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DETERMINANTS OF AUDITOR SWITCHING IN BAHRAINI'S LISTED COMPANIES - AN EMPIRICAL STUDY

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ABSTRACT: *The study aims to investigate the crucial factors (determinants) for auditor switch among listed companies in Bahrain Bourse. Cronbach's alpha measurement was used to examine the uniformity and reliability level of the data. T-test and multiple logistic regression techniques were used in the analysis. The results of the descriptive statistics indicate that the most important section of determinants is Section C (Competition among PAF) with the highest Mean = 3.84 and standard deviation = 0.42, followed by Section D (Size of Public Auditing Firm (PAF)) with Mean = 3.83 and standard deviation = 0.35, followed by Section B (Audit Fees) with mean of 3.51 and standard deviation = 1.30. The T-test results indicated that there are significant mean differences between auditor switching of the factors "Financial conditions of the client" (P-value < 0.005), "Audit Fees" (P-value < 0.005), "Change in management" (P-value < 0.005), and "Qualified audit opinion" (P-value = 0.039). It also shows that there is a positive relationship between the factors "Change in management" H1, "financial conditions of the client", "audit fees H6" and to a certain extent to "competition among PAF, H4 and auditor switch". However, there was no significant relationship between the factor "size of public auditing firm H3 and auditor switching. Multiple logistic regression analysis is employed to measure the association between a single dependent variable (auditor switch) and multiple independent variables. The results show that financial condition of client, size of public audit firm and change in management have negative relationships with auditor switch. Audit fees, competition among PAF and qualified audit opinion respectively have positive relationships with auditor switch as predicted.*

KEYWORDS: Financial Condition, Audit Firms, Level of Competition, Size of Audit Firms, Auditor Switch, Bahrain Bourse, Determinants Factors.

INTRODUCTION

The issue of auditor switching have been raised since early 1970s (Nazri S. et. al, 2012). The impact of auditor's independence arises from auditor switching that become a crucial issue especially in developed countries (Chadegani, Mohamed and Jari, 2011). Companies usually need enormous financial capital to boost their activities. For the companies to get easy access to the capital sources, this encourages them to rely upon the independent audit service to enhance credibility to the external financial statements being prepared, as the auditors opinion add justification and reliability to the financial statements (Cheng Won Theng et al., 2014). Reliable financial reports provide required information for managers, investors, creditors and governments. Financial statement users rely on such information after the external auditor, which is independent, confirms the reliability of this information. Firms enjoy reputable auditors at assure outside investors the credibility of financial disclosures and hence mitigate the agency problems (Anderson, et al., 2004). Thus, auditors serve a corporate governance role in monitoring a firm's financial reporting process (Ashbauah and Worfield, 2003).

Different factors may affect auditor switch such as disagreement about content of financial reports (Addams and Davis, 1994), disagreement about auditor opinion (Haskins and William, 1990), change of management (Beattie and Fearnley, 1998); and auditor fees (Addams and Davis, 1994; Ismail and Aileahmed, 2008); size of the audit firm, tenure of auditor, audit firm reputation, etc ….

These factors may cause auditor switch and they may reduce the auditor's independence as well. These factors can be categorized into two groups as follows:

a. Factors related to auditors: consist auditors' fees, auditor opinion, and audit quality.

b. Factors related to client: consist client size, changing management, and financial condition (stress).

Furthermore, prior studies have identified many other reasons for switching auditors, such as business growth or requirements for new audit procedures. When companies require more complex audits, it may become necessary to choose different auditors. When faced with the decision to choose a new auditor, more often than not, a company will choose a big four firm (Weiner, 2012).

Thus, the research question posed in the current study concerns whether auditor related factors and client related factors influence auditor switch for companies in Bahrain.

It has been argued in the literature that companies use auditor switching to avoid qualified reports. A qualified report may signal to investors that managers are poor stewards of the companies' affairs, or that managers have attempted to present an over-favorable view of the company's performance. In addition, qualified reports cause share prices to fall – this reduces managerial utility if managers own shares or their compensation is related to market value (Firth, 1978; Banks & Kinney, 1982; Fleak and Wilson, 1994; Chen and Church, 1996; Jones, 1996). Therefore, there are strong grounds for believing that managers dislike receiving qualified reports.

If managers dislike qualified reports and have some influence over auditor appointment, they may try to use auditors witching to avoid receiving qualified reports. Teoh (1992) pointed out that the manager actively uses the auditor switch decision to avoid receiving qualified reports.

Auditor change may have impact on auditor independence and may diminish the credibility of audited financial statements (Woo and Koh, 2001). The auditor's independence is viewed as one of the important principles of the auditor's job. It is argued that if the auditor cannot preserve the independence principle, the value of audited financial statement decreases and this resulted in uncertainty in investment activities in capital markets (Meigs et al., 1974; AISG 1977). The value of audited financial statements depends on the assumption that the auditor is independent of the client.

Independent audit reduces agency costs by verifying the truthfulness and competence of the financial statements, thereby allowing more precise and efficient contracts to be based on the financial statements (Cohen et al., 2002).

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Some authors argued that the decision to switch auditors is due to principal / agent problem of separation ownership and control of a firm (Jensen and Meckling, 1976), and the separation of risk bearing decision-making and control functions in firms (Fama and Jensen, 1983). Auditors play a vital role in reducing information risk to all users of financial reports, which is the prime economic reason behind the demand for audit and auditing services. Auditor switch decision involves change of incumbent auditor resulting in the choice of quality clients under changing circumstances (Huson, et al., 2000).

