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Does ownership structure affects audit quality: Evidence from Bahrain?

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The main objective of the study was to examine the effect of ownership structure upon the audit quality in a developing country, the case of Bahrain. To achieve this objective, annual reports of listed companies in Bahrain Burse for 2015 and unlisted companies registered by Central bank of Bahrain at September, 2016 were used in the analysis. Logistic regression was used to test the hypotheses. The results indicated that foreign ownership variable has a significant relationship at $p \leq 0.05$ with audit quality-measured by using a proxy of audit firm size. This result confirms that the null hypothesis is rejected and the alternative hypothesis is accepted. On the other hand, institutional ownership and ownership concentration factors have positive relationship but not significant with the audit firm size. The study recommended that companies in Bahrain, both listed and unlisted, must continue to maintain supporting and encouraging foreign investments in Bahrain. Also, the study recommended the necessity to adopt new instructions that raise the percentage of institutional investments that will improve audit quality which leads to report high quality financial statements, and to follow a clear and rigid process of selecting auditors with high experience of accounting and auditing process.

Keywords: Ownership structure, institutional ownership, ownership concentration, foreign ownership, audit quality, Bahrain, company size, audit firm size, leverage, Gulf Cooperation Council (GCC).

INTRODUCTION

It is important to stand upon the definitions of audit quality. There is no consensus among authors about the definition of audit quality.. Auditing is a media followed to provide assurance for investors to help them to base their investment decisions upon audited financial statements. In other words, the auditor role is to reduce information asymmetry on accounting numbers, and to minimize the residual loss; resulting from managers' (2011 opportunities in financial reporting (Adeyemi & Fagbemi, 2010). Bradshow et al., (2011), cited in Zureigat Q., 2011, p. 39) "defined audit quality as the willingness to report any material uncertainties and/or going concern problems". Baotham and Vssahawnitchakit (2009), cited in Zureigat Q., 2011, p. 39) defined the audit quality as a "probability that an auditor will not issue an unqualified report for statements containing material errors". In short, there is no single generally accepted definition of audit quality, nor single generally accepted measure of audit

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quality has been introduced (Kilgore, 2007).

Many authors have viewed audit quality as an important indicator for investors to help them to make their investment decisions in capital markets, since they based their investment decisions upon audited financial statements by auditors (Sudsomboon and Vssahawanitchakit, 2009).

Less attention has been given to ownership structure and its effect upon audit quality in developing countries. In the last decade, regulators trust of financial statements have been affected by the scandals experienced by some of public accounting firms including Big-4 audit firms. According to Gendron et al., (2006, cited in Zureigat Q., 2011, p. 38),"the total demise of Arthur Anderson in 2002, one of the Big 5 of US public accounting firms, sent shock waves all over the world" and making pressure upon the accounting principles and standards. These scandals and its subsequent consequences shed the attention towards investigating audit quality.

Moreover, the financial crisis appeared in the recent years shed the attention towards audit quality. Farger and Jaing (2008, cited in Zureigat Q., 2011, p. 38) concluded that auditors are requested to "issue going concern opinions for financially stressed companies immediately after the crisis. This means that auditors become more watchful after such crisis" and ensure that they implement their jobs with high standards of ethics and quality, and society may views a high quality audit as a prevention of economic crisis for a company or the market. Audit quality is viewed as an important factor that may affect the financial statements credibility and higher the audit quality means the more accurate information.

In Bahrain as a developing country, the audit profession is required to respond to a changeable economic environment. Haniffa and Hudiab (2007) argued that little attention has been devoted "to the role of the auditing profession in the Arabian Gulf countries (including Bahrain), despite these countries being among developing economies and experiencing high economic and social growth rates, as well as international business links and direct international investments". The audit process is considered as more effective and of a higher quality as long as the auditor proofs his ability to detect and report any existing material misstatements.

