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Related-Party Transactions and Audit Fees

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Abstract: This research aims to analyze the association between the related-party transactions and audit fees. This study used 781 observations listed on the Indonesia Stock Exchange from 2010 to 2017. The analysis technique used in this research was the Ordinary Least Square Regression analysis model processed with STATA 14.0 software. This study found that related-party transactions are positively and significantly related to audit fees. The result indicated that the related-party transactions increase audit fees paid by companies. It also investigated the moderating effect of industry specialty auditors. This indicated that auditor specialization strengthened the relationship between the related-party transactions and audit fees. The market share proxy was used to measure industry specialization. However, this proxy still has disadvantages as it can generate different market shares. This study found that related-party transactions increased audit fees. The results of this study can be used as consideration in making decisions for related parties.

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INTRODUCTION

The existence of related-party transactions related to fraud scandals in accounting practices recently raised concerns about current auditing practices (Gordon et al., 2007). The related-party transactions need a major concern. In the case of Enron and Adelphia, transactions with related parties might be for fraudulent purposes rather than for business purposes and were not adequately disclosed in the financial statements (Gordon et al., 2007). Related-party transactions are transactions between companies and individuals or organizations related to the companies, such as managers, directors, major shareholders, and affiliates (Al-Dhamari et al., 2018; Bona-Sánchez, et al. 2017; Gordon et al., 2007). There are various types of related-party transactions, including purchases, sales, loans, or providing loans to parties related to the company (Bryan & Mason, 2017; Gallery et al., 2008). Since 2007, research on the related-party transactions has increased due to accounting irregularities. Research and practice show that the auditing of related-party transactions is problematic. For example, the American Institute of Certified Public Accountants (AICPA) admits that related-party transactions are difficult to audit. This is

supported by empirical evidence stating that related-party transactions are one of the top ten audit deficiencies often identified in the Securities and Exchange Commission (SEC) Law Enforcement Commission (Beasley et al., 2000). The related-party transactions are complex since they involve several parties and operations (Kohlbeck & Mayhew, 2017). The factors that determine the amount of payment for the audit services provided are the size, complexity, and level of risk of the client's business (Chen et al., 2017; Hong & Hwang, 2018; McMeeking et al., 2006; Salehi et al., 2018; Waresul Karim & Moizer, 1996).

The emergence of International Standard Auditing (ISA) 550 regarding related parties shows that all related parties have a significant risk to the company's financial reporting so it is also risky if the auditor audits companies that conduct related-party transactions. The risk faced by the auditor is the possibility of an error in providing an opinion on the audit of the financial statements of companies that conduct related-party transactions to manipulate financial statements (El-Helaly, 2018).

Several studies regarding related-party transactions were conducted because they were considered to influence the determination of audit fees. Al-Dhamari et al., (2018) show that companies that conduct related-party transactions have higher audit fees compared to companies whose related-party transactions are few or even nonexistent. However, the results of research conducted by Kohlbeck dan Mayhew (2017) said that related-party transactions affect the level of financial report restatement, and audit fees at the company are lower.

In Indonesia, to ensure that an entity's financial statements contain the necessary disclosures to bring attention to the possibility that the financial position and profit and loss have been affected by the existence of related parties, the Financial Accounting Standards Board (DSAK) issued a Statement of Financial Accounting Standards (PSAK) 7 which regulates regarding related-party disclosure. The emergence of PSAK 7 provides a signal that related-party transactions may pose a risk to the presentation of financial statements. Research conducted by Simunic (1980) shows that the things that affect the amount of the audit fees are the size of the client company, audit complexity, and audit risk. Therefore, the increase in audit risk is also in line with the increase in fees for audit services. Jiang dan Son (2015) argued that the auditor may respond to increased client risk by charging a premium as insurance against potential litigation and as an excess effort by the auditor in conducting the audit. If the auditor considers that related-party transactions are risky as it will affect the determination of the audit fees because the auditor needs more audit effort to ensure that such related-party transactions will not mislead users of financial statements.