The rest of this paper is organized as follows: Section 2 review theoretical framework and literature review. Section 3 describes the methodology, Section 4 reports on the results and discussions, and Section 5 ends with conclusions and recommendations.

Motivation of the Study

The motivation of this study is the rising concern for auditor switch because of very few studies or even the absence of relevant studies regarding auditor switching in Bahrain, whereas the cases of auditors switching increased more in the changing audit environment such as developed economies than in a developing economies.

The study is expected to provide useful insight for management, investors and auditors of companies in Bahrain on factors leading to auditor switching. The study is also expected to contribute better understandings on the association between audit and client firm characteristics towards auditor change and to provide management and investors with an early signal of potential problem which may occur in the future and eventually help to eliminate the chances of auditor change in Bahrain.

The privatization policy and the rapid increase in competition in the audit, managerial labor and capital markets increased agency costs and signaling incentives for listed companies, which can be linked to incentives for auditor switching (Chadegani et al., 2011).

The potential incentives for this study includes agency conflicts in the companies (Jensen and Meckling 1976; Chow and Rice 1982; or signaling quality by adding credibility to the financial statements (Jensen and Meckling 1976).

The financial crisis incurred in the last decade has created many doubts concerning the usefulness of auditor's report and therefore, auditor switching has been a challenge for further investigation. This motivates the current study to investigate the uniqueness of Bahraini environment where the client tries to negotiate the audit fees with the auditor and tends to choose the auditor who offers the lowest audit fees.

In emerging securities market, the role of auditors as means of reducing conflicts of interest in financial reporting decisions is potentially more important than in the case of developed markets (Chadegani et al., 2011). Consequently, investigating the factors that may affect auditor switch which may impair auditor independence and ultimately audit quality became very important in developing countries such as Bahrain.

As mentioned earlier, very few studies were conducted in Bahrain, the current study is expected to contribute to the literature review by investigating the determinants factors affecting auditor switching in Bahrain and narrow the gap in the literature between developed and developing countries about auditor switching topic.

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Objectives of the Study

Few studies have been done in developing countries in general and in Bahrain in particular to investigate the factors that may influence auditor switch. Thus, the current study aims to investigate the major factors (determinants) for auditor switch among listed companies in Bahrain Bourse. This study may serve as a comprehensive reference for developing countries in general and for Gulf Cooperation countries including Bahrain in particular, in creating awareness on the significant determinants of auditor switching.

Problem Statement

The problem statement of this study may be indicated through providing answers to the following questions:

1. Does the financial conditions (stress) of the client affect auditor switching?
2. Does the audit fees affect auditor switching?
3. Does the level of competition among audit firms affect auditor switching?
4. Does the size of audit firm affect auditor switching?
5. Does the change in management of the client affect auditor switching?
6. Does the qualified audit opinion affect auditor switching?
7. What are some other compelling reasons that may induce a client to change auditors?

Limitations of the Study

The sample selected for this study is restricted to listed (publically – traded) companies in Bahraini Bourse. The data do not consist privately limited companies. Therefore, the sample is insufficient to represent the overall auditing switching issue in non listed private limited companies, reducing the comprehensiveness and representativeness of the study. Furthermore, past empirical studies on auditor switching are mostly carried out in developed countries are used in this study as reference on this issue being carried out in Bahrain. Therefore, the findings of the past studies in developed countries might not be suitable and appropriate enough to apply in this study in Bahrain or even in developing countries as there are differences in terms of environment and culture in these countries.

BAHRAIN AUDITING ENVIRONMENT

In order to perceive the context in which this study is undertaken, some important features of the audit market in Bahrain must be understood.

As of the end of February 2008, audit services in Bahrain are provided by 24 auditing firms. Five of these are considered local; four are operating as foreign branches; and the remaining are linked to international auditing firms. The Big Four; i.e., Ernst & Young (E&Y), Deloitte & Touche (D&T), KPMG, and Price water house 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 auditing firms. BDO Jawad Habib and E&Y are the only two auditing firms registered with the United States (US)

The Central Bank of Bahrain (CBB) requires financial institutions to be audited by one of the big audit firms. Audit services are regulated by the Amiri Decree Number 26

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of 1996, which requires auditors to obtain a license to practice and set the minimum requirements for a license. In effect, audit firms got two licenses, one to practice auditing and the other to offer auditing services to financial institutions.

Appointments of auditors, as per article (205) paragraph (e) of the Bahrain Commercial Companies Law Number 21 of 2001, should be made on a yearly basis at firm's annual stockholders meetings. However in practice, boards of directors are empowered by annual meetings to appoint auditors and to determine their remunerations.

The CBB's authority is based on article, (61) paragraph (a), of The Central Bank of Bahrain and Financial Institutions Law Number 64 of 2006, which states: "Every Licensee shall appoint one or more qualified and experienced external auditors for its accounts for every financial year. Prior written approval by the Central Bank will be required before appointing an auditor." This approval is needed annually. In cases where a decision has been taken to replace the external auditors before the end of the year, the respective financial institutions are also required to inform the CBB about the reasons for this decision.

