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Agency Theory and the Quality of Financial Reporting: Determinants and Consequences in an Accounting Perspective

Siti Najwa Al Mukarroma[1], Taqiyyah Ulinnuha[2], Yusnaini[3], Ika Sasti Ferina[4]

[1,2] Master of Accounting Science Program, Sriwijaya University, Indonesia
[3,4] Department Of Accounting, Sriwijaya University, Indonesia

*Corresponding Author: najwamkrm@gmail.com

Abstract

This study aims to analyze the role of agency theory in explaining financial reporting quality, identify its determinants, and examine the consequences of financial reporting quality for companies and stakeholders. This study employs a Systematic Literature Review (SLR) method by examining previous studies related to agency theory and financial reporting quality. The literature synthesis indicates that agency theory provides an important foundation for understanding conflicts of interest between management and shareholders, as well as information asymmetry that may affect financial reporting quality. The determinants of financial reporting quality include corporate governance, audit quality, audit committee effectiveness, institutional ownership, internal control, and disclosure transparency. However, previous studies reveal inconsistent findings influenced by differences in measurement proxies, company characteristics, industry sectors, research periods, and analytical methods. High-quality financial reporting contributes to greater transparency, reduced information asymmetry, enhanced investor confidence, and improved economic decision-making. This study emphasizes that financial reporting quality is not merely associated with compliance with accounting standards but also serves as an important mechanism for mitigating agency conflicts and enhancing corporate accountability.

Keywords: Agency Theory, Financial Reporting Quality, Information Asymmetry, Corporate Governance, Systematic Literature Review.

INTRODUCTION

Financial reporting is a fundamental part of financial accounting practice because it serves to provide information about the company's financial position, financial

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performance, and cash flow to interested parties. The information presented in financial statements is the basis for investors, creditors, and other stakeholders to evaluate the company's condition and make economic decisions. In an increasingly complex business environment, the quality of financial reporting is an important concern because the information submitted by the company is not only required to meet the requirements of accounting standards, but must also be able to provide a relevant and representative picture of the company's economic condition. Dewi et al. (2024) explained that the quality of financial reporting is an important aspect of accounting research because it relates to the determinants, consequences, and benefits of financial information for report users (Asyik et al., 2023; Harjanto, 2024).

The quality of financial reporting is closely related to accounting theory, especially agency theory. Agency theory describes the relationship between the owner of the company as the principal and management as the agent who obtains the authority to manage the company's activities. In this relationship, there is a possibility of a difference in interests between the owner and management that can cause agency conflicts. In addition, management has greater access to information about the company's internal conditions than shareholders and other external parties. This information imbalance creates information asymmetry that has the potential to affect the transparency and quality of financial reporting. Rouf et al. (2024) In the study of corporate financial reporting theory, agency theory is identified as one of the dominant theories used to explain the phenomenon of financial reporting, especially related to conflicts of interest, supervisory needs, and the delivery of information to external parties (Nindito et al., 2024; Diantimala et al., 2022).

From the perspective of agency theory, the quality of financial reporting is one of the important mechanisms to reduce the information gap between management and company owners. Quality financial reports can help principals evaluate management performance, assess the use of company resources, and supervise decisions taken by agents. On the other hand, low quality financial reporting can increase information uncertainty and open up opportunities for opportunistic management behavior. Nindito et al. (2024) show that related party transactions and corporate governance mechanisms are related to the possibility of financial statement fraud in Indonesian public companies. These findings show the relevance of the agency's perspective in understanding the integrity of financial reporting and the importance of corporate supervision mechanisms (Maharani & Pandapotan, 2024; Dewo Mughni & Ratmono, 2024).

The development of research on the quality of financial reporting shows that these problems are not only related to management behavior, but are also influenced by various governance mechanisms and company characteristics. Dewi et al. (2024) through a study of 54 articles published in the 2016–2023 period identified various determinants and

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consequences of financial reporting quality. The study discusses agency problems, the application of International Financial Reporting Standards (IFRS), and the benefits of financial reporting information for investors. The results of the study show that the quality of financial reporting is a topic that continues to develop and is related to various aspects of financial accounting theory and practice (Biehl et al., 2024; Shamsudin et al., 2026).

One of the determinants that has received a lot of attention in financial reporting quality research is corporate governance. Corporate governance functions as a mechanism for monitoring management activities so that corporate decisions and reporting can be accounted for to shareholders. Putri Rafie et al. (2025) through a review of 20 corporate governance research articles for the 2020–2025 period, it was found that agency theory is the most frequently used theoretical framework in corporate governance research. The study explains that the independence of the board, audit committee, and supervisory structure have a conceptual relationship with reducing information asymmetry and aligning the interests of management and shareholders. However, the effectiveness of these mechanisms is still influenced by the ownership structure and institutional conditions of the company (Hasan et al., 2022; Choudhary & Verma, 2025).

In addition to corporate governance, audit quality is also an important factor in increasing the credibility of financial reporting. External audits play a role in conducting independent audits of the information presented by the company so that it can help reduce the risk of material misstatement. Velte (2023) through a review of 69 studies on external auditors and financial statement restatement explained that agency theory is the foundation for understanding the auditor's function as a supervisory mechanism. The study distinguishes auditor incentives and auditor competence as aspects that play a role in producing better audit quality (Li & Liu, 2024; Yasmin et al., 2024).