Habib dan Bhuiyan (2011) said one of the dimensions of audit quality that differentiates high-quality auditors from their lower-quality peers is the degree of specialization of the audit firm's industry. Much research has been done on the relationship between industry specialty auditors and audit fees, but no one has yet researched the effects of industry specialty auditor moderation on the relationship between related-party transactions and audit fees. So, this relationship needs to be studied more deeply. Researchers suspect that related-party transactions will positively affect audit costs and the relationship between the two is strengthened if the auditors conducting the audit are auditors with industry specialties. The industry specialty audit is an industry-specific knowledge that auditing firms use to help auditors better understand what clients are doing in a particular industry and the risks they face (Fleming et al., 2014; Kend, 2008). In addition to discussing the relationship between related-party transactions and audit fees, this study will also discuss the relationship between auditors and industry specialties that carry out audits of the financial statements of companies conducting the related-party transactions and their impact on audit costs. Research related to the related-party transactions is an interesting matter to be studied in more depth because related-party transactions pose a significant risk to the company's financial reporting. After all, the nature of the transactions is difficult to identify. This causes the audit risk on the related-party transactions to increase and will affect the amount of audit fees to be paid to the auditors.

Industry specialty auditor is expected to strengthen the relationship between the two variables because auditors with industry specialization have more adequate knowledge of a particular company industry so that they will better understand the nature of the company's transactions. The ability of

auditors to identify the things mentioned above will increase the amount of audit fees so that companies that carry out related-party transactions whose financial statements are audited by auditors with industry specializations will have a higher audit fee. So it is assumed that related-party transactions affect the amount of audit fees paid by the company and if the company is audited by auditors with industry specialties, the relationship between the two will be stronger.

This research can contribute to the literature related to related-party transactions which can then be used for the development of further studies in accounting. First, this study provides an understanding of why related-party transactions affect the amount of audit fees. Second, this study provides an understanding that those companies that are audited by industry specialization auditors will pay higher audit fees. Also, the results of this study are expected to be useful as a consideration in making decisions regarding the related-party transactions.

LITERATURE REVIEW AND HYPOTHESES

Related-party Transactions and Audit Fees

According to Ryngaert dan Thomas (2012), a related-party transaction is an efficient contract mechanism when there is incomplete information. A related-party transaction can be used as a tool to transfer resources to related parties (Aharony et al., 2010; Johnson et al., 2005). According to Gordon et al., (2007), there are several reasons why it is difficult to audit related-party transactions, besides it is difficult to identify related-party transactions, the auditor also relies heavily on information provided about related parties and related-party transactions.

PSAK 7 states that disclosures related to related parties are necessary for presenting financial statements because the statements of financial position and profit and loss, as well as transactions and balances, are affected by the existence and commitment of related parties or so-called related parties. According to PSAK 7, a related party is a person or entity that is related to a certain entity in preparing its financial statements. PSAK 7 regulates what matters need to be disclosed in the financial statements, for example, in the entity's relationship with related parties, compensation given to key management, and related-party transactions.

Indonesia has also regulated the amount of audit fees that must be paid to public accountants with the consideration that an audit fee for auditing financial statements that is too low can pose a threat in the form of personal interests which has the potential to cause non-compliance with the professional code of ethics of the Public Accountant. Therefore, the Indonesian Institute of Public Accountants (IAPI) issued PP No. 2 of 2016 concerning the determination of fees for financial statement audit services. IAPI also regulates the indicator for the lower limit of audit service billing rates. This is done so that in conducting audits, auditors remain obedient to the code of ethics of the Public Accountants and applicable regulations. The determination of the lower limit in determining the service fee is expected so that the entire service fee is adequate for the auditor to perform audit procedures. The amount of the audit fee (fee for services) is the result of calculating the number of hours worked multiplied by the value of the hourly audit fee. In PP No. 2 of 2016, IAPI requires auditors to calculate the amount of time required for each stage of the audit which consists of risk assessment, risk response, and reporting. This is done so that the auditor can calculate the service fees that must be paid by the company for financial statement audit services.

Things that affect the amount of the audit fees are the size of the client company, the complexity of the audit, and the audit risk (Simunic, 1980). Audit risk consists of three, namely inherent risk, control risk, and detection risk. The research conducted by Jiang dan Son (2015) shows the results that the auditor responds to the presence of control risk, the auditor will charge a fee that is higher than the cost of carrying out the audit. The related-party transactions are very important for the auditor because there will always be risks that are judged to be different if the transactions are made with third parties (Al-Dhamari et al., 2018). One of the risks of related-party transactions is a decrease in the level of independence between parties, thus violating the arm's length principle.