Auditors appointed by specialized licensees must be independent (CF sections AA-1.4 and AA-1.5). Auditors who resign or are otherwise removed from office are required to inform the CBB in writing of the reasons for the termination of their appointment (Sections AA-1.2).

The appointment of auditors normally takes place during the course of the firm's annual general meeting; specialized licensees should notify the CBB of the proposed agenda. The CBB is considering the proposed (re) appointment of an auditor, takes into account the expertise, resources and reputation of the audit firm, relative size and complexity of the licensee. Specialized licensees must notify the CBB as soon as they intended to remove their external auditors. Specialized licenses must ensure that the replacement auditor is appointed (subject to CBB approval), as soon as reasonably practicable after a vacancy occurs, but no later than three months.

According to Article AA-1.2.3, the external auditor of specialized licensees must inform the CBB in writing, should it resign or its appointment as auditor be terminated, within 30 calendar days, of the event occurring, setting out the reasons for the resignation or termination.

Article 61 (d) of the CBB law imposes conditions for the auditor to be considered as independent. Before a specialized licensee appoints an auditor, it must take responsible steps to ensure that the auditor has the required skills, resources and experience to carry out the audit properly, and is independent of the licensee.

For an auditor to be considered independent, it must, among things, comply with the restrictions in Section AA-1.5. In that, specialized licensees must not provide regulated services to their auditor.

In Bahrain, it is not mandatory to switch audit firms. In fact, in 2006, the CBB took a position against a motion in the parliament to mandate such a requirement on the ground that small markets are distorted by such decisions. Experience has shown that switching of audit firms takes place in very rare cases and generally occurs only

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after an audit failure. The CBB does require auditors of financial institutions to switch auditing partners at least every five years.

The results of the study are hoped to increase knowledge about how listed companies in Bahrain reflect switching auditors through their reporting practices. Bahrain is a member of GCC countries, and shares a number of specific structural economic features. Listed companies in these countries are subject to similar reporting requirements. The companies' laws in these countries require all legal entities to submit an annual report which includes a director's report, auditor's report, and financial statements, and to have their accounts prepared in accordance with International Financial Reporting Standards (IFRS). Thus, GCC countries are expected to benefit from the results of the current study.

LITERATURE REVIEW

The most important factors identified in the literature review that explain why firms hire a new auditing firm for their audit include: dissatisfaction with services provided by current auditors; change in corporate management, the need for additional auditing services, disputes over reporting matters, and conflicting over audit fees (Chow and Rice, 1982; DeAngelo, 1982; Eischensher and Shields, 1983). An additional influential factor upon auditor switching is financial stress (Schwartz and Menon, 1988). A major finding indicates that there is a higher incidence of auditor switching among failing firms. Also, it has been hypothesized that firms demand higher-quality audits when they have long-term debt contracts (Eichenseher and Schields, 1986).

The issuance of new securities also plays a vital role in companies' perceptions, in that it either motivates the firm to change auditors or it operates as an indication of the nature of the change itself.

In addition to the legal requirement for listed companies to have their financial reports audited, there are also theoretical sources that generate demand for different levels of audit quality. Most of past academic research focused on signaling theory. Signaling theory states that clients switch auditors when they want to convey or signal to the public the quality or reliability of their financial statements and they do this through the type of auditor they engage (Bagherpour et al., 2010)

Auditing can reduce agency risks created by conflict of interests between managers and shareholders and debt holders (Watt and Zimmerman 1983), small and large shareholders (Fan and Wang, 2005).

The literature examines the association of one factor with auditor switch. Takiyah and Ghazali (1993) verified the association between qualified audit opinion and auditor switch but they do not find significant relationship between qualified report and auditor switch. Lennox (1999) examines the relationship between bankruptcy and auditor switch and the results show that switch is a weak signal of financial distress. Ismail and Aliahmed (2008) found that leverage, growth turnover, financing activities, longevity of audit engagement and audit fee are significant determinants of auditor switch in Malaysian second board companies.

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Firms change their auditors to ensure desired quality of audit service. Decision to switch auditors by client firm was due to the principle-agent problem in separation of ownership and control of a firm (Jensen and Meckling 1976), and the separation of risk bearing, decision - making and control function in firms (Fama and Jensen, 1988).

Kenneth and Krishnagopal (1985) conducted a study to examine the motivations for failing firms to change auditors. They concluded that some of the factors that could influence auditor switching include audit qualifications, reporting disputes, management changes, audit fees, and insurance needs. The investigation's findings strongly supported prior expectations that failing firms have a greater tendency to switch auditors than do healthier firms. Other findings revealed that neither audit qualifications nor management changes were statistically associated with auditor displacement in failing firms. Failing firms that changed auditors did display a preference to move to a different class of CPA firms. Also, size did not appear to matter with respect to the observed auditor switching among the failing firms, although it appeared to have some effect among control firms. Overall, the major findings of the study suggest a definite need to control for the presence of financial distress in studies on auditor switching.

Williams (1988) developed and employed a theoretical model to explain auditor switches. He used the following concepts concerning the theory of auditor change and used as variables in this modes: 1) change in client contracting environment; 2) auditor effectiveness; and 3) client reputation. His study findings support the contention that firms do not change auditors in an effort to find a lenient auditor. The main reasons that induce firms to change auditors are their perceptions that the successor firm can create audit efficiencies. Another reason for the change may be a firm's willingness to improve its monitoring system.

