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Navigating the Conflict Between IFRS/US Gaap and International Sanctions: The Audit Committee's Supervisory Role Under Regulatory Divergence

Michele Trifiletti

UCAM – Universidad Católica de Murcia (Spain) – Department of Social Sciences

ABSTRACT

Introduction - International sanctions regimes increasingly impose legally binding restrictions that directly interfere with the application of core accounting principles under International Financial Reporting Standards (IFRS) and US Generally Accepted Accounting Principles (US GAAP). Sanctions may prevent parent entities from exercising control or accessing reliable financial information from subsidiaries located in sanctioned jurisdictions, thereby challenging the requirements of consolidation under IFRS 10 and measurement and impairment under IAS 36. This study investigates how Audit Committees discharge their supervisory responsibilities when accounting standards and sanctions law generate persistent regulatory conflicts.

Methods - The study adopts a qualitative, descriptive research design grounded in comparative regulatory analysis and qualitative content analysis. First, points of friction between IFRS 10, IAS 36, and corresponding US GAAP provisions are mapped against international sanctions frameworks administered by U.S. and EU authorities. Second, publicly available financial statements, audit reports (Key Audit Matters and Critical Audit Matters), and Audit Committee disclosures of multinational firms with material exposure to sanctioned jurisdictions are systematically analyzed.

Results - The analysis identifies three recurring supervisory responses endorsed by Audit Committees: (i) deconsolidation justified by loss of control under IFRS 10 despite unchanged ownership structures; (ii) reliance on indirect or historical estimation techniques to comply with IAS 36 impairment testing requirements in the absence of current data; and (iii) formal expansion of Audit Committee mandates to include explicit oversight of sanctions-related compliance risks. The study also documents null results, where Audit Committee interventions do not eliminate audit scope limitations reported by external auditors.

Discussion - The findings indicate that existing accounting standards provide limited operational guidance for prolonged sanctions environments. Audit Committees increasingly function as institutional validators of second-best accounting solutions under legally enforced information asymmetry, highlighting the need for enhanced regulatory guidance and transparent disclosure practices.

KEYWORDS: Audit Committee; International sanctions; Financial reporting: Accounting regulation; Faithful representation; Corporate governance

I. INTRODUCTION AND REGULATORY CONTEXT

International sanctions have evolved from episodic geopolitical instruments into a persistent structural feature of the global regulatory landscape. Contemporary multinational firms increasingly operate in environments where sanctions-induced restrictions are not temporary anomalies but enduring constraints that systematically affect governance rights, information flows, and financial reporting processes. These sanctions, administered by authorities such as the U.S. Office of Foreign Assets Control (OFAC) and the European Union, frequently impose restrictions that go beyond trade limitations, affecting governance rights, information flows, and managerial control over foreign subsidiaries.

From an accounting perspective, such restrictions challenge foundational principles embedded in both IFRS and US GAAP. IFRS 10 requires an entity to consolidate investees over which it exercises control, defined through power over relevant activities, exposure to variable returns, and the ability to use power to affect those returns. Similarly, US GAAP emphasizes substantive control through voting interests and variable interest entity models. These frameworks implicitly assume the ability to obtain reliable and timely financial information.

Sanctions may undermine these assumptions by legally prohibiting access to accounting records, financial transfers, or managerial involvement. As a result, entities may face situations in which legal compliance with sanctions conflicts with full compliance with

accounting standards. The Audit Committee, as the body responsible for overseeing financial reporting integrity and regulatory compliance, is positioned at the center of this conflict.

Despite extensive research on Audit Committees, existing governance literature largely assumes institutional alignment between accounting standards, legal compliance, and audit verification. Situations in which legal regimes structurally constrain the informational foundations of financial reporting remain under-theorized. Little attention has been paid to how Audit Committees operate when compliance with accounting standards and compliance with binding legal restrictions become potentially incompatible.

This study develops an institutional governance perspective on financial reporting under regulatory divergence. We conceptualize international sanctions not as episodic compliance complications but as structural disruptions of the informational and control assumptions embedded in accounting standards. Within this setting, Audit Committees are theorized as institutional actors engaged in legitimacy-preserving boundary work rather than as conventional monitoring mechanisms.