There is a significant and positive effect of related-party transactions on audit fees (Al-Dhamari et al., 2018). This is because the auditor considers that related-party transactions increase audit risk. If the auditor assesses that there is a potential risk, the auditor will charge a higher fee as compensation for the risk and effort that must be made to describe the transaction and provide assurance that related-party transaction does not provide misleading value.

H_1: There is a positive relationship between the related-party transactions and audit fees.

Industry Specialty Auditor and Audit Fees in Companies Conducting Related-party Transactions

Having in-depth knowledge of an industry means understanding the economy of the industry, key accounting policy issues, specific industry issues, and its business practices. (Kend, 2008; Nagy, 2014). Understanding the client industry increases the professional auditor's skepticism about the appropriate recognition and judgment of transactions and events related to the industry (Scott & Gist, 2013; Solomon et al., 1999). A deep understanding of a particular industry will increase the effectiveness and efficiency in conducting audits. A specialist's knowledge of an industry is built up through extensive audit experience, specialized staff training, and expensive investment in information technology (DeBoskey & Jiang, 2012).

The results of research conducted by Fuentes dan Sierra (2015) shows that industry-specialized auditors influence determining the amount of audit fees. The auditor's industry specialization is one of the attributes of audit quality because it increases the likelihood of identifying material misstatements in financial statements (Fuentes & Sierra, 2015). In this study, industry-specialized auditors are used to seeing whether industry-specialized auditors will influence the audit fees for companies that transact with related parties. If companies that carry out many transactions with related parties are audited by auditors with industry specialties, it will improve the quality of the financial statements because auditors with industry specializations are considered capable of detecting errors, both errors and intentional errors. Bae et al. (2016) said that the amount of audit fees associated with industry specialty auditors is a reflection of the number of audit services provided by auditors or the result of hourly costs of industry specialty auditors, or perhaps the result of both.

Auditors with industry specialties have in-depth knowledge of industry. Therefore, they will pay more attention to transactions and events in the company, especially if these transactions or events present the risk of material misstatement in the financial statements. However, in Indonesia, there are no detailed regulations that discuss the specialty of the auditor industry and have not determined the lowest level of auditors to understand the client industry before accepting an offer to audit the company's financial statements.

H_2: Audit fees will increase for companies conducting related-party transactions when their financial statements are audited by industry specialty auditors.

METHODS

The approach used in this research is quantitative. This research is conducted to determine the relationship between two variables so that this research is included in the associative research group. This study examines the effect of the related-party transactions and industry specialty auditors on audit fees. All data is secondary data from OSIRIS and data related to auditors comes from the IDX.

The population used in this study was all companies registered in the IDX for 2010-2017 period, consisting of 3,038 companies. The sample selection of this study used a purposive sampling approach with predetermined criteria. These criteria are (1) non-financial companies listed on the IDX in the 2010-2017 period and (2) companies whose annual reports and audited financial reports contain the data required for this research. The researcher removes all populations that do not have the required data. Researchers only use data from non-financial companies, so researchers delete companies with SIC code 6. The number of observations in this study is 781 companies.

The measurement of related-party transactions uses the measurement used by Habib et al., (2015). The related-party transactions are the result of the natural logarithm of all related-party transactions. Besides, researchers measured industry specialty auditors using proxies that already existed in previous studies. Industry specialty auditors are measured by the audit company market share which is calculated from the total assets of the company being audited by the auditor (Rusmin and Evans, 2017). Then the dummy variable of industry specialty auditors is determined, which is given a value of 1 if the auditor's market share is the highest and the value of 0 is vice versa. This variable will be interacted with the related-party transactions variable to see whether being audited by a specialist auditor will affect the audit costs. Audit costs are measured by the natural logarithm of the audit fees paid to the auditor. Researchers also use control variables taken from several previous studies regarding audit costs.