Teoh (1992) found in his study that investors' reaction to auditor switches depends on the context of the switch and the characteristics of the switching firm. The audit opinion prior to the switch determines the stock price response to the announcement of an auditor's change. The stock price reaction to a switch will tend to be more negative after a clean opinion rather than after a qualified opinion because high value retentions are more common after a clean opinion while low value retentions are more common after a qualified opinion. He added that the status of the firm's value switches auditors in the hope of obtaining a favorable opinion. Firms with low value do not instigate a switch because there is virtually no hope of improving its position.

Krishnan (1994) focused in his study on the auditor's opinion formulation process to switching and non-switching clients in the year prior to the switch. He investigated the possibility that auditor switches are not caused by the receipt of qualified opinions, but by auditor's use of conservative judgments for some clients. The overall conservatism of the auditor is assumed to be reflected in a tendency to issue qualified opinions. He argued that the evidence indicating that opinions do not improve after switches suggests that "opinion shopping" is generally futile. He added that the decision to choose or switch auditors in a subsidiary company often occurs at the parent level and is determined by group characteristics of the subsidiary.

Chen et al., (2005) conducted an empirical study to test the implications between auditors' changes and the probability of the client's subsequent financial distress. They found that a higher possibility of financial stress is seen to be positively associate d with auditor changes.

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Beattie et. al, (2006), aimed in their study to investigate the generalizability of auditor change determinants models developed in the private sector and to identify factors that are peculiar to the charity sector. The study developed a regression model of the determinants of auditor change. The results show that charities are more likely to change auditor if the incumbent auditor is "top tire", if the new auditor has greater expertise in the charity sector, if the charity has an audit committee and if the charity income has fallen significantly.

Sriram (2006), examined in his study certain client attributes of a group of firms to ascertain whether some o f these attributes are more closely associated with firms switching auditors. The results indicate that firms receiving a qualified opinion and small firms and those listed in over the trading counter to be more likely to change auditors. Firms audited by bigger audit firms appear to be less likely to switch auditors.

Bagherpour, et. al, (2010) investigated the effects of increased auditor competition and changes in corporate objectives and potential management agency costs upon auditor switching in Iran. However, other important factors that were proven to have an effect on auditor switch like audit quality, change in management and audit fee were not considered, and therefore, this gives motivation to do the current study.

Lin Liu (2010) conducted a study to investigate the association between firms' internal corporate governance mechanisms and their auditor switching decisions in the Chinese context. The study suggests that firms with weak internal corporate governance mechanism tend to switch to smaller or more pliable auditors. The study also concluded that firms with larger controlling owners are more likely to switch to a smaller auditor.

Black et al., (2012) conducted a study to examine auditor switching using discriminate and logistic regression. Using logistic analysis, auditor switching can be forecasted with prediction accuracy of more than 92%. The results show that the proposed financial ratios (Working capital/Total assets, return on assets, market value of equity /book value of total debt, sales/total assets) help explain the discrimination between companies that switch auditors and those that do not switch auditors.

Huang and Scholz (2012) concluded in their study that financial restatements have significant implications for auditor-client relationships. They found that a restatement dramatically increases the odds of an auditor resignation. Restatements involving fraud, reversing profit to loss and those disclosed in press releases appear to drive the increased resignation likelihood. Furthermore, they found that companies with relatively severe restatements are more likely to hire smaller auditors following a resignation.

Weiner (2012) examined in his study the main reasons for switching auditors. He found that in many cases the company decided to switch to one of the Big Four firms, and in few cases, the company retained its original auditor. The researcher also found that large companies that already use a Big Four firms are most likely going to stick with a Big Four firms rather than switch to a smaller firms.

Mazri et al., (2012) conducted their study to examine two factors which influence auditor change: audit and client firms' characteristics, for Malaysian listed companies. This study evaluates the effects of various independent variables on auditor change behavior and the sensitivity of results to alternative period measurement by using logistic regression analysis. The results reveals that auditor change to be significantly influenced by client firm's

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characteristics, notably changes in management, size of the client firm, complexity, and client's firm growth, lending support to the findings of previous survey studies. Han (2013) provides in his study empirical evidence on the association between auditor switching decisions and various factors reported from the prior literatures for Kazakhstan Stock Exchange (KASE) listed companies. The findings of the study indicate that management does not generally differentiate the quality or value of audit service among different auditors but only cares about the reputation of auditors. All other factors were found to be insignificant in predicting auditor switching in the next period audit.

Suyono et al., (2013) investigated in their study the determinants factors affecting auditor switching. The stud y used the survey method by developing questionnaire. The study applies agency theory (Jensen and Meckling, 2076) analysis. The findings show the financial condition of t he client, level of competition among audit firms and tenure affect significantly auditor switching. However, audit fees and size of audit firm do not affect auditor switching.

Yaman et al., (2013) investigated the reason of auditor switching, especially the elements of corporate governance by selecting the A-share listed companies in China as a sample. The authors used statistical test and logistic regression analysis to explore how the 15 factors of corporate governance which are based on the indicators of Nankai University evaluation system affect auditor switching. The results show that the largest proportion of shareholding, the proportion of independent directors, and board meetings which on behalf of the level of corporate governance, have a significant and negative correlation with auditor switching. The results also show that full disclosure, litigation, and arbitration which on behave of the level of corporate governance have a significant positive correlation with auditor switching.