The paper makes three contributions. First, it reframes sanctions as a boundary condition for accounting regulation, demonstrating how legally imposed information prohibitions destabilize core concepts such as control and faithful representation. Second, it theorizes Audit Committees as institutional validators of constrained accounting representations, extending governance research beyond oversight effectiveness toward legitimacy stabilization. Third, it reconceptualizes persistent audit scope limitations as analytically meaningful null outcomes reflecting structural regulatory incompatibility rather than governance failure.

This study adopts a theory-informed interpretive qualitative design aimed at analytical generalization rather than statistical inference. Accounting standards presuppose informational accessibility and enforceable control rights, whereas sanctions regimes intentionally restrict both. This conflict generates a setting in which compliance cannot be simultaneously satisfied across regulatory systems. We therefore analyze Audit Committees as actors engaged in institutional boundary work, tasked with stabilizing the legitimacy of financial reporting when foundational accounting assumptions are rendered operationally unattainable.

II. RESEARCH QUESTIONS

Consistent with governance and institutional theory, the research questions are designed to capture how Audit Committees function when regulatory environments undermine the informational and control assumptions of financial reporting. The questions therefore emphasize governance rationales, interpretive accounting judgments, and the limits of oversight mechanisms under legal constraint.

This study addresses the following primary research question:

- **RQ1:** How do Audit Committees ensure compliance with the principle of faithful representation when international sanctions impose legal restrictions on access to financial information or control over subsidiaries?

  To further structure the analysis, two secondary research questions are examined:
- **RQ2:** How are consolidation and deconsolidation decisions under IFRS 10 and equivalent US GAAP provisions justified in sanctioned environments?
- **RQ3:** To what extent do Audit Committee interventions mitigate or fail to mitigate audit scope limitations arising from sanctions-related information constraints?

III. REGULATORY FRAMEWORK AND NORMATIVE TENSIONS

The regulatory conflict examined in this study originates from the interaction between accounting standards that are designed around assumptions of informational accessibility and sanctions regimes that deliberately disrupt such access. Both IFRS and US GAAP conceptualize financial reporting as a process grounded in the availability of verifiable information and the capacity of reporting entities to exercise control over their operations. International sanctions, by contrast, are explicitly intended to restrict control, information flows, and economic agency, thereby introducing a structural incompatibility between legal compliance and accounting ideals.

A. Conceptual Foundations

This study relies on three central analytical constructs that structure the empirical interpretation.

Constrained faithful representation refers to reporting situations in which preparers cannot approximate ideal informational completeness because legally binding restrictions limit access to financial data or control rights. Unlike conventional uncertainty, such constraints are externally imposed and non-discretionary.

Institutional validation denotes the process through which governance bodies legitimize accounting treatments that deviate from theoretical ideals but remain organizationally defensible within a given regulatory environment. Validation is therefore not equivalent to technical correctness, but to institutional acceptability.

Null governance outcomes describe situations in which governance mechanisms operate as designed yet fail to eliminate reporting or audit uncertainty. These outcomes are analytically meaningful because they reveal structural limits of oversight rather than procedural deficiencies.

B. Consolidation, Control, and Legal Prohibitions

Under IFRS 10, an entity is required to consolidate an investee when it has power over relevant activities, exposure to variable returns, and the ability to use power to affect those returns. While the standard acknowledges that control is a matter of substance rather than form, it presumes that power can be exercised and evidenced through decision-making rights and access to information. Comparable assumptions underpin consolidation models under US GAAP, including both the voting interest and variable interest entity frameworks.

Sanctions regimes challenge these assumptions in a fundamental way. Legal prohibitions administered by authorities such as the U.S. Office of Foreign Assets Control and the European Union may prevent parent entities from appointing management, participating in governance, or accessing financial records of subsidiaries located in sanctioned jurisdictions. In such cases, ownership rights may remain unchanged, yet the legal capacity to exercise power is materially impaired. This creates a conceptual ambiguity: whether loss of control should be inferred from legal constraints external to the corporate structure, or whether control persists despite the inability to exercise it.

Accounting standards provide only limited guidance on this issue. IFRS 10 acknowledges that protective rights do not confer control but offers little direction on how legally imposed restrictions should be treated when they effectively neutralize substantive decision-making powers. As a result, consolidation judgments in sanctioned environments often rely on interpretive discretion rather than clear normative criteria, placing significant weight on governance oversight mechanisms.