There are two regression models in this study. Model 1 is used to test hypothesis 1, while model 2 is used to test hypothesis 2. The regression models used are as follows:

Model 1:

$$auditfee_{it} = \alpha_0 + \alpha_1 lnrpt_{it} + \alpha_2 specialist_{it} + \alpha_3 big4_{it} + \alpha_4 auditorchange_{it} + \alpha_5 comsize_{it} + \alpha_6 firmage_{it} + \alpha_7 clientsize_{it} + \alpha_8 cash_{it} + \alpha_9 leverage_{it} + \alpha_{10} liquidity_{it} + \alpha_{11} mtbv_{it} + \alpha_{12} industry_{it} + \alpha_{13} year_{it} + \varepsilon_{it}$$

Model 2:

$$auditfee_{it} = \alpha_0 + \alpha_1 lnrpt * specialist + \alpha_2 lnrpt_{it} + \alpha_3 specialist_{it} + \alpha_4 big4_{it} + \alpha_5 auditorchange_{it} + \alpha_6 comsize_{it} + \alpha_7 firmage_{it} + \alpha_8 clientsize_{it} + \alpha_9 cash_{it} + \alpha_{10} leverage_{it} + \alpha_{11} liquidity_{it} + \alpha_{12} mtbv_{it} + \alpha_{13} industry_{it} + \alpha_{14} year_{it} + \varepsilon_{it}$$

Where audit fee is the natural logarithm of the audit fee. Lnrpt is the natural logarithm of all related party transactions. The specialist is a dummy variable where 1 is industry specialty auditors and 0 is the opposite. Big4 is a dummy variable where 1 is the auditor included in BIG4 while 0 is the opposite. Auditor change is a dummy variable where 1 is for companies whose auditors are different from the previous year and 0 is the opposite. The comsize is the number of commissioners in a company. Firmage is the company's age since its establishment until 2017. The clientsize is the natural logarithm of total assets. Cash is the natural logarithm of cash. Leverage is total debt divided by total assets. Liquidity is short-term debt divided by current assets.

RESULTS AND DISCUSSION

Descriptive Statistics

Before doing descriptive statistics, winsorize data was conducted first. The winsorize is done to overcome data containing outliers by pulling the lowest outliers data to the 1% level and pulling the highest outliers data to the 99% level. Table 1 shows the results that the average audit fee value is 1,913,000,000 and has a median value of 790,000,000. The maximum value of the audit fee is 36,000,000,000, while the minimum value is 80,000,000. Related-party transactions (LNRPT) have an average value of related-party transactions of 540,500,000,000 and a median value of 67,820,000,000. The maximum value of this variable is 9,942,000,000 where the transaction is carried out by PT Waskita Karya and the minimum value of this variable is 0.

As additional information, table 2 contains the percentage of companies that disclose audit fees in their financial statements based on industry information regarding the type of industry based on SIC. Manufacturing and service industries are divided into 2 based on their main characteristics. Manufacturing (1) is a company that is included in SIC 2 and manufacturing (2) is included in SIC 3. A company with SIC 7 is included in Services (1) and SIC 8 into Services (2). Based on table 2, the companies that disclosed the most audit fees were companies engaged in the agriculture, forestry, and fisheries industries, which amounted to 39.8%, while the companies that disclosed the least audit fees were companies engaged in the service industry, namely 13.8%.

Table 1. Descriptive Statistics Results

	Mean	Median	Minimum	Maximum
AUDIT*FEE*	1,913,000,000,000	790,000,000,000	80,000,000,000	36,000,000,000,000
RPT	540,500,000,000,000	67,820,000,000,000	0.000	9,942,000,000,000,000
COMSIZE	4.589	4.000	2.000	10.000
FIRMAGE	35.515	34.000	5.000	116.000
CLIENTSIZE	10,570,000,000,000	3,736,000,000,000	157,800,000,000	111,400,000,000,000
CASH	0.761	0.028	0.000	123.288
LEVERAGE	1.323	0.871	-2.168	8.331
LIQUIDITY	2.080	1.495	0.118	11.421
MTBV	2.204	1.262	-1.199	18.726

