

## Financial Reporting in Post-Conflict Economies: Institutional Challenges and a Proposed Accounting Framework for Enhancing Disclosure Quality

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**Abstract: Objectives:** The current study explores the issues that are implicit to financial reporting in post-conflict economies and specifically focuses on institutional weaknesses and applicability of International financial reporting standards (IFRS) in situations of instability. **Prior Work:** The current research adds to the academic body of literature because it provides a holistic view that fills the gap between institutional vulnerability and financial reporting issues, as well as proposes a practical approach that fits the needs of post-conflict settings. **Approach:** The study uses descriptive-analytical research methodology by using prior academic works to explore the interaction between the financial reporting practices and institutional conditions. **Results:** The findings show that geopolitical instability and institutional shortcomings seriously hinder the consistent implementation of IFRS that breeds increased variability of accounting activities, lack of transparency, and lack of comparability of financial reports. **Implications:** To overcome these issues the current research will suggest a combined accounting model which will interrelate the institutional factors, accounting arises, and the suitable reaction to improve the quality of disclosure and reliability of reporting. **Value:** The results are an indication of the significance of the accounting standards with the institutional reality hence improving the quality of transparency and efficient decision-making in weak economies.

**Keywords:** Financial Reporting; IFRS; Post-Conflict; Disclosure; Accounting

**JEL Classification:** M41; M48; G30

### 1. Introduction

Financial reporting is important in the disclosure of information that is trustworthy and material to make critical decisions especially in uncertainty and risk climates (Healy & Palepu, 2001). The use of International Financial Reporting Standards (IFRS) has also led to the improvement of financial transparency, comparability, and overall quality of financial information in various economic settings (Ball, 2016; Samaha & Khlif, 2016). Nonetheless, these standards are highly ineffective depending on the institutional environment in which they are implemented (Bushman & Piotroski, 2006; La Porta, 1998).

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Financial reporting in post-conflict economies is conducted in a very delicate environment that is characterized by poor governance systems, political insecurity, poor regulatory framework and high degree of economic insecurity (Acemoglu & Robinson, 2012). The conditions pose significant problems for organizations in their preparation and presentation of financial statements in internationally recognized standards. This tends to undermine the quality, reliability and comparability of financial reports (EY, 2022).

Previous studies have focused on each of the mentioned aspects largely in isolation (Noy & Dabamona, 2024; Noch, 2024; Addison et al., 2005). Therefore, a lack of a detailed accounting framework that would incorporate institutional aspects, accounting issues, and the requirements of the IFRS in the particular environment of post-conflict economies still exists.

Thus, this research aims to fill this gap by developing a combined accounting framework that would contribute to the improvement of the quality and transparency of financial reporting in post-conflict settings.

## **2. Problem Statement**

The financial reporting by the organizations in the post-conflict economies faces a significant threat that is due to the institutional fragility, increased instability, and high level of risk, all of which limit the ability of the companies to adopt the International Financial Reporting Standards (IFRS) (Ball, 2016; Samaha & Khlif, 2016). Moreover, geopolitical pressures and the current conflict contribute to the complexity of accounting disclosure and undermine the credibility of financial statements, particularly to the aspect of going-concern analysis, risk disclosures, as well as the post-reporting-period events (EY, 2022).

Even though there are relevant international standards, these do not sufficiently consider a unique nature of those settings, which is why a more appropriate accounting framework is highly valued that will enhance the quality and transparency of financial reporting in post-conflict economies.

The core research issue is that there is a significant gap that continues to exist between the requirements of the IFRS and the institutional and economic realities of the post-conflict economies, which impedes the effectiveness of financial reporting in its delivery of the precise description of performance and support of informed decision-making.

## **3. Research Questions**

To address the research questions of this paper, the following research questions can be formulated:

- What do the major issues in financial reporting in the post-conflict economy entail?
- How much does institutional fragility and economic instability affect the quality of financial reporting?
- To what extent are International Financial Reporting Standards (IFRS) suitable to be used in conflict-prone environments?
- How do geopolitical forces and unstable situations influence accounting disclosures, specifically in the area of going concern and risk disclosure?

- What accounting framework can be suggested in order to improve the viability and quality of financial reporting in the post-conflict economies?

#### **4. Research Objectives**

This study aims to:

- Research the effects of conflicts and geopolitical relations on the quality of financial reporting.
- An evaluation of the applicability of IFRS in the aftermath economies.
- Advance an accounting system that improves quality of the disclosure and dependability of the financial reporting.

#### **5. Research Importance**

The importance of the study consists in the development of a high-level accounting method of overcoming the difficulties in financial reporting in the post-conflict economy. It succeeds by matching the requirements of IFRS with weak institutional realities and suggests a framework that will help improve the quality and transparency of financial reporting where the situation is characterized by geopolitical instability.