C. Measurement, Impairment, and Enforced Information Asymmetry

The tension extends beyond consolidation to measurement and impairment. IAS 36 requires entities to assess recoverable amounts using reasonable and supportable assumptions that reflect management's best estimate of future economic conditions. Such assessments are inherently forward-looking and depend on access to reliable cash flow projections and operational data. Sanctions, however, may prohibit the exchange of information necessary to support these estimates, forcing entities to rely on outdated, indirect, or externally observable data.

This situation introduces what can be described as *enforced information asymmetry*, in which uncertainty is not the result of market volatility or managerial judgment, but of binding legal constraints. Accounting standards do not explicitly distinguish between uncertainty arising from economic conditions and uncertainty imposed by law. Consequently, preparers and auditors must navigate impairment testing requirements using estimation bases that are acknowledged to be suboptimal, yet legally unavoidable.

Regulatory guidance from supervisory authorities such as the SEC and ESMA emphasizes the importance of transparent disclosure of sanctions-related risks and uncertainties. However, this guidance largely focuses on narrative risk reporting rather than on the technical application of measurement standards. The absence of prescriptive guidance effectively transfers normative responsibility to corporate governance bodies, particularly the Audit Committee.

D. The Audit Committee as a De Facto Normative Actor

This paper theorizes this function as a form of boundary work, whereby Audit Committees mediate between competing regulatory logics and stabilize accounting representations under conditions of normative incompatibility. Their role thus extends beyond monitoring compliance to actively sustaining the legitimacy of constrained reporting practices.

In this regulatory environment, the Audit Committee assumes a role that extends beyond traditional oversight. Formally, the Audit Committee is responsible for monitoring financial reporting integrity, overseeing the external audit, and ensuring compliance with applicable laws and regulations. Substantively, however, sanctions-related conflicts compel the Audit Committee to arbitrate between competing normative systems: accounting standards that demand faithful representation and legal regimes that restrict the means of achieving it.

This arbitration function is not explicitly recognized in accounting standards or governance codes. Nevertheless, Audit Committee disclosures increasingly indicate active involvement in approving consolidation decisions, endorsing estimation methodologies under information constraints, and evaluating the acceptability of unresolved audit scope limitations. In doing so, Audit

Committees effectively legitimize accounting treatments that fall short of ideal representations but are framed as the most faithful outcomes attainable under the circumstances.

Importantly, this expanded role does not guarantee the resolution of reporting uncertainty. As documented in this study, there are instances in which Audit Committee oversight fails to eliminate scope limitations identified by external auditors. These null outcomes highlight the limits of governance as a corrective mechanism and underscore the structural nature of the conflict between accounting standards and sanctions law.

E. Normative Implications and Unresolved Tensions

The analysis of the regulatory framework reveals that the conflict between accounting standards and sanctions regimes is not merely technical but normative. Accounting standards are premised on the possibility of faithful representation through informed judgment, while sanctions regimes are premised on the deliberate restriction of information and control. In sanctioned environments, compliance with one normative system may inherently compromise compliance with the other.

This unresolved tension raises critical questions for standard setters and regulators. Should accounting standards explicitly address sanctioned environments as a distinct reporting context? Should governance bodies such as Audit Committees be formally recognized as validators of second-best solutions under legal constraints? Or should persistent scope limitations be accepted as an unavoidable feature of financial reporting in such contexts?

By situating Audit Committees at the intersection of these questions, this study contributes to a more nuanced understanding of how accounting regulation operates under extreme legal constraints, and why null results and persistent uncertainty are not failures of governance but manifestations of structural regulatory divergence.

The empirical analysis that follows examines how these normative tensions are reflected in disclosed Audit Committee practices, accounting judgments, and audit outcomes, thereby grounding the regulatory discussion in observable reporting behavior.

To synthesize the regulatory conflict discussed above, Figure 1 illustrates the structural sequence through which sanctions regimes disrupt the informational and control assumptions embedded in accounting standards. The framework highlights how legal restrictions propagate into accounting judgments and governance processes, thereby clarifying why Audit Committees assume a stabilizing institutional role under regulatory divergence.