Source: STATA processing result, 2019

Table 2. Percentage of Companies Disclosing Audit Fees

SIC	Industry	Disclose the audit fees	Percentage	Not Disclosing Audit fees	Percentage	Companies in Total
0	Agriculture, Forestry and Fisheries	45	39.8%	68	60.2%	113
1	Mining and Construction	200	41.9%	277	58.1%	477
2	Manufacturing (1)	262	34.1%	506	65.9%	768
3	Manufacturing (2)	166	30.3%	381	69.7%	547
4	Transportation and Public Utilities	170	34.6%	322	65.4%	492
5	Wholesale and Retail Trade	71	23.1%	237	76.9%	308
7	Services (1)	46	17.2%	222	82.8%	268
8	Services (2)	9	13.8%	56	86.2%	65

Source: STATA processing result, 2019

Note: Manufacturing and service industries are divided into two based on their main characteristics according to the Standard Industrial Classification (SIC)

Pearson Correlation

Based on the results of the Pearson correlation test in Table 3, it can be seen that the related-party transactions have a positive relationship with a significance level of 1% on the audit fee. This means that the related-party transaction in a company become the auditor's consideration in determining the amount of the audit fee. Also, auditors for industry specialization show a positive relationship direction with a significance level of 1% with audit fees. This suggests that auditors with industry specialization charge a higher audit fees.

Table 3. Pearson Correlation

	AUDIT *FEES*	LNRPT	SPECIALIST	BIG4	AUDITOR CHANGE	COMSIZE
AUDIT *FEES*	1.000					
LNRPT	0.292***	1.000				
	(0.000)					
SPECIALIST	0.358***	0.109***	1.000			
	(0.000)	(0.002)				
BIG4	0.530***	0.190***	0.476***	1.000		
	(0.000)	(0.000)	(0.000)			
AUDITOR CHANGE	-0.126***	-0.186***	-0.139***	-0.220***	1.000	

	(0.000)	(0.000)	(0.000)	(0.000)		
COMSIZE	0.488***	0.243***	0.158***	0.360***	-0.090**	1.000
	(0.000)	(0.000)	(0.000)	(0.000)	(0.012)	
FIRMAGE	0.050	0.074**	-0.057	0.015	0.011	0.276***
	(0.163)	(0.039)	(0.108)	(0.676)	(0.761)	(0.000)
CLIENT SIZE	0.694***	0.304***	0.264***	0.372***	-0.098***	0.541***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.006)	(0.000)
CASH	-0.119***	-0.106***	-0.013	-0.057	-0.033	-0.096***
	(0.001)	(0.003)	(0.712)	(0.110)	(0.354)	(0.007)
LEVERAGE	-0.035	0.061*	-0.017	-0.106***	0.000	-0.054
	(0.334)	(0.087)	(0.642)	(0.003)	(1.000)	(0.132)
LIQUIDITY	-0.161***	-0.101***	-0.011	-0.007	0.013	-0.002
	(0.000)	(0.005)	(0.767)	(0.844)	(0.720)	(0.954)
MTBV	0.127***	0.020	0.150***	0.083**	-0.021	-0.007
	(0.000)	(0.586)	(0.000)	(0.020)	(0.550)	(0.845)

	FIRMAGE	**CLIENTSIZE**	**CASH**	**LEVERAGE**	**LIQUIDITY**	**MTBV**
FIRMAGE	1.000					
CLIENTSIZE	0.072**	1.000				
	(0.044)					
CASH	-0.039	-0.160***	1.000			
	(0.273)	(0.000)				
LEVERAGE	-0.047	0.082**	-0.057	1.000		
	(0.190)	(0.022)	(0.111)			
LIQUIDITY	0.016	-0.169***	0.093***	-0.358***	1.000	
	(0.663)	(0.000)	(0.010)	(0.000)		
MTBV	-0.023	0.054	-0.023	0.127***	0.040	1.000
	(0.514)	(0.130)	(0.529)	(0.000)	(0.262)	

p-values in parentheses
* p < 0.1, ** p < 0.05, *** p < 0.01
Source: STATA processing result, 2019

Independent T-Test

Table 4 shows the results that auditors charge higher audit fees to companies conducting the related-party transactions. Besides, the results also show that specialized auditors charge higher audit fees to companies conducting a related-party transaction.