#### **6. Literature Review**

##### **6.1. Noy & Dabamona (2024)**

###### **“War and Financial Statements: Assessing the Impact of the Russia–Ukraine Conflict on International Accounting and Reporting Standards”**

This paper analyzed how the conflict between countries on geopolitical issues, especially between Russia and Ukraine, influenced the implementation of the International Financial Reporting Standards (IFRS). The results show that these conflicts trigger greater regulatory divergence and greater complexity of accounting disclosure practices.

##### **6.2. Noch (2024)**

###### **“Navigating Uncertainty: International Accounting and Financial Reporting Amid Geopolitical Conflict”**

This paper analyzed how international financial reporting and international geopolitical conflicts are intertwined, emphasizing that volatile environments cause market volatility and increase the uncertainty of investors. It also noted the necessity to reinforce corporate governance and implement adaptive approaches.

### **6.3. Addison et al. (2005)**

#### **“Reconstructing and Reforming the Financial System in Conflict and Post-Conflict Economies”**

The current paper explored how financial systems in conflict-prone countries can be rebuilt, noting that it is important to rebuild the banking sector and enhance financial supervision in such nations as well as restore the financial institutions. It also highlighted the fact that war will always result in the destruction of financial infrastructure and decline in the trust of people.

### **6.4. World Bank (2013)**

#### **“Public Financial Management Reforms in Post-Conflict Countries: Synthesis Report”**

The empirical investigation evaluated the measures of financial management reforms in the post-conflict situations, and it was found out that the effectiveness of these reforms depends on the implementation of solid legal structures, enhancement of accountability and transparency measures and development of institutional capabilities.

### **6.5. McKechnie et al. (2018)**

#### **“Economic Development in Fragile Contexts: Learning from Success and Failure”**

The current study focused on the nature of weak economies to show that poor institutions, political instability and lack of appropriate infrastructure are major challenges to economic growth.

### **6.6. Nesheva-Kiosseva (2023)**

#### **“Key Ideas and Concepts of Institutional Economic Theory: Basis of Non-Financial Accounting and Reporting”**

This analysis suggested a theoretical framework which lends a mixture of the institutional theory and accounting and financial reporting practices. It showed that accounting is more than a technical system in that it is largely influenced by institutional, social and economic issues.

## **7. Research Gap and Synthesis of Prior Studies**

Although the literature on the impacts of armed conflicts and weak settings on financial systems, and accounting disclosures is rather large, studies have been focusing on individual constituents, instead of providing a comprehensive picture of the phenomenon. Illustratively, Noy and Dabamona (2024) emphasize that armed hostilities have significant implications on the application of IFRS. On the contrary, Noch (2024) explores the impact of geopolitical tensions that increase uncertainty.

On the other hand, Addison et al. (2005) focused on the recovery of financial regimes in war-torn countries whereas World Bank (2013) focused on governance changes in the financial institution and the importance of accountability. At the same time, McKechnie et al. (2018) analyzed the nature of fragile economies. Further, Nesheva-Kiosseva (2023) also provided a theoretical explanation of how the institutional environment contributes to the accounting and financial reporting practices.

Regardless of their importance, these studies have considered the problem in fractured T-pieces, which does not present an integrated accounting framework that integrates the two aspects within the framework of post-conflict economies. Moreover, most of the studies have failed to specifically discuss the issues related to the use of IFRS in weak settings and have not elaborated a clear accounting framework to increase the quality of disclosure during instability in institutions.

In turn, the research gap is in the absence of a comprehensive accounting framework which helps integrate the impact of conflict, institutional weaknesses, and IFRS requirements, with the purpose of improving the quality and reliability of financial reporting in post-conflict economies. The proposed paper seeks to address that gap by providing an accounting structure which would add to the disclosure of transparency.

## **8. Contribution of the Current Study**

The current research stands out as it brings the impacts of armed conflict, instability of the institution, and/or necessities of the International Financial Reporting Standards (IFRS) altogether into one unified accounting system, which happens to be an analytical treasure trove. It also adds to the body of literature by offering a model that is intended at improving the quality of disclosure and strengthening the reliability of financial reporting in the post-conflict economies.

## **9. Methodology**

The paper embraces a descriptive-analytic approach to the issue of study and post-conflict economies investigation of challenges facing financial reporting under the conditions of institutional fragility and economic instability. The study has a solid literature search of accounting literature and relevant antecedent studies and goes further to examine the stipulations outlined in the International Financial Reporting Standards (IFRS) to determine its suitability in its application in the conflict environment.

In an attempt to strengthen the analytical framework, the study uses comparative approaches on different strands of literature in order to establish flaws in extant accounting practices in fragile settings. Based on these revelations, the study suggests an accounting framework that would lead to improvement of the quality and transparency of financial reporting.