Figure 1. Sanctions as Structural Disruption of Accounting Assumptions

IV. METHODOLOGY

The study adopts an interpretive qualitative approach consistent with governance and institutional research traditions. Corporate disclosures are treated as institutional artifacts that both reflect and construct organizational rationalities, rather than as neutral information containers. The analysis therefore focuses on how accounting judgments and governance interventions are framed, justified, and legitimized.

This interpretive approach is theoretically grounded in institutional theory, particularly the notions of legitimacy construction (Suchman, 1995) and boundary work, understood as the practices through which actors stabilize categories and meanings under conditions of normative conflict. Boundary work is especially relevant in this setting because sanctions regimes and accounting standards embody competing regulatory logics that render established reporting assumptions problematic rather than taken for granted.

This study adopts a **qualitative, descriptive research design** explicitly structured around the three research questions (RQ1–RQ3). The methodological choices are guided by the need to observe how Audit Committees operationalize oversight under conditions of legally enforced information constraints, rather than to test causal relationships or quantify outcomes.

A. Methodological Alignment with the Research Questions

The research design reflects a **progressive analytical logic**, whereby each research question corresponds to a distinct but interconnected analytical layer:

- **RQ1** addresses the *governance rationale* through which Audit Committees seek to preserve faithful representation under sanctions-induced constraints.
- **RQ2** focuses on the *technical accounting judgments* related to consolidation and deconsolidation in sanctioned environments.

- **RQ3** examines the *effectiveness limits* of Audit Committee intervention, as reflected in unresolved audit scope limitations.

Accordingly, the methodology integrates regulatory analysis, disclosure-based content analysis, and audit report examination, each mapped to a specific research question.

B. Data Sources and Research Questions

The study relies exclusively on **publicly available disclosures**, selected for their relevance to the individual research questions:

- **RQ1 (Faithful representation under constraint)**
  Addressed primarily through:
  - Audit Committee reports and governance disclosures
  - Narrative explanations in financial statement notes describing sanctions-related constraints
    These sources provide insight into how Audit Committees frame accounting judgments as consistent with the principle of faithful representation despite acknowledged informational deficiencies.
- **RQ2 (Consolidation and deconsolidation decisions)**

Addressed through:

- Notes on consolidation scope and changes therein
- Disclosures relating to control assessments under IFRS 10 and equivalent US GAAP provisions
  These materials allow identification of how loss of control is justified when legal prohibitions, rather than ownership changes, drive consolidation outcomes.

- **RQ3 (Audit scope limitations and governance effectiveness)**
  Addressed through:
  - External audit reports, with particular emphasis on KAMs and CAMs
  - Cross-references between audit reports and Audit Committee disclosures

This enables assessment of whether Audit Committee oversight mitigates, or fails to mitigate, audit scope limitations arising from sanctions.

The firms examined in this study were selected based on the presence of explicit disclosures indicating material exposure to international sanctions, including references to sanctioned jurisdictions in financial statement notes, audit reports, or Audit Committee disclosures. Material exposure is understood in a qualitative sense, reflecting situations in which sanctions materially affect consolidation decisions, impairment assessments, or audit evidence availability. The analysis continues until conceptual saturation is reached, such that additional disclosures do not yield substantively new governance patterns.

C. Comparative Regulatory Analysis (RQ1 and RQ2)

A **comparative regulatory mapping** constitutes the first analytical step and directly supports **RQ1 and RQ2**. Relevant accounting standards (IFRS 10, IAS 36, and corresponding US GAAP provisions) are analyzed alongside the functional effects of U.S. and EU sanctions regimes to identify structural points of incompatibility.

This analysis serves two purposes. First, it establishes the **normative baseline** against which Audit Committee judgments are assessed. Second, it delineates the conditions under which sanctions interfere with the assumptions embedded in accounting standards, thereby necessitating governance-level intervention.

The output of this step is not a reinterpretation of the standards but a contextual framework that explains why Audit Committees are compelled to arbitrate between competing regulatory demands.

D. Qualitative Content Analysis (RQ1 and RQ2)

A **qualitative content analysis** of corporate disclosures is then conducted to examine how firms operationalize accounting judgments under sanctions.

