



## **Reputable Audit Quality Attributes and Related Party Transactions Disclosure**

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### **ABSTRACT**

We examine the relationship between reputable audit quality attributes (international-based brand name and industry expertise) and related party transactions (RPT) disclosure among listed companies in Malaysia. A decrease magnitude of RPT disclosure in recent years may indicate that companies tend not to report RPT appropriately, especially transactions with entities involving the interest of individual-related parties (RPT-conflict). We argue that the auditors with reputable international brand names and industry specialist, are more inspired to ensure companies disclose RPTs appropriately. We test listed companies from 2013 to 2016 with 1,249 total observations and find that a reputable international brand name audit firm increases RPT-conflict disclosure. However, the relationship is attributable to international non-Big 4 rather than international Big 4 auditors. The reputable industry specialist auditor also increases RPT-conflict disclosure. This study contributes a greater understanding of the association between an auditor's reputable status towards RPT disclosure from the reputation theory perspective. The evidence suggests that the reputable audit quality status inspires the auditor to provide better audit efforts to discipline RPT from being abused by the related parties. The policymakers and regulators can ensure transparency of RPT disclosure by considering the reputable audit quality attributes to regulate companies that engage in RPTs.

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## INTRODUCTION

An Enron accounting scandal pushed an awareness button to related party transactions (RPT) as a favorite financial reporting manipulation tool (Rahmat and Ali, 2016; Rahmat et al., 2020b). The consecutive revelation of accounting scandals involving Adelphia and Tyco in the United States, KMK and Mailyard in China, Satyam in India, Sinar Mas Group in Indonesia, DBS Group Holding Ltd in Singapore, Lion Corporation Berhad, Tradewind Berhad, and Ho Hup Construction Berhad in Malaysia are well-known examples that RPTs are abused. These accounting scandals raise concerns about the auditors' role in investigating RPTs. The auditors are responsible for assuring that all business contracts and activities, including those with related parties to be disclosed according to the stated standards or guidelines (Guedhami and Pittman, 2006).

The opportunist related parties (managers or controlling shareholders) may utilize the complex nature of RPTs to conceal their interests (Rahmat et al., 2018). The nature of RPTs is similar to normal business transactions (sales, purchase, loan, etc.) and soundly carried out to assist the company's daily activities, mainly among group companies. Additionally, weak corporate governance practices and shareholders' protections in developing economies set up a conducive environment for the opportunist managers or controlling shareholders to abuse RPT (Peng and Jiang, 2010; Abdul Wahab et al., 2011; Rahmat et al., 2018). The opportunist managers or controlling shareholders may avoid disclosing RPTs appropriately since the disclosure exposes their intention to abuse RPTs to maximize personal benefits. The omission or manipulation of RPTs' disclosure will cause shareholders, specifically, the minority shareholders, to suffer huge losses.

Additionally, the Minority Shareholders Watch Group (MSWG) emphasizes that the number of companies making RPT disclosures declined, specifically disclosing the related party's interest. The MSWG's concern is based on the Malaysia-ASEAN Corporate Governance Report 2013, 2014, 2015, and 2016, showing how companies make disclosures related to their names, relationships, and nature. RPT value decreases significantly from the year 2013 to 2016. The report also showed the number of companies that did not reveal a clear RPT policy rise from 568 companies (66%) in 2013 to 639 companies (74%) in 2016. These trends may indicate that companies do not tend to report RPT, especially transactions with entities that are related parties of interests. Some companies also tend to appoint or change to the auditor with a less-reputable brand name, which may purposely ensure the RPTs can be concealed easily (Rahmat and Ali, 2016), particularly in a weak legal and regulatory environment (DeFond and Zhang 2014). If there is no stringent monitoring carried out on ensuring RPT is properly disclosed, these circumstances will expose the minority shareholders to the potential of abusive RPT.

The auditors are accountable for minimizing the information risk by ensuring all information on RPTs are disclosed transparently by the companies complying with the specified accounting standard, i.e., MFRS 124 *Related Party Disclosure* (Guedhami and Pittman, 2006; Olowookere and Inneh, 2016). However, detecting RPTs is not an easy task (AICPA, 2001) since the nature of RPT can be easily manipulated. Beasley et al. (2000) and Gordon et al. (2007) raised concerns that the auditor's failure in auditing the abusive RPTs is ranked among major factors resulting in audit failure. Bhuiyan and Roudaki (2018) also emphasized that auditors with low-quality monitoring cause failure in detecting abusive RPT among New Zealand companies. Thus, auditing RPT disclosure demands a high audit quality (Hasnan et al., 2016). There are limited studies by Gallery et al., (2008) and Bennouri et al., (2015) that found audit quality (measured by the Big 4 auditors) can minimize the abusive RPTs in developed countries. However, the impact may differ in developing economies due to controlling shareholders' dominance (Abdul Wahab et al., 2011; Ariff and Hashim, 2013; Munir et al., 2013).

Additionally, we also argued whether the audit firm with reputable high audit quality service providers could ensure RPT is disclosed appropriately. Instead of the auditors' competency and independence, which are commonly associated with Big 4 audit firms, auditors' capability to detect the abusive RPT can be enhanced if they posit certain attributes. This includes firms' high reputation (branded name and international than a local) or expertise in a specific industry (industry specialist). The basis arguments are high reputable (international) brand name, specifically by Big 4 audit firm or other international non-Big 4 audit firm having more resources, expertise, and technology to provide high audit quality (Rahmat and Iskandar, 2004; Chen et al., 2018). The auditor industry specialist may have a deep understanding and knowledge about clients' operation and industry (Reichelt and Wang, 2010; Cahan et al., 2011; Elder et al., 2015; Chen et al., 2018) make them more efficient in detecting the RPTs and its disclosure (Olowookere and Inneh, 2016; Yuan et al., 2016). As a highly reputable brand name, international origin and industry specialist audit firms inspire them to retain their reputation by

providing high-quality audits in auditing the abusive RPTs (Bennouri et al., 2015; Olowookere and Inneh, 2016). However, a scarce or limited empirical evidence shows the reputable auditor's attributes (international brand and industry specialist) and RPTs disclosure relationship, specifically from developing economies.

Thus, our study's objective is to examine the association between audit firm reputable audit quality attributes and disclosure of RPTs involving individual-related parties' interest (hereinafter RPT-conflict). Thus, we analyze listed companies from 2013-2016 with 1,249 observations to generate empirical evidence associated with the predicted hypotheses. The results show that audit firms with the international brand name have a positive relationship with RPT-conflict disclosure. The result also shows that auditor's industry expertise also increases RPT-conflict disclosure. The findings support our argument that high reputable audit firms provide a high-quality audit to ensure Malaysian listed companies disclose RPT-conflict appropriately according to requirements stated under MFRS 124 *Related Party Disclosure*. We also find international non-Big 4 audit firms increase RPT-conflict disclosure. However, it was surprising as the international Big 4 audit firms are not associated with it.