## **10. Theoretical Background**

Based on theoretical review and the available literature, this study proposes a comprehensive accounting system that would improve the quality and transparency levels of the financial reports in post-conflict economies. It is based on the literature, which points out that institutional instability and economic uncertainty directly affect the quality of financial reporting (McKechnie et al., 2018; Nesheva-Kiosseva, 2023).

The first element of the framework is the institutional environment that is the general surrounding in which the organizations are situated (Addison et al., 2005; World Bank, 2013).

There is the second element of the accounting issues that emanate out of this. All these challenges can be divided into several sub-dimensions including the inability to apply IFRS in a consistent way, increased regulatory divergence, poor disclosures, and difficulties associated with going-concern

assessments, risk disclosure, and post-reporting activities. Empirical data suggests that these difficulties are intensified in those scenarios that can be defined as geopolitical tension and instability (Noy & Dabamona, 2024; Noch, 2024).

The third element is the accounting response and the component that represents the practical aspect of the framework. It entails an assortment of accounting interventions aimed at mitigating the consequences of the challenges identified. These answers can be tabulated into a few groups, such as improved risk and uncertainty disclosure, adoption of flexibilities within the accounting policies in line with the fluctuating environments, bettering of the governance and control practices, and the IFRS implementation enabling guideline context-specific (World Bank, 2013; Addison et al., 2005).

The fourth component relates to outcomes, reflecting the results of implementing the proposed framework. These include improved financial reporting quality, enhanced transparency, increased reliability of accounting information, and better decision-making in unstable environments (Dechow et al., 2010; Healy & Palepu, 2001).

The framework assumes an interactive and dynamic relationship among these components, whereby a fragile institutional environment leads to accounting challenges, which in turn require appropriate accounting responses, ultimately resulting in improved financial reporting quality (Noch, 2024).

## **11. Conceptual Framework**

According to theoretical comprehension and prior investigation, the research project suggests an accounting model that would contribute to increasing quality and transparency of financial reporting in post-conflict economies (Ball, 2016). It is based on the literature according to which the quality of financial reporting directly depends on institutional fragility and economic turmoil (McKechnie et al., 2018; Nesheva-Kiosseva, 2023).

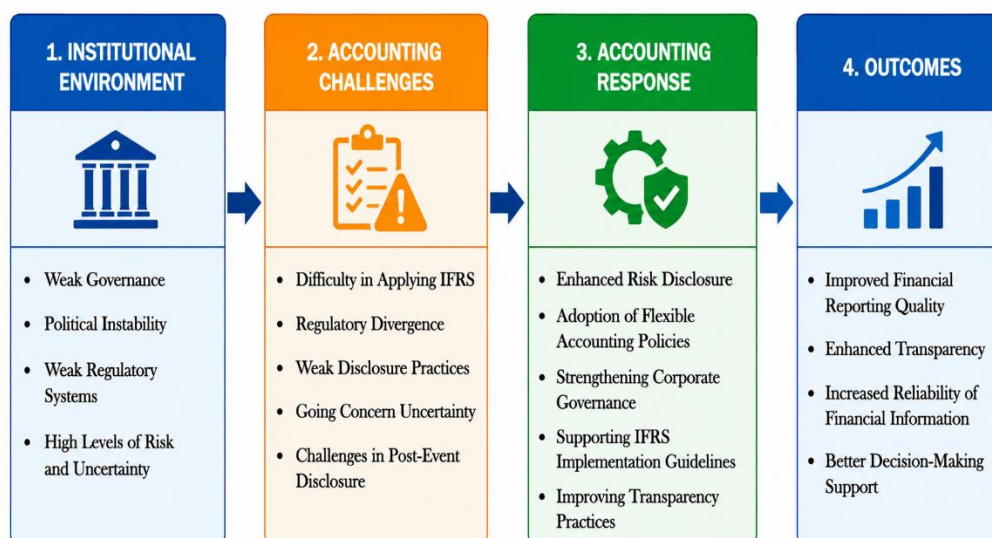
The initial element of the framework is the institutional environment, which implies weak governance, political instability, and an increase in levels of risk and uncertainty. The empirical studies prove that these issues have a direct impact on the efficiency of financial and accounting systems (Addison et al., 2005; World Bank, 2013).

The second element is the accounting issues that are generated in this environment, including the problem of the application of IFRS, greater complexity of accounting disclosure, and greater flexibility of accounting practices (Ball, 2016). Also, these problems concern the problems related to going-concern assumption, disclosure of risk and post-period items. These difficulties are even worse when it comes to the presence of geopolitical tensions and instability (Noy & Dabamona, 2024; Noch, 2024).