For **RQ1**, the analysis focuses on disclosures indicating:

- Explicit acknowledgment of sanctions-induced information constraints
- Audit Committee approval or endorsement of accounting treatments framed as the "most faithful representation attainable"

For **RQ2**, the analysis targets:

- Justifications for deconsolidation or continued consolidation despite impaired control
- Use of indirect, historical, or proxy-based estimation techniques in impairment testing

Disclosures are coded based on the presence of sanctions-specific rationales and on the degree of explicit Audit Committee involvement, allowing comparison across cases.

E. Audit Report Analysis and Null Outcomes (RQ3)

To address **RQ3**, the study analyzes external audit reports to determine whether Audit Committee interventions correspond to a reduction in audit uncertainty.

Attention is paid to:

- Persistent scope limitations explicitly linked to sanctions
- Auditor statements indicating inability to obtain sufficient appropriate audit evidence
- Cases where Audit Committee oversight is documented but audit limitations remain unresolved

These instances are treated as **analytically meaningful null results**, rather than as methodological failures. Their inclusion is essential to understanding the structural limits of governance mechanisms in resolving legally imposed information asymmetry.

F. Methodological Scope and Limitations

The methodology is designed to capture **observable governance responses**, not internal deliberative processes. While Audit Committees may engage in extensive private discussion, only disclosed actions and justifications are analyzed, consistent with the study's focus on institutional accountability and transparency.

The research does not aim to evaluate compliance in a binary sense but to examine how compliance is **interpreted, negotiated, and legitimized** under regulatory divergence. This approach aligns with the descriptive and analytical objectives of the research questions and with the broader literature on governance under legal constraint.

V. RESULTS

The analysis identifies three recurring governance mechanisms through which Audit Committees stabilize financial reporting legitimacy under sanctions-induced regulatory constraints. These mechanisms do not represent isolated managerial choices but structured interpretive responses to the breakdown of accounting assumptions caused by legally enforced information and control restrictions.

The results are presented in three subsections, corresponding to **RQ1–RQ3**.

A. Legitimizing Constrained Faithful Representation (RQ1)

With respect to **RQ1**, the analysis shows that Audit Committees explicitly reframe the concept of **faithful representation** when sanctions impose binding restrictions on access to information or control.

Governance disclosures frequently acknowledge that:

- full informational completeness is unattainable due to legal prohibitions;
- accounting judgments are therefore based on "best available," "indirect," or "historical" information;
- such judgments are nonetheless presented as consistent with faithful representation *within the constraints imposed by law*.

In several cases, Audit Committee reports explicitly state that management's accounting treatments were reviewed and approved **considering sanctions compliance requirements**, indicating an awareness that legal conformity constrains accounting choices. This framing does not deny the presence of uncertainty but instead legitimizes it as **externally imposed rather than internally generated**.

Importantly, faithful representation is not operationalized as an absolute standard but as a **context-dependent objective**, achievable only within the boundaries set by sanctions law. Audit Committees thus act as institutional endorsers of this constrained interpretation.

These patterns indicate that faithful representation is operationalized as an institutionally negotiated construct rather than a purely technical attribute of financial reporting. Audit Committees do not merely endorse accounting choices but actively redefine representational adequacy under legal constraint.

This pattern reflects an institutional reframing mechanism whereby representational adequacy is redefined relative to legally feasible information sets. Faithful representation is preserved rhetorically and procedurally, while its substantive informational foundations are acknowledged as externally constrained. Audit Committees thus function as legitimizing agents that reconcile accounting ideals with regulatory impossibility.

B. Control Neutralization and Epistemic Substitution (RQ2)

Addressing **RQ2**, the results indicate two dominant patterns in consolidation-related decisions.

First, several firms justify **deconsolidation** by asserting a loss of control under IFRS 10, despite unchanged ownership structures. In these cases, disclosures emphasize:

- legal prohibitions on exercising governance rights;
- inability to access financial information or direct relevant activities;
- restrictions on financial flows and managerial involvement.

Audit Committee disclosures often confirm that these legal constraints were treated as **substantive impairments of control**, rather than as temporary operational difficulties. The justification for deconsolidation is thus grounded in the *inability to exercise power*, not in changes to formal rights.

Second, other firms retain consolidation but adapt their accounting techniques. In particular, impairment testing under IAS 36 relies on:

- historical cash flow data adjusted for sanctions-related assumptions;
- externally observable proxies;
- conservative scenario analyses explicitly acknowledging data limitations.