The current study extends the previous research studies by shed the light on the factors affecting ownership structure for public listed companies in Bahrain Bourse located based on their audit quality. The significance of the study stems from the fact that very few studies are conducted regarding ownership structure and its effect upon audit quality in Bahrain.

Statement of Research Problem

A quality of audit report is viewed by users as maximizing their confidence. Investors tend to foster their trust in audited financial statements, as the expected auditor independence boosts the assurance based on the trust of those statements. Thus, "the increased confidence by financial users will ultimately attract the inflow of capital to the business and this may maximize the growth and development in the organization environment in the long run" (Adeyemi and Fagbemi, 2010, cited in Enofe, et al. 2013, p. 37). Thus, "negative results on investment would affect adversely the financial statements, which would finally minimize the level of capital flow to the organization, thereby deteriorate the position of the business environment" (Securities and Exchange Commission, 2000, cited in Enofe et al., 2013, p. 39). Thus, auditors are responsible to take these issues when considering and implementing efficient and effective audit assignments which may reflected upon quality report.

In the light of the above discussion, the problem statement of the study can be highlighted from the point that the audit function is to provide reliable financial information to the interested users such as shareholders, creditors, lending institutions, and others for decision-making. The users must be confident in relying upon the financial information. However, a number of recent corporate reporting failures, such as Enron and WorldCom, have raised concerns over the credibility of financial information.

In short, the problem statement may be explained through provide answer to the following question: Is there a relationship between ownership structure and audit quality?

Objectives of the Study

The main objective of the study was to examine the effect of ownership structure on audit quality in Bahrain. The current study aimed to answer the following question: How does the ownership structure affect the audit quality in Bahrain? This study investigates the potential effects that could influence the achievement of high audit quality and determine the relationships and correlation among these factors in Bahrain business environment.

By attaining such objective, the current study is expected to contribute to the literature in the following issues:

(1) To fill the gap in the auditing literature since there are limited published researches papers directly tested the effect of ownership structure on audit quality in developing countries and specifically Gulf Cooperation Council (GCC) countries such as Bahrain. Thus, it provides the basis for future studies to examine the issues related to quality of audit reports.

(2) To the best knowledge of the researchers, the current study is the first empirical study conducted that explicitly examines the impact of ownership structure upon audit quality in Bahrain;

(3) The current study is expected to contribute to prior research and have useful implications for regulators, accounting profession, and users of financial statements.

The remainder of the study is organized as follows: Section 2 provides the literature review about the audit quality (such as issues related to ownership concentration, institutional ownership, and foreign ownership). Section 3 reviews Bahrain background environment; Section 4 presents research methodology (population of the study, variables and model, development of hypotheses, and data collection); Section 5 presents the statistical analysis and findings of the study; and Section 6 highlights the conclusions and recommendations.

LITERATURE REVIEW

Many studies have been conducted concerning audit quality, such as Atoeijeri and Annafeabi, (2008); Chi et al., (2009); Firth, et al., (2012).

Many authors have studied financial statements (Kathleen et al., 2007 and Zureigat 2010) and found a market reaction to the different reaction to the different types of audit reports. Al-Ajmi, (2009, cited in Zureigat Q., 2011, p. 39), reported that “since the purpose of an audit is to provide an assurance regarding financial statements, this role can be successful only; if an audit opinion reflects the actual findings of the audit engagement”.

Al-Ajmi (2009, cited in Enofe, 2013, p. 39) examined “the relationship between effectiveness of audit committee, size of auditing firm and audit quality in credit and financial analysts in Bahrain”. The study concluded that “both credit and financial analysts viewed the credibility of financial statements as a function of auditing firm size. Both groups assume that the characteristics of Big-Four firms allow them to produce better-quality reports than non-Big firms”.