We contribute to the body of knowledge by investigating the association between the reputable audit quality attributes, specific international brand name and industry specialist, and RPT-conflict disclosure. This study also distinguished the association between the reputable international brand name by Big 4 and non-Big 4 audit firms and RPT-conflict disclosure. This study also embeds the reputation theory perspective to explain the importance of high reputable status being an international brand name and industry specialist in inspiring the auditor to perform a high-quality audit, specifically in auditing RPT-conflict disclosure.

This paper is organized as follows. The subsequent section gives a brief description of RPT's background, theory, literature review, and hypotheses development. Section three provides detailed information on the research methodology, followed by the empirical results section. The discussion and conclusion are presented in the final section.

## **THEORY, LITERATURE REVIEW, AND HYPOTHESES DEVELOPMENT**

### **Background and nature of RPTs**

According to MFRS 124 *Related Party Disclosure*<sup>1</sup>, RPTs are defined as a transfer of resources, services, or obligations between related parties, regardless of whether a price is charged. A related party is defined as a person or entity connected with another entity through direct or indirect shareholding. The RPTs often involve a business with a group company, which may involve the parent firm and subsidiaries, associates, other affiliates, key management members, such as managers, directors, and majority shareholders, as well as their close relatives (Di Carlo, 2014; Bennouri et al., 2015). Therefore, in a broader perspective, a contract between two parties can be classified as RPT in which a related party, mainly key management members, have a relation with the other party either due to a family connection or share's ownership in the related firms (Trivun et al., 2012).

The transactions are efficiently used to help businesses fit their economic needs, resource allocation and strengthen financial health by obtaining financial assistance from group companies (Ge et al., 2010; Rahmat and Ali, 2016; Rahmat et al., 2020a). The RPT is a legitimate agreement used to reduce the business operation and production cost because the RPTs can be agreed upon by both parties at a lower or higher price than the market value (Gordon et al., 2004; Rahmat and Ali, 2016). The transactions may consist of various trading types involving production and distribution of merchandise, such as buying and selling goods, services, assets and loans, and loan guarantees (Ge et al., 2010; Wang and Yuan, 2012; Habib et al., 2015). The nature of RPTs may vary, occurring through a simple to a highly complex transaction (Kohlbeck and Mayhew, 2010) due to the related party's interest hidden behind a complex ownership structure, either direct, indirect, cross-holding, or pyramidal.

The implementation of RPTs is debated as efficient if it is executed solely for the companies' economic needs without the related party's interests (Gordon et al., 2004; Pizzo, 2011). Dealings with related parties can secure in-depth proficiency or provide alternative forms of reparation (Hasnan et al., 2016; Rahmat and Ali, 2016) and are more effective and cost-efficient than conducting similar transactions with outsiders (Abdul

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<sup>1</sup> MFRS 124 is in line with the International Accounting Standards (IAS 24).

Wahab et al., 2011; Ryngaert and Thomas, 2012). The RPT contracts are considered efficient if the contract solely involves a business entity and another business entity without the individual related party interest (managers or controlling shareholders). However, when contracts involve certain related parties' private interests, it forms a conflict of interest (RPT-conflict).

RPT-conflict may be performed possibly with hidden intentions to mislead, abuse, and reduce shareholders' value (Gordon et al., 2007; Pizzo, 2011), besides a great opportunity to exploit minority shareholders (Hasnan et al., 2016). RPT contracts are often agreed at a lower or higher than the market price, which may benefit the individual related party (Ge et al., 2010; Fooladi and Farhadi, 2019). Additionally, the related party's companies often do not disclose the market value of the RPTs, i.e., the value of the transaction if it is performed in arm-length with non-related parties. Thus, the shareholders cannot determine either the entities or related parties would benefit the RPTs (Rahmat and Ali, 2016). Hence, RPTs can endanger and be detrimental to shareholders, although the RPTs are soundly efficient. The underlying causes of RPTs are difficult to identify as their actual purposes or intentions are covered behind such legit transactions (Louwers et al., 2008; Rahmat et al., 2018). In many cases, RPTs in Malaysia are abused by controlling shareholders to maximize personal wealth (Ariff and Hashim, 2013).

The Malaysian business landscape is almost identical to other East Asian countries. The majority of companies are dominated by single controlling shareholders, particularly by a renowned family controlling shareholder (Abdul Wahab et al., 2011; Munir et al., 2013). Additionally, the founders' family members or controlling shareholders often sit at the top management position, ensuring all company's strategic decision favors the family (Villalonga and Amit, 2006). Some substantial shareholders may hide their interest via complex ownership structure through indirect, cross-holding, or pyramidal system. Moreover, weak corporate governance practices, enforcement, and weak protections for minority shareholders (Peng and Jiang, 2010; Saad, 2010) are conducive to engaging in RPTs. It facilitates great opportunities for related parties to opportunistically use RPTs (Gordon et al., 2007) as a tool to exploit the wealth of minority shareholders (Aharony et al., 2010; Jian and Wong, 2010). The opportunity to form a contractual agreement between two related business entities will be used by opportunistic managers or controlling shareholders to enhance the company's efficiency and simultaneously increase personal wealth (Yoong et al., 2015). Thus, the impacts of abusive RPTs would be greater in developing countries due to the controlling shareholders' domination (Kohlbeck and Mayhew, 2010).

RPTs disclosure requirements are stated under MFRS 124 and Bursa Malaysia Listing Requirements specifically for all public listed companies. The companies are required to reveal RPTs by documenting the existence of the related parties' interests. MFRS 124, Paragraph 18, specifically required that reporting entities disclosure shall be made separately for each of the categories, i.e., parent company, an entity with joint control or significant influence on entity, subsidiary, associate, joint venture company when the entity is the operator, the main management staff of the entity or its parent, and other related parties. This mandatory disclosure also requires the name of the relevant party, a description of the related party's relationship, the type and amount of transactions involved, and the outstanding balance. Meanwhile, Bursa Malaysia Listing Requirements require all listed companies to disclose RPTs according to MFRS 124 if it meets the three main aspects: disclosure, transaction magnitude, and shareholders' approval. Thus, RPTs that reach the specified level of materiality must be disclosed and get approval from shareholders.

Hence, the disclosure of RPTs is crucial to provide beneficial information to stakeholders, either discipline companies that engage in RPTs or take precautions against them. Therefore, the investors may use the RPTs disclosure information to evaluate whether the RPTs executed by the firms are value-enhancing or value-destroying (Kohlbeck and Mayhew, 2010; Nekhili and Cherif, 2011; Rahmat et al. 2020b). Generally, market participants are always concerned with the bad impact of the RPT exploitation and negatively value RPT activities (Kohlbeck and Mayhew, 2010; Nekhili and Cherif, 2011). In contrast, when the controlling shareholders perturbed that the disclosure would reveal the intention opportunist, they will lessen the RPT engagement. Conversely, the controlling shareholders may use aggressive accounting to avoid disclosing the transactions accurately as RPT-conflict (Sherman and Young, 2001). Hence, the auditors must play an important role in reducing the information asymmetry gap by increasing transparency of RPT-conflict disclosure based on MFRS 124 *Related Party Disclosures*.