In these cases, Audit Committees are reported to have overseen the selection of estimation methodologies, endorsing approaches that are explicitly characterized as **second-best solutions** necessitated by enforced information asymmetry.

Two distinct mechanisms are observable. Under a **control neutralization logic**, legal prohibitions are translated into loss-of-control judgments despite unchanged ownership. Under an **epistemic substitution logic**, inferior or indirect information sources are legitimized as decision-useful inputs for impairment testing. Both mechanisms illustrate how accounting concepts retain operational functionality through interpretive elasticity rather than through strict technical application.

C. Audit Scope Limitations and Null Governance Outcomes (RQ3)

The interaction between Audit Committee oversight and external audit outcomes reveals a structural asymmetry. While Audit Committees can legitimize accounting treatments, auditors remain bound by evidential verification thresholds that sanctions may render unattainable.

With respect to **RQ3**, the results demonstrate that Audit Committee intervention does not consistently eliminate audit uncertainty.

External audit reports frequently include:

- Key Audit Matters or Critical Audit Matters related to sanctions;
- explicit references to inability to obtain sufficient appropriate audit evidence;
- emphasis-of-matter paragraphs highlighting unresolved information gaps.

Crucially, these audit limitations persist **even where Audit Committees are actively involved** in overseeing the relevant accounting judgments. Cross-referencing audit reports with governance disclosures shows that Audit Committee approval does not necessarily translate into auditor assurance.

These instances constitute **null results**: governance mechanisms operate as designed, yet structural constraints prevent resolution of audit scope limitations. The findings indicate that Audit Committees can legitimize accounting outcomes but cannot overcome legally enforced barriers to verification.

Treating these outcomes as null results is analytically important, as it highlights the limits of governance mechanisms in resolving uncertainty that is legally, rather than managerially, imposed. The persistence of audit scope limitations therefore reflects structural regulatory constraints rather than deficiencies in Audit Committee oversight.

The persistence of scope limitations despite documented governance oversight suggests that audit uncertainty in sanctioned environments is structurally irreducible. Governance mechanisms can stabilize organizational interpretations but cannot neutralize legally imposed verification barriers.

These cases represent **structural non-resolvability**, where governance authority cannot remediate legally imposed evidence constraints.

D. Theoretical Synthesis of Governance Mechanisms

Taken together, the findings reveal a coherent governance logic through which Audit Committees manage regulatory incompatibility. Sanctions-induced information prohibitions destabilize accounting assumptions, which are then re-stabilized through interpretive mechanisms that preserve institutional legitimacy rather than technical optimality. Across cases, Audit Committees do not resolve regulatory conflict but render it organizationally manageable by redefining representational adequacy, neutralizing legally inoperable control rights, and legitimizing epistemically inferior information inputs:

1. **Contextualization of faithful representation** as a constrained objective under sanctions.
2. **Flexible interpretation of control** leading to either deconsolidation or adapted consolidation techniques.

3. **Persistence of audit scope limitations** despite enhanced governance oversight.

These patterns are consistent across firms and regulatory environments, suggesting that the observed behaviors reflect **systemic responses to regulatory divergence**, rather than firm-specific anomalies.

Table 1 - Summary of Results by Research Question

RESEARCH QUESTION	ANALYTICAL FOCUS	EMPIRICAL EVIDENCE OBSERVED	GOVERNANCE OUTCOME
RQ1: How do Audit Committees ensure compliance with faithful representation under sanctions?	Framing of accounting judgments under legally enforced information constraints	Audit Committee disclosures explicitly acknowledge sanctions-related data limitations and endorse accounting treatments based on indirect, historical, or proxy information	Faithful representation is reframed as a *context-dependent objective*, achievable only within legal constraints
RQ2: How are consolidation and deconsolidation decisions justified in sanctioned environments?	Application of IFRS 10 and equivalent US GAAP control concepts	(i) Deconsolidation justified by loss of ability to exercise power despite unchanged ownership; (ii) Continued consolidation supported by adapted impairment and measurement techniques	Control is interpreted flexibly, with legal prohibitions treated as substantive impairments of control or information access
RQ3: To what extent do Audit Committee interventions mitigate audit scope limitations?	Interaction between governance oversight and external audit assurance	Persistent KAMs/CAMs and scope limitations explicitly linked to sanctions, even where Audit Committees actively oversee accounting judgments	Audit Committee oversight legitimizes accounting outcomes but does not consistently eliminate audit uncertainty (null results)

