

# DO AUDIT QUALITY ENHANCEMENTS IMPROVE FINANCIAL REPORTING CREDIBILITY? A SYSTEMATIC LITERATURE REVIEW

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## Abstract

This systematic review examines whether, how, and under what conditions audit quality enhancements (AQEs) strengthen financial reporting credibility (FRQ). Following PRISMA procedures, we screened 2015–2025 studies and synthesized 25 core articles; a VOSviewer map highlights three clusters: (i) governance and audit committees, (ii) audit process and policy levers (effort, specialization, rotation/EQCR, ISQM-1/ISA 220, and KAM/CAM design), and (iii) reporting outcomes and earnings management. Overall, AQEs correlate with lower discretionary accruals, timelier loss recognition, fewer restatements, and more disciplined market reactions when risk-based procedures are deep, KAM/CAM are specific, and audit committees and internal audit are effective. Impacts rise with strong enforcement and institutional ownership but weaken under fee pressure, long tenure, or poor governance. We note fragmented FRQ proxies and call for causal designs and observable process-quality measures to isolate mechanisms. The review offers an integrated pathway linking governance and audit processes to reporting credibility and market consequences.

**Keywords:** Audit Quality, Financial Reporting Credibility, ISQM-1, Kam/Cam, Audit Committee, Enforcement.

## INTRODUCTION

The global push toward transparent, public interest-oriented corporate governance makes the credibility of financial reporting the cornerstone of capital market confidence. In an increasingly complex IFRS and *fair* value-based reporting regime, audit quality is positioned as a public interest safeguard to ensure that the figures presented are not only compliant with standards, but also reliable, neutral, and faithfully represent the economic condition of the entity. Recent reforms such as the IAASB's audit quality

management standards (ISQM 1, ISQM 2, and ISA 220) explicitly shift the approach from reactive quality control to proactive, risk-based quality management, with the ultimate goal of improving the consistency of audit quality and the confidence of financial statement users across jurisdictions. In line with this, various audit quality indicators (AQI) initiatives in Europe and other jurisdictions emphasize the importance of measuring and disclosing audit quality as a new accountability mechanism to regulators, audit committees, and investors. In this context, audit quality enhancements, whether driven by regulators (e.g., PCAOB oversight, EU audit reforms) or initiated by audit firms (quality management systems, technology investments, industry specialization), are central instruments for strengthening the credibility of financial reporting. In this article, the term financial reporting credibility is used interchangeably with financial reporting quality (FRQ) when referring to reliable, relevant, and market-trusted reporting outputs.

Theoretically, contemporary literature maps out at least two main paths through which improving audit quality can enhance the credibility of reporting. First, based on agency theory and information economics, high-quality audits reduce information risk and conflicts of interest between managers and owners by increasing auditors' ability to detect material misstatements and their willingness to report them. *The IAASB Audit Quality Framework* emphasizes that competence, independence, professional skepticism, and robust audit process design are key inputs that ultimately translate into outputs in the form of more credible audit opinions and more reliable financial statements. Second, from a signaling and reputation perspective, companies with a higher commitment to reporting tend to voluntarily choose a combination of stronger audit quality attributes, such as the use of *Big 4* or *industry specialists*, fees that reflect greater audit effort, and a robust quality management system to signal the credibility of their reports to the market and reduce the cost of capital. In this framework, *audit quality enhancements* (AQEs) can be seen as a signal of long-term commitment to transparency and accountability in reporting. *Audit quality* in this study refers to the level of assurance provided on the fairness of financial statements, while AQEs are defined as regulatory, institutional, or firm policy interventions that explicitly aim to improve audit quality.

Global regulatory developments reinforce the role of these mechanisms through increasingly intensive external oversight. A series of studies related to the PCAOB inspection regime provide evidence that public oversight of auditors has real implications for the credibility of financial reporting. Gipper, Leuz, and Maffett (2020) document that public oversight through PCAOB inspections related to audits of foreign issuers increases market response to earnings announcements and trading volume, which is interpreted as an increase in the credibility of earnings information after audit quality is tightened. Shroff (2020) shows that international PCAOB inspections highlighting audit weaknesses encourage adjustments in corporate financing and investment behavior, indicating that improvements in audit quality through regulatory pressure resonate in real economic decisions that depend on the reliability of financial reports. Recent studies also find that inspection deficiency findings, particularly those related to intangible asset valuation, encourage greater and more timely recognition of impairment losses, signaling increased auditor rigor in accounting measurements that were previously susceptible to managerial discretion. Aggregately, this evidence suggests that strengthening audit quality through external oversight regimes can enhance the reliability and credibility of audited figures for users.

At the firm and engagement levels, the literature highlights that various *audit quality enhancements* at the input and audit process levels are associated with higher reporting credibility. Syalwa et al. (2024), through an SLR of 34 Scopus articles, show that input factors such as auditor competence, independence, integrity, and ethics have a consistent influence on audit quality, although the magnitude of the effect varies across contexts, methodologies, and regulatory changes. In the context of emerging markets, Le (2025) finds that higher audit quality (measured, among other things, by firm size, fees, and specialization) correlates with a decrease in real earnings management in highly leveraged and cash-strapped companies, indicating that investors can rely more on reported earnings when audit quality improves. Direct evidence regarding the credibility of financial reporting is presented by Otuya & Ikhu-Omoregbe (2025), who show that audit fees and longer auditor tenure are positively associated with perceptions of reporting credibility in Nigerian oil and gas companies, while firm size and auditor turnover yield less consistent results. These findings confirm that enhancements such as strengthening competence, increasing audit intensity, and stabilizing auditor-client

relationships can contribute to increased user confidence in audited reports.

Another dimension of audit quality improvement comes through innovation in the form and content of auditor reports, particularly the disclosure of Key Audit Matters (KAM) or Critical Audit Matters (CAM), which is mandatory in many jurisdictions. An experimental study by Moroney, Phang, and Xiao (2021) found that investors consider KAMs to be valuable information when they are specific, actionable, and consistent with perceived risks; conversely, generic KAMs may not improve, and may even confuse, perceptions of audit quality and report credibility. Carver, Muriel, & Trinkle (2023, print 2025) show that clear disclosure of CAM, visually separated from the opinion section, enhances retail investors' perceptions of audit quality and reduces perceptions of investment risk, although the effect is sensitive to the reporting layout and the cognitive load on readers. In other words, audit report enhancements through expanded KAM/CAM disclosures do not automatically improve the credibility of financial reporting; the quality of design and clarity of message are prerequisites for credibility benefits to be realized.

However, the literature also emphasizes the heterogeneity and complexity of audit quality measurement, which in turn contributes to the inconsistency of findings regarding its relationship with reporting credibility. The latest systematic and bibliometric reviews show that audit quality research is spread across various topic clusters and proxies ranging from inputs (competence, independence, ethical culture), processes (planning, documentation, use of technology), to outputs (opinions, report modifications, restatements) with results that often depend on the institutional context and research design. Kalita & Tiwari (2023), for example, mapped the audit quality literature from 1981 to 2022 and found fragmentation of themes, including limitations in bridging audit quality proxies with market-based and behavioral reporting credibility indicators. From the perspective of audit quality itself, Syalwa et al. (2024) highlight that differences in country settings, applicable standards, and research design trigger variations in the effects of input factors on audit quality. On the financial reporting side, Dewi et al. (2024) and Mos (2024) show that the determinants and consequences of financial reporting quality (FRQ), including the role of audit quality, produce findings that are not always consistent, especially when FRQ is measured using different proxies

(accrual quality, conservatism, value relevance, restatement, or timeliness). Other SLRs focusing on FRQ in the financial sector and during periods of crisis (e.g., Saha, 2022) also found that crisis pressures and changes in the institutional environment can weaken or even reverse the relationship between audit quality and reporting quality/credibility.

The context of emerging markets adds an important dimension to this debate. In many jurisdictions with developing law enforcement and oversight capacities, improvements in audit quality are often driven by a combination of regulatory pressure, adoption of IFRS, and local capital market dynamics. Deb, Nepal & Chakraborty (2023) emphasize that the impact of IFRS on audit and reporting quality is strongly influenced by the existence of effective audit oversight, governance structures, and standard enforcement infrastructure. Studies in Asia and Africa reviewed in Syalwa et al. (2024) and Dewi et al. (2024) indicate that improvements in audit quality attributes (e.g., industry specialization, fee structure, and implementation of new quality standards) may only have a significant impact on reporting credibility when supported by a stronger institutional environment, effective audit committees, and institutional investor participation capable of accurately interpreting audit quality signals. On the other hand, the findings of Otuya & Ikhu-Omoregbe (2025) show that in conditions of diverse governance and enforcement, certain indicators such as fees and tenure can increase the perception of credibility, while other indicators (e.g., rotation) may not necessarily have the expected effect.