Dehkordi and Makarem (2011, cited in Enofe, 2013, p. 39) “investigated the influence of audit firm size (Big auditors vs. non- Big auditors) and auditor type (governmental vs. private auditors) on audit quality. A sample of 224 firms was observed form the Tehran Stock Exchange companies during the period 2002 – 2007. Discretionary accruals were used as a proxy to audit quality”. The study showed “that the size of non-governmental audit firms does not affect their audit quality”. The results also show that “factors such as auditor type, intense competition, audit committee, and litigation risk are of greater importance than audit firm size”.

Zureigat (2011, p. 38) examined in his study the impact of ownership structure among Jordanian listed companies on the Amman Stock Exchange on audit quality. Logistic regression statistical analysis was employed in the study to examine the association “between the audit quality measured on the basis of size of audit firms as a dependent variable and ownership structure as independent variables”. The study revealed “a significant positive association between the audit quality and companies with both foreign and institutional ownership”. The study also revealed “that ownership concentration has a negative relationship with audit quality but not significant”.

Enofe et al., (2013, p. 36) examined in their study “the determinants of audit quality in Nigerian Business environment”. The study investigated the association “between audit quality, engagement and firm related characteristics such as audit firm size and ownership structure”. The study found that “audit firm size, board independence and ownership structure were positively related to audit quality. The study recommended the sustenance and possible improvements on the non-executive board composition of organizations”.

Juhmani (2013, p. 133) conducted a study to investigate the relationship between ownership structure variables and the level of voluntary information disclosures of companies listed on the Bahraini Stock Exchange. The study shows that “there is a significant negative association between block holder ownership and voluntarily disclosure”. Also, the study revealed that there is a significant positive association between size and leverage of firms on one side and the level of voluntary disclosures. However, “profitability of a firm is not significantly associated with voluntary disclosure”.

Pouraghajan et al., (2013, p. 39) examined “the effect of ownership structure on audit quality of companies listed in the Tehran Stock Exchange. Regression model with cross-sectional data were used in the study. The study concluded that there is a positive and significant relationship between institutional ownership and audit quality”.

Seyedeh Elham et al., (2016, p. 1827) conducted a study regarding the impact of audit quality and ownership structure on Tehran’s stock Exchange Listed companies. The study used ownership structure as an indicator of audit quality. The study also concluded “that auditor reputation, and institutional ownership have significantly and negative impact upon earning management. On the other hand, the study showed a positive and significant impact of ownership structure upon earning management”.

Because this study aims to examine the effects of Ownership Concentration; Foreign Ownership and Institutional Ownership factors, we will go through these factors in some details as follows:

Ownership Concentration

Seyedeh Elham et al., 2016) showed a negative impact of ownership institutions upon earning management. It is important to note that “in companies with concentrated ownership, the large shareholders can influence management, especially when they became member of board of directors".

Gul et al., (2010, cited in Zureigat Q., 2011, p. 40) examined in their study "the effect of the largest-shareholder ownership concentration on the amount of firm-specific information incorporated into share prices, as measured by stock price, synchronization. They concluded that synchronization is a concave function of ownership by the largest shareholders". Hu and Izumida (2008, cited in Zureigat Q., 2011, p. 41) "indicated that ownership concentration has a significant effect on the contemporary and subsequent corporate performance". Chen et al., (2007,cited in Zureigat Q., 2011, p. 41) indicated "that the audit service requested by firms with controlling shareholders could be different from that requested by firm without controlling shareholders, and they revealed that audit quality is damaged and compromised when an auditor faces a business with family-controlled clients".

Institutional Ownership

Abdullah, (2008, mentioned in Zureigat Q., 2011, p. 41) pointed out that "institutional investors is assumed to have more influence than other individual investors". Seyedeh Elham et al., (2016) showed a positive and significant impact of ownership structure upon earning management.

Sharma (2004, cited in Zureigat Q., 2011, p. 41) concluded that "as the percentage independent institutional ownership increases, the possibility of erased decreases. This means that institutional ownership can play a vital role in monitoring and disciplining managerial discretion and in controlling the reporting process".

