

Research Trends on Related Party Transactions and their Reporting

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Abstract

Related party transactions have implications for financial and tax reporting, as well as for financial auditing. The objective of the paper is to identify trends and approaches in the field of related party transactions, as well as authors who have had an impact in the analyzed field. The research methodology is based on bibliometric analysis of data downloaded from Web of Science – Clarivate Analytics, for the period 2000–2022. The selected keywords were "related-party-transactions", "audit", "risk", which led to a sample of 325 papers published in English. The data were processed using the Rstudio Biblioshiny software. The results show that since 2017 the number of papers has increased considerably, and most of the papers were written in journals mainly in the field of finance, with most of the authors being affiliated with institutions in China. It was found that there was an almost constant research interest between related party transactions, performance and firm value, highlighting a new direction of interest, that of the risks associated with these types of transactions. Thus, the topic studied has been in the attention of regulatory bodies, professionals, but also of business researchers, each approaching the subject from different perspectives.

Key words: related parties; transactions; audit; risk; transfer pricing;

JEL Classification: M40, M41

To cite this article:

Pasc, L.-V., Hațegan, C.-D. (2025), Research Trends on Related Party Transactions and their Reporting, *Audit Financiar*, vol. XXIII, no. 2(178)/2025, pp.400-411,
DOI: 10.20869/AUDITF/2025/178/013

To link this article:

<http://dx.doi.org/10.20869/AUDITF/2025/178/013>

Received: 22.02.2025

Revised: 14.03.2025

Accepted: 8.05.2025

Introduction

Related party transactions (RPT) are separately reported from both an accounting and tax perspective. Thus, the flow and balance of these transactions are presented in the annual or periodic financial statements as well as in the tax returns prepared by companies, based on the reporting requirements of each country. At the international level, the OECD is the organization that strictly regulates these types of transactions and their effects (OECD, 2022). Failure to comply with the provisions regarding the reporting and reporting of related party transactions leads to some risks that can be seen as an effect of uncertainty on business objectives and which have been analyzed in the works published by various authors as external risks, operational risks, financial risks, transactional risks, accidental risks, audit risk, tax risk. In this context, the topic addressed regarding the risks in identifying, highlighting and reporting related party transactions is of particular importance both for shareholders, persons responsible for governance, and for other categories of reporting users, namely state institutions, financial institutions, employees, business partners and other interested persons. The topic is also of interest both in the academic field and in the financial-accounting profession.

The objective of the paper is to identify existing research trends over a 20-year time horizon regarding related party transactions and their reporting. To achieve the objective, papers published in journals indexed in Web of Science – Clarivate Analytics were selected, the selection criterion being according to the keywords expressed in English "related-party-transactions", "audit", "risk". Thus, the sample highlighted a number of 325 works from various document genres, with works published between 2000 and 2022 being selected. Rstudio software was used for data processing in order to identify relationships between keywords used in the literature, as well as between authors and citations of their works.

The work can be useful from both a theoretical and practical point of view. From a theoretical point of view, it aims to identify the main research topics related to transactions that arise between affiliated parties, transactions that can directly or indirectly influence the financial result of the companies in the group. From a practical point of view, the correct reporting of these transactions in the content of individual or consolidated financial statements is necessary to inform users, having

significant implications also on the activity of financial auditors. Thus, the topic studied is in the attention of regulatory and professional bodies, as well as business researchers, each of whom can approach the subject from different perspectives.

The paper is structured in sections, as follows: in section 1 the literature in the field is presented, after which section 2 describes the methodology used. In section 3 the results obtained are presented, in graphical, tabular and descriptive form, as well as discussions regarding their interpretation based on the existing literature. The paper ends with the section of conclusions drawn, research limits and future directions for further study.

1. Literature Review

Related parties have, within their relationships, the ability to carry out transactions that they would not otherwise be able to complete independently. This is where the importance of financial reporting regulations comes in, which have, among other things, the objective of ensuring that the financial statements of related parties are not distorted by the erroneous presentation of transactions between them. This is where the role of independent auditors comes in, who carry out their work in an objective and impartial manner, to ensure that transactions with related parties are properly treated from an accounting point of view and that the financial information presented is credible and relevant to their users.

Alm & Liu (2018) believe that a person pays taxes because they are afraid of being caught and penalized if they don't report all their income. Therefore, the approach gives the plausible and productive result that compliance depends on the audit and the level of the fine. Indeed, the central point of this approach is that a person pays taxes because of – and only because of – this fear of being detected and punished. This situation can be extrapolated to companies.