Nyakuwanika (2014) investigated the underlying factors that cause companies to change auditors or switch from one auditor to another in Zimbabwe. The study examined the relationship that may exist between auditor switch and variables such as qualified opinion, non-audit services, audit fees, audit quality, change in C.E. O and company size. The researcher used questionnaires as primary data collection tool and several publications to get secondary data. The results of the study indicated that audit fees, non-audit services, audit quality, change of management and company size among other factors play a role in companies switching from one auditor to another.

Cheng Won Theng et al., (2014) conducted a study upon Malaysia's public listed T & S companies. The findings of the study proves that the level of risk; ownership concentration; changes in audit fees; and going concern issue, have all a significant association with the auditor switching. The study also reveals that the level of complexity have no significant association with the auditor switching.

Al-Koury et al. (2015) conducted a study in Jordan about auditor independence and mandatory auditor rotation. The results of the study revealed that there is a significant relationship between the auditor independence and and auditor-client relationship and mandatory rotation.

Lin and Liu (2015) conducted a study at American Accounting Association Annual meeting and Conference titled "Auditor switch between different audit markets: A case study" to examine the characteristics of H-share firms that switch from HK auditors to Chinese auditors, and the market reaction to the auditor switch. The study found that the firms that switch to Chinese auditors have less foreign sales as percentage of total sales, are less likely

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to cross-list overseas, less likely to be audited by the Big Four, and have longer listing age. The study also found that the market reacted negatively to firms switching from small HK auditors to pure Chinese auditors, but no negative reaction to firms switching from Big Four HK to Big Four China.

RESEARCH METHODOLOGY

This study uses survey method through questionnaire developed and distributed to a sample study. This study is an explanatory study, in which its purpose is to verify the hypotheses about the impact of independent variables. The population being targeted to conduct the current study is listed companies at Bahraini Bourse as it is the strongest engine of Bahraini economy. The Bahraini listed companies are employed as the sampling element in this study. The sample consists of 41 company listed on the Bahraini Bourse (BB) to be investigated in this study. Based on the statistics extracted from Bahrain Bourse, there are 41 listed companies (Investors' Guide, Bahrain Bourse, 2013). The sample study includes the general and financial managers of each company listed on the BSE. Therefore, 82 sets of the questionnaire were distributed to the respondents between February and April 2014 and 58 questionnaires were returned. The response rate was 71%.

Hypothesis Development

The two most prevalent reasons for an auditor change include the perceptions that fees are too high and a lack of satisfaction with the services provided by predecessor and auditor (Bedingfield and Loeb, 1974). Firms switch auditors more frequently after receiving qualified opinion and subsequently do not receive any unqualified opinion (Chow and Rice, 1982). Failing firms have a great tendency to switch auditors than healthier firms (Schwartz and Menon, 1985).

Thus, the current study is directed towards testing the relationship between auditor and client factors (determinants) and auditor switching. In other words, the study seeks to determine whether these factors have impact upon auditor switching among companies listed in Bahraini Bourse. These factors can be summarized as follows:

Financial Condition of the Client

The financial position of client has important implication on decisions in retaining audit firms (Chadegani et. al, 2011). Francise and Wilson (1988) pointed out that clients who are insolvent and experiencing unhealthy financial position are more likely to engage auditors having high independence to boost the confidence of shareholders and creditors as well as to reduce the risk of litigation. In addition, financially stressed clients are more likely to replace their audit firms compared to their healthier counterparts due to the reason that these types of companies need to hire a higher quality of auditors compared to the previous one (Schwartz and Menon , 1988; Hudiab and Cooke, 2005).

Schwartz and Menon, (1988) conducted a study upon companies suffering financial stress listed on the New York Stock Exchange. They found that financial stress affects significantly auditor switch.

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However, others argue that managers use auditor switch to alter investors' perceptions. Dye (1991) pointed out that managers strategically use the switch decision in an attempt to alter investors' perceptions' of the company's financial health.

Similarly, Teoh (1992) assumed that rational investors take account of information signaled by a company's switch decision when forming beliefs about the company's financial health. Teoh showed that a switch can signal either good or bad news depending on the information available to the manager and the auditor. If the manager switches when he has favorable private information that is not available to the incumbent auditor, the switch signals good news. If the manager switches to conceal unfavorable information held by the incumbent auditor, the switch signals bad news.

The financial condition of the client has a close relationship with the perception of auditor's independence. Knapp (1985) found in his empirical study that when the financial condition of the client is bad, the reliance on auditor independence increases. Another study found that auditor changes among the failed fir ms are more frequent than among non-failed firms (Schwartz and Menon, 1988). Thus, the following hypothesis is developed:

H1: There is a positive relationship between financial condition of the client and auditor switch.

Audit Fees

Many studies in the literature examined the relationship between audit fees and auditor switching (Simunic (1980); Taffler and Ramaliggam (1982); Francis (1984); Francis and Stokes (1986); Palmrose (1986); Francis and Simon (1987); Chung and Liadsay (1988); Pong and Whittington (1994); Firth (1997); Ferguson and Stocks (2003); Willekens and Achmadi (2003); Asthana et al., (2004); Schloetzer (2006); and Ho and Wang (2006)).