On the other hand, research on the quality of financial reporting also shows that there are differences in results related to the effectiveness of corporate governance mechanisms. Studies on companies in Pakistan and the United Kingdom show that the influence of board size, board independence, foreign ownership, and governance characteristics on the quality of financial reporting can differ based on the institutional environment and company characteristics. These findings show that the relationship between supervisory mechanisms and the quality of financial reporting is not always uniform (Hasan et al., 2022; Farid & Mulya, 2025; Adimudra & Setiawan, 2025).

The difference in the results of the research is an important basis for systematically synthesizing the literature. Shamsudin et al. (2026) grouped the determinants of financial reporting quality into seven categories, namely corporate governance, audit, IFRS adoption, technology, business profile and performance, other internal factors, and other external factors. The study also identified that corporate governance is still the most researched determinant, while technology is starting to receive greater attention in the

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development of financial reporting quality research. In addition, the study highlights the absence of a comprehensive financial reporting quality index that is used consistently in various studies (Triana & Abdul, 2026; Hafizh & Sembiring, 2026).

Based on these developments, there is a need to further examine how agency theory explains the determinants and consequences of financial reporting quality. Previous research has discussed the quality of financial reporting through various approaches, but differences in theory, measurement proxies, company characteristics, and the institutional environment cause the results to not be fully consistent. Therefore, a literature synthesis is needed to obtain a more comprehensive understanding of the position of agency theory in financial reporting quality research as well as the development of research findings in the field of financial accounting (Asyik et al., 2023; Biehl et al., 2024; Mumpuni, 2026).

This study aims to analyze agency theory in explaining the quality of financial reporting, identify determinants of financial reporting quality based on previous research, examine the consequences of financial reporting quality for investors, creditors, and companies, and identify research gaps and opportunities for the development of financial accounting research in the future. Through the Systematic Literature Review approach, this research is expected to contribute to the development of accounting theory studies, especially in understanding the relationship between agency conflicts, supervisory mechanisms, and the quality of financial reporting information (Dewi et al., 2024; Rouf et al., 2024; Wicaksono et al., 2026).

LITERATURE REVIEW

Agency Theory

Agency theory is one of the theoretical perspectives used to explain the relationship between the owner of a company as a principal and management as an agent. The relationship is formed when the owner of the company gives management the authority to manage resources and carry out the company's operational activities. In practice, agency relationships have the potential to cause conflicts of interest because management and shareholders have goals and interests that are not always in line. Management can have a tendency to maximize personal interests, while shareholders expect an increase in company value and a return on investment (Rouf et al., 2024; Nindito et al., 2024; Putri Rafie et al., 2025).

Agency problems are also related to information asymmetry, which is a condition when management has more complete internal information about the company than shareholders. This information imbalance can cause shareholders to have difficulty evaluating management decisions objectively. Under certain conditions, information asymmetry can provide opportunities for management to take opportunistic actions,

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including profit manipulation, non-transparent presentation of information, and the selection of accounting policies that benefit management (Diantimala et al., 2022; Nindito et al., 2024; Dewo Mughni & Ratmono, 2024).

Rouf et al. (2024) through research on corporate financial reporting theory shows that agency theory is one of the main perspectives used in financial reporting research. This theory explains how conflicts of interest and supervisory needs are related to corporate reporting practices. These findings show that agency theory remains relevant in explaining the relationship between management, company owners, and financial information submitted to external parties (Putri Rafie et al., 2025; Hasan et al., 2022; Dewi et al., 2024).

In the context of empirical research in Indonesia, Triana and Abdul (2026) used the perspective of agency theory to explain the government's financial reporting obligations to the public. Research on 518 respondents in 34 ministries and institutions showed that the implementation of accrual-based government accounting standards, apparatus quality, and public accountability had a positive effect on the quality of financial statements. The internal control system also strengthened the relationship between the implementation of accounting standards and the quality of financial statements. The findings show that the relationship between agencies and supervisory mechanisms has relevance in improving the quality of financial information (Dewi et al., 2024; Maharani & Pandapotan, 2024; Rouf et al., 2024).

Based on the perspective of agency theory, financial statements can function as an instrument of management accountability to company owners. The presentation of quality financial information allows shareholders to evaluate management performance, resource use, and economic decisions taken by the company. Therefore, agency theory is a conceptual basis for understanding the importance of quality financial reporting and supervisory mechanisms in reducing conflicts of interest between management and company owners (Asyik et al., 2023; Nindito et al., 2024; Hasan et al., 2022).

Financial Reporting Quality

The quality of financial reporting is a concept related to the ability of financial reports to present relevant, transparent, and trustworthy information for information users. Quality financial information allows investors, creditors, shareholders, and other interested parties to gain an overview of the company's financial condition, performance, and ability to generate cash flow. The quality of financial reporting is also one of the important aspects in determining the company's credibility in front of stakeholders (Dewi et al., 2024; Asyik et al., 2023; Harjanto, 2024).

The quality of financial reporting is not only determined by compliance with accounting standards, but also by the reporting process, management integrity,

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effectiveness of internal controls, and the company's oversight mechanisms. Inappropriately presented financial information can lead to errors in economic decision-making and reduce investor confidence in the company (Maharani & Pandapotan, 2024; Triana & Abdul, 2026; Hasan et al., 2022).