Regarding the manipulation of financial results by using transactions with related parties to overstate income, understate expenses or transfer profits to entities that benefit from lower taxes, Stefan & Mutulescu (2016) identified the tax risk of these types of transactions, given that the transfer prices practiced do not respect the "fairness" principle since, in the event of a tax audit by the authorities, adjustments for tax purposes may be imposed, both on income and on the expenses included in its calculation. According to Lohse and Riedel (2012),

advance pricing agreements (APAs) reduce the risk of double taxation and lead to greater certainty in international trade. If transaction prices are not established according to the arm's length principle, there are risks of readjustment of taxable bases, tax sanctions for non-compliance with regulations.

Difficulties may also arise in identifying related parties. Ignat & Feleagă (2019) identified that from the point of view of the relationship between related party transactions and corporate governance risk in Romania, transactions between related parties are prone to misuse by management. On the other hand, the governance mechanism of the group has an effect on the value of companies (Abdul Rasheed et al., 2023).

Masking of debts or obligations by omitting the recording and reporting of transactions in the financial statements for various reasons or masking of obligations to affiliated parties to improve financial indicators are not easily identified by auditors, requiring closer examination. Furthermore, the only source of information for auditors about RPTs is the audited entity's management, and internal controls cannot easily track RPTs, which can create major difficulties in auditing related party transactions. Beasley et al. (2000) found that RPTs are among the top ten audit deficiencies and concluded that auditors are often unaware of RPTs or appear to be cooperative with the client's decision to conceal a related party transaction. They also showed that impaired auditor independence was a factor in 50% of cases where RPTs were cited as a major audit deficiency. Perhaps not surprisingly, and yes, to minimize the likelihood of detection, the synthesis of research on RPTs by Gordon et al. (2007) suggested that companies that use RPTs for fraudulent purposes are more likely to hire the services of auditors with whom they already have a relationship.

Lupu et al. (2024) consider that transfer pricing is also a benchmark in the audit activity carried out at the company level since compliance or not with the market value principle directly influences the reflection of the elements of income, expenses, result, assets, equity or liabilities in accordance with the principle of a true and fair view, as well as, ultimately, the audit opinion. Also, Ștefan & Mutulescu (2016) consider that the transfer pricing file does not implicitly determine that the transactions analyzed within it are correctly valued and as a result it must be established whether it is relevant and adequate as audit evidence.

The legislation requires the reporting and disclosure of transactions with affiliated parties, and failure to comply with these requirements may attract sanctions and reputational damage. Abdul Rasheed et al. (2021) tested an econometric model through which they measured the impact of the new RPT regulations adopted in India, (aligned with international regulations) on the relationship between RPT and audit fee and its result shows a positive interaction effect demonstrating that the new RPT regulations increase the complexity of auditing RPTs.

The findings of the aforementioned studies indicate that, in some cases, auditors may be unaware of the risks associated with related party transactions or may underestimate the challenges and associated risks. However, from a regulatory and supervisory perspective, the link between related party transactions and audit risk has become clearer in recent years.

Based on the literature, the research question is:

Which were the most cited articles, most cited authors and journals regarding related party transactions and which were the research trends on this topic?

2. Methodology

To achieve the proposed objective, namely to identify trends and approaches in the field of related party transactions, as well as authors who have had an impact in the analyzed field, the research methodology is based on bibliometric analysis. This is a research method that involves the evaluation and quantitative analysis of scientific production, publications, with the aim of identifying trends, relationships, main directions of research and collaboration as well as the desire to evaluate the impact of works already published in the field of study.

The method allows the development of studies that recognize the current state of research and identify opportunities for future studies, through different approaches, such as the analysis of the influence of journals, authors, articles, keywords and contribution per country (Fulop, 2022).

The bibliometric analysis was based on data downloaded from Web of Science (WoS) – Clarivate Analytics on July 27, 2023, for the period 2000-2022. To identify papers that addressed the topic of related-party transactions, groups containing the keywords "related-party-transaction"-

"audit"- "risk" were taken into account. The sample highlighted a number of 325 papers from various document genres for the period 1997-2022. Papers published in the period 2000-2022 were selected. It was decided that the sample of papers would be limited to those published in English. The final sample is represented by 325 papers, 640 authors and 189 sources. R Studio software was used to process the data to identify relationships between keywords used in the literature, as well as between authors and citations of their works.