Willekens and Achmadi (2003); Wan Mohamed et al., (2007); Fontaine and Letaifa (2012) reported a positive correlation between audit fees and auditor switches in the Belgian private market in 1989 and 1997.

This statement is in line with DeAngelo (1981), Francis and Wilson (1988), Brinn et. al, (1994), Lee (1996), Simon (1997), DeFond et al., (2000), and Peel and Roberts (2003) concluded that the rise of audit fees will make the client change the auditor. Asthana et al., (2004) argued that the increase of audit fees triggers downward auditor switch form big four to non-big four.

Asthana et al., (2004) pointed out that audit fees increases for the riskier clients. Also, audit fees have been identified as a primary reason for auditor switching. Eichenseher and Shields (1983) found that audit fees and good working relationships are the two most important determinants affecting auditor selection decision. When managers are not comfortable with audit fees they try to switch auditors in an effort to find a better offer.

However, other studies concluded that the audit fees do not have any effect on the auditor switching (Suyono et al., 2013).

The current study investigates the unique condition in Bahrain where the client commonly tries to negotiate the audit fees and there is a tendency for the client to choose the auditor who offers the cheapest audit fees. Thus, the following hypothesis is developed:

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H2: There is a positive relationship between audit fees and auditor switch.

Level of Competition

The level of competition among audit firms represents the dramatic change in audit service environment that could be seen from so many new competitors entering the audit services market (Fairfield and Burton, 1982). Possibly for audit firm that exist in this competitive market it is very difficult to be independent of the client because it is very easy for the client to switch auditors. Sterling (1973) pointed out that the responsibility of the auditor is higher than his authority because he lacks the power over his client. Sterling added that the existence of competition among auditors in strengthening the client enables the clients to select or to switch auditors freely and in turn, enables the client to negotiate the amount of audit fees. Thus, the following hypothesis is developed:

H3: The level of competition among audit firms affect significantly auditor switching.

Audit Firm Size

Audit quality is considered the most important determinants of audit choice in developed markets (Depuch and Simunic, 1982). Auditing large clients requires more resources (human and technical), which are usually provided by large audit firms (Depuch and Simunic, 1982).

Ho and Wang (2006) pointed out that auditing theories suggest that audit-fee premiums charged by large audit firms can be attributed to their brand name or stronger reputations due to providing distinguished quality services to their clients.

Size of the audit firm is an important factor related to auditor's independence. There are several reasons why a corporation prefers a large audit firm. Carpenter and Strawser (1982) found that corporations going public changed from small to large nationally known audit firms. Size may give a competitive advantage to big and nationally known audit firms, seeking new clients. Underwriters, brokers and audit committees often recommend a large audit firms because of the greater confidence they place in the reports produced by large audit firms. A big audit firm is assumed to have resources and ability to give audit service to the large companies listed on the stock exchange (Gul, 1989).

On the other hand, a small audit firm is assumed to be unable to fulfill the requirements of the large companies. Mautz and Sharaf (1961) argued that a small audit firm has tendency to be more dependent on the client compared with a large audit firm because for small audit firm one client makes a significant contribution to the firm's total income on one side, and on the other side, small audit firm tends to engages in close relationship with client, and this will leads to important of auditors independence. Weiner (2012) examined companies' decisions to retain or switch auditors following corporate fraud. He found that in many cases the company decided to switch to one of the big four firm. Also, he indicated that there is a tendency that when the client becomes larger it will switch to the more qualified auditor from a big audit firm.

It has been argued in the literature that audit reports and fees are found to increase with the size and complexity of the clients (Copley and Douthett, 2002). Also, it has been suggested that large firms will be forced to hire or switch to large auditing firms as large firms usually more complicated in operations and therefore, needed to hire auditors with more expertise which is associated with large audit firms (Willenborg, 1999).

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Also, some previous studies pointed out that large audit fees, due to the complexity of their operations and the increased gap in the separation between management and ownership, demand highly independent audit firm to reduce agency costs (Watts and Zimmerman, 1986) and the auditors' self-interest threat (Hudiab and Cook, 2005). Furthermore, as the size of the companies increase, it is likely that the number of agency conflicts also increases and this might lead to increase the demand for quality –differentiated auditors (Palmrose, 1984).

Several studies found that smaller companies are more likely to receive qualified audit opinions than larger auditees and subsequently change auditor (Gul 1992; Krishnan et al., 1996). In the light of the above arguments, the following hypothesis is developed:

H4: There is a positive relationship between the size of auditing firms and auditor switch.

Change in Management

Many studies pointed out that management influences auditor choice decision and have a motivation of switching auditor in order to pursue their own self interests (Williams, 1988). With changes in corporate managers and directors, new managers may prefer to switch auditors because they have a preferred working relationship with a particular auditor (Williams, 1988), or they seek an auditor which is more accommodating with respect to their choice and application of accounting polices (Schwartz and Menon, 1985). The new management will select the audit firm which is suitable for the problems that appear. However, there were inconsistent results in the prior studies regarding the association between management changes and auditor switches. Some studies do not find any significant association between change in management and auditor switch (Chow and Rice, 1982; Schwartz and Menon, 1985; Williams, 1988), where as other studies indicate that change in management plays an important role in auditor switch (Burton and Roberts, 1967; Carpenter and Strawser, 1971; Hudiab and Cook, 1985). The following hypothesis is developed:

It is argued in the literature that change in management should be positively related to auditor switch, so the first hypothesis is:

H5: There is a positive relationship between Change in management and auditor switch.