Overall, the latest research map reveals at least three major gaps that motivate this systematic study. First, although cumulative evidence tends to support that various audit quality enhancements ranging from regulatory inspections, new quality management standards, to strengthening auditor input aspects contribute to improving the quality and credibility of reporting, the heterogeneity of proxies and research contexts makes it difficult to conclude when and through what mechanisms credibility actually increases (Deb et al., 2023; Kalita & Tiwari, 2023; Syalwa et al., 2024). Second, existing SLRs generally focus on audit quality in general or on FRQ separately (Dewi et al., 2024; Mos, 2024; Saha, 2022), without systematically combining various forms of audit quality enhancements (regulation, quality systems, firm attributes, and auditor report design) with their direct consequences on reporting credibility as measured by various indicators (market response, cost of capital, restatement, and user perception). Third, evidence of

the from emerging markets, which have different oversight dynamics, ownership structures, and institutional quality from developed markets, is still scattered and has not been fully mapped to assess the generalizability of findings and contextual factors that strengthen or weaken the effect of audit quality improvements on reporting credibility (Le, 2025; Otuya & Ikhu-Omoregbe, 2025).

Based on this gap, this study conducted a Systematic Literature Review (SLR) of articles published between 2015 and 2025 that were indexed in Scopus and relevant to the relationship between audit quality enhancements and financial reporting credibility. This review integrates findings from archival quantitative research, experiments, surveys, and policy studies to develop a conceptual framework regarding: (i) the relationship between various forms of audit quality enhancements (supervisory regulations, quality management systems, firm/partner attributes, and auditor report innovations) and indicators of reporting credibility and information asymmetry; (ii) the determinants and design of effective audit quality enhancements (e.g., combinations of *input-process-output* that yield the greatest credibility enhancements); and (iii) market consequences (firm value, cost of capital, financing and investment decisions) and corporate governance. This article makes three main contributions. First, we synthesize the literature on *audit quality enhancements* and reporting credibility into a single integrated framework that links the levels of regulation/oversight, audit firm quality systems, and assignment attributes/processes. Second, we explicitly distinguish between evidence focusing on observed audit process quality and evidence focusing on reporting and capital market consequences, thereby bridging the fragmentation of audit quality and FRQ proxies in previous studies. Third, we develop a future research agenda emphasizing causal designs, the development of audit process quality indices, and the need for evidence from emerging markets, which is relatively limited in the literature.

The expected contribution is to provide an evidence-based synthesis that can serve as a reference for regulators, standard setters, audit committees, and the auditing profession in designing effective and proportionate audit quality improvement policies and practices to strengthen the credibility of financial reporting, particularly amid the dynamics of changing global quality standards and increasingly high stakeholder expectations.

## **THEORETICAL REVIEW**

### **The Credibility of Financial Reporting and the Role of Audit Quality Enhancements**

Financial reporting credibility refers to the extent to which users assess accounting information as reliable, complete, and a faithful representation of the company's economic condition. In the literature, this concept is closely related to financial reporting quality (FRQ), which is proxied by, among other things, accrual quality, profit management levels, the frequency and severity of restatements, conservatism, value relevance, and reporting timeliness (Dewi, Suartana, Yasa, & Budiarta, 2024; Mos, 2024; Saha, 2022). Within the agency theory framework, credible financial statements reduce information asymmetry and conflicts of interest between managers and owners, while stakeholder theory and legitimacy theory emphasize that reporting quality affects the trust of broader stakeholders such as regulators, creditors, and the public (Sahi, Abbas, & Khatib, 2022; Kaawaase, Nairuba, Akankunda, & Bananuka, 2021).

External audits are positioned as one of the main mechanisms for maintaining the credibility of financial reporting. High audit quality is expected to reduce the risk of material misstatement and limit the scope for earnings management practices, thereby increasing FRQ (Sahi et al., 2022). In the last decade, various audit quality enhancement initiatives have been introduced at three levels. First, at the regulatory and supervisory level, the PCAOB inspection regime in the United States and the IAASB's new quality standards, particularly International Standard on Quality Management (ISQM) 1, are designed to strengthen public oversight and shift the approach from reactive quality control to proactive, risk-based quality management (Gipper, Leuz, & Maffett, 2020; International Auditing and Assurance Standards Board [IAASB], 2020; Shroff, 2020).

Second, at the audit firm level, ISQM 1 requires comprehensive quality risk assessment, strengthening of governance and quality culture, stricter independence policies, and continuous monitoring and improvement mechanisms. This makes the firm's quality management system a key infrastructure that supports consistent audit quality across all engagements (IAASB, 2020). Third, at the engagement level, the literature maps the role of various audit input and process attributes—auditor competence and experience, professional skepticism, independence, industry

specialization, audit procedure intensity, and partner involvement—as part of audit quality enhancements that are directly related to the quality of audit evidence and assessment (Syalwa, Saftiana, Susanto, & Yusrianti, 2024; Kaawaase et al., 2021).

Several systematic literature reviews confirm that audit quality and other monitoring mechanisms (internal audit, audit committee) consistently emerge as important determinants of FRQ, although the strength of the relationship found is not always uniform across countries and periods (Dewi et al., 2024; Mos, 2024; Saha, 2022). IFRS convergence, institutional quality, and national culture also moderate the influence of audits on reporting quality (Mos, 2024; Sahi et al., 2022). Thus, conceptually, audit quality enhancements are viewed as a series of regulatory, standard, and practice interventions at the firm and assignment levels that are directly or indirectly aimed at improving the credibility of financial reporting in the eyes of the market.

### **Empirical Evidence and Knowledge Gaps**

A number of studies provide evidence that strengthening audit quality through public oversight is associated with increased financial reporting credibility. Gipper et al. (2020) examined the PCAOB inspection regime and found that after public oversight was strengthened, market responses to earnings information and trading volume increased, which was interpreted as an increase in reporting credibility. Shroff (2020) shows that international PCAOB inspections that reveal audit weaknesses trigger adjustments in corporate financing and investment decisions, so that strengthening audit quality has real effects on decisions that depend on accounting information. Kim (2023) adds that findings of inspection deficiencies related to intangible asset valuation are followed by larger and more timely impairment loss recognition, reflecting tighter audit and reporting practices following regulatory pressure.

On the investor behavior side, an experiment conducted by Cohen, Krishnamoorthy, Peytcheva, & Wright (2022) shows that information about client selection methods for inspections and disclosures of “audit strengths” influences investors' assessments of audit quality and investment risk. Investors tend to assess financial statements as more reliable when inspection results are viewed as credible and presented clearly, although the effect is sensitive to the format of information



presentation (Cohen et al., 2022). These findings confirm that the effectiveness of audit quality enhancements at the regulatory level depends not only on the intensity of supervision but also on how supervisory information is communicated to the market.

At the audit attribute level, cross-country research links audit quality to earnings management practices and accrual quality as proxies for reporting credibility. Le (2025) finds that higher audit quality, measured by KAP size, specialization, and audit effort intensity, is negatively associated with real earnings management in companies with certain leverage and cash flow conditions, thereby making reported earnings more reliable. Studies in the SLR by Sahi et al. (2022) on financial institutions and Dewi et al. (2024) on various sectors show that the use of reputable auditors, the existence of effective audit committees, and internal audit quality are often positively related to FRQ, although the magnitude of the effect varies depending on the regulatory environment and company characteristics. Kaawaase et al. (2021), for example, documented that a combination of strong corporate governance and quality internal audits in Ugandan financial institutions was associated with better reporting quality.

Nevertheless, several reviews highlight that empirical findings on the relationship between audit quality enhancements and financial reporting credibility remain fragmented. Mos (2024) and Saha (2022) show that differences in FRQ proxies and institutional contexts lead to inconsistent results: on the one hand, high-quality audits are associated with a decrease in earnings management and an increase in value relevance, but on the other hand, crisis pressure and weak law enforcement can undermine the effectiveness of audit mechanisms. Syalwa et al. (2024), through a systematic literature review (SLR) of audit quality input indicators, also concluded that many studies only examine the direct relationship between input factors (competence, ethics, independence) and audit quality without explicitly linking them to market-based reporting credibility indicators such as cost of capital or stock price response.

