Valid N (listwise)	117				

Table 4.3.4 shows the result of the survey statements for the independent variable of the accountant's level of compliance with the IFRS in Timor-Leste. The analysis of these descriptive statistics shows minimum, maximum, mean and standard deviation. Except for statements 4 & 5, the respondents generally disagreed with the rest of the statements.

Independent Variable – Challenges encountered in the adoption of IFRS
Table 4.3.5
Descriptive Statistics for Independent Variable (Challenges encountered in the adoption of IFRS)

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
1. Understanding and Interpretation of IFRS	117	1	5	3.81	.765
2. Changes in Accounting Policies and Procedures	117	1	5	3.88	.863
3. Data Collection and Conversion	117	1	5	3.87	.866
4. IT System Training and Education	117	1	5	4.10	.875
5. Communication of IFRS changes to stakeholders	117	1	5	4.02	.928
6. Regulatory Compliance	117	1	5	4.02	.861
7. Managing Cost	117	1	5	4.03	.905
Valid N (listwise)	117				

Table 4.3.5 shows the survey results for the independent variable of the challenges encountered in adopting IFRS in Timor-Leste. The respondents generally agreed with all seven statements.

Reliability Test
Table 4.4.1
Reliability test for statements

Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.923	.922	37

Several statistical tools are used to measure reliability, such as Test-retest reliability, Split-Half reliability, Cronbach's Alpha reliability, Inter-rater reliability, and Kuder-Richardson 20. These measurements assist researchers in making sure that the same construct is consistently measured by the items, statements, or questions (Pallant, 2020). These assessments gauge a scale's internal consistency, agreement among respondents, and long-term stability (DeVellis & Thorpe, 2021). To ensure accurate measurements and trustworthy conclusions, reliability tests are crucial. They provide an assurance of the tool's reliability and the data collected (Carmines & Zeller, 1979).

The reliability test in this research is based on the generated Cronbach's Alpha value. Stated differently, it evaluates if every item on a scale measures the same underlying concept (DeVellis & Thorpe, 2021). Cronbach's alpha ranges from 0 to 1, where closer values to 1 indicate a more significant internal consistency. A Cronbach's alpha value of 0.70 or higher is appropriate for research purposes. A score of less than 0.70 can suggest that the scale's items need to be sufficiently related to one another and that it needs to be revised. The following is a clear view of the interpretation of Cronbach's alpha;

0.9 to 1.0 - the result is considered outstanding and almost perfectly correlated.
0.8 to 0.9 - the scale is excellent and has a very high level of internal consistency
0.7 to 0.8 - very good. The scale has a high level of internal consistency
A scale of less than 0.7 is considered insufficient for interpretation.

From Table 4.4.1, the reliability statistic shows a total number of items or statements as 37, and Cronbach's alpha is 0.923. This means that the questionnaire used is highly reliable.

Pearson's Correlation
Table 4.5.1
Pearson's Correlation

Correlations

		Adoption of IFRS	Understanding and knowledge of IFRS by companies in Timor Leste	Qualified and experienced accounting personnel	Accountant's level of compliance with the IFRS	Challenges encountered in the adoption of IFRS
Adoption of IFRS	Pearson Correlation	1	.351**	.217*	.260**	.441**
	Sig. (2-tailed)		<.001	.019	.005	<.001
	N	117	117	117	117	117
Understanding and knowledge of IFRS by companies in Timor Leste	Pearson Correlation	.351**	1	.230*	.498**	.341**
	Sig. (2-tailed)	<.001		.012	<.001	<.001
	N	117	117	117	117	117
Qualified and experienced accounting personnel	Pearson Correlation	.217*	.230*	1	.367**	.313**
	Sig. (2-tailed)	.019	.012		<.001	<.001
	N	117	117	117	117	117
Accountant's level of compliance with the IFRS	Pearson Correlation	.260**	.498**	.367**	1	.510**
	Sig. (2-tailed)	.005	<.001	<.001		<.001
	N	117	117	117	117	117
Challenges encountered in the adoption of IFRS	Pearson Correlation	.441**	.341**	.313**	.510**	1
	Sig. (2-tailed)	<.001	<.001	<.001	<.001	
	N	117	117	117	117	117

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).

Pearson's correlation coefficient (r) is a statistical tool for determining the direction and strength of a linear relationship between two continuous variables. A range of -1 to 1 gives a numerical value indicating the relationship's strength and direction. A positive correlation denotes a positive value closer to 1, while a negative correlation denotes a value closer to -1. The sign of the coefficient represents the direction of the relationship. The correlation coefficient's magnitude represents the strength of the relationship. Values closer to -1 or 1 denote a stronger relationship, while values closer to 0 denote a weaker relationship (Hair et al., 2013). Overall, Pearson's correlation is a valuable tool in statistical analysis for understanding and quantifying the relationship between two continuous variables

$r = -1$: Perfect negative correlation. As one variable increases, the other decreases linearly.
$-1 < r < 0$: Negative correlation. As one variable increases, the other tends to decrease, but not perfectly. $r = 0$: No correlation. The variables are not linearly related.
$0 < r < 1$: Positive correlation. As one variable increases, the other tends to increase, but not perfectly.
$r = 1$: Perfect positive correlation. As one variable increases, the other increases linearly.