The Bibliometrix package in the software allowed the import of the library of data collected from the Web of Science (WoS), their selection and analysis.

The main steps followed in the bibliometric analysis with RStudio consisted of:

Step 1 - installation and loading of the packages. The data sample was saved as a text file and was corrected through a library file to reduce similar terms or to eliminate unnecessary ones.

Step 2 - data import; their processing and summarization.

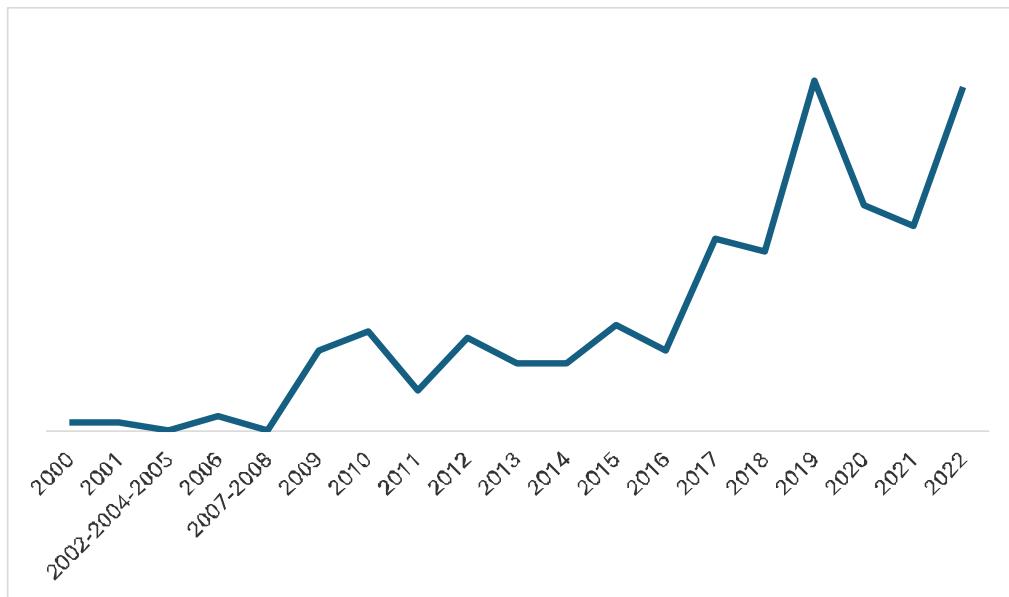
The final file thus modified was subsequently processed using the Rstudio software, providing various results from the geographical area, affiliation to an educational institution, the most frequently used words, the most cited authors, the most productive and the list goes on.

Step 3 - viewing bibliometric data in tables as presented in this article, namely: Evolution of published articles by year, Distribution of authors by country, Distribution of published articles by country, citations and average citations per article, Top authors with at least 100 citations, Distribution of works by publications, Performance indicators of articles by sources, Top research directions, Content of word clusters, Articles with over 100 citations.

3. Results

Between the years 2000-2022 included in the sample, 325 papers were detected that met the selection criteria. The evolution of published articles can be divided as follows: the period between 2000-2008, when a maximum of two papers were published per year, the period starting with 2009, when between 10 and 16 papers were published each year, on an upward trend; and starting with 2017, the interest in this topic becomes evident, as the number of papers increases considerably, from 29 papers published in 2017 to 53 papers published in 2019, respectively 52 papers in 2022 (Figure no. 1).

Figure no. 1. Evolution of published articles over the years



Source: own processing with Rstudio_Biblioshiny

Figure no. 1 shows an upward trend in published articles during the analyzed period, with an explosive growth in 2019 when published articles reached a maximum number of 53.

The small number of papers published in the early years may be due to the lack of interest of the business environment in related party transactions, due to the lack

of legislative regulations and the increase in this interest through the emergence of stricter legislative regulations at a global level, regarding the mandatory publication and transparency of these transactions by the business environment.

The research areas of the papers published by the authors are presented in **Table no. 1**.