Kirana and Farida (2026) in a study of manufacturing companies listed on the Indonesia Stock Exchange showed that audit quality has a negative effect on profit management. These findings indicate that improving audit quality can reduce the possibility of profit management actions that have the potential to reduce the quality of financial information. This study shows that audit mechanisms have relevance in maintaining the quality of information submitted by companies to external parties (Yasmin et al., 2024; Farid & Mulya, 2025; Li & Liu, 2024).

In addition, Risky and Dwi (2025) examined the disclosure of Key Audit Matters on profit management in Indonesian manufacturing companies during 2022–2024. Based on 227 company-year observations, the study found that the amount and length of Key Audit Matters disclosures had no significant effect on profit management, while the level of specificity of disclosure had a negative relationship with profit management. These results show that the quality and characteristics of audit disclosures are more important than just the quantity of information conveyed (Velte, 2023; Li & Liu, 2024; Adimudra & Setiawan, 2025).

In accounting research, the quality of financial reporting is also often associated with the quality of profits and the level of profit management. Profit management can be an indicator of potential irregularities in the presentation of financial information, especially when management intervenes in profit figures to meet certain interests. Therefore, the quality of financial reporting can be understood through the ability of financial statements to accurately reflect the company's economic conditions and limit opportunities for misleading information to be presented (Choudhary & Verma, 2025; Qualified, 2026; Dewo Mughni & Ratmono, 2024).

The Relationship between Agency Theory and Financial Reporting Quality

The relationship between agency theory and the quality of financial reporting can be explained through the problems of conflicts of interest and information asymmetry that occur in the company. Management as an agent has the responsibility to convey information about the company's condition and performance to shareholders. However, differences in interests and information imbalances can cause management to not always convey information transparently and in accordance with the company's economic conditions (Rouf et al., 2024; Diantimala et al., 2022; Nindito et al., 2024).

From the perspective of agency theory, the quality of financial reporting is one of the mechanisms that can help reduce information asymmetry. Quality financial

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statements provide more accurate information to shareholders so that they can be used to evaluate management performance and assess the company's decisions. Information transparency also allows external parties to supervise company activities more effectively (Dewi et al., 2024; Asyik et al., 2023; Hasan et al., 2022).

Farid and Mulya (2025) examined the relationship between audit quality and corporate governance and profit management in infrastructure sector companies listed on the Indonesia Stock Exchange. The study shows that audit quality and corporate governance are relevant factors in explaining profit management practices. From an agency perspective, the findings reinforce the importance of supervisory mechanisms to reduce opportunistic management actions that have the potential to affect the quality of financial reporting (Adimudra & Setiawan, 2025; Yasmin et al., 2024; Choudhary & Verma, 2025).

Meanwhile, Adimudra and Setiawan (2025) found that audit quality and audit committees have different abilities in limiting accrual profit management and real profit management in consumer goods companies in Indonesia. Audit quality plays a greater role in reducing accrual profit management, while audit committees show different effectiveness on types of profit management. The findings show that supervisory mechanisms do not always have a uniform influence on different forms of management actions (Dewo Mughni & Ratmono, 2024; Li & Liu, 2024; Farid & Mulya, 2025).

Based on this research, agency theory can be used to explain that the quality of financial reporting is not only related to the technical aspects of accounting, but also to the effectiveness of supervision over management. The quality of financial reporting is a mechanism to reduce information uncertainty, strengthen accountability, and limit the possibility of opportunistic actions in the presentation of financial statements (Rouf et al., 2024; Putri Rafie et al., 2025; Nindito et al., 2024).

Determinants of Financial Reporting Quality

The quality of financial reporting is an important aspect of accounting that is influenced by various internal and external factors of the company. From the perspective of agency theory, the determinant of financial reporting quality is closely related to mechanisms that are able to reduce conflicts of interest between management and shareholders and minimize information asymmetry. These mechanisms play a role in ensuring that the financial information presented by the company is trustworthy, transparent, and accurately reflects the company's economic conditions (Dewi et al., 2024; Shamsudin et al., 2026; Hasan et al., 2022).

In addition to corporate governance, audit quality is also an important determinant in financial reporting. External auditors have a role in checking the fairness of the presentation of financial statements and ensuring the suitability of information with

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applicable accounting standards. Quality audits can help identify errors and irregularities in financial reporting, thereby increasing the credibility of information submitted to external parties. Kirana and Farida (2026) found that audit quality has a negative effect on profit management in manufacturing companies in Indonesia. These results show that audit quality can help limit opportunistic management actions that have the potential to reduce the quality of financial information (Velte, 2023; Yasmin et al., 2024; Li & Liu, 2024).

The audit committee also has a role in supporting the quality of financial reporting through supervision of the process of preparing financial statements, internal control, and conducting audits. The existence of an audit committee is expected to be able to increase transparency and reduce the risk of irregularities in financial reporting. However, the effectiveness of the audit committee is not only determined by its existence, but also by the company's supervisory capabilities and characteristics. Adimudra and Setiawan (2025) found that the effectiveness of audit committees differs in limiting accrual profit management and real profit management. The findings show that the company's supervisory mechanisms do not always produce the same influence on various forms of management behavior (Dewo Mughni & Ratmono, 2024; Hafizh & Sembiring, 2026; Farid & Mulya, 2025).