Table 4.5.1 shows the coefficient correlation of one dependent variable (adoption of IFRS) against the four independent variables (understanding and knowledge of IFRS by companies in Timor-Leste, qualified and experienced accounting personnel, accountant's level of compliance with the IFRS, and challenges encountered in the adoption of IFRS). Table 4.5.1 shows that the highest correlation among the four independent variables is the challenges encountered in adopting IFRS, which is valued at 0.441. The next is the understanding and knowledge of IFRS by companies in Timor-Leste, valued at 0.351, followed by qualified and

experienced accounting personnel, valued at 0.271, and the lowest correlation was at 0.260 for the accountant's level of compliance.

These results indicate that the correlation coefficient between the dependent variable and the independent variables is relatively low. The values show a weak positive correlation between the dependent variable and the independent variables.

Multiple Regression

Multiple regression analysis is used to determine the influence of the independent variables on the dependent variable. It aids in determining the significance of the impact of the independent variables for a more accurate depiction of real-world phenomena (Hair, 2018).

In this case, multiple regression is used to determine whether the independent variables (understanding and knowledge of IFRS by companies in Timor-Leste, qualified and experienced accounting personnel, accountant's level of compliance with the IFRS, and challenges encountered in the adoption of IFRS) have an impact on the dependent variable (adoption of IFRS) (Hair, 2018)

Table 4.6.1
Model Summary

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.497[a]	.247	.220	.38462

a. Predictors: (Constant), Challenges encountered in the adoption of IFRS, Qualified and experienced accounting personnel, Understanding and knowledge of IFRS by companies in Timor Leste, Accountant's level of compliance with the IFRS

Table 4.6.2
Anova

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5.426	4	1.356	9.169	<.001[b]
	Residual	16.568	112	.148		
	Total	21.994	116			

a. Dependent Variable: Adoption of IFRS

b. Predictors: (Constant), Challenges encountered in the adoption of IFRS, Qualified and experienced accounting personnel, Understanding and knowledge of IFRS by companies in Timor Leste, Accountant's level of compliance with the IFRS

Table 4.6.3
Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Correlations			Collinearity Statistics	
		B	Std. Error	Beta			Zero-order	Partial	Part	Tolerance	VIF
1	(Constant)	2.510	.296		8.490	<.001					
	Understanding and knowledge of IFRS by companies in Timor Leste	.200	.077	.247	2.592	.011	.351	.238	.213	.740	1.351
	Qualified and experienced accounting personnel	.040	.050	.072	.809	.420	.217	.076	.066	.842	1.187
	Accountant's level of compliance with the IFRS	−.039	.051	−.082	−.765	.446	.260	−.072	−.063	.591	1.692
	Challenges encountered in the adoption of IFRS	.244	.063	.375	3.864	<.001	.441	.343	.317	.713	1.403

a. Dependent Variable: Adoption of IFRS

The percentage of the dependent variable's variance that can be predicted from the independent variable(s) is known as the coefficient of determination, or "r-squared" or R^2. It falls between 0 and 1, where a value of 0 suggests that the independent variable(s) does not account for any of the dependent variable's variability. In contrast, a value of 1 indicates that the independent variable(s) fully accounts for the dependent variable's variability.

Table 4.6.1 shows that the r-squared value is 0.247. This means that the independent variables can explain only 24.7% of the dependent variable. The remaining 75.3% could be due to other factors.

Table 4.6.3 shows that understanding and knowledge of IFRS by companies in Timor-Leste and the challenges encountered in the adoption of IFRS were significant, whilst the qualifications and experience of accounting personnel and the accountant's level of compliance were not significant.

Hypothesis Testing
Hypothesis 1
$H_{1.0}$: Understanding and knowledge of IFRS by companies in Timor-Leste does not have an impact on the adoption of IFRS
$H_{1.1}$: Understanding and knowledge of IFRS by companies in Timor-Leste does have an impact on the adoption of IFRS
Table 4.6.3 shows that the understanding and knowledge of IFRS in Timor-Leste resulted in a significant value of 0.011 (p<0.05). Based on this, the null hypothesis ($H1.0$) and the alternative is not rejected. Thus, companies in Timor-Leste's understanding and knowledge do have an impact on the adoption of IFRS. This is supported by Okapala's findings (2012).

Hypothesis 2
$H_{2.0}$: Qualification and experience of accounting personnel do not have an impact on the adoption of IFRS
$H_{2.1}$: Qualification and experience of accounting personnel do have an impact on the adoption of IFRS

Table 4.6.3 shows a significant value of 0.420, greater than 0.05 (p<0.05), indicating that the null hypothesis is not rejected. Thus, in Timor-Leste, the qualification and experience of

accountants do not have an impact on the adoption of the IFRS. This finding is supported by Hopper (2019).