Kane and Velury (2004, cited in Zureigat Q., 2011, p. 41) examined the "relationship between audit firm size and the level of institutional ownership and concluded that as the level of institutional ownership increase, the more possibility that a firm provides audit conducted by a large size of audit firm".

Chan et al., (2007, cited in Zureigat Q., 2011, p. 41) revealed that "an increase in institutional shares leads to a general increase in the demand for higher-quality audits in China". Mitra et al., (2007, cited in Zureigat Q., 2011, p. 41)"found that institutional ownership was significantly and positively related to audit fees – as a proxy for audit quality".

Adeyemi & Fagbemi (2010) revealed in their study that there is a significant relationship between institutional ownership and audit quality.

Abdullah (2008 cited in Zureigat Q., 2011, p. 41) "found that institutional ownership is a crucial factor that may help companies to perform effectively and also found that companies tend to be audited by Big 4 if the level of institutional ownership increases".

Foreign Ownership

It has been pointed out in the literature that "foreign ownership is significantly and positively related to a firm's value measured by Tobin's Q" (Wei et al., 2005, cited in Zureigat Q., 2011, p. 41). Bagaeva et al., (2008,cited in Zureigat Q., 2011, p. 41) "did not find support for the hypothesis that non-listed Russian firms with foreign ownership report earning with more timely recognition of economic gains than others". Other studies found that "foreign ownership is associated with higher corporate transparency and lower information asymmetries" (Jaing and Kim, 2004, cited in Zureigat Q., 2011, p. 41).

Azibi et al., (2011, cited in Pouraghajan et al. (2013, p. 40) conducted their study titled "Auditor choice and institutional investor characteristics after the Enron scandal in the French". The results of their study showed that there is a positive relationship between foreign institutional investors and audit quality. Ting et al., (2010, cited in Pouraghajan et al., 2013, p. 40) found that "foreign institutional investors press more on the auditors so that they present higher audit quality".

The Bahrain Background Environment

The importance of an efficient marketing strategy in any business venture cannot be underestimated in a country such as Bahrain, with a small domestic market constrain reaching out to consumers in a larger regional or global market. For this reason, Bahrain and most developing countries have to solve supply constraints as well as build efficient productive capacities and enhance access to meaningful market information in order to reach international markets.

In 2016, "audit services in Bahrain were provided by 23 accounting firms. Five of these are considered local; four are operating as foreign branches; and the remaining are linked to international forms. The Big 4, i.e., Ernst and Young (E&Y), Deloitte and Touche (D&T), KPMG and Price Waterhouse Coopers (PWC) have a strong presence in Bahrain. D&T and KPMG operate as a joint venture, whereas the other two operate as branches of international firms. Bahrain is a member of the Gulf Cooperation Council, which comprises six Persian Gulf Arab states with several economic and social objectives" (Joshi et al. (2009, p. 268). Bahrain Stock Exchange was established in June 1989. "The Big 4 dominates the audit services industry in Bahrain. A total of 82.5% of the listed companies in Bahrain Stock Exchange (BSE) that published their annual reports in 2006 are audited by one of the Big Four, and the other 17.5% are audited by non-Big four" (CBB, Bahrain, 2006, Joshi et al. (2009, p. 268). "Companies in Bahrain are required to comply with International Financial Reporting Standards (IFRS), whereas accounting firms must comply with the

International Standards of Auditing. These requirements apply to all companies, including financial intuitions".

In Bahrain as a developing country, (Joshi et al., 2009, p. 275) stated that "the importance of audit activities has changed to address challenges related to the economic environment. Bahrain environment is characterized by an emerging capital market dominated by large government and family ownership of listed firms, powerful regulations of the audit environment, powerful auditors, and no public records of government actions taken against auditors".