Another gap that appears is the limited integration of various forms of audit quality enhancements into a single synthesis framework. Existing SLRs generally focus on FRQ (Dewi et al., 2024; Mos, 2024; Saha, 2022) or on audit quality in general (Sahi et al., 2022; Syalwa et al., 2024), and thus do not specifically combine evidence on regulatory oversight (e.g., PCAOB inspections), the implementation of new quality systems (ISQM 1), the strengthening of firm attributes and audit assignments, and how all of these

contribute to financial reporting credibility. On the other hand, evidence from emerging markets outside the widely researched contexts (the US and Europe) is still relatively limited, even though the quality of law enforcement, ownership structure, and capital market depth have the potential to be important moderators of the relationship between audit quality enhancements and reporting credibility (Le, 2025; Kaawaase et al., 2021).

Based on this knowledge map, this Systematic Literature Review study is positioned to synthesize findings in a structured manner according to the type of audit quality enhancements (regulation/supervision, firm quality management systems, and assignment attributes), the credibility indicators used (accrual quality, earnings management, restatement, value relevance, cost of capital, and user perceptions), and the regulatory or institutional context in which the research was conducted. This synthesis is expected to fill the gap by providing a more integrated understanding of “when and under what conditions” audit quality enhancements actually improve the credibility of financial reporting.

Based on the background and research gaps, this study formulates the following four research questions:

RQ1: What are the forms and characteristics of *audit quality enhancements* that have been examined in the literature related to financial reporting credibility?

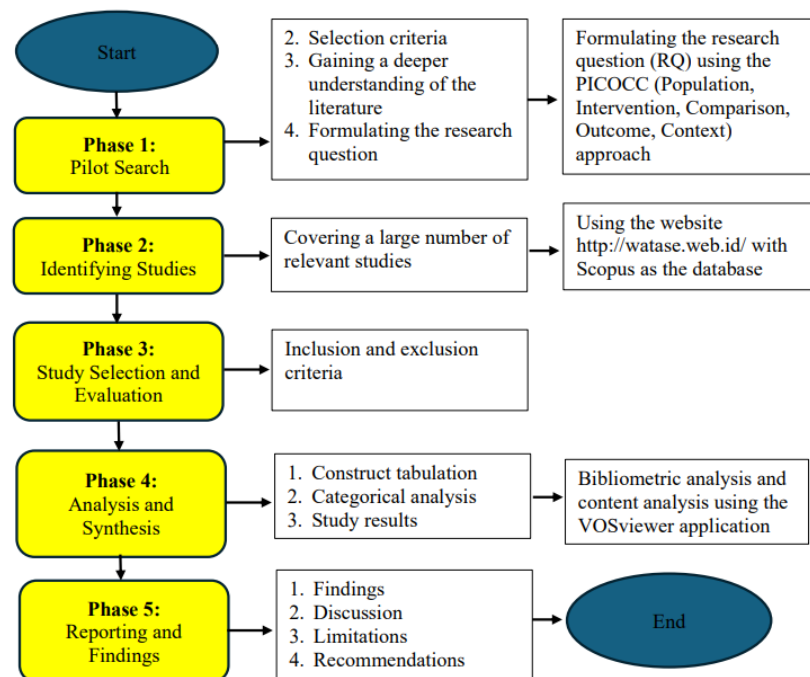
RQ2: To what extent do these *audit quality* enhancements improve financial reporting credibility, as reviewed from various reporting quality proxies and market responses?

RQ3: What factors, such as auditor characteristics, client characteristics, and institutional context (enforcement strength, capital market depth), moderate the relationship between *audit quality enhancements* and financial reporting credibility?

RQ4: What research agenda can be formulated going forward to strengthen the causal evidence and policy relevance of *audit quality enhancements* and financial reporting credibility, particularly in emerging markets?

## RESEARCH METHOD

The Systematic Literature Review (SLR) method was chosen to identify, evaluate, and interpret all relevant research evidence in the context of audit quality enhancements and financial reporting credibility. SLR is a structured review approach that is widely recognized in various disciplines, including financial accounting and capital market research (Tranfield et al., 2003). This approach allows researchers to collect and analyze a large body of literature in a transparent and replicable manner, while synthesizing existing findings into a coherent conceptual framework. The publication period examined in this article is limited to 2015–2025 to ensure the recency of the findings and capture the dynamics of post-audit oversight reforms (e.g., PCAOB inspections) and the introduction of new quality management standards (ISQM 1/ISA 220). The SLR methodology follows the guidelines of Denyer & Tranfield (2009), which consist of several stages: (1) formulation of research questions; (2) development of a search strategy; (3) application of inclusion and exclusion criteria and study selection; (4) data extraction and quality assessment; and (5) synthesis of findings and reporting of results.



**Figure 1**  
**Steps in the Systematic Review Process**

**Source: Compiled by Researchers (2025) in accordance with the SLR focus “Do Audit Quality Enhancements Improve Financial Reporting Credibility?”**

## Search Strategies and Formulating Research Questions

The literature search strategy in this study was designed systematically to obtain relevant and high-quality articles related to the main topics, namely audit quality enhancements and financial reporting credibility. The search was conducted primarily through the internationally reputable scientific database Scopus and supported by limited cross-checking in Web of Science. The selection of this database took into account the broad coverage of accounting and auditing journals and the availability of filtering features based on quartile categories (Q1–Q3), fields of study (e.g., Business, Management and Accounting), and year of publication. To facilitate initial extraction and screening, search results from Scopus were downloaded and processed with the help of tools such as reference managers and spreadsheets, which were then used for the gradual selection process.

The initial search stage began with identifying keywords directly related to audit quality and financial reporting credibility. The list of keywords was compiled through conceptual brainstorming and snowballing of terms commonly found in the literature on audit quality and financial reporting quality, including: terms for audit quality improvement mechanisms (audit quality, audit quality enhancement, audit inspection, public oversight, ISQM 1, audit quality indicators), objects studied (financial reporting, financial reporting quality, earnings quality, financial reporting credibility), and outcomes in the capital market (cost of capital, information risk). The keyword combinations were then arranged using Boolean operators (AND/OR/NOT), quotation marks for exact phrases, and truncation to cover variations of terms (e.g., audit inspection/audit inspections, earnings quality/earnings qualities). Examples of queries used include (“audit quality” OR “audit inspection” OR “public oversight” OR “ISQM 1”) AND (“financial reporting quality” OR “earnings quality” OR “financial reporting credibility”).

The publication period was limited to 2015–2025 to ensure the recency of the findings and their relevance to the latest developments in audit quality standards (e.g., ISQM 1) and oversight regimes (e.g., PCAOB inspections). The types of documents were limited to peer-reviewed journal articles and review articles in English or

Indonesian that were indexed in Scopus. Documents such as conference proceedings, books, and editorials were excluded from the sample. The selection process follows the principles outlined by Tranfield, Denyer, and Smart (2003), Snyder (2019), and domestic guidelines for SLR (e.g., Wahono, 2016), with the following sequential stages: (1) screening of titles and abstracts, (2) full-text review of articles that passed the first stage, and (3) consistent application of inclusion–exclusion criteria related to document type, topic relevance (the relationship between audit quality/enhancements and reporting credibility), empirical context, and research design.

To maintain transparency, reporting of the study identification and selection process refers to the PRISMA 2020 guidelines (Preferred Reporting Items for Systematic Reviews and Meta-Analyses), particularly in the preparation of flowcharts illustrating the number of studies at each stage (identification, screening, eligibility, and inclusion) (Page et al., 2021). This approach helps ensure that the selection process is traceable and replicable in subsequent studies. Furthermore, the PICOC (Population, Intervention, Comparison, Outcome, Context) approach was used to design and compile a systematic review that is focused and structured as recommended in the SLR methodology (Tranfield et al., 2003; Wahono, 2016). In the context of this study, Population refers to companies or entities whose financial statements are audited and studies that observe the audit–reporting relationship; Intervention is various forms of audit quality enhancements (e.g., regulatory oversight, ISQM 1 implementation, audit firm attributes, and auditor report design); Comparison includes situations with lower audit quality or without specific interventions; Outcome focuses on the credibility of financial reporting proxied by accrual quality, earnings management, restatement, value relevance, cost of capital, and user perception; while Context includes differences in regulatory regimes, enforcement strength, ownership structure, and capital market characteristics in various countries.

### **Inclusion and Exclusion Criteria**

To ensure a systematic literature selection process, this study established inclusion and exclusion criteria as summarized in Table 1. These criteria were developed in line with the focus of the study entitled "Do Audit Quality Enhancements Improve Financial Reporting Credibility? A Systematic Literature Review," so that only studies that explicitly examine audit quality and its consequences for the quality/credibility of

financial reporting are included in the sample.