Qualified Audit Opinion

The management of a corporation generally decides the type and quality of information that it will provide to users of financial statements. Management controls the auditors' access to information and personnel of the organization and it is possible for management to report misleading and false information (Sriram, 2006). If auditors disagree with the management over the quality of reporting, they can qualify their audit opinion. Since a qualified opinion may reflect negatively on the management's financial reporting practices, management naturally prefers to receive a "clean" opinion (Schwartz and Menon, 1985). Managers may believe that receiving a qualified opinion could adversely affect the price of the firm's securities and the perception of stockholders and others about the reliability of management's financial representations. Management may attempt to influence the auditors by threatening to change to other auditors to avoid a qualified opinion. Moreover, clients receiving an unclean audit report were likely to switch auditors (Chow and Rice, 1982; Geiger et al.; and Vanstraelen, 2003). Chow and Rice, (1982) found evidence of corporations changing auditors after receiving a qualified opinion. They contended that these corporations may have change auditors to seek a more amenable auditor and to obtain a more favorable report.

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However, the results of previous studies were inconsistent about the relationship between qualified audit opinion and audit switch. Some studies report an increase likely hood of auditor changes following a qualified audit opinion (Chow and Rice, 1982; Teoh, 1992; Lennox 2000; Hudiab and Cook, 2005). Other studies report a negative association (Woo and Koh, 2001) or no association (Schwartz and Menon, 1985; Haskins and Williams, 1990). Based on the previous studies, the following hypothesis is developed:

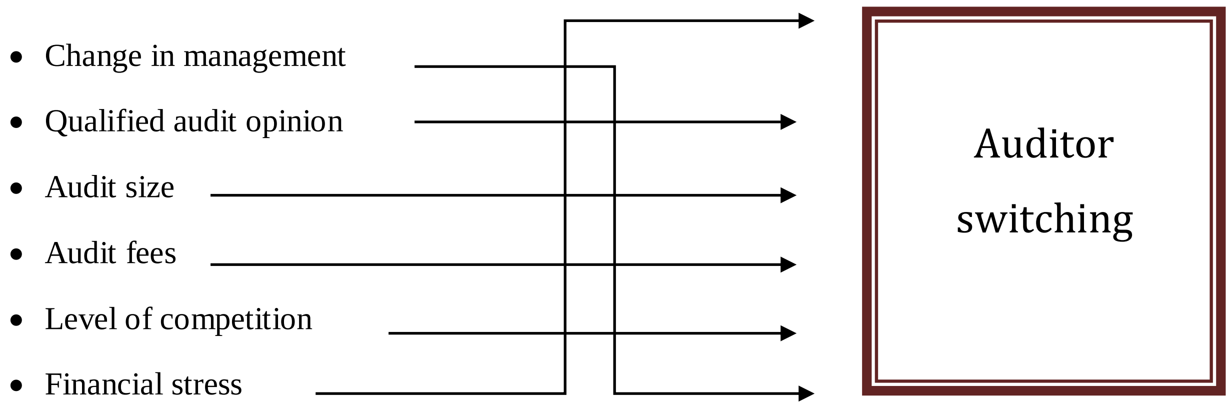
H6: There is a positive relationship between qualified opinion and auditors switch.

Variables and Measurement

The current study employed two types of variables**:**

1. Dependent variable: The auditor switching
2. Independent variables: Include the followings**:**
   a. Financial conditions (stress) of the client (X_1).
   b. Audit fees (X_2).
   c. Level of competition among audit firms (X_3).
   d. Size of audit firm (X_4).
   e. Change in management (X_5) .
   f. Qualified audit opinion (X_6)
   g. Auditor switching (Y) is measured by the frequency of auditor switches within last 5 years that be categorized as: 5 times (5), 4 times (4), 3 times (3), twice (2) and one time (1).

Figure 1 shows the model developed to depict both types of variables:



Adapted from Woo & Koh (2001) and Chadegani et al., (2011).

Figure 1: Factors affecting audit switching

In order to verify the factors affecting auditor switch, regression model is applied in this study with the following equation:

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + b_6X_6 + e$$

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Data Collection Methods

Data is collected from two sources:

a. Secondary sources: Data is collected from secondary sources such as literature review of previous studies, articles and magazines and information eXtracted from annual reports. The usage of secondary data benefits in terms of saving time in data collection (Curtis, 2008). Densombe (2007) argued that secondary data are able to offer obtainable and comparable data compared to primary data.

b. Primary data: Data is collected through using a questionnaire. The questionnaire is developed and distributed to the sample study as specified above. A copy of the questionnaire is available at request.

Data Analysis

Descriptive analysis is used as a function to portray the attributes of the respondents by transforming raw data into better understandable form through rearranging (Zikmund, 2003). The descriptive analysis includes the following:

The Distribution of Respondents According to their Current Practices

Table 1 below shows the distribution of respondents according to their current practices. It is apparent from the analysis that more than half of the respondents (51.7%) work in accounting and finance departments which means that they can provide relevant and dependable information since they are working in the appropriate place. The analysis also shows that the purpose of audit for the company that is audited by PAF is mainly relating to interests of shareholders (56.9%) and preparation of public listing (34.5%). Moreover, the analysis shows that 94.8% of the respondents agree that board of directors and audit committee are authorized to select PAF. These results are expected since the board of directors and audit committee are the key players in companies.. Also, 39.7% indicated that their companies change PAF within years 2010 – 2014.