***Table 1** summarizes how the empirical patterns identified in this study map directly onto the three research questions, highlighting both the scope and the limits of Audit Committee intervention under sanctions-induced regulatory constraints.*

VI. DISCUSSION AND IMPLICATIONS

This study reframes international sanctions as a structural stress test for accounting regulation and governance theory. Rather than treating sanctions as exogenous reporting disturbances, the findings indicate that sanctions directly destabilize the epistemic and control assumptions underlying consolidation, measurement, and audit verification. The role of Audit Committees must therefore be understood not primarily in terms of monitoring effectiveness, but in terms of institutional stabilization under regulatory incompatibility.

This study makes three primary contributions. First, it conceptualizes Audit Committees as boundary-spanning governance bodies operating under conditions of regulatory divergence. Second, it shows how core accounting concepts such as faithful representation and control are operationalized as constrained objectives in sanctioned environments. Third, it reframes persistent audit scope limitations as analytically meaningful outcomes rather than indicators of governance failure.

A. Audit Committees as Institutional Validators of Constrained Faithful Representation

The results related to RQ1 indicate that Audit Committees do not abandon the principle of faithful representation when sanctions impair access to information. Instead, they reinterpret its operational meaning.

Faithful representation emerges as a bounded objective, defined not by theoretical completeness but by what can be achieved under binding legal constraints. By explicitly endorsing accounting judgments based on indirect or historical information, Audit Committees function as institutional validators of representations that are acknowledged to be incomplete but legally unavoidable.

This finding extends the governance literature by highlighting a role for Audit Committees that goes beyond monitoring compliance: they actively legitimize second-best accounting outcomes. Importantly, this legitimization is not discretionary opportunism but a response to externally imposed constraints, suggesting that governance bodies mediate between competing normative systems rather than merely enforcing accounting orthodoxy.

B. Control, Legal Prohibitions, and the Elasticity of Accounting Concepts

The findings addressing RQ2 underscore the conceptual elasticity of "control" in sanctioned environments. While accounting standards conceptualize control as a matter of substance, they implicitly assume that substantive power can be exercised and evidenced. Sanctions disrupt this assumption by rendering power legally inoperable without altering ownership structures.

The observed divergence in consolidation outcomes—deconsolidation in some cases, continued consolidation with adapted measurement in others—indicates that accounting standards allow for multiple internally consistent responses to the same legal constraint. Audit Committees play a critical role in endorsing which interpretation prevails.

This raises broader normative questions for standard setters. The current standards do not explicitly address situations in which control is legally neutralized by external authorities. As a result, governance bodies become the de facto arbiters of how far accounting concepts can stretch before they lose operational meaning.

Sanctions reveal that control is not solely an economic or organizational construct but a legally contingent capacity. This challenges the implicit ontological stability of consolidation models, which presume that ownership and decision rights remain functionally exercisable.

C. Governance Effectiveness and the Significance of Null Results

The findings related to RQ3 are particularly instructive. Even where Audit Committees are actively involved and disclosures are extensive, audit scope limitations frequently persist. These null results demonstrate that governance mechanisms have intrinsic limits when uncertainty is imposed by law rather than by managerial discretion.

Rather than signaling governance failure, persistent scope limitations reveal a structural condition in which verification itself becomes legally constrained. Audit Committees can oversee, challenge, and endorse accounting judgments, but they cannot compel the production of audit evidence that sanctions law prohibits.

Recognizing null results as analytically meaningful has important implications. It suggests that unresolved audit uncertainty in sanctioned environments should not automatically be interpreted as weak governance, but as an indicator of irreducible regulatory conflict.

Persistent audit scope limitations should be interpreted as indicators of regulatory collision rather than deficiencies in governance design. The absence of resolution reflects the fact that verification regimes cannot operate where legal systems prohibit evidence generation.

D. Implications for Standard Setters and Regulators

The findings raise critical questions for accounting standard setters and regulators. If sanctions are no longer exceptional but persistent, the absence of explicit guidance leaves preparers, auditors, and Audit Committees to navigate conflicts through ad hoc judgment.

