



Integrated Reporting Items and Agency Cost Reduction: An Analysis of the Role of Audit Quality

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1. Introduction

Managers' pursuit of self-interest necessitates governance mechanisms to align stakeholder interests and reduce conflicts (Jensen & Meckling, 1976). Integrated reporting enhances transparency, improving managerial accountability and shareholder oversight. As a novel corporate reporting approach, it enhances information quality and demonstrates a firm's value-creation over time. Agency theory posits that information asymmetry causes conflicts, as managers may conceal negative information (Jensen & Meckling, 1976). Integrated reporting enhances transparency, limits opportunistic behavior, and mitigates agency conflicts. Stakeholder theory emphasizes accountability to diverse stakeholders, requiring proactive disclosure to meet expectations (Freeman, 1984). Integrated reporting helps monitor managerial performance, assess sustainability, and optimize resource allocation, reducing agency costs. Integrated reporting, combining financial and non-financial information, requires assurance, encouraging voluntary audits.

Independent audits reduce information asymmetry and enhance financial information reliability. The integration of financial, social, environmental, and governance factors enhances auditors' risk assessment, improving audit quality. High-quality integrated reporting meets stakeholder needs, builds trust, and enhances audit quality. High-quality auditing provides assurance, compensates for governance and legal weaknesses, monitors managerial performance, reduces information asymmetry, and minimizes agency costs. It prevents wealth misallocation and managerial misrepresentation. Audit quality mediates the relationship between integrated reporting quality and agency costs, reducing conflicts of interest.

2. Hypotheses

The research hypotheses are as follows:

H1: Higher integrated reporting quality reduces agency costs.

H2: Higher integrated reporting quality enhances audit quality.

H3: Higher integrated reporting quality reduces agency costs through enhanced audit quality.

3. Methods

The study examines 160 companies listed on the Tehran Stock Exchange from 2017 to 2023. Data were collected from Rahavard Novin software and the Codal website. Hypotheses were analyzed using ordinary least squares (OLS) regression. Mediation was tested using Sobel, Aroian, and Goodman tests in Stata (version 17) and EViews (version 13). Two-Stage Least Squares (2SLS) addressed endogeneity, and a bootstrap approach validated H3. Integrated reporting quality was measured via content analysis using Pistoni et al.'s (2018) checklist. Agency costs were assessed using free cash flow, and audit quality was evaluated via a factor analysis index of audit fee, auditor tenure, firm ranking, and size.

4. Results

Higher integrated reporting quality significantly reduces agency costs and enhances audit quality. Integrated reporting quality reduces agency costs by enhancing audit quality, confirming the mediating role of audit

quality.

5. Conclusion

Although Iranian companies have not adopted integrated reporting, improving financial and non-financial disclosure quality (Integrated reporting categories) enhances audit quality, reducing agency costs between managers and shareholders. Companies can enhance disclosure quality to align with stakeholder interests. Improved disclosure enables auditors to conduct more effective reviews, enhancing audit quality. Adopting integrated reporting could further reduce agency costs by streamlining disclosures. Iran should foster a culture for integrated reporting adoption to enhance transparency and reduce agency costs. These findings suggest that companies should prioritize high-quality financial and non-financial disclosures, supported by robust auditing, to build stakeholder trust and improve governance. Future research could explore barriers to integrated reporting adoption in Iran or its impact on specific stakeholder groups.

Keywords: Integrated reporting quality, financial disclosure, non-financial disclosure, audit quality, agency costs.