Table no. 1. Top research areas

Areas	Papers	Weight
Public Administration	6	1.85%
Agriculture	2	0.62%
Justice	48	14.77%
Economy	50	15.38%
Ethics	3	0.92%
Finances	111	34.15%
Geography	1	0.31%
Management	50	15.38%
Applied Mathematics; Statistics and Probability	5	1.54%
Regional and Urban planning	5	1.54%
Psychology	2	0.62%
Development Studies; Economics; Social Sciences, Interdisciplinary	12	3.69%
Green/Sustainable Science and Technology	11	3.38%
Multidisciplinary Sciences	6	1.85%
Computer Engineering, Information Science, Theories and Methods	13	4.00%

Source: own processing

Thus, from **Table no. 1** results that the financial field occupies the first place with 111 papers, followed by the economic and management fields with 50 papers each and 48 papers for the legal field. Since some journals were indexed on several fields, it was impossible to totalize the exact number of papers according to this criterion.

After processing the data, 36 countries were identified according to the affiliation of the authors. The assignment to a country was made according to the country of origin of the first author. In **Table no. 2**, the countries of origin of the authors who published a minimum number of 10 papers are selected, in descending order. This ranking includes 8 countries, of which only one is European, the United Kingdom, which covers 3.38% of the volume of published papers.

Table no. 2. Distribution of authors by country

Country	Published articles	%
China	105	32.31
USA	35	10.77
Korea	20	6.15
Australia	19	5.85
Indonesia	13	4.00
Malaysia	12	3.69
India	11	3.38
Great Britain	11	3.38

Source: Own processing

We find that the most productive countries in terms of published articles are China with a percentage of 32.31%, i.e. 105 published papers, followed by the USA with 10.77%, i.e. 35 published papers, South Korea with

6.15%, i.e. 20 published papers and at a small interval with a difference of one paper compared to South Korea is Australia with 19 papers and a share of 5.85%. In eighth place, tied with India, are authors from the United Kingdom with 11 published papers each.

Research shows that the number of papers published in a country depends on the degree of research funding (Rahman & Fukui, 2003). Thus, according to OECD data

on research funding, China, Korea and Japan have the highest percentage of GDP allocated to research and development, the USA ranks sixth, and the UK is only in 11th place, being surpassed by Germany, Belgium, Austria, France, the Netherlands, Slovenia and the Czech Republic (OECD, 2022).

Next, the number of citations by country and the average citations per article are analyzed (**Table no. 3**).

Table no. 3. Distribution by country of published articles, citations and average citations per article

Country	No. of articles	No. of citations	Average citations per article
China	105	1584	15.1
USA	35	875	25.0
Singapore	7	433	61.9
New Zealand	8	299	37.4
Australia	19	239	12.6
Israel	5	206	41.2
Korea	20	170	8.5
Great Britain	11	117	10.6
India	11	60	5.5
Italy	8	60	7.5

Source: own processing

Table no. 3 shows that the top three places are occupied by China with 105 published articles, the USA with 35 published articles and Singapore with 7 published articles, with 1584, 875 and 433 citations of the mentioned articles, respectively. It is found that Singapore, Israel and New Zealand, although they published fewer articles than the countries that lead the ranking in the number of published articles, attracted the interest of readers through consistency, content and clarity that they considered them worthy of being cited, ending up having a higher average of citations per article. The first places are occupied by authors from Singapore with an average of citations of 61.90% for 7 published articles, followed by authors from Israel with 5 articles and an average of citations of 41.20% per article as well as authors from New Zealand with 8 articles and an average of citations per article of 37.40%.

The analysis continues with the identification of the most cited authors at the local level, who published articles on related party transactions that were indexed in the WoS database. Out of the total of 640 identified authors, the selection criterion was that an author had accumulated a minimum of 100 citations. Thus, with the help of the Rstudio software, we highlighted 5 authors who met these conditions. **Table no. 4** presents the top authors with over

100 citations identified by processing the data with Rstudio and Biblioshiny.

Table no. 4. Top authors with minimum 100 citations

Author	Document	Citations
Ming Jian	1	109
T. J. Wong	1	109
Yan-Leung Cheung	3	103
P. Raghavendra Rau	3	103
Aris Stouraitis	3	103

Source: own processing

Table no. 4 shows that there were two authors with 109 citations and 3 authors with 103 citations. Continuing the ranking, the next most cited authors collected less than half of the citations of the mentioned authors, not being nominated.

Table no. 5 presents the most productive journals in publishing articles, in descending order by the number of articles published. The articles appeared in renowned journals dedicated to research, and the journals had at least 5 published works on the studied topic.