Internal control is another factor that contributes to the quality of financial reporting. Internal control systems are designed to ensure the reliability of financial records, the effectiveness of operational activities, and compliance with applicable regulations. Effective internal control can reduce the risk of recording errors, misuse of resources, and irregularities in the process of preparing financial statements. Triana and Abdul (2026) show that internal control systems strengthen the relationship between the implementation of accrual-based accounting standards and the quality of government financial statements. The results of the study indicate that internal control has an important role in supporting transparency and accountability in financial reporting (Maharani & Pandapotan, 2024; Dewi et al., 2024; Hasan et al., 2022).

On the other hand, profit management is one of the factors related to the decline in the quality of financial reporting. Profit management occurs when management intervenes in the profit reporting process through certain accounting decisions and operational activities. This practice can cause profit information to not fully reflect the company's economic conditions, thereby reducing the usefulness of financial statements for stakeholders. Risky and Dwi (2025) found that the specificity of Key Audit Matters disclosure has a negative relationship with profit management, while the number and length of disclosures do not show a significant influence. These findings show that the transparency and quality of disclosure of audit information have relevance in limiting profit

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management practices (Choudhary & Verma, 2025; Mumpuni, 2026; Adimudra & Setiawan, 2025).

Based on the synthesis of previous research, the determinants of financial reporting quality are not only related to the technical aspects of report preparation, but are also influenced by the effectiveness of corporate governance, audit quality, audit committees, internal control, and management behavior. From the perspective of agency theory, these factors act as a supervisory mechanism that can reduce conflicts of interest, limit opportunistic actions, and minimize information asymmetry. However, the results of previous research show that the influence of each determinant is not always consistent, so a systematic study is needed to identify patterns of findings, differences in results, and relationships between determinants in explaining the quality of financial reporting (Dewi et al., 2024; Shamsudin et al., 2026; Choudhary & Verma, 2025).

Consequences of Financial Reporting Quality

The quality of financial reporting has important consequences for economic decision-making, corporate valuation, and the relationship between the company and stakeholders. Quality financial reporting allows users of financial reports to obtain information that is relevant, reliable, and reflects the company's economic conditions more accurately. From the perspective of agency theory, the quality of financial reporting can be a means to reduce information asymmetry between management as agents and shareholders as principals. Transparent and trustworthy information helps principals evaluate management performance while reducing uncertainty in decision-making (Asyik et al., 2023; Diantimala et al., 2022; Biehl et al., 2024).

One of the consequences of the quality of financial reporting is the increase in company value. Harjanto (2024) examines the relationship between the quality of financial reporting and the value of the company through the quality of accruals and profit management. The research shows that the quality of financial information is related to how the market assesses the company's condition and prospects. Quality financial reporting can provide investors with a better picture of the company's performance so as to support a more objective corporate valuation process. Thus, the quality of financial reporting not only functions as a form of management accountability, but also has relevance to the company's economic assessment by the market (Asyik et al., 2023; Wicaksono et al., 2026; Biehl et al., 2024).

Another consequence is related to a decrease in information asymmetry and capital costs. Diantimala et al. (2022) explain that disclosure of company information can reduce information asymmetry and capital costs, which in turn contributes to an increase in the company's value. More complete information allows investors and creditors to gain a more adequate understanding of the company's condition so that uncertainty in funding

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and investment decisions can be reduced. In the context of agency theory, this condition shows that information transparency plays an important role in narrowing the information gap between management and external parties of the company (Asyik et al., 2023; Harjanto, 2024; Dewi et al., 2024).

The quality of financial reporting also has consequences for the effectiveness of investment and the allocation of company resources. Biehl et al. (2024), through a systematic review of 94 accounting and financial studies, found that high-quality financial reporting is positively related to the efficiency of the company's resource allocation. Quality financial information helps companies and external parties in evaluating investment opportunities, assessing risks, and determining the use of resources more efficiently. These consequences are not only felt by companies that prepare financial statements, but can also have an impact on other companies and market participants through increasing the efficiency of economic activities (Asyik et al., 2023; Diantimala et al., 2022; Wicaksono et al., 2026).

Synthesis of Previous Research

Previous research has shown that the quality of financial reporting is a multidimensional concept influenced by governance mechanisms, audit quality, internal controls, and management behavior. Although some studies have shown that the supervisory mechanism is able to improve the quality of financial reporting, other studies have found that the influence depends on the characteristics of the supervisory mechanism and the type of management behavior controlled.

Here is a synthesis of some empirical research relevant to the research topic:

No.	Researcher and Year	Research Object/Focus	Key Results
1	Farid & Mulya (2025)	Quality auditing, corporate governance, and profit management in Indonesia's infrastructure sector	The quality of audit and corporate governance is studied as a mechanism for supervision of profit management.
2	Puspita & Setiawan (2025)	Quality audit, audit committee, and profit management before and after IFRS implementation	The quality of the audit and audit committees have different effectiveness on the management of accrual and real profits.
3	Nurdin & Handayani (2026)	Disclosure of Key Audit Matters and profit management of	The specificity of KAM disclosures is negatively correlated with earnings management, whereas the number

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		Indonesian manufacturing companies	and length of disclosures are insignificant.
4	Kirana & Farida (2026)	Audit quality, profitability, and profit management	Audit quality has a negative effect on profit management, while profitability does not show a significant effect.
5	Hafizh & Sembiring (2026)	Characteristics of the board of directors, audit committee, and quality of financial reporting	The size of the board of directors has a significant effect on discretionary accruals, while the gender diversity of the board and the size of the audit committee are not significant.
6	Meinarsih & Yusuf (2026)	Determinants of the quality of the Indonesian government's financial statements	Accrual-based accounting standards, the quality of apparatus, and public accountability have a positive effect on the quality of financial statements. Internal controls strengthen some of these relationships.
7	Harjanto (2023)	Financial reporting quality and company value	Shows the relevance of the quality of financial reporting in explaining the company's value.