### **Audit Quality and Theoretical Perspective of Reputable Audit Quality Attributes**

Following DeAngelo's (1981) definition of audit quality, high-quality is often synonym with the audit firm size like 'Big 8/6/5/4'. These large audit firms are competent and can withstand independence to provide preferable audit quality because they have more resources, expertise, and technology to provide high audit quality (Rahmat and Iskandar, 2004; Chen et al., 2018). Past studies provide mixed evidence; however, the findings showing Big 4 audit firms increase the quality of financial reporting are more consistent, including in Malaysia (Rahmat and Iskandar, 2004; Gallery et al., 2008; Iskandar et al., 2010; Bennouri et al., 2015). There are currently four recognized large audit firms, known as Big 4, including Ernst & Young, PricewaterhouseCoopers, KPMG Peat Marwick, and Deloitte & Touche Tohmatsu practice in Malaysia. Despite the Big 4, we raise concern that other international non-Big 4, such as BDO Binders, Grant Thornton, Bakers & Tilly, and many others, can provide high audit quality. Nevertheless, their actual impact was not widely explored as most previous researchers often categorize the firms as non-Big 4 or small audit firms (DeFond, 1992; Citron and Manalis, 2001; Glaum and Street, 2003; Fang et al., 2018).

Aligned with the above discussion, the auditors are accountable for ensuring RPT-conflict is disclosed appropriately. However, the audit failure rate due to a failure in identifying and tracing RPTs is high (Beasley et al., 2000; Gordon et al., 2007). Thus, auditing RPTs requires a specific auditor's expertise despite the auditor's accounting competency and independence. We emphasize that the auditor's highly reputable status derived from a renowned international brand name and industry specialist may provide incentives to the auditors in conducting a high-quality audit service. This includes ensuring managers or controlling shareholders are willing to disclose RPT-conflict appropriately. The auditor's failure to trace and ensure RPT-conflict disclosure was crucial in causing reputation damage (Gordon et al., 2007; Aronmwan et al., 2013).

Audit firm reputation relates to the corporate image, which comes over time (Aronmwan et al., 2013), where developing and strengthening audit firm reputation requires huge investments. The reputation is also perceived as a result of audit firms' technical and functional quality (Sucher et al., 1999). It could be a consequence of the auditors' array, the firm possessing the brand name, and the perceived audit quality (Aronmwan et al., 2013). Thus, audit firms are perceived as reputable to have high-quality auditing because they normally can charge higher audit fees for their assurance services and more capable of maintaining their recognized reputations (Aronmwan et al., 2013). With a higher financial resource, reputable audit firms have a higher motivation to train and hire competent auditors to protect their reputations (Rezaei and Shabani, 2014). Therefore, past studies commonly classified Big 4 auditors as more reputable than non-Big 4 auditors (DeAngelo, 1981; Boulila Taktak and Mbarki, 2014).

Aligned with the reputation theory, reputable audit firms have more inspirations to provide better audit quality due to maintaining the reputation status (Choi et al., 2010; Desai et al., 2016), particularly in tracing and identifying RPT-conflict. Sustaining a high reputation is crucial otherwise, the audit failure will cause the reputable firms to lose what they have built (Bigus, 2015). The diminished audit firms' reputation may cause these firms to suffer from losing their customers (DeFond and Zhang, 2014). As a result, reputable audit firms have more pressure to reduce errors and mistakes than non-reputable partners (Bigus, 2015). Thus, we argue that reputable audit firms can ensure their clients disclose better quality information (Aronmwan et al., 2013). Consistent with the reputation theory, the reputable auditor, due to their international origin branding (INT-Brand, and either INT-Big4 or INT-nonBig4) and industry specialist (IND-Specialist), are capable of conducting a high-quality audit, including for auditing RPT-conflict disclosure. However, our proposition is yet to be supported empirically due to studies on the auditor's reputable status and RPT disclosure relationships, which are scarce and limited to the best of our knowledge.

### **Auditor's Reputable Brand Name based on International Origin**

The brand name is described as names, terms, symbols or designs, or affiliates to identify goods or services of a person or group of sellers and distinguish them from competitors (McWilliam and Chernatony, 1991). In the context of an audit, the renown of auditors' brand name will be more recognized, and their works are more quality rather than auditors with a less prominent brand name. According to Rahmat and Iskandar (2004), the brand names refer to the firm and the quality of the audit service provided. The international audit firms can detect misstatements because they can perform better audit quality and issue a qualified audit report (Francis and Yu, 2009; Choi et al., 2010). International audit firms are also more effective than the local audit firm in constraining managerial slack (Fang et al., 2018). In contrast, Wang et al. (2008) found that small and medium

auditors or local audit firms have less ability to detect misstatement and difficulty reporting errors when detected. Thus, we may conclude international audit firms are considered reputable, which is aligned with Francis and Yu (2009) and Choi et al. (2010).

Thus, it was not a surprise while some companies incline to choose international audit firms that offer high audit quality to gain credibility for their financial reporting (Guedhami et al., 2009). Companies concerned with disclosing financial statements will choose high-reputation auditors, particularly in emerging and developing markets (Wang et al., 2008). Nevertheless, there is a tendency for companies to choose local audit firm as the firm is more familiar with operations and have better knowledge in auditing the local environment (Wang et al., 2008). Thus, the reputable corporate image developed by the firm from time to time by its brand names, perceived audit quality, and staff quality (Aronmwan et al., 2013) is essential for audit firms to provide quality services. The reputable brand name is advantageous because the market perceives that the firm having better resources makes them capable of effectively conducting the audit work (Chen et al., 2018). However, failure to form and retain a well-established brand name means losing future value (Eshleman and Guo, 2014; Francis et al., 2013; Lawrence et al., 2011).

Thus, the reputable international brand name audit firm is more inspired to provide a high-quality audit. Companies that tend to avoid disclosing RPT-conflict or legitimate the RPT-conflict as an efficient contract (Rahmat et al., 2018; Mohd Ghazali et al., 2020), the audit firm with a reputable international brand name may detect and ensure companies disclose RPT-conflict appropriately. Consistent with the theory, we predict that the auditor with a reputable international brand name may increase RPT-conflict disclosure. However, the empirical evidence is scarce and limited to show the reputable international brand name and RPT-conflict disclosure relationship. Thus, we develop the H1 as follows:

*H1 Auditors with a reputable international brand name is positively associated with more magnitude of RPT-conflict disclosure.*

#### **Auditor's Reputable International Brand Name based on Size (Big 4 vs. non-Big 4)**

Consistent with DeAngelo's (1981) definition of audit quality, the high-quality brand name is often synonym with the audit firm size like 'Big 8/6/5/4'. These large audit firms are argued to provide preferable quality than small audit firms. It is consistent with the meaning of brand name used by Rahmat and Iskandar (2004), which is considered Big 6/5/4 and non-Big 6/5/4 to differentiate the brand name. The identification is based on claims that the Big 4 audit firm makes a big investment in developing better audit service and build a brand name reputation (DeAngelo, 1981). Large audit firms have better financial resources, advanced technology, and more competent employees, giving them advantages to engage with the greater company. Hence, the Big 4 audit firms are renowned as reputable international brand name supplier that provides superior audit quality (Boulila Taktak and Mbarki, 2014; Eshleman and Guo, 2014) as incentives to sustain their reputation, brand name, and audit markets (Aronmwan et al., 2013).