Table no. 5. Distribution of works by publications

Name of publication	Article count	Weight %
Law and Finance of Related Party Transactions	17	32.13
Pacific-Basin Finance Journal	10	18.90
Journal of Corporate Finance	9	17.01
Sustainability	8	15.12
Journal of Accounting and Public Policy	6	11.34
European Company and Financial Law Review	5	2.90
Finance Research Letters	5	2.90
International Journal of Accounting and Information Management	5	2.90
Journal of Banking and Finance	5	2.90

Source: own processing

Table no. 6. Article performance indicators by sources

Publication	H_index	G_index	M_index	Total citations	Nr. articles	Year start
Law and Finance of Related Party Transactions	6	6	1.200	59	17	2019
Pacific-Basin Finance Journal	8	10	0.533	331	10	2009
Journal of Corporate Finance	5	9	0.357	482	9	2010
Sustainability	4	6	0.571	39	8	2017
Journal of Accounting and Public Policy	6	6	0.429	347	6	2010
Journal of Banking & Finance	5	5	0.333	260	5	2009
International Journal of Accounting and Information Management	4	5	0.571	57	5	2017
Finance Research Letters	3	4	1.000	16	5	2021
Review of Accounting Studies	4	4	0.286	454	4	2010
Contemporary Accounting Research	3	3	0.429	107	3	2017

Source: own processing

The most productive journal in terms of published articles, namely 17 articles, is *Law and Finance of Related Party Transactions*, followed by *Pacific-Basin Finance Journal* with 10 published papers, and the papers in the other journals are both in the economic and interdisciplinary fields indexed in several categories (**Table no. 5**).

Table no. 6 presents the most used performance indicators by sources for published articles. One of the indicators is the H Index proposed by J.E. Hirsch for the evaluation of researchers in the field of physics, but which is applicable in all fields of research. Another indicator that is more precise than the H indicator and which manages to resolve certain limitations is M, which also takes into account the duration of the academic career, and the G indicator is another improved variation of H.

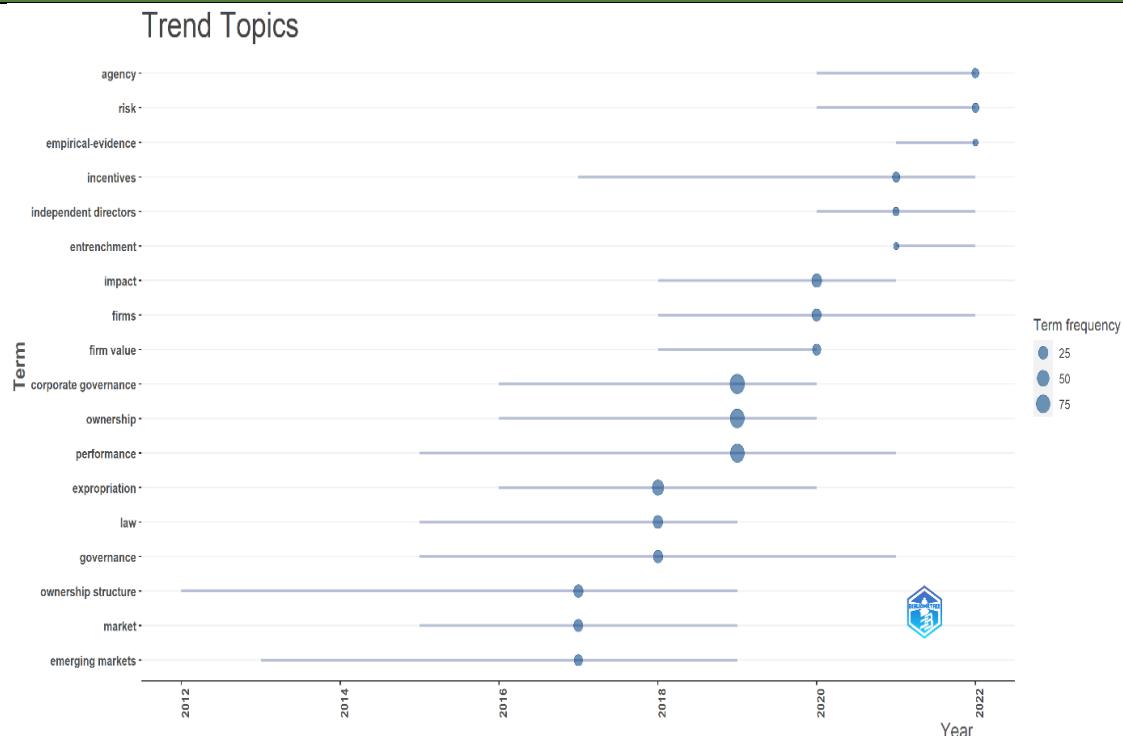
Table no. 6 shows that the ranking includes eight of the publications that were also included in **Table no. 5**, by the number of published articles.