Entrepreneurship is a long tradition in Bahrain which has been a regional trading hub for centuries. Zayed Bin Rashed Al Zayani (2015) (Minster of Industry and Commerce in Bahrain) added that "the development of competitive local enterprises is a cornerstone for Bahrain policy regarding SMEs. He added that the economies of the GCC and indeed Bahrain can benefit from greater emphasis being given to the SMEs".

Choosing the subject was based on how ownership structure can affect the audit quality. The motivation of the study evolved for a number of reasons. First, most of the literature on ownership structure focuses on developed countries. The current study, therefore, addresses this issue in developing countries, the case of Bahrain. Second, as far as the current researchers are aware, no such study was carried out with a special reference to Bahrain. Due to less attention given to ownership structure, the results of this study are hoped to increase knowledge about how ownership structure in Bahrain affect the quality of reporting practices. Third, because Bahrain is a member of GCC countries, it shares a number of specific structural economic features. Key common features of GCC countries are: a high dependency on oil as expressed in the share of oil (and gas) revenues in total fiscal and export revenues; young and rapidly growing national labor forces; and the heavy reliance on expatriate labor in the private sector. In addition, listed companies are subject to similar reporting requirements. The companies' laws in most of these countries require all legal entities to submit an annual report which includes a director's report, auditor's report, financial statements, and to have their accounts prepared in accordance with the International Financial Reporting Standards (IFRS). Thus, GCC countries are expected to benefit from the results of the current study.

RESEARCH METHODOLOGY

Population and Sample Study

The population of this study consist the companies listed in Bahrain Burse and were active in the Burse during 2015 and non-listed companies. Regarding the unlisted companies, we select 98 companies (based on the selection criteria mentioned below) out of 152 companies registered at Central Bank of Bahrain, which constitute 64.5% of them. "The suitable selection of sample is important for the reliability of the research" (Bryman and Bell, 2007, p. 179).

The following criteria were considered for selecting companies for this study:

1. The availability of financial information.
2. Fiscal year ended on Dec.31.

Companies in 2015 were chosen as sample of study to test the research hypothesis. The study attempts to examine the impact of ownership structure on audit quality for listed companies on Bahraini Bourse and unlisted companies. The total number of Bahraini listed companies in Bahraini Bourse for the year 2015 was 42.Five companies were excluded from the analysis because of lack information; this left 38 listed companies included in the study. Ninety eight unlisted companies were chosen randomly to be included in the study as shown in Table 1 below. Table 1 presents the distribution of the sample by industry and audit firms. The table shows that 86.8% of the listed companies and 72.4% of unlisted companies are audited by Big-4 audit firms. Only 13.2% of listed companies and 27.6% of unlisted companies were audited by local audit firms. 79 % of the total companies (listed and unlisted) employ Big-4 audit firms, which is quite high. Only 21% of the total companies (listed and unlisted) employ local audit firms. These results are expected because of high competition among the companies' listed and unlisted for attracting investors to collect their investment as they can. Thus, the companies tried to convince investors by publishing high quality audit reports through utilizing Big-4 audit firms.

Annual reports of listed companies published by Bahraini Investors' Guide for 2016 were used to collect data about ownership structure and audit firms. Also, annual reports of unlisted companies were used for collecting data.

Table 1: Distribution of the sample study

Industry (sector)	Number of companies	Audited by Big 4		Audited by Non-Big 4	
		No.	%	No.	%
Listed companies	38	33	86.8%	5	13.2%
Unlisted companies	98	71	72.4%	27	27.6%
Total	136	107	79%	29	21%

Variables and Model

The following regression model will be used to implement the study:
AQ = a + X1OS + X2FO + X3 IO + X4CS + X5LF + e
Where,
AQ: Audit Quality (Audit Firm Size)
OC: Ownership Concentration
FO: Foreign Ownership
IO: Institutional Ownership
CS: Company Size
LE: Leverage

Many researchers measure the concept of audit quality through using different proxies of audit quality. For example, Manry et al., (2008) used estimated discretionally accruals to measure audit quality, Li and Lin (2005) used non-audit fees to examine audit quality. Kilgore (2007) and Chang et al. (2008,cited in Zureigat Q., 2011, p. 39)) pointed out that “the most commonly used as a proxy for audit quality is the size of audit firm because large audit firm may provide higher audit quality”. Some authors found “that clients audited by larger audit firms are willing to disclose more information voluntarily” (Chan and Gray 2002, cited in Zureigat Q., 2011, p. 39)).