Hypothesis 3
$H_{3.0}$: Accountant's level of compliance with IFRS does not have an impact on the adoption of IFRS
$H_{3.1}$: Accountant's level of compliance with IFRS does have an impact on the adoption of IFRS
Table 4.6.3 shows that the significance level of 0.446, which is greater than 0.05 (p<0.05), indicates that the null hypothesis is not rejected. Thus, in Timor-Leste, the accountant's level of compliance with IFRS does not impact the adoption of the IFRS.

Hypothesis 4
$H_{4.0}$: Challenges encountered on the adoption of IFRS does not have an impact on the adoption of IFRS
$H_{4.1}$: Challenges encountered on the adoption of IFRS does have an impact on the adoption of IFRS
Table 4.6.3 shows that the challenges encountered in adopting IFRS resulted in a significant value of <0.001 (p<0.005). Based on this, the null hypothesis ($H_{4.0}$) is rejected, and the alternative is not rejected. Thus, challenges encountered in adopting IFRS do have an impact on adopting IFRS in Timor-Leste.

Conclusion
This paper investigates the preparedness and obstacles Timor-Leste businesses face in implementing International Financial Reporting Standards (IFRS). Based on the results obtained, two out of the four independent variables - that of the understanding and knowledge of IFRS by companies in Timor-Leste and the Challenges encountered in the adoption of IFRS were found to be able to influence the dependent variable of adoption of IFRS in Timor-Leste. Two other independent variables, qualification and experience of accounting personnel and level of compliance in adopting IFRS, did not impact the dependent variable of IFRS adoption in Timor-Leste. Understanding and knowledge of IFRS by companies in Timor-Leste is a significant predictor of adopting IFRS in Timor-Leste. The first hypothesis tested whether 'Understanding and knowledge of IFRS in Timor-Leste' happens to have a significant effect on the adoption of IFRS; the findings showed a positive correlation between increased understanding and knowledge of IFRS among Timor-Leste companies and the adoption of IFRS. This aligns with the finding that the understanding and knowledge of IFRS among companies in Timor-Leste could lead to a higher adoption rate of IFRS (Bova & Pereira, 2012). Such efforts could be achieved through training programs, educational workshops or other activities to increase awareness and understanding of IFRS. Policymakers and practitioners in Timor-Leste could consider investing in initiatives that promote better understanding and knowledge of IFRS to facilitate a smoother transition to IFRS adoption (Okpala, 2012).

The second hypothesis of this study was to establish whether the qualification and experience of accounting personnel could enhance the adoption of IFRS. It was found that the qualifications and experience of accounting personnel needed to be more significant in adopting IFRS in Timor-Leste. From here, it can be concluded that having sufficient qualified

and experienced accountants is optional for adopting IFRS. There could be several reasons for this finding. Factors other than the qualifications and experience of accounting personnel may play a more significant role in influencing IFRS adoption decisions in Timor-Leste. These factors could include the cost of adoption, regulatory requirements or the perceived benefits of adopting IFRS (Roslender, 2017). The non-significant relationship between qualified and experienced accounting personnel and IFRS adoption suggests that more than simply having qualified and experienced staff may be needed to drive the adoption of IFRS (Hopper et al., 2009). Companies may need to consider other factors or strategies to facilitate adoption, such as overcoming regulatory barriers (Kwarteng & Mensah, 2022). It was found that it is fine if accountants comply with IFRS when preparing financial statements. Decisions to adopt IFRS in Timor-Leste may be more heavily influenced by variables other than the accountant's degree of compliance, such as organizational culture, legal requirements, or resource availability.

Besides compliance, other essentials may be needed to adequately account for adopting IFRS (International Financial Reporting Standard Foundation, 2017). This has also been reported in the studies of Bova & Pereira (2017).To enhance the adoption process, businesses may need to consider other tactics, such as highlighting the advantages of IFRS. The challenges encountered in adopting IFRS were significant in Timor-Leste's adoption. This means that the challenges companies face in Timor-Leste significantly influence their decisions to adopt IFRS. The strong correlation suggests that when businesses in Timor-Leste face fewer obstacles during the adoption process, they are more likely to adopt IFRS. This could involve obstacles posed by regulations and problems like the need for IFRS knowledge, resources, or training. From here, it can be concluded that Policymakers should consider the broader implications of IFRS adoption for the economy since it could convince more global investors to invest in Timor-Leste.

This study has both theoretical and practical implications. The findings would contribute to the theoretical knowledge as to the fundamental elements to be considered for the adoption of the IRFS's for under-developed and developing countries. As for the practical implications, the government of the day in Timor-Leste should know the policy decisions that they should focus on to draw more multinational companies to invest in Timor-Leste. First and fore-most there should be a regulatory body for the adoption of the IFRS's which has become an international requirement for the standardisation of the final reporting requirements.

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