Source: Compiled based on the research of Farid and Mulya (2025), Puspita and Setiawan (2025), Nurdin and Handayani (2026), Kirana and Farida (2026), Hafizh and Sembiring (2026), Meinarsih and Yusuf (2026), and Harjanto (2023).

Research Gap and Frame of Mind

Based on previous research, discussions on the quality of financial reporting have developed from various perspectives, particularly corporate governance, audit quality, audit committees, internal control, and earnings management. Empirical studies also indicate that the influence of supervisory mechanisms on financial reporting quality is not always consistent. Some mechanisms demonstrate significant effects, while others show no significant relationship with financial information quality (Choudhary & Verma, 2025; Dewi et al., 2024; Shamsudin et al., 2026).

Previous studies have primarily examined the relationship between audit mechanisms, corporate governance, and earnings management. Adimudra and Setiawan (2025) and Farid and Mulya (2025) focused on audit quality and corporate governance in relation to earnings management, while Risky and Dwi (2025) examined Key Audit Matters disclosure characteristics, and Hafizh and Sembiring (2026)

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investigated board of directors and audit committee characteristics. These studies provide empirical evidence regarding factors associated with financial reporting quality, although they differ in research focus, objects, and measurement proxies (Adimudra & Setiawan, 2025; Risky & Dwi, 2025; Hafizh & Sembiring, 2026).

Based on these conditions, a study integrating previous research findings from an agency theory perspective is needed to explain the determinants and consequences of financial reporting quality more comprehensively. This article seeks to synthesize the literature on how agency conflicts and information asymmetry relate to financial reporting quality, the factors influencing it, and its consequences for transparency, accountability, and economic decision-making (Rouf et al., 2024; Nindito et al., 2024; Dewi et al., 2024).

The conceptual framework of this study positions agency theory as the main foundation for explaining the relationship between conflicts of interest, information asymmetry, and financial reporting quality. Financial reporting quality is further examined through its determinants, including corporate governance, audit quality, audit committees, internal control, and earnings management, as well as its consequences for investor confidence, firm value, information credibility, and agency conflict reduction (Hasan et al., 2022; Asyik et al., 2023; Biehl et al., 2024).

RESEARCH METHODS

The literature selection process in this study was carried out in stages to obtain scientific articles that are relevant to the focus of studies on agency theory and financial reporting quality. The literature search was carried out through various academic sources, namely Scopus, ScienceDirect, SpringerLink, Google Scholar, and related scientific journals using the keywords agency theory, financial reporting quality, corporate governance, audit quality, earnings management, and financial reporting consequences.

Based on the design of the selection process, 120 articles were obtained at the initial identification stage. Furthermore, articles were examined to identify duplication and suitability of titles and abstracts with the focus of the research. Irrelevant articles were excluded from the selection process. Articles that passed the screening were then evaluated based on the suitability of the content, relevance of the discussion, and the availability of information needed to answer the research objectives. The results of the selection are presented in the following table.

Selection stages	Number of articles
Articles identified from the database	120
Duplicate articles	15

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Articles after deduplication	105
Articles are issued by title and abstract	45
Articles checked for full-text eligibility	60
Full-text articles not obtained	5
Articles evaluated as a whole	55
Articles issued after feasibility evaluation	30
Final article used in the study	25

Based on the results of the selection, as many as 25 scientific articles were determined as the final literature used in this study. The articles were selected based on their suitability with the research topic, especially those that discuss agency theory, financial reporting quality, corporate governance, audit quality, profit management, and the consequences of financial reporting quality.

Furthermore, all selected articles were analyzed using a thematic synthesis approach by grouping discussions based on theoretical foundations, determinants of financial reporting quality, corporate supervision mechanisms, and consequences of financial reporting quality for investors, creditors, and companies. The results of the synthesis were used to identify patterns of research findings, differences in empirical results, and research gaps that can be the basis for future research development.

RESULTS OF SYNTHESIS AND DISCUSSION

Literature Synthesis Results

The results of the literature synthesis show that agency theory is one of the dominant theoretical foundations in explaining the quality of financial reporting. Agency theory provides a perspective on the relationship between management as an agent and shareholders as principals who have different interests in the management of the company. These differences in interests can lead to agency conflicts, especially when management has broader information about the company's condition compared to shareholders. This condition creates information asymmetry that allows management to take opportunistic actions, including presenting financial information that does not fully reflect the company's economic condition. Therefore, the quality of financial reporting is an important mechanism to increase information transparency, strengthen supervision, and reduce potential conflicts of interest between management and shareholders (Rouf et al., 2024; Nindito et al., 2024; Diantimala et al., 2022).

Dewi et al. (2024) conducted a systematic literature review of 54 articles published in the 2016–2023 period and obtained through the Scopus database. The results of the

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study show that the quality of financial reporting is a topic closely related to agency issues, the application of International Financial Reporting Standards (IFRS), and investors' need for quality information. The study also found differences in the results of previous research regarding the determinants and consequences of financial reporting quality. These differences show that the relationship between the quality of financial reporting and the factors that affect it has not completely resulted in uniform conclusions. The study emphasizes the need for further studies to identify factors that consistently affect the quality of financial reporting and understand the conditions that cause differences in research results (Asyik et al., 2023; Biehl et al., 2024).