The analysis by frequently used words represents the way in which the most common words appeared together in the published works. The RStudio software highlighted 815 frequently used words. Only keywords that had at least 15 occurrences were included in the analysis. From the total number of words identified, 24 irrelevant words were eliminated and some were replaced with similar expressions (for example China, Korea, IFRS, reports or the union of terms expressed in the singular or plural), thus resulting in a close connection between 20 keywords. Finally, the 20 words remaining for analysis were grouped into 4 groups, with a minimum of 3 words per group, a

setting existing in the bibliometric software used. Because research interest has increased in the last 10 years, **Figure no. 2** includes the most frequently used words

during the analyzed period, as well as the research directions.

Figure no. 2. Trend of researched topics



Source: own processing with Rstudio_Biblioshiny

Thus, it is observed that, starting from the research direction that targets the shareholder structure, for which there is an almost constant interest, as well as directions such as performance, firm value, in the last year a new area of interest opens up, namely that of risks that represents a major point of interest and a necessity of analysis for the academic and business environment.

The link between the main keywords and the distribution by groups is presented in **Table no. 7**.

Group U brings together the words that appeared most often, the central frequent word is "related party transactions" with 149 occurrences, followed by other words such as "corporate governance" with 56 occurrences, "company performance" with 21 occurrences, "ownership" - 20 words, "revenue" - 15 words, "reporting"/"Director"/"Political connections" - 8 words, "support/removal from possession" - 5 words.

Group X - the second group in order of relevance, resulting from the analysis, was the one related to auditing. This group contains elements derived from the audit field, namely "audit fees" - 4 occurrences, "audit quality" - through 4 occurrences, "revenue quality" - through 4 occurrences, "management team independence".

Group Y includes the keywords "Transfer prices" with 14 occurrences, "Business-group" - 7 occurrences, "Performance" - 6 occurrences, "Company" - 4 occurrences. It is found that there is a direct link between related party transactions and transfer pricing that emerged as a need to regulate related party transactions. Regardless of which of the two terms is analyzed, the link with the other term will be highlighted. Both keywords are equally relevant, transfer pricing is perhaps slightly more frequent because it also has tax implications.

Table no. 7. The content of word groups

Group U	No.	Group X	No.	Group Y	No.	Group Z	No.
related party transactions	149	audit fees	4	transfer prices	14	agency problems	4
company management	56	Audit quality	4	business-group	7	Tax avoidance	4
company performance/tunneling effect	21	Independence of management committee	4	performance	6	corporations	4
property	20	Revenue quality	4	company	4		
revenue	15						
controlling shareholders	13						
reporting/director/political connections	8						
support/removal of possession	5						

Source: own processing

Table no. 8. Articles with more than 100 citations

Average citation no.	Year	No. of citations	%	Authors	Document title
10,80	2009	162	3.66	Cheung Y.L. Jing L. Lu T. Rau P. R. Stouraitis A.	Tunneling and propping up: an analysis of related party transactions by chinese listed companies
29,14	2010	408	9.23	Jian M. Wong T. J.	Propping through related party transactions
12,14	2010	170	3.85	Aharony J. Wang J. Yuan H.	Tunneling as an incentive for earnings management during the ipo process in China
12,00	2012	144	3.26	Liu Q. Tian G.	Controlling shareholder, expropriations and firm's leverage decision: evidence from Chinese non-tradable share reform.
11,44	2015	103	2.33	Wang L.	Protection or expropriation: politically connected independent directors in China.
13,00	2010	182	4.12	Berkman H. Cole R.A. Fu L.J.	Political connections and minority-shareholder protection: evidence from securities-market regulation in China
11,29	2010	158	3.57	Lo A. W.Y. Wong R. M.K. Firth M.	Can corporate governance deter management from manipulating earnings? evidence from related-party sales transactions in China
18,75	2016	150	3.39	Nianhang Xu N. Qinyuan Chen Q. Yan Xu Y. Chan K. C.	Political uncertainty and cash holdings: evidence from China

Source: own processing

The word group Z has a lower significance, it includes terms that refer to "agency issues", on par with "tax avoidance" and "corporations".