One implication is the potential need for explicit acknowledgment of sanctioned environments within accounting standards, not as carve-outs, but as contexts in which faithful representation and control must be operationalized differently. Another is the need for clearer articulation of the relationship between legal compliance and accounting compliance, particularly where the two are in tension.

For regulators and enforcement bodies, the results suggest that enhanced disclosure requirements alone may be insufficient. Without accompanying interpretive guidance, transparency shifts responsibility to governance bodies without resolving underlying uncertainty.

E. Implications for Corporate Governance Research

From a governance perspective, this study positions Audit Committees as boundary-spanning institutions, operating between legal regimes with incompatible objectives. This role has been underexplored in the literature, which often assumes alignment between legal compliance and accounting standards.

By documenting how Audit Committees legitimize constrained accounting outcomes and manage unresolved uncertainty, the study contributes to a more realistic understanding of governance under extreme regulatory conditions. It also opens avenues for future research on how governance bodies function when compliance is inherently second-best.

F. Concluding Remarks

Overall, the study demonstrates that the conflict between accounting standards and sanctions regimes is not merely technical but normative. Audit Committees do not resolve this conflict; they manage and legitimize it. In doing so, they reveal both the adaptability and the limits of accounting governance in a world where legal constraints increasingly shape the boundaries of financial reporting.

CONCLUSION

This study examines how Audit Committees navigate persistent conflicts between international accounting standards and international sanctions regimes. By focusing on consolidation, measurement, and audit oversight under legally enforced information constraints, the analysis shows that these conflicts are **structural rather than incidental**, and that they reshape the practical meaning of accounting governance.

The findings demonstrate that Audit Committees do not merely oversee compliance with accounting standards; they act as **institutional mediators** between accounting principles premised on informational accessibility and legal regimes designed to restrict information and control. In sanctioned environments, faithful representation is not abandoned but **recalibrated** as a constrained objective, bounded by legal compliance rather than by conceptual ideals alone.

The study further shows that accounting standards permit **multiple internally coherent responses** to sanctions-induced constraints, particularly in relation to control and consolidation. Audit Committees play a critical role in endorsing which interpretations prevail, thereby legitimizing accounting outcomes that are explicitly recognized as second-best. Importantly, this legitimization does not guarantee audit certainty. Persistent audit scope limitations, even under active governance oversight, highlight the **irreducible limits of verification** when uncertainty is imposed by law.

By documenting these dynamics, the study contributes to the literature in three ways. First, it advances understanding of Audit Committees as **boundary-spanning governance bodies** operating under regulatory divergence. Second, it reframes null audit outcomes as analytically meaningful indicators of structural constraint rather than governance failure. Third, it underscores the need to reconsider the assumptions embedded in accounting standards regarding control, information access, and verifiability.

Several limitations should be acknowledged. The analysis relies on publicly available disclosures and cannot observe internal deliberations within Audit Committees. Moreover, the qualitative design does not permit generalization in a statistical sense. These limitations are inherent to governance research in legally constrained environments and do not detract from the study's objective of analyzing observable institutional responses.

Future research could extend this analysis in several directions. Comparative studies across jurisdictions could examine whether differences in sanctions enforcement lead to divergent governance practices. Interviews with Audit Committee members, auditors, and regulators could provide deeper insight into the deliberative processes underlying disclosed decisions. Finally, normative research could explore whether accounting standards should explicitly recognize sanctioned environments as a distinct reporting context.

In conclusion, as international sanctions become an enduring feature of the global regulatory landscape, the tension between legal compliance and accounting ideals is likely to intensify. This study shows that Audit Committees do not resolve this tension but **make it governable**, revealing both the adaptability and the limits of contemporary accounting regulation.

Recognizing these constraints is essential for understanding how accounting governance functions in practice when legal compliance and accounting ideals cannot be simultaneously satisfied.

More broadly, the analysis suggests that accounting concepts commonly treated as universal — including control and faithful representation — are institutionally bounded constructs whose operational meaning depends on the legal permissibility of information and authority. Sanctions make these boundaries visible, revealing that accounting regulation is not merely technical but fundamentally contingent on the stability of the surrounding legal order.

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