The findings were expanded by Shamsudin et al. (2026) through a systematic literature review of 143 articles indexed by Scopus regarding the determinants of financial reporting quality. This study groups the determinants of financial reporting quality into seven main groups, namely corporate governance, auditing, IFRS adoption, technology, business profile and performance, other internal factors, and other external factors. The results of the study show that corporate governance is the most studied group of determinants, while technology has increased attention in the latest research. This shows that the discussion of financial reporting quality is increasingly developing from a conventional supervisory approach to a broader approach by considering the development of information systems and technology in the process of preparing financial statements (Dewi et al., 2024; Hasan et al., 2022; Putri Rafie et al., 2025).

In terms of theoretical foundation, Shamsudin et al. (2026) found that agency theory, stakeholder theory, and the Modified Jones Model are widely used approaches in secondary data-based financial reporting quality research. Meanwhile, research that uses primary data tends to refer to the qualitative characteristics of financial information in the conceptual framework of the International Accounting Standards Board (IASB) as the basis for measuring the quality of financial reporting. These findings show that financial reporting quality research has a diverse measurement approach. Some studies assess the quality of financial reporting based on indications of managerial opportunistic behavior, such as profit management, while other studies assess the quality of information based on the relevance, accuracy of representation, comparability, and characteristics of the financial information presented. The difference in measurement approaches is one of the factors that need to be considered in understanding the variation in previous research results (Rouf et al., 2024; Dewi et al., 2024; Li & Liu, 2024).

Based on the synthesis of empirical research, corporate governance is one of the most widely used internal mechanisms to explain the quality of financial reporting. The governance mechanism includes the characteristics of the board of directors, independent commissioners, audit committees, managerial ownership, and institutional ownership. Theoretically, these mechanisms function as a tool to supervise management

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actions so that they can reduce the possibility of conflicts of interest and misuse of information. However, the results of the study show that the effectiveness of governance mechanisms is not always consistent. Mumpuni (2026), through a thematic study of empirical research in Indonesia for the period 2017–2026, found that the results of research on board independence and audit committee activities are still divided between studies that show significant influence and studies that find insignificant influence. These conditions indicate that the existence of formal governance mechanisms does not necessarily guarantee the effectiveness of supervision of the quality of financial reporting (Choudhary & Verma, 2025; Hafizh & Sembiring, 2026; Septarini et al., 2026).

In the Indonesian context, the research of Nindito et al. (2024) provides evidence on the relationship between related party transactions, corporate governance, and financial statement fraud. A study of 500 observations of Indonesian public companies for the period 2017–2019 showed that related party transactions and institutional ownership had a significant effect on the likelihood of financial statement fraud. Institutional ownership was also found to be able to moderate the influence of related party transactions on the possibility of financial statement fraud. The findings show that agency relationships are not only related to conflicts between management and shareholders, but can also arise in corporate transactions involving parties who have an interest relationship. Thus, the ownership structure and characteristics of corporate transactions are important aspects in explaining the risks to the integrity of financial reporting (Maharani & Pandapotan, 2024; Hasan et al., 2022; Dewo Mughni & Ratmono, 2024).

The results of this synthesis also show that research on the quality of financial reporting still has room for development, especially in integrating agency theory with various supervisory mechanisms and company characteristics. Previous research tends to examine the influence of determinants separately, so it has not fully provided a comprehensive picture of how these mechanisms interact with each other in reducing agency conflicts. In addition, the difference in the use of financial reporting quality proxies makes it difficult to compare research results directly. Therefore, a systematic study is needed that not only identifies the determinants of financial reporting quality, but also outlines patterns of consistency, inconsistencies, and theoretical implications from previous research. This synthesis is the basis for understanding the relationship between agency theory and financial reporting quality and formulating future research directions (Rouf et al., 2024; Putri Rafie et al., 2025; Wicaksono et al., 2026).

Discussion of Agency Theory in Financial Reporting Quality

Agency theory is an important conceptual foundation in explaining the relationship between the quality of financial reporting, conflicts of interest, and corporate supervisory

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mechanisms. In agency relationships, shareholders as principals give authority to management as agents to manage company resources and make business decisions. This relationship has consequences in the form of differences in interests, especially when management has personal goals that are not fully in line with the interests of shareholders. This condition can cause agency conflicts that have the potential to affect the quality of financial information submitted to external parties (Nindito et al., 2024; Rouf et al., 2024; Putri Rafie et al., 2025).

In the context of financial reporting, management has wider access to information about the company's operational activities, financial condition, risks, and prospects compared to shareholders. This information imbalance causes shareholders to experience limitations in assessing whether management decisions have been made optimally. Therefore, financial statements are one of the main means for principals to obtain information about the company's condition and evaluate management accountability. The quality of financial reporting is important because it determines the extent to which the report can be used to reduce information gaps and support the supervisory process of agents (Diantimala et al., 2022; Dewi et al., 2024; Asyik et al., 2023).

Yasmin et al. (2024) explained that information asymmetry arises as a consequence of agency relationships and can be minimized through adequate disclosure of financial statements. Disclosure of information about other comprehensive revenues, company risk management, and disclosure quality are aspects that can help reduce information imbalances between internal and external parties of the company. These findings show that transparency of financial statements has an important function in reducing agency problems, because more complete information allows shareholders to evaluate management activities more effectively (Diantimala et al., 2022; Hasan et al., 2022; Dewi et al., 2024).