**Table 1**  
**Inclusion and Exclusion Criteria**

<b>Category</b>	<b>Inklusion</b>	<b>Eksklusion</b>
Topic	Discussing audit quality/audit quality enhancements and their relationship to financial reporting, for example: audit quality, audit inspections (PCAOB/oversight bodies), ISQM 1/quality management, audit firm characteristics or other audit quality indicators that are tested for their impact on financial reporting quality, earnings quality, financial reporting credibility, restatement, misstatement, value relevance, cost of capital, or reporting credibility proxies.	Articles that only discuss auditing without measuring the quality/credibility of reporting (e.g., only discussing auditor behavior, education, or auditing technology separately); studies of management accounting, taxation, or non-financial auditing (ESG/sustainability assurance) without financial reporting variables; purely methodological studies (e.g., NLP/AI for fraud detection) that do not measure the impact on the quality/credibility of reporting.
Context	Companies (listed and large private) and capital markets; cross-country/cross-sector; studies of users of financial statements (investors, analysts, creditors, regulators, banks) who assess the credibility of financial statements; studies of regulators/standard setters who evaluate the impact of oversight or audit quality standards on reporting quality	Purely non-corporate entities (local governments, NGOs, educational institutions) when the context is not financial reporting based on accounting standards; internal auditor/government inspectorate studies without reporting quality/credibility variables; capital market studies that do not use audit quality or audit enhancements variables.
Document Type	Peer-reviewed journal articles; systematic/structured literature reviews; relevant empirical studies (archives, experiments, surveys, quasi-experiments, case studies); early access/in-press articles that already have a DOI.	Opinion/editorials, non-reviewed book chapters, conference proceedings that have not undergone a clear peer review process; theses/dissertations; unverified practitioner reports; working papers without clear outlet or DOI information.
Year	Published between 2015 and 2025 (to capture the post-audit oversight reform period and the introduction of ISQM 1).	Published before 2015 (unless briefly cited as theoretical background, not included in the main SLR sample).

Language	English or Indonesian, as long as the documents are peer-reviewed and fully accessible.	Languages other than English/Indonesian.
Indexing and Quality	Indexed in Scopus and/or Web of Science; or journals that clearly report the peer review process and are in the Q1–Q3 quartile in the fields of Business, Management and Accounting / Economics, Econometrics and Finance.	Not indexed by Scopus/WoS and no evidence of peer review; journals with questionable/predatory reputations; outlets that are merely newsletters or association reports without peer review.
Document Accessibility	The full text of the article can be downloaded and read in its entirety (via open access or institutional access), allowing for data extraction (methods, variables, key findings).	Only abstracts are available without access to the full text; preprints that do not provide sufficient methodological information to be extracted.

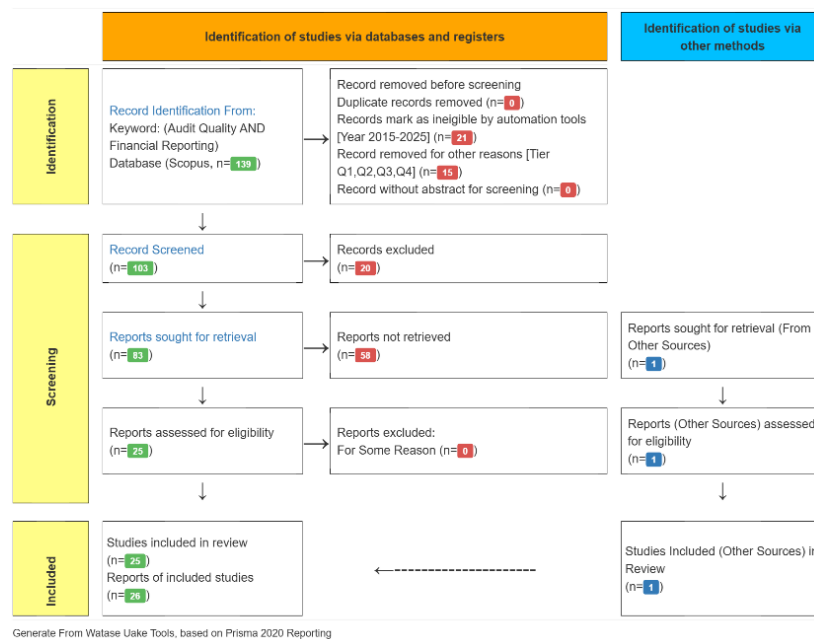
**Source: compiled by researchers (2025) in accordance with the SLR focus “Do Audit Quality Enhancements Improve Financial Reporting Credibility?”**

### Study Selection and Evaluation

The study selection and evaluation stage is a crucial step to ensure that the literature used is relevant and of high quality. This study adopts the Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) approach and complies with the PRISMA 2020 reporting guidelines (Moher et al., 2009; Page et al., 2021). PRISMA provides a structured framework for documenting the process of identifying, screening, assessing eligibility, and including studies through flowcharts, as illustrated in Figure 2.

In this study, the initial data set consisted of 139 articles obtained from the Scopus database for the period 2015–2025 using a combination of keywords described in the previous section. After removing duplicates and screening titles and abstracts, articles that were not relevant to the relationship between audit quality/enhancements and financial reporting credibility were eliminated. The next step was to review the full text of the remaining articles and consistently apply the inclusion-exclusion criteria (topic, context, document type, language, and journal quality index). This process yielded 25 core articles that met all criteria and formed the main basis for the narrative synthesis in this SLR. Meanwhile, all 139 articles were used as a corpus for bibliometric analysis (e.g., citation analysis, author networks, and keyword mapping) to map the conceptual structure and intellectual development of the field of audit quality enhancements and

financial reporting credibility.



**Figure 2**  
**PRISMA Flowchart**

**Source: compiled by researchers (2025) in accordance with the SLR focus “Do Audit Quality Enhancements Improve Financial Reporting Credibility?”**

### Analysis and Synthesis

The analysis was conducted in two layers. First, 25 core articles were analyzed narratively to identify the forms and characteristics of audit quality enhancements, the credibility indicators used in reporting, the regulatory and institutional context, and the main findings regarding the relationship between AQEs and FRQs. Second, all 139 articles in the corpus were analyzed bibliometrically to map publication trends, the most influential publications, author collaboration networks, and keyword clusters using VOSviewer. The synthesis of findings followed the PRISMA 2020 steps to ensure process transparency and combined a thematic approach with bibliometric mapping. The result is a knowledge map linking types of audit quality enhancements, governance and enforcement contexts, and reporting credibility outcomes (accrual quality, earnings management, restatement, value relevance, cost of capital, and user perception), which then forms the basis for formulating practical implications and future research agendas.



The bibliometric techniques used in this study employed three main methods: citation analysis, network analysis, and citation mapping techniques. Citation analysis was applied to evaluate the performance of publications, institutions, and authors using metrics such as Total Global Citations (TGC), Total Local Citations (TLC), and Total Local Citations per year (TLC/t). Meanwhile, network analysis was used to map collaboration patterns and keyword evolution, while bibliographic merging was used to map intellectual structures as it was most suitable for identifying current research areas. In addition to thematic synthesis, this study combined bibliometric analysis using the VOSviewer application to visualize the conceptual structure and intellectual evolution of this topic in academic literature. VOSviewer was chosen for its ability to provide intuitive visualizations of keyword networks, author collaborations, and relationships between documents (Madiati et al., 2018).

### **Reporting of Findings**

The research findings are presented in the form of tables, bibliometric visualizations, and narrative discussions following the systematic approach outlined by Siddaway et al. (2018). The information presented includes a detailed description of the literature search strategy, inclusion and exclusion criteria, study selection process, quality assessment, data extraction, and stages of synthesis of findings. Each step in this process is explained transparently to ensure the replication and methodological validity of this systematic review.

This section of the report also outlines challenges that often obscure the benefits of audit quality enhancements on the credibility of financial reporting, such as the heterogeneity of audit quality and reporting quality proxies, differences in research design, and the potential for endogeneity and self-selection between the selection of high-quality auditors and client characteristics. On the other hand, opportunities for improvement are also discussed: the role of new quality standards (e.g., ISQM 1), the use of more measurable audit quality indicators (AQI), the integration of analytical methods and text mining to detect misreporting, and the strengthening of the role of audit committees and regulators in overseeing the implementation of audit quality enhancements. Finally, the synthesis places the existing literature into a conceptual map that links the types of audit quality enhancements (regulatory oversight, firm quality management systems, firm/partner attributes, and auditor report innovations), the

regulatory and governance context, and the outcome of reporting credibility (accrual quality, earnings management, restatement, value relevance, cost of capital, and user perception). The practical contributions are directed at report preparers and management (in selecting auditors and combinations of audit quality attributes that suit user needs), audit firms and auditors (in improving the clarity of reporting findings and strengthening the evidentiary basis), and policymakers (in harmonizing terminology, quality indicators, and user expectations). This presentation is intended to serve as a basis for discussion in the results and subsequent discussion sections, as well as to provide methodological guidelines for further research assessing the causality and mechanisms behind the relationship between audit quality enhancements and financial reporting credibility.