For the purpose of the current study, the dependent variable AQ was measured by using a proxy of audit firm size, and “define the larger audit firms as quality auditors, so the audit quality is considered as dependent variable and coded (1) when the company is audited by one of the Big 4 audit firm, and (0) otherwise” (Abdullah, 2008).

Variables related to ownership were extracted directly from the annual reports for the sample’s companies and considered independent variables and are considered independent variables.

The ownership concentration was used as a measure of the percentage of shares owned by investors with ownership of more than (5%) of the total company shares. The percentage of the total shares owned by non-Bahraini investors in the company was used as a measure for foreign ownership.

For the purpose of the current study, the percentage of the total shares owned by institutions (large investors such as Banks, insurance companies, investment companies) was used as a measure of institutional ownership.

Moreover, the model of the study has used two control variables, company size and leverage. to control the influence of firm specific financial factors.

It has been argued in the literature that there is a significant relationship between audit quality and company size. Manry et al.,(2008,cited in Zureigat Q., 2011, p. 42)“also found a significant relationship between audit quality and client size”.

“The size of the company used in the current study is measured by the natural logarithm for total assets of the company” as it was employed by Dong and Zhang, (2008, cited in Zureigat Q., 2011, p. 42), “and is considered a control variable”.

Regarding leverage, it was indicated that the relationship between leverage and the choice of high quality auditors varies significantly across European countries”, for example, Dong and Zhang (2008, cited in Zureigat Q., 2011, p. 42) found that “leverage has an effect on the type of audit opinion. Leverage in the current study was measured as total debt (total liabilities) divided by total assets” (Abdullah, (2008, cited in Zureigat Q., 2011, p. 42)“ and is considered a control variable”.

Development of Research Hypotheses

To achieve the objectives of this study and in the light of the results reached from literature review, together with what have been discussed above under independent variables of the study (ownership concentration, institutional ownership and foreign ownership) and Bahrain auditing environment, the following research hypotheses were developed for the current study:

H01: There is no significant relationship between ownership concentration and audit quality.
H02: There is no significant relationship between institutional ownership and audit quality.
H03: There is no significant relationship between foreign ownership and audit quality.

Data Collection

Two sources of data collection were utilized in the current study. The first source used the annual reports and financial statements of sample companies for the year 2015, whereas the second source used the literature review and published materials, articles, books, journals and Web based data about the subject area.

Limitations and further research of the study:

The main limitation of the study is that audit quality can be measured in various ways with different results such as through audit opinions or the frequency of restatements.

In future research, audit quality would be measured in relation to audit fees and corporate governance mechanisms should be examined in the context of Bahrain audit market. In addition, this study does not be employed to control the impact of boards of directors on audit quality in Bahraini firms.

ANALYSIS AND RESULTS

Descriptive analysis:

Table 2 below shows that companies constitute79% of the sampled companies were audited by Big 4 audit firms, whereas companies audited by local audit firms were 21% of the sample. The mean of the ownership concentration is 33.77%, foreign ownership mean is 40.36%, which indicates that more than one-third of shares owned by big investors who own more than 5% of the companies' shares and more percentage of shares owned by foreign investors in Bahrain. These percentages will give big investors and foreign investors some power in managing these companies. However, the mean of institutional ownership owns more than 57%, of total shares which may give them a great power in managing and controlling these companies.