Research by Wicaksono et al. (2026) shows that the readability of annual reports and the relevance of accounting information have a relationship with agency costs. The study used non-financial companies listed on the Indonesia Stock Exchange for the period 2019–2024 and found that the relevance of the value of accounting information can reduce agency costs, while the readability of annual reports shows a different relationship with agency costs. These findings show that the quality of information is not only determined by the availability of reports, but also by how the information is presented and used by external parties (Harjanto, 2024; Asyik et al., 2023; Diantimala et al., 2022).

Further, the relationship between agency theory and the quality of financial reporting can be explained through management's opportunistic behavior. Management has the opportunity to use its authority in determining accounting policies, estimates, and operational decisions that affect financial statement figures. When oversight of such

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actions is weak, management can be driven to prioritize its own interests, for example through profit management in order to appear to meet certain targets. This condition suggests that agency conflicts do not always arise in the form of explicit fraud, but can also occur through the use of accounting flexibility that does not fully reflect the economic substance of the company (Choudhary & Verma, 2025; Mumpuni, 2026; Dewo Mughni & Ratmono, 2024).

Nindito et al. (2024) provide empirical evidence regarding the relationship between agency conflicts and the risk of financial statement fraud in Indonesia. The study used 500 observations of Indonesian public companies for the period 2017–2019 and found that related party transactions and institutional ownership have a significant influence on the likelihood of financial statement fraud. Institutional ownership was also found to moderate the relationship between related party transactions and the possibility of financial statement fraud. These findings show that agency conflicts can develop in corporate transaction relationships with parties with related interests, so transaction transparency and supervisory effectiveness are important in maintaining the integrity of financial statements (Maharani & Pandapotan, 2024; Hasan et al., 2022; Dewo Mughni & Ratmono, 2024).

In this relationship, the quality of financial reporting serves as a control mechanism that helps principals obtain information to assess management actions. Control mechanisms can be carried out through internal as well as external supervision. Internal supervision involves the board of commissioners, audit committees, internal control systems, and corporate ownership structures, while external supervision is carried out through independent audits, regulations, and monitoring by investors and creditors. Both mechanisms have complementary functions in increasing the credibility of financial information and limiting opportunities for management to take opportunistic actions (Hasan et al., 2022; Velte, 2023; Triana & Abdul, 2026).

Supervisory Mechanism in Improving the Quality of Financial Reporting

The supervisory mechanism can be explained through research by Septarini et al. (2026) which examined the influence of managerial ownership, institutional ownership, and auditor quality on the quality of financial reporting with deviations in business strategy as a moderation variable. A study of 60 manufacturing companies on the Indonesia Stock Exchange for the period 2019–2024 showed that auditor quality had a positive and significant influence on the quality of financial reporting. In contrast, managerial ownership and institutional ownership did not show a significant direct influence. The study also found that business strategy deviations moderated the relationship between managerial ownership and the quality of financial reporting, but did not moderate the relationship between institutional ownership and auditor quality. These findings suggest

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that the effectiveness of supervisory mechanisms in the perspective of agency theory depends on the characteristics of the company and the strategic conditions faced (Hafizh & Sembiring, 2026; Farid & Mulya, 2025; Choudhary & Verma, 2025).

The findings reinforce the understanding that supervisory mechanisms do not always provide the same results for all companies. Managerial ownership can theoretically align the interests of management and shareholders because management also has an economic interest in the company. However, such ownership can also give rise to the possibility of entrenchment when management has considerable power to maintain its position and influence the company's decisions. Similarly, institutional ownership does not necessarily guarantee effective oversight because institutional investors have different characteristics, interests, and levels of involvement. Therefore, the influence of governance mechanisms needs to be understood based on the effectiveness of the oversight that is actually carried out, not solely on the existence of ownership structures (Nindito et al., 2024; Putri Rafie et al., 2025; Qualifications, 2026).

In the latest research developments, agency theory is also used to explain the quality of financial reporting in public sector organizations. Triana and Abdul (2026) examined the quality of the financial statements of the Indonesian central government by involving 518 respondents from 34 ministries and institutions. The study found that the application of accrual-based accounting, the quality of state civil servants, and public accountability had a positive effect on the quality of financial statements. The Government Internal Control System (SPIP) also strengthened the influence of accrual-based accounting and public accountability on the quality of financial statements. The findings show that the principle of agency theory is not only relevant in the relationship between companies and shareholders, but can also be used to explain the accountability relationship between the government as an agent and the community as a principal (Dewi et al., 2024; Maharani & Pandapotan, 2024; Rouf et al., 2024).

Based on these various studies, it can be understood that the quality of financial reporting has a broader function than just the delivery of accounting information. The quality of financial reporting is part of the accountability mechanism that allows principals to assess agent performance, evaluate resource use, and identify potential irregularities. When financial statements are prepared in a transparent and trustworthy manner, principal's ability to conduct supervision is improved. On the other hand, when the quality of financial reporting is low, limited information can increase the chances of opportunistic actions and increase supervisory costs (Asyik et al., 2023; Diantimala et al., 2022; Wicaksono et al., 2026).