Glaum and Street (2003) have shown that companies audited by international Big 4 audit firms are more complied with the International Financial Reporting Standard (IFRS). Thus, we predict that companies audited by the reputable international Big 4 audit firms are more likely to disclose RPT while adhering to the MRFS 124 *Related Party Disclosures*. Although a few studies show Big 4 auditors effectively minimize the abusive RPTs in developed countries, such as Gallery et al. (2008) and Bennouri et al. (2015), the evidence is still limited in developing countries, specifically Malaysia. Thus, we develop H2(a) as follows:

*H2(a) The reputable international brand name by Big 4 (INT-Big 4) is positively associated with a higher magnitude of RPT-conflict disclosure.*

Most studies (Gallery et al., 2008; Choi et al., 2010; Aronmwan et al., 2013; Bennouri et al., 2015) classify firm brand names according to large and non-large audit firms, previously used as Big 8/6/5/4 or non-Big 8/6/5/4. However, DeFond (1992) adopted a three-way international reputation classification (identified as Big 8/6/5/4), national reputation, and local firms. Meanwhile, Citron and Manalis (2001) classified the auditors' brand name as Big 8/6/5/4 firms, international firms, including members of international networks (here called 'second-tier firms'), and local audit firms. The classification may reflect the audit works' dependability and perceived quality (Fang et al., 2018). Thus, we argue that non-Big 4 international auditor brand names like BDO

Binders and Grant Thornton have strong incentives to keep their reputable brand name, leading to high audit quality. However, the evidence is scarce and limited to show the reputable international brand name by the non-Big 4 auditors and RPT-conflict disclosure relationship. Thus, we develop the H2(b) as follows:

*H2(b) The reputable international brand name by non-Big 4 (INT-nonBig 4) is positively associated with a higher magnitude of RPT-conflict disclosure.*

### **Auditor as Industry Specialist**

Industry specialist is recognized as an auditor's knowledge or expertise in the industry through practical training and experience when auditing clients in certain industries (Elder et al., 2015). Experience in auditing the same industry repeatedly acknowledges the auditor with a deep understanding of the challenges and differentiation of the industry's operations and how general and specialist accounting practice are used in a specific industry (Cahan et al., 2011). According to Habib and Bhuiyan (2011), the knowledge held by industry specialists helps the auditors to complete auditing expeditiously, besides enhancing audit efficiency and able to audit new clients in the same industry effortlessly (Lim et al., 2010; Rusmin and Evans, 2017). Industry specialists will implement accurate and effective audit procedures (Balsam et al., 2003; Sarwoko and Agoes, 2014).

Several studies show industry specialists can increase earnings quality, which indirectly improves the audit quality (Lin and Hwang, 2010). For example, industry specialists' audited clients had lower discretionary accruals (Kwon et al., 2007; Yuan et al., 2016) and higher disclosures quality (Dunn and Mayhew, 2004; Almutairi et al., 2009). Industry specialist auditors increase information quality and reduce information asymmetry among investors (Almutairi et al., 2009; Clinch et al., 2011). Also, industry specialist auditors reduce audit delay (Rusmin and Evans, 2017) and audit report lag (Habib and Bhuiyan, 2011). The industry specialists may use prior experiences to facilitate their audit and complete the audit engagements more expediently than non-specialist auditors (Yuan et al., 2016; Rusmin and Evans, 2017). This past evidence indicates that industry specialists increase the client's earnings quality by exhibiting greater compliance with General Accepted Accounting Principles (GAAP) (Reichelt and Wang 2010). Therefore, many researchers have agreed that industry specialists improve audit quality.

Consistent with the theory, the industry specialist auditors have incentives to retain the reputable status by continuously providing higher audit quality. Thus, we predict that reputable industry specialists can better trace and detect the RPTs even though RPT are complex and concealed easily. This argument is that the reputable industry specialists become familiar with the industry's complex nature and transactions, capable of differentiating and identifying any contract that may involve related parties. Nevertheless, the scarce evidence shows an association between reputable industry specialist audit firm and RPT-conflict disclosure to date, developing the H3 as follows:

*H3 The reputable industry specialist audit firm is positively associated with a higher magnitude of RPT-conflict disclosure.*

## **METHODOLOGY**

### **Sample and Data Collection**

The population is all companies listed in Bursa Malaysia over the four years from 2013-2016. We use content analysis to collect the RPTs information from the note to the account. The information includes type, nature, amount (magnitude), those related parties involved with, and others. We also analyzed the companies' ownership structure to identify the substantial shareholders and the significantly related parties. This non-financial data is manually collected from the companies' annual reports because these types of data are not available in most digital databases. Some of non-financial, including the archival data regarding previous corporate governance structures (board size, and board and audit committee independence, and audit quality) and ownership structures (percentage of controlling shareholder's ownership, family or other controlling shareholders, and single or

multiple controlling shareholders) were also collected manually from the company's annual reports. The final sample consists of listed companies with 1,249 observations, after eliminating financial institutions due to the companies being regulated by their specific regulations (Saad, 2010). We also omit certain observations because of incomplete data (primarily regarding RPTs) for the four years. The sample includes various major industries, including plantation, industrial products, trading and services, property, construction, consumer products, technology, hotel, and infrastructure.

Malaysia's business landscape is conducive for companies to engage in abusive RPTs (Ariff and Hashim, 2013) due to lack of protection over minority shareholders and ineffective governance enforcement (Peng and Jiang, 2010). Most companies are formed with a concentrated type of ownership (Villalonga and Amit, 2006) by a single controlling shareholder. This indicates that Malaysia's business environment and companies' ownership structure may be conducive, serving as an opportunity for firms to engage in RPTs (Md Nor and Ku Ismail, 2017). Furthermore, the study sample selection from 2013 to 2016 is because 2013 is one year after the MFRS 124 *Related Party Disclosure* is adopted in 2012, and companies in Malaysia should have complied with the new accounting standards. Besides, we limit the selection of samples up to 2016 to minimize the potential impact of the latest corporate governance reform in 2017. Here, the disclosure requirement over RPT becomes more transparent. RPTs must be disclosed by showing their nature and all the related parties involved. This disclosure will enable financial statement users to understand the nature of RPT, either to increase efficiency or to increase individual related parties' wealth.

Although there are many developments in RPTs, no substantial changes have been made to auditing practice in Malaysia, except for the regulator allowing a more lengthen tenure for the audit partner concerning the rotation policy in 2018. Thus, Malaysia is a convenient venue to carry out this study, and the data set from 2013 to 2016 is relevant to provide new evidence on the issue of interest.