Table 4. Independent T-Test Result

	RPT			
	With related-party transaction	Without related-party transaction	Coef	t-value
AUDIT*FEE*	20.591	19.799	0.792***	5.373
SPECIALIST	0.238	0.104	0.134**	2.505
BIG4	0.521	0.254	0.267***	4.226
AUDITORCHANGE	0.104	0.343	-0.240***	-5.801
COMSIZE	4.681	3.612	1.069***	4.762
FIRMAGE	35.739	33.119	2.620	1.064
CLIENTSIZE	22.154	21.388	0.766***	4.230
CASH	0.637	2.088	-1.452**	-2.222
LEVERAGE	1.340	1.149	0.191	1.007
LIQUIDITY	2.041	2.493	-0.452*	-1.885

MTBV	2.205	2.192	0.012	0.033

Source: STATA processing result, 2019

Multiple Linear Regressions

Table 5. Multiple Linear Regressions Result: Related-party Transaction and *Audit fee*

	AUDIT *FEES*	
	(1)	**(2)**
LNRPT	0.009**	0.009***
	(2.52)	(2.76)
SPECIALIST	0.195**	0.195**
	(2.50)	(2.23)
BIG4	0.583***	0.583***
	(8.48)	(7.32)
AUDITOR CHANGE	0.054	0.054
	(0.62)	(0.58)
COMSIZE	0.078***	0.078***
	(3.94)	(3.92)
FIRMAGE	-0.001	-0.001
	(-0.79)	(-0.83)
CLIENTSIZE	0.402***	0.402***
	(15.78)	(14.17)
CASH	0.000	0.000
	(0.02)	(0.04)
LEVERAGE	-0.074***	-0.074***
	(-3.68)	(-3.74)
LIQUIDITY	-0.066***	-0.066***
	(-4.17)	(-4.53)
MTBV	0.033***	0.033**
	(3.38)	(2.42)
CONSTANT	11.220***	11.220***
	(19.74)	(18.13)
Industry Dummy	*Included*	*Included*
Year Dummy	*Included*	*Included*
r2	0.606	0.606
r2_a	0.593	0.593
N	781	781

t *statistics in parentheses*
* p < 0.1, ** p < 0.05, *** p < 0.01
Source: STATA processing result, 2019

Regression in this study was carried out twice, the first is multiple linear regressions by controlling the fixed-year effect and the industry-year effect, while the second is performing multiple linear regression with robust. As presented in table 5, in the first column multiple linear regressions is carried out for model 1 and produces an LNRPT coefficient of 0.009 and a t-value of 2.52 with a significance level of 0.05. This means that for every 1 point increase in LNRPT, the audit fee will increase by 0.009. In the second column, multiple linear regressions is performed robustly and produces an LNRPT coefficient of 0.009 and a t-value of 2.76 with a significance level of 0.01. This means that for every 1 point increase in LNRPT, the audit fee will increase by 0.009. Both regression results indicate that the related-party transactions positively affect the amount of audit fees charged by auditors. So it can be concluded that hypothesis 1 is accepted.

Table 6. Multiple Linear Regressions Result: Related-party Transactions, Industry Specialty Auditor and *Audit fees*

	AUDIT *FEES*	
	(1)	**(2)**
RPT*SPECIALIST	0.021**	0.021**
	(2.01)	(2.34)
LNRPT	0.007	0.007*
	(1.65)	(1.77)
SPECIALIST	-0.305	-0.305
	(-1.17)	(-1.46)
BIG4	0.596***	0.596***
	(8.65)	(7.59)
AUDITORCHANGE	0.051	0.051
	(0.60)	(0.56)
COMSIZE	0.076***	0.076***
	(3.89)	(3.90)
FIRMAGE	-0.001	-0.001
	(-0.92)	(-0.95)
CLIENTSIZE	0.401***	0.401***
	(15.77)	(14.19)
CASH	-0.000	-0.000
	(-0.06)	(-0.10)
LEVERAGE	-0.069***	-0.069***
	(-3.41)	(-3.50)
LIQUIDITY	-0.066***	-0.066***
	(-4.18)	(-4.58)
MTBV	0.032***	0.032**
	(3.32)	(2.36)
_cons	11.312***	11.312***
	(19.87)	(18.36)
Industry Dummy	*Included*	*Included*
Year Dummy	*Included*	*Included*
r2	0.608	0.608
r2_a	0.594	0.594
N	781	781

t *statistics in parentheses*
* p < 0.1, ** p < 0.05, *** p < 0.01
Source: STATA processing result, 2019