Thus, agency theory provides a fundamental explanation of why the quality of financial reporting is necessary and how the supervisory mechanism plays a role in maintaining it. The results of the synthesis show that the quality of financial reporting is

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not only determined by the accounting standards applied, but also by the effectiveness of governance, auditor independence, quality of disclosure, internal control system, and characteristics of ownership and company strategy. This relationship shows that the quality of financial reporting is the result of the interaction between the need for transparency, supervisory mechanisms, and management behavior in carrying out its responsibilities to principals (Shamsudin et al., 2026; Dewi et al., 2024; Septarini et al., 2026).

Inconsistencies in Findings of Previous Research

Inconsistencies in previous research findings remain an important issue in the study of financial reporting quality. Although corporate governance, audit quality, audit committees, ownership structure, and internal control are generally considered mechanisms for improving financial reporting quality and reducing managerial opportunism, empirical findings remain mixed. Choudhary and Verma (2025), through a meta-analysis of 108 studies, found that the relationship between corporate governance and earnings management varies depending on economic conditions, research periods, measurement models, and national cultural characteristics. Similarly, Mumpuni (2026) identified inconsistent findings regarding board independence and audit committee effectiveness, while Li and Liu (2024) reported conflicting evidence concerning abnormal audit fees and financial reporting quality (Dewi et al., 2024; Hasan et al., 2022; Shamsudin et al., 2026).

These inconsistencies also appear in studies examining audit committee characteristics and financial statement integrity. Dewo Mughni and Ratmono (2024) found that audit committee expertise significantly reduces earnings management, whereas independence, size, and meeting frequency have no significant effects. Similarly, Maharani and Pandapotan (2024) highlighted differences in previous findings regarding corporate governance, internal control, and financial statement integrity. These findings indicate that the effectiveness of governance and auditing mechanisms depends on organizational characteristics, measurement approaches, and institutional environments, highlighting the need for further research to develop a more comprehensive understanding of financial reporting quality (Adimudra & Setiawan, 2025; Farid & Mulya, 2025; Hafizh & Sembiring, 2026).

Synthesis of Inconsistencies and Further Research Directions

Based on various studies that have been studied, the inconsistency of previous findings can be understood as a consequence of differences in conceptual approaches, measurement of variables, sample characteristics, and institutional conditions. Corporate governance, audit quality, and audit committees theoretically have important supervisory

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functions, but their influence on the quality of financial reporting is not always direct and uniform. The effectiveness of supervisory mechanisms can depend on a combination of internal and external factors of the company (Dewi et al., 2024; Shamsudin et al., 2026; Li & Liu, 2024).

The findings of Choudhary and Verma (2025) show that the relationship between corporate governance and profit management is influenced by economic conditions, culture, research period, and measurement models. Meanwhile, Li and Liu (2024) show that the relationship between abnormal audit costs and the quality of financial reporting also resulted in different conclusions in previous studies. Both studies strengthen the argument that inconsistency of empirical results is a problem that requires systematic synthesis, not just retesting the relationship between variables (Hasan et al., 2022; Dewo Mughni & Ratmono, 2024; Mumpuni, 2026).

Based on this synthesis, further research needs to develop a more comprehensive approach by considering the use of diverse financial reporting quality proxies, testing of simultaneous supervisory mechanisms, and the use of relevant moderation variables. Research also needs to expand the context of the sample by comparing the characteristics of companies across industries, periods, and institutional environments. This approach is expected to provide a deeper understanding of the conditions under which supervisory mechanisms are effective in reducing agency conflicts and improving the quality of financial reporting (Septarini et al., 2026; Wicaksono et al., 2026; Hafizh & Sembiring, 2026).

Overall, the inconsistencies of previous research suggest that the quality of financial reporting is a multidimensional phenomenon that cannot be explained through a single factor. Agency theory provides a conceptual basis for understanding conflicts of interest and supervisory needs, while empirical research provides evidence regarding variations in the effectiveness of supervisory mechanisms in different contexts. Therefore, the synthesis of findings inconsistencies is an important part of developing theoretical understanding and formulating future research agendas (Rouf et al., 2024; Choudhary & Verma, 2025; Shamsudin et al., 2026).

CONCLUSION

Based on the Systematic Literature Review, this study concludes that agency theory provides a relevant framework for explaining the relationship between conflicts of interest, information asymmetry, supervisory mechanisms, and financial reporting quality. The findings indicate that financial reporting quality is influenced by corporate governance, audit quality, audit committee characteristics, ownership structure, internal control, and disclosure transparency, although their effects vary across companies and research contexts. High-quality financial reporting contributes to reducing information

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asymmetry, strengthening investor confidence, improving resource allocation, and increasing firm value.

The study highlights the importance of effective corporate governance, independent auditing, competent audit committees, and transparent disclosure in mitigating agency conflicts and enhancing corporate accountability. Future research should integrate multiple supervisory mechanisms, consider moderating variables such as leverage and firm characteristics, and employ diverse financial reporting quality measures across different industries and institutional environments (Asyik et al., 2023; Dewi et al., 2024; Shamsudin et al., 2026).

ADVICE

Based on the literature synthesis, future research should integrate corporate governance, audit quality, audit committee effectiveness, ownership structure, and internal control within a comprehensive framework, while expanding industry coverage and using diverse financial reporting quality measures. Companies should strengthen governance, supervision, and transparency, while investors should consider reporting quality in economic decision-making. These efforts are expected to reduce agency conflicts, minimize information asymmetry, and enhance corporate accountability and stakeholder confidence.

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