## Research Design and Measurements

A panel least-squares estimation with cross-section and period fixed effects was employed to examine the hypotheses. The Hausmann test results and a redundant likelihood chi-square test (not tabulated) suggested that the fixed effect models were appropriate for the regressions. The cross-sectional fixed effects approach increases the Durbin–Watson statistic, i.e., it minimizes the autocorrelation issues in the model. This model is adopted and modified from the model used by Rahmat and Ali (2016), Rahmat et al. (2018), Rahmat et al. (2019), and Mohd Ghazali et al. (2020). The empirical models are described below:

$$\text{LogRPTC} = \alpha + \beta_1 \text{INT-Brand} + \beta_2 \text{IND-Specialist} + \beta_3 \text{ACInd} + \beta_4 \text{BInd} + \beta_5 \text{BSize} + \beta_6 \text{FSize} + \beta_7 \text{Leverage} + \beta_8 \text{ROA} + \beta_9 \text{Growth} + \beta_{10} \text{FamCS} + \beta_{11} \text{SingleCS} + \beta_{12} \text{Ownership} + \beta_{13} \sum^8 \text{Industry} + \beta_{14} \sum^5 \text{Year} + \varepsilon \quad (1)$$

$$\text{LogRPTC} = \alpha + \beta_1 \text{INT-BrandType} + \beta_2 \text{IND-Specialist} + \beta_3 \text{ACInd} + \beta_4 \text{BInd} + \beta_5 \text{BSize} + \beta_6 \text{FSize} + \beta_7 \text{Leverage} + \beta_8 \text{ROA} + \beta_9 \text{Growth} + \beta_{10} \text{FamCS} + \beta_{11} \text{SingleCS} + \beta_{12} \text{Ownership} + \beta_{13} \sum^8 \text{Industry} + \beta_{14} \sum^5 \text{Year} + \varepsilon \quad (2)$$

where *LogRPTC* is a magnitude of RPTs, measured as a natural logarithm of the magnitude (amount) of RPT-conflict (Habib et al., 2015; Mohd Ghazali et al., 2020). Past studies defined and measured RPTs differently. Some studies focused on different types of RPTs, either sales or purchase (Ge et al., 2010; Aharony et al., 2010; Wang and Yuan, 2012), tunneling and propping (Jian and Wong, 2010), simple or complex RPTs (Kohlbeck & Mayhew, 2010; Rahmat et al., 2020), and efficient and conflict RPTs due to potential of wealth expropriation (Gordon et al., 2004; Gordon et al., 2007; Mohd Ghazali et al., 2020). This study focuses on RPT-conflict as in Mohd Ghazali et al. (2020), i.e., RPT that involves individual-related parties' interest aligned with the MFRS 124 *Related Party Disclosure*. This definition accurately represents a company's expropriation risk by the individual-related parties to maximize personal benefit (Mohd Ghazali et al., 2020).

*INT-Brand* is an indicator variable for an auditor with a reputable international brand name, coded equally to 1 for companies audited by the international audit firm, while 0 otherwise. Also, *INT-BrandType* is a vector representing either INT-Big4 or INT-nonBig4. INT-Big4 is an indicator variable for the Big 4 international brand name, coded equally to 1 for companies audited by the international Big 4 audit firm and 0 otherwise. Moreover, INT-nonBig4 is an indicator variable for the non-Big 4 international brand name, coded equally to one for companies audited by the international non-Big 4 audit firm, and zero otherwise. Furthermore, *IND-Specialist* is an indicator variable for a reputable industry specialist determined based on 20% of the audit

market according to a specific industry (Rahmat and Iskandar, 2004; Lim et al., 2010; Elder et al., 2015). The variable is coded equally to one of the companies audited by the auditor (audit firm) industry specialist, and zero otherwise. The detailed information of industry specialists is shown in Table 1.

Additionally, we control differences concerning the company's characteristics and corporate governance structure. An *ACInd* is an audit committee independence, measured based on a proportion of independent audit committee members to total audit committee members (Gordon et al., 2004; Rahmat and Ali, 2016). On the other hand, *BInd* is board independence, measured by a proportion of independent non-executive directors to total board members (Hasnan et al., 2016; Rahmat and Ali, 2016). Also, *BSize* is a board size based on actual members of the board of directors (Hasnan et al. 2016; Rahmat and Ali, 2016; Md Nor and Ku Ismail, 2017), while *FSize* is referred to as firm size measured as a natural logarithm of total assets (Bhuiyan and Roudaki, 2018; Rahmat and Ali, 2016; Md Nor and Ku Ismail, 2017).

Apart from that, *Leverage* is a ratio of total debt to total assets at the end of the year (Jian and Wong, 2010; Hasnan et al., 2016; Md Nor and Ku Ismail, 2017), while *ROA* is the return on asset, measured by earnings before extraordinary items, scaled by the total assets (Bennouri et al., 2015). Besides, *Growth* represents a company's growth, calculated based on a company's current revenue divided by the prior year company's revenue (Rahmat and Ali, 2016), while *FamCS* is a family controlling shareholder, coded equally to 1 if the family controlling shareholder ownership is more than 23%, and zero otherwise. The *FamCS* is defined based on individuals' ownership, or family members are more than 23% (Ariff and Hashim, 2013; Munir et al., 2013). Also, *SingleCS* is a single controlling shareholder coded equally to one if there is only one controlling shareholder or substantial shareholders who have ownership of more than 23%, otherwise, coded equally to 0. Apart from that, *Ownership* is a ratio of controlling shareholder's direct ownership (Rahmat and Ali, 2016), while *Industry* and *Year* are a vector indicator variable for industry specificities and year observations, coded equally to one if the company is classified as the specified industry, and zero otherwise. Finally, the *year* is coded equally to one if the observation is collected from the specified year and zero otherwise.

## EMPIRICAL RESULTS

### Descriptive analysis

Table 1 shows the result of auditors' industry specialization analysis. The auditor is classified as an industry specialist if they audited at least 20% of the audit market based on the number of audited clients according to the specified industry. Table 1 shows Ernst & Young (EY) specialist in almost all industries and has been a consistent industry specialist from 2013 to 2016 for plantation, trading, property, hotel, and infrastructure. Besides, EY also has been an industry specialist for the industrial product and construction industry for several years. Also, Crowe Horwath is an industry specialist for the technology industry from 2014 to 2016, while KPMG Peat Marwick is an industry specialist for the hotel and infrastructure industry throughout the year and a specialist for the consumer product industry for the year 2014. Moreover, PricewaterhouseCoopers, Deloitte & Touche Tohmatsu, and all non-Big 4 except Crowe Horwath are not specialists in any industry.

Table 1 Industry Specialist at the level of 20% audit market

Industry	Year	2013	2014	2015	2016
Plantation		EY	EY	EY	EY
Industrial product		EY	EY		
Trading & services		EY	EY	EY	EY
Property		EY	EY	EY	EY
Construction		EY			
Consumer product			KPMG		
Technology			Crowe Horward	Crowe Horward	Crowe Horward
Hotel & Infrastructure		EY & KPMG	EY & KPMG	EY & KPMG	EY & KPMG

Note: EY is Ernst & Young audit firm, KPMG is KPMG Peat Marwicks.