## **RESULTS AND DISCUSSION**

### **Identifying Factors Most Often Associated with Financial Reporting Credibility through Improved Audit Quality**

The indicators most frequently discussed in the literature on financial reporting credibility/quality (FRQ) can be grouped into two broad categories: (i) audit design & process, including audit intensity/effort, industry specialization, risk-based quality management (ISQM 1/ISA 220), practices in the area of estimation/judgment (ISA 540), partner/auditor rotation, and the quality of communication of Key Audit Matters/Critical Audit Matters (KAM/CAM); and (ii) governance architecture & context, covering audit committee effectiveness (independence, expertise, meeting frequency), synergy with internal audit, regulatory/inspection pressure, and market institutional characteristics (law enforcement, institutional ownership). These two clusters interact with earnings management dynamics (accrual/real) and disclosure quality, thereby affecting trust and the reliability of reported figures, as well as some market consequences such as price response, cost of capital, and financing decisions. The VOSviewer keyword map generated in this study reinforces this pattern: the audit committee, corporate and governance–FRQ, audit quality & process, and earnings management clusters are interconnected, while audit effort and auditor rotation appear as supporting policies.

First, in the audit design & process dimension, consistent evidence shows that adequate audit effort, industry specialization, and quality management (ISQM 1/ISA 220) are associated with a decrease in discretionary accruals, better accuracy in recognizing losses, and lower restatement risk. Strengthening procedures in areas of risk estimation (ISA 540) and engagement quality review increases the depth of evidence and skepticism. On the auditor reporting side, specific, clear, and risk-aligned KAM/CAMs increase informational value and perceived quality; conversely, generic/boilerplate KAM/CAMs add little credibility. Rotation, particularly partner rotation, can mitigate familiarity risk; its impact on FRQ tends to be positive when accompanied by knowledge transfer and robust documentation to compensate for the loss of client knowledge.

Second, actors & governance play a central role as channels of quality. Effective audit committees (independent members, accounting experts, meeting frequency) strengthen oversight of the reporting process and increase demand for audit quality, reflected in the selection of specialist auditors, the establishment of a more risk-based scope/procedures, and follow-up on findings. Competent internal audit that is coordinated with external auditors provides a more integrated assurance ecosystem. Regulatory pressure through inspections/audit quality indicators (AQIs) encourages standardization of good practices and improves documentation discipline. The institutional context (enforcement strength, capital market depth, institutional ownership concentration) moderates the magnitude of the effect of improved audit quality on FRQ, which is usually stronger in environments with good enforcement and market monitoring.

Third, earnings management dynamics become a testing ground for credibility. Many studies examine whether improved audit quality suppresses accrual/real earnings management. Repeated evidence shows a decline in discretionary accruals and income smoothing practices when audit quality attributes (specialization, effort, timely rotation, EQCR, depth of estimation testing) are present. At the same time, disclosure quality (readability, consistency of accounting policies, transparency of key assumptions) strengthens the transmission of audit benefits to user comprehension; a good audit without good disclosure risks losing its decision usefulness.

Fourth, market and policy consequences. Improved audit quality is generally associated with reduced information risk, more disciplined market responses to earnings, and indications of lower capital costs; in some contexts, there is evidence of real effects such as changes in investment/financing decisions following strengthened audit oversight. From a policy perspective, the implementation of ISQM 1 and AQIs reporting helps narrow the expectation gap about “what constitutes” good audit quality, while specific and actionable KAM/CAM preparation guidelines increase the informative value of auditor reports. Partner rotation and cooling-off periods support independence, but need to be balanced with knowledge management so as not to reduce the effectiveness of procedures at the beginning of the assignment.

Overall, your bibliometric findings and PRISMA synthesis confirm that the credibility of financial reporting depends on a combination of (1) rigorous and clearly communicated audit design/processes, and (2) an effective governance architecture to ensure that audit findings lead to changes in reporting behavior. Harmonization of standards (ISQM 1/ISA), auditor disclosure discipline (non-boilerplate KAM/CAM), and strengthening the role of the audit committee are key to reducing profit management space and improving the reliability of figures used by investors and other stakeholders.

## **Publications on Improving Audit Quality & Reporting Credibility (2016–2025)**

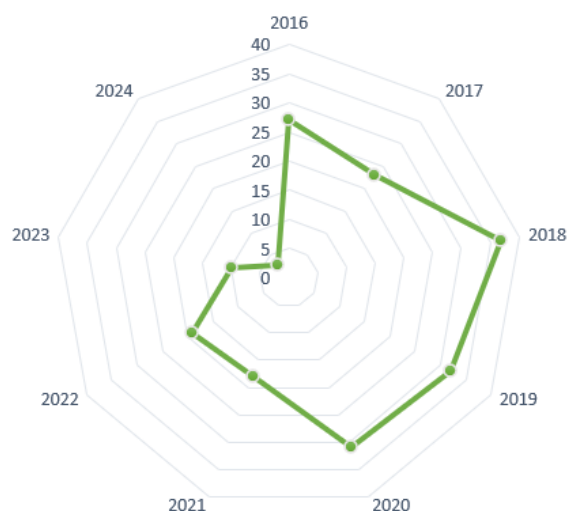
### **Publications by Year**

Based on an analysis of academic literature from 2016 to 2025, as shown in Figure 3, scientific attention to improving audit quality and reporting credibility shows a pattern of moving from a relatively moderate initial phase to a renewed acceleration at the end of the period. In the 2016–2017 phase, publications were at a low–moderate level (around 1–4 articles per year) with a strong focus on the role of audit committees and internal audit functions in shaping financial reporting quality (FRQ), including issues of audit committee membership overlapping with compensation committees, “problem directors,” and the quality of internal audit functions (Habib & Bhuiyan, 2016; Habib & Bhuiyan, 2016; Kusnadi et al., 2016; Abbott et al., 2016; Gros et al., 2017). Entering 2018–2019, publications were in a stable–high phase (around 4 articles per year). The discourse expanded from the effectiveness of audit committees on FRQs to audit process mechanisms and information consequences, including the link between audit quality and

innovation and FRQs, compliance with codes of good practices, and changes in the structure of auditor reports and their implications for information credibility (Gebayel et al., 2018; Lobo et al., 2018; Garcia-Blandon et al., 2018; Reid et al., 2019; Patterson et al., 2019; Ewert & Wagenhofer, 2019; Marshall et al., 2019). The trend then leveled off in 2020–2022 (around 1–4 articles per year), when research focused on process channels such as audit effort, audit committee governance in specific contexts, and oversight quality (e.g., the role of engagement quality review implied in modern quality design). This period also featured studies with diverse contexts including the public sector and emerging markets that continued to link audit quality attributes with a reduction in discretionary accruals and an improvement in FRQ (Alzeban, 2020; Alzeban, 2020; Bhuiyan, 2020; Bhuiyan, 2020; Ud Din, 2021; Lin, 2022).

The most notable change occurred in 2023–2025, when research interest rebounded. Studies in this period confirmed the relationship between audit services/audit quality and FRQ, highlighted institutional and governance determinants, and brought new/applied contexts that enriched the evidence of the economic and governance consequences of improved audit quality (Rahman et al., 2023; Fernández-Méndez et al., 2023; Tran, 2023; Attia, 2025). This acceleration is in line with the shift in practice towards modern quality management (ISQM 1/ISA 220) and the use of audit quality indicators (AQIs), accompanied by more specific and decision-useful KAM/CAM requirements in auditor reporting, sparking new research on how audit design/process shapes the credibility and utility of information for the market.

Overall, the evolution of publications over the past decade shows that the topic of reporting credibility through improved audit quality has not declined, but rather transformed from the question “does audit quality impact FRQ?” to questions such as how levels/standards/processes (effort, industry specialization, partner/auditor rotation, risk-based quality, and KAM/CAM) as well as who and what governance architecture (audit committee, internal audit, regulatory enforcement) influences the credibility and consequences of information (Habib & Bhuiyan, 2016; Kusnadi et al., 2016).