The researcher also conducted tests to determine how the relationship between auditors and industry specialties that perform company audits with transactions related to the amount of audit fees. This test is performed with multiple linear regressions twice. The first is multiple linear regressions by controlling the fixed-year effect and industry-year effect, and the second by performing multiple linear regression robustly. Table 6 in the first and second columns shows that LNRPT * SPECIALIST, which is an interaction between industry specialty auditors auditing companies with related transactions, produces a positive coefficient of 0.021 with a t-value of 2.01 and a significance level of 1%. This means that auditors with industry specializations will charge a higher audit fee on companies that carry out the related-party transactions. So it can be concluded that hypothesis 2 is accepted.

Related-party Against Audit Fees

Based on the results of research using Pearson correlation and multiple linear regressions, it shows that the related-party transactions have a positive and significant relationship to audit fees. This means that companies that conduct the related-party transactions tend to pay a larger audit fee to external auditors. This is following the hypothesis that has been proposed, so that hypothesis 1 is accepted. The related-party

transactions are an efficient contract mechanism when there is incomplete information (Ryngaert & Thomas, 2012). According to Gordon et al., (2007), there are several reasons why it is difficult to audit the related-party transactions, including the difficulty to identify the related-party transactions. Besides, the auditor relies heavily on information provided about related parties and the related-party transactions. The results of this study are in line with research conducted by Al-Dhamari et al., (2018) in Malaysia. The study says that sales and purchase transactions with related parties place the auditor in a situation where the audit risk is very significant so that the audit fee will be paid higher to the external auditor as compensation for the risk and effort incurred by the auditor. The increase in audit fees in this study is also in line with research conducted by Jiang and Son (2015) which shows the results that the auditor responds to the presence of control risk, the auditor will charge a fee that is higher than the cost in carrying out the audit itself.

Industry Specialty Auditor and Audit Fees in Companies Conducting Related-party Transactions

In addition to discussing the relationship between related-party transactions and audit fees, the researcher also discusses how industry specialty auditors can influence the relationship between related-party transactions and audit fees. Previously, researchers had expected that industry specialty auditors would strengthen the relationship between related-party transactions and audit fees so that industry specialty auditors would charge a larger audit fee to companies conducting the related-party transactions.

The results of the multiple linear regression in table 5 show that industry specialty auditors will charge a higher audit fee for conducting the related-party transactions so that hypothesis 2 is accepted. There are three reasons why the related-party transactions are difficult to disclose, namely because the related-party transactions are difficult to identify, all documents required to carry out the audit come from the company itself and finally, the internal controls that are implemented in the company do not necessarily identify related-party transaction (Gordon et al., 2007). Even though the auditors have performed appropriate audit procedures, it is possible that the auditors cannot reveal fraud from related-party transactions. This situation is one of the risks in the audit which is called detection risk. The industry specialty auditor is one of the attributes of audit quality because it increases the likelihood of identifying material misstatements in financial statements (Fuentes & Sierra, 2015). Therefore, companies that carry out many related-party transactions are audited by industry specialty auditors, which will improve the quality of these financial statements because industry specialty auditors are considered capable of detecting errors, both errors and intentional errors. The auditor will charge a higher audit fee to the company following the advantages offered by the auditor. Apart from the advantages offered by the auditor, the imposition of a higher fee is also the auditor's response to the risks faced from the related-party transactions (Jiang & Son, 2015).

CONCLUSION

The results showed that related-party transactions had a positive and significant effect on the amount of audit fees paid to the auditors. Furthermore, the results of research that interacted with related-party transactions with industry specialty auditors also found that industry specialty auditors strengthened positively and significantly the relationship between related-party transactions and audit fees. This study has limitations that can be considered for further research. The proxy used to measure industry specialty auditors was market share. However, this proxy still has disadvantages because it can generate different market shares. Based on the results of the previous research, the auditor should consider and assess the risks in carrying out the audit. This needs to be done to determine the appropriate amount of audit fee so that it does not harm the auditor, either at present or in the future due to audit risk. As for future research, it is better to use proxies to measure industry specialty auditors which do not create different results for market share so that it does not contain ambiguity.

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