Table 2 shows the descriptive analysis for the 1,249 firm-years samples. The result shows that the mean value of RPT (RPTA) is 0.06, indicating a magnitude that the total of RPTs engaged and disclose by listed companies in Malaysia on average over the five years is about 6% of the firm's group total assets. The statistic is aligned with the MWSG revelation that companies listed in Bursa Malaysia substantially reduce disclosing

RPTs. Rahmat et al. (2020b) reported that the magnitude of RPTs disclosed by the listed companies within 2008-2010 is about 12% of the group's total assets. The minimum value is 0.00, indicating that some of the listed firms did not disclose any transactions with related parties (this statistic does not include director remuneration), while the largest amount disclosed is 1.30 (130% of the group's total assets). The result shows that RPT-conflict (RPTCTA) 's maximum value is 0.20, indicating the largest RPT that involves individuals or entities with the significant interest of individual-related parties by listed companies small. Most companies do not or may avoid disclosing RPT-conflict.

Furthermore, this table also shows the descriptive analysis for *INT-Brand*, *INT-Big4*, *INT-nonBig4*, and *IND-Specialist*. The result shows that 1,177 (94.24%) listed companies have appointed international audit firms (*INT-Brand*). This circumstance illustrates that most of the listed companies in Malaysia select reputable international audit firms that may represent good audit quality to evaluate the financial reports. The companies may perceive that the *INT-Brand* appointment can enhance shareholders' and investors' trust in the company. A total of 647 (51.80%) listed companies are audited by the international Big 4 audit firm, while 523 (41.87%) listed companies are audited by international non-Big4. In the meantime, there are only 220 (17.61%) listed companies that have been audited by industry specialist auditors. Other results for controlling variables can be referred to in Table 2.

Table 2 Descriptive Analysis

Panel A					
Variable	Mean	Median	Max	Min	Std. Dev.
RPTA	0.06	0.02	1.30	0.00	0.16
RPTCTA	0.00	0.00	0.20	0.00	0.01
LogRPTC	3.30	0.00	19.64	0.00	5.81
ACInd	0.89	1.00	1.00	0.50	0.15
BInd	0.49	0.50	1.00	0.22	0.13
BSize	7.34	7.00	16.00	3.00	1.88
FSize	13.32	13.21	19.03	8.91	1.53
Leverage	0.37	0.36	0.99	0.02	0.20
ROA	0.06	0.06	0.62	-0.63	0.10
Growth	1.45	1.16	12.50	0.00	0.99
FamCS	0.77	1.00	1.00	0.00	0.42
SingleCS	0.71	1.00	1.00	0.00	0.45
Ownership	0.44	0.43	0.99	0.08	0.14

  

Panel B		
	Frequency	Percentage
INT-Brand	1,177	94.24
INT-Big4	647	51.80
INT-nonBig4	523	41.87
INDSpecialist	220	17.61

Note: *RPTA* is magnitude (amount) of RPTs disclosed by the companies, scaled to group's total asset. *RPTCTA* is amount of RPT-conflict disclosed by the companies, scaled to group's total asset. *LogRPTC* is a natural logarithm of total magnitude of RPT-conflict; *ACInd* is an audit committee independence based on a proportion of independence audit committee members to total audit committee members; *BInd* is a board independence, measured as a proportion of independent non-executive directors to total board members; *BSize* is a board size based on actual members of the board of directors; *FSize* is firm size based on natural logarithm of total assets; *Leverage* is a firm leverage, measured as a ratio of total debt to total assets at the end of the year; *ROA* is return on asset, measured by earnings before extraordinary items, scaled by the total assets; *Growth* is the previous year growth, calculated based on a company's current revenue divided by the prior year company's revenue; *FamCS* is a family controlling shareholder, coded equal to one if the family controlling shareholder more than 23%, and zero otherwise; *SingleCS* is single controlling shareholder, coded equal to one if only one controlling shareholder in the firm, and zero otherwise; *Ownership* is a percentage (convert to decimal) of direct ownership own by the controlling shareholder; *INT-Brand* is an indicator variable for international brand name, coded equal to one if the company is audited by international brand name of audit firm, and zero otherwise; *INT-Big4* is an international Big 4 brand name, coded equal to one if the company is audited by international Big4 audit firm, and zero otherwise; *INT-nonBig4* is an international non-Big 4 brand name, coded equal to one if the company is audited by international non-Big4 audit firm, and zero otherwise; *IND-Specialist* is an industry specialist, coded equal to one if the company is audited by auditor industry specialist, and zero otherwise; *Industry* and *Year* are not reported for brevity. All continuous variables are winsorised at the top and the bottom at 1%.

Table 3 tabulates the results from Pearson's correlation analysis to determine multicollinearity problems among the independent variables, which are highly correlated with each other. Overall, the highest correlation is between industry specialist audit firm (*IND-Specialist*) and international Big4 audit firm (*INT-Big4*) at 0.4, and correlations with other explanatory variables fall below 0.4, suggesting that the variables are not affected by multicollinearity issues. The model's VIF values also indicate that all the variables are free from any multicollinearity issues (Neter et al., 1983; Montgomery et al., 2012; Cohen et al., 2013).

Table 3 Pearson Correlation Analysis

Variable	INT-Brand	INT-Big4	INT-nonBig4	IND-Specialist	ACInd	BInd	BSize	FSize
INT-Brand								
INT-Big4	0.3***							
INT-nonBig4	0.2***	-0.9***						
IND-Specialist	0.1***	0.4***	-0.3***					
ACInd	0.01	-0.1***	0.2***	-0.1***				
BInd	-0.01	-0.05*	0.05*	-0.02	0.4***			
BSize	0.04	0.1***	-0.1***	0.1**	0.03	-0.3***		
FSize	0.1***	0.4***	-0.3***	0.3***	-0.1***	-0.03	0.4***	
Lev	0.01	0.1**	-0.1**	-0.01	0.05*	0.1***	0.1***	0.3***
ROA	-0.02	0.1***	-0.1***	0.05*	-0.05*	-0.1***	0.1***	0.1***
Growth	-0.01	-0.04	0.04	-0.04	0.02	0.02	-0.04	0.00
FamCS	0.02	-0.1**	0.1**	-0.05*	0.2***	-0.1***	0.01	-0.1***
SingleCS	-0.03	0.03	-0.05*	0.01	-0.05*	0.01	-0.02	-0.00
Ownership	0.02	0.2***	-0.2***	0.1***	-0.04	-0.02	0.03	0.2***

Note: INDUSTRY and YEAR are not reported for brevity. Variable definition and measurements are exhibited in Table 2.

Table 3 (Cont.)

Variable	Lev	ROA	Growth	FamCS	SingleCS
INT-Brand					
INT-Big4					
INT-nonBig4					
IND-Specialist					
ACInd					
BInd					
BSize					
FSize					
Lev					
ROA	0.00				
Growth	0.03	-0.01			
FamCS	-0.1***	-0.04	-0.1**		
SingleCS	-0.1**	0.02	0.04	-0.2***	
Ownership	-0.01	0.1***	-0.05*	-0.05	0.3***

Note: INDUSTRY and YEAR are not reported for brevity. Variable definition and measurements are exhibited in Table 2.