The third component defines the accounting response that includes a number of measures aimed at improving the quality of financial reporting. These actions include enhanced risk disclosure, more liberal and conservative accounting principles, increased protection of the governance and supporting the adoption of the IFRS by context-specific guidance which suits the environment in which the institution operates is weak (World Bank, 2013; Addison et al., 2005).

This framework assumes that the combination of these elements will cause an increase in the quality of disclosure, the strengthening of the validity of financial metrics, and decision-making in post-conflict economies. This perspective is in line with the literature that is extant and believes that

adopting high financial reporting standards in volatile environments requires a comprehensive approach (Noch, 2024).



**Figure 1. Proposed Accounting Framework for Financial Reporting in Post-Conflict Economies**

*Source: Developed by researcher based on prior literature*

The figure illustrates the interaction between institutional fragility, accounting challenges, and the proposed accounting responses, leading to improved financial reporting quality in post-conflict economies.

**Table 1. Proposed Accounting Framework for Financial Reporting in Post-Conflict Economies**

Component	Sub-Dimensions	Accounting Issues	IFRS Link
Institutional Environment	- Weak Governance - Political Instability - Weak Regulatory Systems - High Risk & Uncertainty	-Weak control environment -Uncertain financial assumptions -Lack of enforcement -Measurement uncertainty	- IAS 1 (Presentation) - IAS 1 (Going Concern) - Conceptual Framework - IFRS 13 (Fair Value)
Accounting Challenges	- IFRS Application Difficulty - Regulatory Divergence - Weak Disclosure - Going Concern Issues - Post-Event Disclosure Problems	- Inconsistent application - Lack of comparability - Incomplete financial reporting - Survival uncertainty - Lack of event transparency	- IAS 8 (Accounting Policies) - IAS 1 - IFRS 7 (Risk Disclosure) - IAS 1 - IAS 10 (Events after reporting)
Accounting Response	- Risk Disclosure Enhancement - Flexible Accounting Policies - Governance Strengthening - IFRS Guidelines Support - Transparency Improvement	- Improve transparency - Adaptation to uncertainty - Improve control systems - Reduce inconsistency - Better information quality	- IFRS 7 - IAS 8 - IAS 1 - All IFRS - Conceptual Framework
Outcomes	- Reporting Quality Improvement - Transparency Enhancement - Increased Reliability - Better Decision-Making	- Reliable financial information - Better disclosure quality - Reduced uncertainty - Improved usefulness	- Conceptual Framework - IAS 1 - IFRS Overall - Conceptual Framework

*Source: Developed by the researcher based on prior literature*

This table tolerates a detailed disaggregated look at the elements of the suggested model, it placements each of the dimensions against specific accounting issues and pertinent accounting standards of IFRS thus enhancing the practical usefulness of the framework.

## **12. Discussion**

The theoretical discussion reveals that financial reporting in the post-conflict economies faces basic challenges due to institutional fragility and economic as well as political instability both of which skew the quality and reliability of financial reporting information (Acemoglu & Robinson, 2012). The absence of strong systems of governance and absence of regulatory frameworks which are enforceable to apportion and execute control prevents the consistent implementation of IFRS hence limiting the ability of financial reports to faithfully depict the performance of the organization.

In this regard, the suggested accounting framework can be viewed as a collective solution to these issues. The impact of instability can be reduced by improving risk disclosure, introducing flexible accounting policies, and strengthening the governance practices to improve the quality of financial reporting in such environments.

Comprehensively, the results demonstrate that the adoption of an integrated strategy, which will combine institutional and accounting dimensions, instead of only the accounting standards, is the way to go in bringing more transparent and reliable financial reporting into the post-conflict economies.

## **13. Conclusion**

The study examines financial reporting under conditions of institutional fragility and economic and political instability, with particular emphasis on the suitability of International Financial Reporting Standards (IFRS) in such environments.

The findings indicate that these economies face significant challenges in the consistent application of accounting standards due to weak governance, ineffective regulatory systems, and high levels of risk and uncertainty.

In this context, the study highlights that difficulties in interpreting and applying IFRS in fragile environments lead to variability in accounting practices.

## **14. Recommendations**

Resting on the results of the research, it is possible to suggest several recommendations to improve the quality of financial reporting in post-conflict countries, and these recommendations may include:

- Building institutions and regulatory frameworks in post-conflict economies to enhance the successful application of IFRS.
- Enhancing corporate governance in financial institutions through enhancing internal control systems and providing more transparency and accountability.

- Flexible accounting policies should be adopted to conform to unstable environments, without compromising on disclosure of the risks and uncertainties.
- Publishing of supplemental implementation principles in IFRS, which consider the peculiarities of fragile economies, and the goal of minimizing the differences in application.
- To improve accounting models to address shaky environments, there should be a drive to do more empirical research in the area, especially those in emerging economies.

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