Table no. 8 presents the articles with more than 100 citations and their share in the total articles published in the analyzed period.

Of the 325 articles totaling 4,421 citations, 33.41% are held by the 8 papers presented in **Table no. 8**. It is worth noting that articles written between 2009-2010 and 2012 accumulated 84.87% of the total citations for the analyzed period, that is, 1,224 citations out of a total of 1,477 citations. Citations of articles published between 2015-2016 occupy a share of 17.13% with 253 citations. The authors of the 8 articles with over 100 citations, included in **Table no. 8**, analyzed the transactions with affiliated parties of companies in China, on different samples and study periods. The main theme of these works was to address the phenomenon of "tunneling" which in fact represents an expropriation of minority shareholders through transactions with affiliated parties (Cheung et al., 2009; Aharony, Wang, & Yuan, 2010; Jian & Wong, 2010; Liu & Tian, 2012). These operations show a weakened governance and a high influence of politics in the management of companies (Wang, 2015; Berkman, Cole, & Fu, 2010; Lo, Wong, & Firth, 2010; Xu et al., 2016).

The results of the bibliometric analysis, namely the evolution of research in this field, the connection between the keywords, are similar to other analyses carried out over a longer period of time, a situation that has also been highlighted by other significant research on this subject (Kumar et al., 2021; Căpătine-Verdeș, 2022). These results are also confirmed by a more recent study conducted by Mijoč, Briš Alić & Drvenkar (2024) aiming to study the evolution of research in the field of transfer pricing.

Conclusions

The aim of the article was to identify the main research topics related to transactions that arise between affiliated parties, transactions that can directly or indirectly influence the profit or loss of the companies in the group and implicitly influencing the financial statements or consolidated financial statements.

The review of the specialized literature highlighted the fact that the topic of transactions with affiliated parties has been intensively approached both from an accounting and

financial reporting point of view, but also from a fiscal and legal point of view.

The bibliometric analysis carried out with the help of Rstudio Biblioshiny confirmed that the topic of transactions with affiliated parties and the audit of these transactions has not been sufficiently explored and remains relevant regarding the deepening of research directions related to financial performance, company value and corporate governance mechanisms.

The analysis of keywords, as well as their division into groups, highlighted the new research directions. The research addresses related party transactions from the following perspectives: transfer pricing taxation theories within which transfer pricing theories are located, the fraudulent use of transfer pricing, as well as topics where transfer pricing is related to sustainability, innovation and ethics. In relation to related party transactions, studies focusing on RPT disclosure, RPT performance, RPT revenue management and RPT fraudulent use have been revealed, also confirmed by the bibliometric analysis published by Fulop (2022). The results obtained are limited to a set of articles that meet the selection criteria and the databases used. Authors who did not publish articles present in the WoS database, but who made an important academic contribution to the research, were not taken into account in the analysis, although perhaps the results they reached were important and impactful for this type of analysis. We cannot say that the bibliometric analysis outlined a complete overview of the issues analyzed. From another perspective, journals with low impact factors have more published articles than a journal with high impact, but with fewer published articles, or countries that have a significant contribution in publishing articles do not have the authors cited. We can consider that countries that publish a lot do not necessarily have the most qualitative articles or journals with many appearances promote the most relevant research.

In response to the research question, the literature review and bibliometric analysis conducted revealed that the topic is of interest to professional regulatory bodies, as well as to business researchers, each approaching the topic from different perspectives. Thus, the analysis conducted is original and contributes to the existing literature through the results obtained based on the selection criteria presented.

A limitation with a strong impact in the bibliometric analysis is that only one or two authors have contributed to this type of bibliometric analysis, through the works they

have published on topics very close to related party transactions, namely transfer pricing, but no author has approached this analysis from the perspective of audit, the risks and responsibilities that these transactions imply. The bibliography is very limited and research of this type is very early in this area of related party transactions.

The limitations of the research consist in the fact that the sample of works was selected from a single database, so it is possible that there are some significant, valuable works that could have further consolidated the results

obtained. Also, an additional systematic analysis of the literature would have completed the research carried out. Therefore, future research directions can be focused on identifying new publications that deal with the topic of related party relations, as well as the use of other databases to make an additional contribution to the previous results. Also, the topic of affiliated parties could be studied in correlation with other micro and macroeconomic topics.

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