**Figure 3**  
**Number of Publications by Year, 2016-2025**

### Most Influential Publications

Knowing the most influential publications helps identify key reference works and map out the direction of future research (Alon et al., 2018). Based on the total citations in Table 2, the article with the highest scientific impact is Abbott et al. (2016) with 218 citations. This study confirms that the quality of internal audit functions, particularly the combination of independence and competence, is positively correlated with financial reporting quality (FRQ), thereby positioning internal audit quality as the main channel for reporting credibility. In second place, Reid et al. (2019) (216 citations) evaluated changes in auditor reports (e.g., expanded reporting such as KAM/CAM) and documented their implications for reporting quality and audit costs, providing evidence that auditor communication design affects the credibility of information. The third rank is occupied by Kurnadi et al. (2016) (108 citations), who show the link between audit committee effectiveness and FRQ in the Singapore context, reinforcing the argument that governance structures moderate the benefits of audit quality.

Furthermore, Bajra & Čadež (2018) (74 citations) place audit committees in the perspective of the 8th EU Company Law Directive, showing how the regulatory framework encourages oversight practices that are in line with improving FRQ. Christ et al. (2015) (71 citations) tested internal audit program rotation and showed that

compensating controls can maintain/improve reporting quality, suggesting that rotation policies need to be supported by adequate control designs. Two studies that highlight the broader governance ecosystem are Alzeban (2020) (51 citations), which examines the influence of audit committees, CEOs, and external auditor quality on FRQ, and Gebrayel et al. (2018) (51 citations), which documents the effective link between audit committees and internal audit functions as determinants of FRQ in the Omani market.

**Table 2**  
**Articles in the Literature**

No	Author	Title	Year	Cite
1	L.J. Abbott	Internal Audit Quality and Financial Reporting Quality: The Joint Importance of Independence and Competence	2016	218
2	L.C. Reid	Impact of Auditor Report Changes on Financial Reporting Quality and Audit Costs: Evidence from the United Kingdom	2019	216
3	Y. Kusnadi	Audit Committees and Financial Reporting Quality in Singapore	2016	108
4	U. Bajra	Audit committees and financial reporting quality: The 8th EU Company Law Directive perspective	2018	74
5	M.H. Christ	Rotational internal audit programs and financial reporting quality: Do compensating controls help?	2015	71
6	A. Alzeban	The impact of audit committee, CEO, and external auditor quality on the quality of financial reporting	2020	51
7	E. Gebrayel	Effective association between audit committees and the internal audit function and its impact on financial reporting quality: Empirical evidence from Omani listed firms	2018	51
8	R. Ewert	Effects of Increasing Enforcement on Financial Reporting Quality and Audit Quality	2019	48
9	E. Gras-Gil	Internal audit and financial reporting in the Spanish banking industry	2015	42
10	G. Lobo	Innovation, financial reporting quality, and audit quality	2018	34

**Source: compiled by researchers (2025) in accordance with the SLR focus “Do Audit Quality Enhancements Improve Financial Reporting Credibility?”**

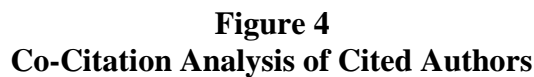
## **Conceptual Structure Mapping: Knowledge Clusters and Main Themes**

### **Data Visualization**

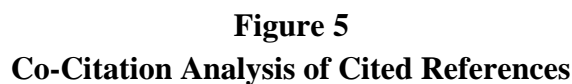
In this study, VOSviewer software was used to perform bibliometric analysis aimed at mapping the intellectual structure and conceptual relationships in the literature on audit quality enhancements and financial reporting credibility over the past decade. VOSviewer is widely used among academics for co-citation, co-keyword, and co-authorship analysis, making it effective in identifying key authors, thematic trends, and literature networks that shape specific research domains.

Our co-authorship analysis highlights the network of collaboration between authors as a reflection of research partnerships in this field. The visualization shows one core cluster with Md. Borhan Uddin Bhuiyan as the central node, who has strong connections to Ahsan Habib, Asheq Rahman, and Nigar Sultana, indicating productivity and repeated collaboration on the themes of audit committees, governance, and financial reporting quality. On the other hand, a sub-cluster consisting of Jamal Roudaki, Rummya Salma, and Siata Tavite emerged, closely connected to each other, indicating a focus on specific contexts/countries that complement the mainstream. The thickening of the connection lines on the map indicates the strength of collaboration (total link strength) among the authors, while the coloring of the clusters reflects different collaboration communities. Overall, this network pattern suggests that research on the governance path of audit quality and reporting credibility is driven by a consistent group of researchers collaborating across studies, while satellite clusters open up opportunities for cross-jurisdictional replication and topic expansion to issues such as audit effort, auditor/partner rotation, and KAM/CAM disclosure, which are relevant to improving the reliability of financial statement information.





The second visualization (Figure 5) presents the results of the Co-Citation Keyword analysis, which aims to explore the conceptual structure and thematic trends in the literature on audit quality improving the credibility of financial reporting. This analysis reveals three main thematic clusters.



First, the “Governance & Audit Committee Nexus” cluster revolves around the audit committee with links to internal audit, corporate governance, overlapping membership, and expertise. The audit committee's close connectivity to the center of

financial reporting quality reflects its role as the architect of oversight: its skilled composition, independence, and meeting frequency guide auditor selection, procedure depth, and follow-up on findings. Second, the “Audit Process & Policy Levers” cluster focuses on audit quality and process nodes such as external audit and areas related to audit effort policy and auditor rotation, accompanied by codes of good practice nodes. This cluster emphasizes the input channels, processes, and policies where audit work quality (specialization, effort in areas of judgment, rotation/independence of partners) is transmitted into more reliable outputs. Third, the “Reporting Outcomes & Earnings Management” cluster converges on the keywords accounting and accrual earnings management, which are linked back to the audit committee, corporate governance, and nodes such as audit fees, discretionary accruals, and specific issues such as female tainted directors. This pattern shows that strengthening governance and audit processes is associated with a decrease in accrual discretion and an increase in the credibility of reported figures.

Overall, the concept map shows a neat flow: (i) governance architecture through the audit committee and its coordination with internal audit, (ii) policy process leverage through audit quality, effort, rotation, and good practice references, which then leads to (iii) reporting results in the form of improved financial reporting quality and reduced earnings management. The research directions implied by this map are more observable measurements of audit process quality (e.g., effort indicators in high-risk areas), evaluation of the impact of rotation/quality management policies on FRQ, and integration of informational outcomes (reduction in accrual discretion, restatements, timeliness) with market consequences and stakeholder trust.

### **Commercial Pressure in Audit Services and Its Impact on Credibility**

Bibliometric mapping of the corpus shows that author collaboration nodes cluster around issues of audit process/report quality, the role of audit committees & governance, and the professionalization of quality practices. In a competitive service ecosystem, contractual relationships between clients and auditors encourage strict pricing and a preference for work that is “sufficient” to meet documentation compliance, rather than risk-based substantive testing. The impact is evident in the reporting style of auditors,

including KAM/CAM, which tends to be generic when cost pressures, deadlines, and client retention demands dominate; the informative value for users becomes limited because the description of procedures and evidence base is not presented in a rich manner (Reid et al., 2019; Patterson et al., 2019; Marshall et al., 2019). These pressures can be controlled when audit organizations have strong process capabilities (industry specialization, engagement quality review, data analytics, and modern quality management) so that skepticism is maintained and audit evidence remains adequate despite commercial constraints (Ewert & Wagenhofer, 2019; Gros et al., 2017; Lobo et al., 2018).

### **Superficiality of Scope and Depth of Procedure**

Thematic reading results show high heterogeneity in determining the scope and depth of testing. In many contexts, work is concentrated on format compliance, basic recalculation, or administrative tracing, while areas of judgment (estimation, valuation, provisions, impairment) are less challenged, so that the reduction in information risk perceived by users is not maximized. When risk-based audits are designed starting from strict materiality and risk assessment, followed by adequate tests of details, third-party confirmation, re-performance, and sharp analytics, the perception of reliability increases and recommendations become actionable for the audit committee (Reid et al., 2019; Patterson et al., 2019). Evidence in different contexts shows that increased enforcement and good practices in audit organizations are associated with improvements in FRQ (Ewert & Wagenhofer, 2019; Garcia-Blandon et al., 2018; Gros et al., 2017).

### **Audit Consulting Boundaries, Independence, and Skepticism**

Another important discourse concerns the blurring of audit–consulting boundaries. Auditors are often asked to provide input on accounting policies/indicators and at the same time give opinions; this situation has the potential to encourage client-friendly bias and reduce the assertiveness of challenges. Long-term familiarity also erodes skepticism, especially when fees are small and retention pressure is high. Common mitigation practices such as partner/team rotation and engagement quality reviews are relevant for maintaining professional distance without sacrificing understanding of the client's business (Christ et al., 2015; Lin, 2022). At the governance level, the effectiveness of the audit committee determines whether auditors are

encouraged to expand the scope of substantive testing and follow up on findings (Kusnadi, 2016; Abbott et al., 2016; Bajra & Čadež, 2018).