Table 2: Descriptive statistics

Variable	Min.	Max.	Mean	Std. Dev.
Audit quality	0	1	.79	.4090
Ownership concentration	.0000	.7721	.3377	.2605
Foreign ownership	.0002	.9816	.4036	.3589
Institutional ownership	.1045	.9302	.5710	.2427

Analysis of Logistic Regression

Logistic regression was chosen to test the hypotheses of the study because the dependent variable is binary which is more suitable for such type of research. The results in Table 3 below show that foreign ownership variable has a significant relationship with audit quality-measured by using a proxy of audit firm size. This result is consistent with the results of Wei et al. 2005; Abdulla (2008); Lucas (2009); Azibi et al. (2011); Zurigat, 2011; and Pouraghajan et al. (2013). Institutional ownership hypothesis have positive relationship with the audit firm size. This result is consistent with the results of Sharma (2004); Kane and Velury (2004); Chan et al. (2007); Mirta et al. (2007); Abdulla (2008); Adeyemi and Fagbemi (2010) and Seyedeh Elham et al. (2016. However, Institutional ownership hypothesis not significant at $p \leq 0.05$ with the audit firm size and this result was inconsistent with Adeyemi and Fagbemi (2010) and Seyedeh Elham et al. (2016. Ownership concentration hypothesis have positive relationship with the audit firm size which is inconsistent with Zurigat (2011) and Seyedeh Elham et al. (2016.

These findings may be attributed to the fact that a lot of Bahraini companies are family owned and such companies may rely on personal relations in the selection of auditors. Foreign ownership has positive relationship and significant at $p = 0.011$with the audit firm size, the estimated parameter was 20.271.The results of hypothesis 1 and 2, support the suggestions of null hypothesis, so the researchers accepted the hypothesis for them, and reached the conclusion that there is no significant relationship between ownership concentration and institutional ownership on one side and audit quality on the other. The result regarding the hypothesis 3 reject the suggestion of the null hypothesis, so the researcher rejected the null hypothesis and concluded that there is a significant relationship between foreign ownership, and audit quality at $p \leq 0.05$. The researchers accepted hypothesis 1 and 2 and rejected hypothesis 3.

Table 3: Logistic regression

Independent variables	Estimated parameters	P Value	Direction of relationship
Constant	-17.259	.005	Negative
Ownership concentration	.115	.324	Positive
Foreign ownership	20.271	.011	Positive
Institutional ownership	.471	.961	Positive
Company size	.000	.003	Positive
Leverage	.037	.224	Positive

SUMMARY AND CONCLUSIONS

The current study aimed to examine the effect of ownership structure as a crucial element of corporate governance upon audit quality as a proxy of audit firm size in Bahrain. The focus was made upon the main components of ownership structure in Bahrain, namely, Ownership concentration, Institutional ownership, foreign ownership and Audit quality.

The choice of this subject was based on the auditing concerns that how can ownership structure affect audit quality in developing countries, the case of Bahrain, since no such study was carried out for this topic with a special reference to Bahrain.

The findings revealed that foreign ownership is an important factor for Bahraini listed and unlisted companies in selecting auditors. This finding confirms that companies in Bahrain tend to utilize auditors with high quality (Big 4) as the percentages of foreign and institutional ownership increased as shown in Table 2 above. These results may be interpreted through the willingness of foreign and institutional investors to hire Big 4 audit firms so as to have high audit quality and in turn to report financial statements with high quality in which may help investors to take better decisions.

Based on the findings of the study, the researchers recommended that companies in Bahrain, both listed and unlisted to maintain continuous steps in attracting foreign investments to Bahrain. The study also recommended the necessity to follow new instructions that increase the percentage of institutional investments which may lead to improve audit quality and in turn results in reporting high quality financial statements. Furthermore, the study recommended the necessity to follow a clear and rigid process of selecting auditors with high experience of accounting and auditing process in order to have high quality audit.

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