### Multivariate Regression

Table 4 shows the multivariate regression results for the relationship between audit quality attributes consisting of auditor's reputable international brand name (*INT-Brand*), INT-Big4 and INT-nonBig4, and industry expertise and RPT-conflict disclosure. The table shows that the adjusted R<sup>2</sup> ranges about 85% and the F-statistic value ranges about 16.2-16.3 (significant at a  $p < 0.01$  level). These values indicate that the models are fit enough to explain about 85% of changes in the tested relationships.

Table 4 Multivariate regression results

Variable	Model 1		Model 2(a)		Model 2(b)		Model 3	
	$\beta$	t-stat.	$\beta$	t-stat.	$\beta$	t-stat.	$\beta$	t-stat.
Constant	-7.18	-3.3***	-5.90	-3.1***	-6.08	-3.0***	-5.90	-3.1***
INT-Brand	1.14	4.8***						
INT-Big4			-0.24	-1.5			-0.24	1.5
INT-nonBig4					0.57	2.7***		
IND-Specialist	0.22	3.7***	0.32	3.2***	0.37	3.5***		
INT-Big4*IND-Specialist							0.32	3.2***
ACInd	2.60	2.4**	2.53	2.3**	2.57	2.3**	2.53	2.3**
BInd	0.59	1.4	0.57	1.4	0.50	1.3	0.57	1.4
BSize	0.15	2.7***	0.14	2.9***	0.14	2.7***	0.14	2.9***
FSize	0.36	3.9***	0.36	3.9***	0.34	3.9***	0.36	3.9***
Leverage	0.80	3.8***	0.90	5.2***	0.89	5.1***	0.90	5.2***
ROA	-1.10	-1.0	-1.22	-1.0	-1.19	-1.0	-1.22	-1.0
Growth	0.09	2.7***	0.10	2.9***	0.10	2.9***	0.10	2.9***
FamCS	0.33	1.7*	0.33	1.7*	0.32	1.5	0.33	1.7*
SingleCS	-0.25	-4.5***	-0.24	-4.4***	-0.24	-4.6***	-0.24	-4.4***
Ownership	0.01	2.3**	0.01	1.8*	0.01	2.9***	0.01	1.8*
Adjusted R <sup>2</sup>	85%		85%		85%		85%	
F-statistic	16.3***		16.2***		16.3***		16.2***	
Durbin-Watson	2.61		2.61		2.61		2.61	
n	1,249		1,249		1,249		1,249	

Note: \*\*\*significance level  $p < 0.01$ , \*\*significance level  $p < 0.05$ , \*significance level  $p < 0.10$ . We report t-statistics based on White (1980) consistent estimator. Year and Industry are not reported for brevity. Variable definition and measurements are exhibited in Table 2.

Table 4, Model 1 exhibits that there is a significant positive relationship between international audit firms (*INT-Brand*) and RPT disclosure. The coefficient is 1.14 (t-stat. = 4.8) and significant at  $p < 0.01$  level to support hypothesis H1. The finding indicates that audit firm with international reputation increases RPT-conflict disclosure among companies listed in Bursa Malaysia. This finding is consistent with the theory suggesting the auditors with the reputable international brand name have more incentives to keep up a better reputation by providing good audit quality to ensure RPT-conflict is disclosed appropriately.

The results for a separate analysis for the INT-Big4 and INT-nonBig4 are shown in Table 4, Model 2(a) and Model 2(b), respectively. Model 2(a) shows the coefficient of INT-Big4 is not significant associated with RPT-conflict disclosure. It is interpreted that there is no evidence showing INT-Big 4 auditors increase RPT-conflict disclosure among listed companies in Malaysia. It was surprising that this evidence does not support Gallery et al. (2008) and Bennouri et al. (2015). Meanwhile, the result of INT-nonBig4, as shown in Model 2(b), is positive and associated with the RPT-conflict disclosure, where the coefficient is 0.57 (t-stat.=2.7), significant at a level of  $p < 0.01$ . This evidence shows that international non-Big 4 auditors increase RPT-conflict disclosure. It can be interpreted that the inspiration to maintain a reputable brand name is higher for the international non-Big 4 than the international Big 4, which is proven by their efforts in ensuring the appropriateness of RPT-conflict disclosure.

Furthermore, *IND-Specialist* auditors also have a significant positive relationship with RPT-conflict disclosure. The results are shown in Model 1, Model 2(a), and Model 2(b), which are robust to suggest that the industry specialist auditor can trace RPTs, specifically the RPT-conflict as they are familiar with the nature of transactions related to the particular industry, and subsequently increase the disclosure. These findings are aligned with the reputation theory to support hypothesis H3. Additionally, we estimate an interaction effect of *IND-Specialist* and INT-Big 4 (as shown in Model 3). We found that the INT-Big 4 who become *IND-specialist* is capable of increasing RPT-conflict disclosure.

Overall, the results are consistent with the reputation theory that auditors with reputable audit quality attributes have incentives to maintain their reputable image, either international brand name or industry specialist. It is evidenced by their capability to ensure RPT-conflict to be disclosed appropriately according to the accounting standards. However, the evidence is not aligned for the international Big 4 auditors. The results are robust as driven by controlling other variables that may influence the listed company's engagement in RPTs, including company's characteristics (*FSize*, *Growth*, *Leverage*, and *ROA*), firm's governance characteristics (*ACInd*, *Blnd*, *BSize*, *Family CS*, *Single CS*, and *Ownership*), and *Year* and *Industry*.

### Additional Analysis on Endogeneity Issue

We perform additional analysis to address the possibility that the models may suffer from an endogeneity problem. Thus, we re-estimate the relationship between independent variables and a dependent variable using a two-stages-least-squares (2SLS) panel data estimation to confirm that the results are free from endogeneity issues (Al-Najjar and Al-Najjar, 2017; Gu et al., 2020). The lag of the dependent variable, i.e., *LogRPTC(-1)*, is included as the respective models' instrument variables, as shown in Table 5. The models are consistent with the main analysis, in which the adjusted  $R^2$  of all models are in the range of about 85%, and the F-statistic is significant at a level of  $p < 0.01$ .

After controlling the endogeneity issue, it was found that the results are consistent with the main results generated by the fixed effects panel data analysis. The result shows that the *INT-Brand* is consistently associated with RPT-conflict disclosure, with a coefficient of 1.16 (t-stat. = 5.1), as shown in Table 5, Model 1, significant at a level of  $p < 0.01$ . The result shown in Table 5, Model 2(a), also depicts consistent evidence that INT-Big4 is not associated with RPT-conflict disclosure. Meanwhile, in Table 5, Model 2(b), the coefficient of INT-nonBig4 auditors is 0.57 (t-stat. = 2.7), significant at a level of  $p < 0.01$ , suggesting that the INT-nonBig4 auditors can discipline the RPT-conflict disclosure. We also find that the results are shown in Model 1, Model 2(a), and Model 2(b) are robust, suggesting that the *IND-Specialist* auditors are consistent with increasing RPT-conflict disclosure. Meanwhile, the result shown in Model 3 also consistently suggests that INT-Big4 becomes an industry specialist capable of increasing RPT-conflict disclosure. Again, these results are robust in supporting the consistency of our main findings.