### **Who are the providers? Specialization, Reputation, and Process Transparency**

The corpus shows the dominance of accounting firms and the importance of industry specialization and sectoral experience for quality audit output. However, reputation alone does not automatically guarantee quality; without transparency of methodology, robust sampling strategies, and specific KAM/CAM, the informative value remains low (Reid et al., 2019; Lobo et al., 2018). In many contexts, it is the synergy of the three lines of assurance the audit committee, internal audit, and external auditors that determines the transmission of audit quality to FRQ (Abbott et al., 2016; Gebrayel et al., 2018; Alzeban, 2020a; Alzeban, 2020b). The cost side also appears to be sensitive: audit fees/effort and risk committee design affect the intensity of work and reporting consequences (Bhuiyan, 2020a; Bhuiyan, 2020b).

### **Institutional Drivers: Audit Committee, Ownership, and Country Context**

Variations in audit quality cannot be explained solely by audit firm characteristics. The architecture of governance independence and audit committee expertise are closely related to FRQ across jurisdictions (Kusnadi, 2016; Abbott et al., 2016; Bajra & Čadež, 2018). Ownership structure and emerging market characteristics also moderate incentives for audit quality and profit management space (Tran, 2023; Ud Din, 2021). At the company level, problematic/female-tainted directors and gender diversity on audit committees correlate with oversight dynamics and audit costs, which in turn are related to reporting quality (Habib, 2016a; Bhuiyan, 2020b; Ud Din, 2021; Fernández-Méndez et al., 2023). In the banking sector and certain regulatory environments, strong internal audit is a prerequisite for reliable reporting (Gras-Gil et al., 2015).

### **Process Dynamics & Quality Regulation**

The observation period also focused on changes in the structure of auditor reports and the strengthening of quality management. Studies on changes in auditor reports emphasize that the way auditors communicate risks (e.g., KAM/CAM) has consequences for reporting quality and audit costs (Reid et al., 2019; Patterson et al., 2019). In the policy context, strengthening modern quality frameworks (in line with the

spirit of ISQM 1/ISA 220) and effective monitoring/inspection are associated with improvements in FRQ and audit quality (Ewert & Wagenhofer, 2019; Garcia-Blandon et al., 2018). Auditor/partner rotation and cooling-off—when accompanied by good knowledge transfer are tools for addressing familiarity risk without reducing the effectiveness of procedures (Christ et al., 2015; Lin, 2022).

### **Economic Consequences & Mechanism Pathways**

Aggregately, evidence from 25 articles points to a coherent mechanism pathway: audit process inputs (effort, specialization, rotation, auditor communication design) and governance architecture (audit committee, internal audit) suppress earnings management and enhance FRQ, with traces on market consequences and real-world decisions (Rahman et al., 2023; Attia, 2025; Tran, 2023; Ud Din, 2021; Fernández-Méndez et al., 2023). This relationship appears cross-contextual, including emerging markets and specific sectors, while emphasizing the importance of risk-based auditing and active audit committee oversight (Gebrayel et al., 2018; Bajra & Čadež, 2018; Alzeban, 2020a; Alzeban, 2020b; Gras-Gil et al., 2015).

### **Summary of Research Question Answers (RQ1–RQ4)**

Answering RQ1, this SLR identifies that the audit quality enhancements examined in the literature can be grouped into three main clusters. First, enhancements at the regulatory and oversight level, such as the PCAOB inspection regime, strengthened enforcement, and the introduction of modern quality management standards (ISQM 1/ISA 220). Second, enhancements at the audit firm level, which include quality management systems, quality culture, independence policies, fee structures, and industry specialization. Third, enhancements at the engagement level, such as audit intensity/effort, sampling strategies, depth of procedures in areas of judgment, partner rotation, engagement quality review, and more informative and non-boilerplate auditor report design (particularly KAM/CAM).

In response to RQ2, cross-study evidence generally shows that various forms of audit quality enhancements are positively associated with the credibility of financial reporting. Improvements in audit quality are reflected in a decrease in discretionary accruals and real earnings management practices, lower frequency and severity of restatements, more timely recognition of losses, and a strengthening of the relevance of

value and market response discipline to earnings. A number of studies also document a reduction in information risk and indications of lower capital costs when audit procedures are truly risk-based, efforts in high-risk areas are adequate, and KAM/CAM are specifically designed and consistent with the main risks faced by the company.

In response to RQ3, the effectiveness of audit quality enhancements is proven to be greatly influenced by contextual factors. Auditor characteristics (firm size and reputation, industry specialization, accounting expertise, fee structure, and tenure), client characteristics (complexity, leverage, financial pressure, innovation dynamics), and governance strength (independent and competent audit committee, internal audit quality, and institutional ownership structure) moderate the AQEs–FRQ relationship. At the institutional level, differences in regulatory regimes, quality of law enforcement, depth of capital markets, and crisis/non-crisis phases cause heterogeneity in findings regarding the extent to which enhancements actually improve reporting credibility.

In response to RQ4, the synthesis of findings reveals several important research gaps: (i) fragmentation of audit quality and FRQ proxies that hinders comparability across studies; (ii) limitations in the measurement of observable audit process quality (e.g., materiality setting, depth of tests of details, use of confirmations and analytics, EQCR); (iii) the predominance of associative research designs with limitations in identifying causality and potential endogeneity; and (iv) the lack of integration between informational outcomes (accrual quality, earnings management, restatement) and market/real-world consequences (cost of capital, investment, financing). The future research agenda formulated in this article directly addresses these gaps by encouraging the use of experimental/quasi-experimental designs, the development of composite indices of audit process quality, the exploration of emerging market contexts, and the analysis of who among the users of financial statements benefits most from improvements in audit quality.

### **Practical Implications**

For management/report preparers, establish materiality and risk assessment as the scope anchor, provide an audit trail for areas of judgment, and ensure the readability of policy and assumption disclosures (Reid et al., 2019; Patterson et al., 2019). For

auditors, maintain skepticism through industry specialization, strong evidence documentation, independent engagement quality reviews, and specific KAM/CAM designs rather than boilerplate (Reid et al., 2019; Ewert & Wagenhofer, 2019; Gros et al., 2017). For audit committees/regulators, use audit quality indicators to monitor quality, encourage risk-based quality implementation, and ensure clear boundaries for consulting audit services and proportional partner rotation policies (Abbott et al., 2016; Christ et al., 2015; Lin, 2022).

### **Research Agenda and Future Development Directions**

Future research agendas need to sharpen how improving audit quality actually increases the credibility and usefulness of financial reporting (FRQ), not merely compliance. The main direction is the standardization of audit design and processes that can be measured across studies and testing the economic consequences for decision makers. On the design side, research needs to assess the effects of policies and practices that are now commonly discussed, such as specific KAM/CAM, risk-based quality management (in line with the spirit of ISQM 1/ISA 220), partner/auditor rotation, as well as audit effort and industry specialization on FRQ and management reporting behavior (Reid et al., 2019; Patterson et al., 2019; Lin, 2022; Marshall et al., 2019; Fernández-Méndez et al., 2023). Strengthening enforcement and inspection also needs to be modeled as an institutional treatment because preliminary evidence shows improvements in reporting quality and audit quality when enforcement increases (Ewert & Wagenhofer, 2019; Garcia-Blandon et al., 2018).

The methodological priority is the identification of causality and the measurement of observable procedural quality. Future research should use experimental/quasi-experimental and difference-in-differences designs based on reforms/regulations or firm policies to evaluate the impact of changes in auditor reporting (KAM/CAM), rotation, and increased effort on discretionary accruals, restatements, timeliness of loss recognition, and market reactions (Reid et al., 2019; Patterson et al., 2019; Ewert & Wagenhofer, 2019). In line with this, a composite index of process quality is needed, for example, a combination of risk assessment, depth of tests of details in areas of judgment, sampling strategies, use of third-party confirmation, engagement quality review, and data analytics derived from audit documentation and/or KAM/CAM content, so that the process, FRQ relationship can be tested more precisely (Gros et al., 2017; Lobo et al.,

2018; Fernández-Méndez et al., 2023).