Table 5 Additional Regression for controlling the Endogeneity Issue

Variable	Model 1		Model 2(a)		Model 2(b)		Model 3	
	$\beta$	t-stat.	$\beta$	t-stat.	$\beta$	t-stat.	$\beta$	t-stat.
Constant	-7.07	-3.1***	-5.77	-2.9***	-5.95	-2.9***	-5.77	-2.9***
LogRPTC(-1)	-0.06	-0.9	-0.06	-0.9	-0.06	-0.9	-0.06	-0.9
INT-Brand	1.16	5.1***						
INT-Big4			-0.23	-1.4			-0.23	-1.4
INT-nonBig4					0.57	2.7***		
IND-Specialist	0.23	3.7***	0.32	3.2***	0.37	3.6***		
INT-Big4*IND-Specialist							0.32	3.2***
ACInd	2.72	2.7***	2.65	2.6**	2.69	2.6***	2.65	2.6**
BInd	0.63	1.5	0.61	1.5	0.54	1.4	0.61	1.5
BSize	0.15	2.5**	0.14	2.6***	0.13	2.5**	0.14	2.6***
FSize	0.36	4.6***	0.37	4.5***	0.35	4.5***	0.37	4.5***
Leverage	0.75	3.6***	0.85	5.1***	0.84	5.1***	0.85	5.1***
ROA	-1.22	-1.2	-1.34	-1.2	-1.32	-1.2	-1.34	-1.2
Growth	0.09	2.6**	0.09	2.8***	0.10	2.9***	0.09	2.8***
FamCS	0.29	1.7*	0.29	1.8	0.26	1.6*	0.29	1.8*
SingleCS	-0.28	-5.8***	-0.27	-5.3***	-0.26	-5.6***	-0.27	-5.3***
Ownership	0.01	2.4**	0.01	1.8*	0.01	3.1***	0.01	1.8*
Adjusted R <sup>2</sup>		85%		85%		85%		85%
Durbin-Watson		2.6		2.6		2.6		2.6
n		1,249		1,249		1,249		1,249

Note: \*\*\*significance level  $p < 0.01$ , \*\*significance level  $p < 0.05$ , \*significance level  $p < 0.10$ . We report t-statistics based on White (1980) consistent estimator. Year and Industry are not reported for brevity. Variable definition and measurements are exhibited in Table 2.

## DISCUSSION AND CONCLUSION

RPT is a trading activity that opens the door to controlling shareholders' opportunistic behavior that will harm minority shareholders (Kohlbeck and Mayhew, 2010; Hasnan et al., 2016). Although the transaction is legal according to the law, without the auditors' action as a medium to monitor the work carried out by the controlling shareholders, the hidden RPT will be more detrimental to other stakeholders. Therefore, auditors' appointment with specific capabilities (skills, competencies, integrity, and resources) is crucial to ensure that all company information is properly disclosed as required standard (DeAngelo, 1981). Aligned with the reputation theory argument to the auditor's monitoring role, the reputable status of international origin brand name, Big 4 or non-Big 4, and industry specialist may indicate their capability to conduct high audit quality identifying the RPTs are disclosed appropriately.

Thus, this study aims to investigate two major auditors' attributes that represent reputable audit quality status in associations with the company's RPT disclosure. Specifically, we examine the ability of international brand name (*INT-Brand*), including international Big 4 auditor (*INT-Big4*) and international non-Big 4 auditor (*INT-non-Big4*), and also industry specialist auditor (*IND-Specialist*), to increase RPT-conflict disclosure, particularly by listed companies in Malaysia. We depicted evidence that the reputable international brand name is effective in increasing RPT-conflict disclosure. This result supports hypothesis *H1* and consistent with studies by Lawrence et al. (2011), Aronmwan et al. (2013), Francis et al. (2013), DeFond and Zhang (2014), Eshleman and Guo (2014) that the reputable international brand name can inspire the audit firms to provide better audit quality to their clients. We may conclude that the auditor's motivation to retain their reputable status encourages them to conduct better audit quality, leading to increased RPT-conflict.

However, we found the *INT-Big4* was not inspired to trace RPT-conflict and its disclosure. The *INT-Big4* auditor may feel comfortable that the market always perceive that they provide good high-quality audit. This is concerning, as the auditor may reduce their incentive and lack skepticism to audit RPT-conflict properly and maintain their good work. Thus, their effort may be insufficient to ensure companies disclose RPT-conflict precisely. Instead, we found that *INT-non-Big4* auditor has more incentive to maintain its reputable status by extensive efforts to ensure RPT-conflict are disclosed appropriately. It supports hypothesis *H2(b)* and gives a new view about the international non-Big 4 auditor's qualities.

Furthermore, industry specialist auditors also may become competent and familiar with the transaction nature when repeatedly auditing the same industry. This allows identifying RPT-conflict, although the company may intend to conceal it. This result supports hypothesis *H3* and aligns with previous studies by (Balsam et al., 2003; Lim et al., 2010; Cahan et al., 2011; Habib and Bhuiyan, 2011; Sarwoko and Agoes, 2014; Elder et al.,

2015; Rusmin and Evans, 2017). Thus, we may conclude that the industry specialist auditor's inspiration to maintain its reputable status encourages them to ensure RPT-conflict are disclosed appropriately. Additional evidence also indicates that reputable industry specialist status can motivate Big 4 auditors to audit RPT-conflict.

These findings contribute to the theory and knowledge by providing empirical evidence that recommending the reputable international brand name of the audit firm, particularly international non-Big 4, remains relevant by indicating their ability to conduct high-quality audit works and monitoring RPTs from abusive disclosure by the opportunist related parties. We also contribute to the knowledge by confirming that the reputable industry specialist status can inspire the audit firm to perform better audit quality and ensure the RPTs are disclosed appropriately according to accounting standards. Hence, the appropriate RPT-conflict disclosure would reduce the company's wealth expropriation risk. This circumstance may increase investors' confidence toward companies that engaged and disclosed RPTs while reputable auditors audit the companies. The practitioners and regulators can consider the reputable audit quality attributes in regulating companies that engage in any contract involving related parties.

This study is subject to a few limitations. First, reliance on the disclosure of RPT-conflict may limit our conclusion as there is a possibility that the firms may hinder or avoid disclosing the occurrence of RPT-conflict, especially when it involves a related party's interest. Additionally, as a human, we cannot ignore the possibility of audit risk, in which the auditors may not detect the existence of undisclosed RPTs although they planned the audit procedures consistent with the approved auditing standards. We only use Malaysia listed firms, which are comparatively small. Hence, our findings may not be generalized to companies outside of Malaysia. Future studies may consider comparing a similar issue in other country settings. Finally, other elements of auditor's characteristics in terms of experience and tenure of reappointment are also not fully controlled, requiring further investigation.

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