Professionalism and independence are also crucial to be systematically researched. Existing evidence confirms the importance of internal audit quality and the effectiveness of audit committees as guarantors of skepticism and procedural depth, but audit-consulting tensions, client-friendly bias, and long-term familiarity still have the potential to erode the assertiveness of challenges (Abbott et al., 2016; Kusnadi et al., 2016; Christ et al., 2015). Further research is needed to examine assignment governance (partner rotation & cooling-off, restrictions on non-audit services, and independent engagement quality reviews) and auditor industry specialization on process quality and information value, including their impact on audit costs and market response (Lin, 2022; Marshall et al., 2019; Bhuiyan, 2020a; Bhuiyan, 2020b).

The institutional context dimension requires cross-country and market type comparisons. Current results show that effective audit committees, internal audit quality, and ownership/institutional structure moderate the transmission of audit quality to FRQ—with notable variations in emerging markets and specific sectors (Gebrayel et al., 2018; Alzeban, 2020a; Alzeban, 2020b; Tran, 2023; Ud Din et al., 2021; Gras-Gil et al., 2015). Going forward, studies need to assess who benefits most from improved audit quality retail vs. institutional investors, creditors, or regulators and how strengthening the role of audit committees changes the demand for auditor scope and effort (Bajra & Čadež, 2018; Habib & Bhuiyan, 2016a; Habib & Hossain, 2016b). Finally, the research agenda needs to link audit results to richer market outcomes and real-world decisions: equity/debt capital costs, liquidity, price discipline around earnings announcements, and financing and investment consequences. Preliminary evidence indicates that audit services and auditor capabilities (e.g., accounting expertise) are related to FRQ and market consequences, particularly in emerging markets an area of research that needs to be explored further with better causal designs and process measurements (Rahman et al., 2023; Attia, 2025; Tran, 2023).



## CONCLUSIONS AND SUGGESTIONS

### Conclusions

In summary, this SLR answers the four research questions posed. First (RQ1), the literature confirms the existence of three main groups of regulation/supervision, firm quality management systems, and assignment attributes/processes that form the audit quality architecture. Second (RQ2), the majority of empirical evidence shows that this combination of enhancements generally improves the credibility of financial reporting as reflected in accrual quality, reduced earnings management, less frequent restatements, and a more disciplined market response. Third (RQ3), the strength of this influence is highly dependent on the characteristics of the auditor and client, the quality of governance (audit and internal audit committees), and the institutional and legal enforcement context. Fourth (RQ4), there are still important gaps related to the measurement of observed audit process quality, causal design, and the integration of reporting outcomes with market consequences, which form the basis for formulating the future research agenda in this article.

In a dynamic reporting environment, this study concludes that improving audit quality remains crucial to enhancing the credibility of financial information, but its effectiveness is largely determined by three pillars: (i) clarity of design & processes, including risk-based auditing, depth of tests of details, engagement quality review, adequate effort, industry specialization, rotation/independence, and specific KAM/CAM; (ii) provider competence and independence, reinforced by effective internal audit quality and audit committees; and (iii) consistent auditor communication quality and quality governance across engagements (Abbott et al., 2016; Kusnadi et al., 2016; Reid et al., 2019; Patterson et al., 2019; Ewert & Wagenhofer, 2019; Lin, 2022). Bibliometric mapping and thematic analysis indicate an escalation of research from the question “does audit quality have an impact?” to “how do governance design/processes and architecture shape FRQ and market consequences.” The results are evident in a decline in earnings management, improvement in FRQ indicators, and indications of improved market discipline/cost of capital in various contexts.

Thus, to be relevant and valuable to decision-makers, audit practices need to continue moving toward measurable risk-based quality in material areas, reinforce methodologies and key findings through non-boilerplate KAM/CAM, strengthen professionalization & independence (partner rotation, restrictions on non-audit services, EQCR), and integrate with audit committee and internal audit oversight. This combination reduces information risk, increases user confidence, and ultimately improves capital allocation through more reliable financial reporting.

### **Limitations and Suggestions**

This systematic literature review has several limitations that need to be considered when interpreting its conclusions about audit quality enhancements and financial reporting credibility. The evidence base is restricted to Scopus-indexed journal articles published between 2015 and 2025, which is the period in which regulatory reforms such as KAM/CAM requirements, the development of ISQM 1, and renewed debates on audit quality became prominent. While this time window is appropriate for capturing contemporary developments, it may exclude relevant prior work that shaped earlier conceptions of audit quality and financial reporting quality, as well as studies published in non-indexed journals, books, working papers, and regulatory or professional reports. In addition, the focus on English-language publications, supplemented only by a limited number of Indonesian studies, constrains the generalizability of the findings to settings and research communities where scientific communication predominantly uses other languages. As a result, the synthesis presented in this review should be read as a picture of the most visible, internationalised strand of the literature rather than an exhaustive map of all debates on audit quality enhancements and reporting credibility.

Another limitation relates to the search, screening, and coding procedures. Although the review followed a structured SLR protocol based on PICOC and PRISMA, with explicit inclusion–exclusion criteria and documented stages from identification to synthesis, the process inevitably involves researcher judgment. Decisions about how to operationalize “audit quality enhancements”, how to classify various proxies of financial reporting quality and credibility, and how to group contextual variables such as governance mechanisms, ownership structures, internal audit arrangements, and

institutional environments can influence the resulting thematic map. The synthesis also relies primarily on narrative integration and descriptive bibliometric analysis, rather than a formal meta-analysis that aggregates effect sizes across studies. Consequently, the review can convincingly describe the direction and pattern of relationships between different types of enhancements and various reporting outcomes, but it cannot provide precise pooled estimates of their magnitude, nor can it fully resolve inconsistencies in quantitative findings across contexts and research designs.

The distribution of studies across institutional settings provides an additional limitation. Much of the evidence summarised in this article comes from developed capital markets with relatively strong enforcement, mature audit oversight regimes, and well-developed corporate governance infrastructures. In contrast, empirical studies from emerging markets—where enforcement may be weaker, ownership is often concentrated, and institutional arrangements differ substantially—remain underrepresented. This imbalance is particularly important because one of the central themes of the review is that context matters for how audit quality enhancements are transmitted to financial reporting credibility and economic consequences. When the underlying evidence base is skewed toward environments with robust institutions, any conclusions about the effectiveness of enhancements in emerging markets, including Indonesia and other ASEAN countries, must be drawn with caution.

These limitations open up several avenues for future research that are consistent with the research agenda outlined in the preceding section. To broaden and deepen the evidence base, future studies could incorporate additional databases and regional journals, extend the temporal coverage to capture the evolution of audit quality reforms over a longer horizon, and devote greater attention to emerging and frontier markets. Building on the patterns identified in this review, there is also considerable scope to develop more integrated and multidimensional measures of audit quality enhancements and financial reporting quality. Rather than relying on single proxies such as Big 4 membership, simple fee metrics, or isolated accrual-based indicators, subsequent research could construct composite indices of audit process quality that combine regulatory and oversight components, firm-level quality management systems, and engagement-level attributes such as team composition, review intensity, and the design of KAM/CAM disclosures. On the reporting side, measures that jointly capture accrual

quality, real activities manipulation, disclosure quality, and market reactions would make it easier to identify which enhancements matter most for which aspects of reporting credibility.

At the same time, future research needs to strengthen causal identification and open the “black box” that links audit processes to reporting outcomes. Many of the studies reviewed here rely on associational evidence, which makes it difficult to disentangle causality from selection and omitted variables. Quasi-experimental designs based on regulatory shocks (for example, the implementation of ISQM 1, changes in inspection regimes, or the introduction and refinement of AQI and KAM/CAM requirements), staggered reforms across jurisdictions, or natural experiments in audit market structure offer promising ways to identify more clearly the mechanisms through which enhancements affect financial reporting quality and credibility. Process-oriented studies that connect audit inputs and procedures to observable reporting outcomes would further illuminate how professional judgments, team structures, use of technology, consultation practices, and interactions with governance actors translate into changes in financial reporting behaviour.

Finally, the review underscores the need for more context-sensitive research in emerging markets and for a closer integration of economic and capital market consequences into models of audit quality enhancements. Future work in Indonesia and other ASEAN economies could examine how enhancements interact with concentrated ownership, family and state ownership, internal audit capacity, and varying enforcement intensity, as well as how they operate in specific reporting environments such as financial institutions, state-owned enterprises, and firms adopting sustainability or integrated reporting. By linking audit quality enhancements and financial reporting credibility more systematically to outcomes such as cost of capital, liquidity, investor confidence, and real investment decisions, subsequent studies can provide a more complete and policy-relevant understanding of how improvements in audit processes contribute to credible financial reporting and to the functioning of capital markets.

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