Table 1: Distribution of respondents according to their current practices

The department the respondent work with		
	No.	**%**
Accounting	18	31
Company law and account	8	13.8
Finance	12	20.7
General manager	4	6.9
Internal audit	12	20.7
Missing	4	6.9
Total	58	100
If your company is audited by PAF, what is the purpose of audit?		
Interests of shareholders	33	56.9
Interest of management	1	1.7
Preparation of public listing	20	34.5
Missing	4	6.9
Total	58	100

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Who authorized to select PAF?		
Board of Directors	34	58.6
Audit committee	21	36.2
Missing	3	5.2
Total	58	100
Does your company change PAF within years 2010 - 2014?		
NO	31	53.4
Yes	23	39.7
Missing	4	6.9
Total	58	100

Descriptive analysis of determinants of auditing switching

Table 2 shows the descriptive analysis of all determinants expected to affect auditor switching in Bahraini listing companies as follows:

Table 2: Determinants of auditor switching in Bahraini listing companies

	Descriptive Statistics					
Q's		N	Minimum	Maximum	Mean	SD
A. Financial Condition of the Client:						
1	If your company is eXperiencing financial difficulties, i.e. liquidity problems, then it cause the company to change PAF	56	1	4	1.98	1.30
2	Liquidity problems that your company experienced did not cause the company to change PAF.	54	1	5	3.81	1.48
3	If your company is in good financial condition, PAF can easily be chosen in accordance with your company expectations.	56	1	5	3.79	0.62
4	If your company is in a good financial condition, then it has more power over the appointed PAF compared to when your company is in bad financial condition.	56	1	5	2.34	1.01
5	In a good financial condition, your company will change existing PAF to one that has a good reputation so that the users of financial statements will be more confident because auditors could be perceived as more independent than the existing auditor.	57	1	5	3.14	1.22
B.	**Audit Fee**					
Q. 6	**Is the public accountant who becomes your company's auditor set an audit fee, of which in your opinion is:**					
q6a	Very high	56	1	5	3.84	1.47
q6b	High	56	1	5	4.43	0.87
q6c	Moderate	56	1	5	3.71	1.78
q6d	Low	56	1	5	3.59	1.82
q6e	Very low	54	1	5	3.56	1.87

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q7	When your public auditing firm increases the audit fee, it is likely that your company may switch the auditing firm.	49	1	5	3.65	0.75
C.	**Competition among PAF**					
q8	In a highly competitive environment, your company will appoint auditing firm that is known to the company.	55	1	5	3.87	0.61
q9	Highly competitive environment encourages your company to replace the eXisting PAF as the firm is perceived as not capable of enforcing a code of conduct and independent by the users of financial statements	55	1	5	3.76	0.82
Q10	**In a competitive environment, your company will:**					
q10a	Choose PAF that always meet all the requirements of our company	56	2	5	3.91	0.75
q10b	Change PAF that does not meet all the requirements of our company	51	1	5	3.10	1.12
q11	Competition among PAF(s) is beneficial to your company as it can easily choose PAF that is able to meet the requirements of the company.	53	1	5	3.91	0.60
q12	Competition among PAF(s) is beneficial to your company as the auditing firm is able to fulfill all the requirements of the company given the fact that PAF(s) will have difficulty in getting new clients and fear of losing existing clients.	56	2	5	4.04	0.42
q13	In a highly competitive environment, your company will still choose PAF that is reputable as it can convince users of the financial statements.	57	4	5	4.21	0.41
D. Size of Public Auditing Firm (PAF)						
q14	Size of PAF is not the main concern for your company as long as the firm can fulfill all the requirements of the company.	56	2	5	3.52	1.06
q15	Users of your company's financial statements would generally believe the accuracy of the data that are published when it is audited by a large PAF as compared to the small accounting firm.	56	2	5	4.04	0.47
q16	Your eXperience shows that bigger PAF is able to act independently when compared with smaller one.	56	1	5	2.75	0.94
q17	Your company prefers large national scale PAF as it is more professional and perceived by users of the financial statements as more independent.	57	1	5	3.21	1.11
q18	Once your business is growing, your company will appoint a larger PAF.	56	1	5	3.14	1.07

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q19	When your company decides to go public, it will appoint a national scale PAF that has foreign partnership.	56	1	5	3.14	1.10
Q20	**PAF that currently auditing your company:**					
q20a	National affiliate - the big four	56	4	5	4.66	0.48
q20b	National affiliate - non big four	52	1	5	2.56	0.73
q20c	Medium size firm at the provincial level	53	1	5	2.47	0.91
q20d	Small size firm at the provincial level	53	1	5	2.47	0.91
q20e	Very small firm	53	1	5	2.47	0.91
E. Change in management						
q21	Management influences auditor choice decision and have a motivation of switching auditor in order to pursue their own self interests.	56	1	4	1.68	0.94
q22	With changes in corporate managers and directors, new managers may prefer to switch auditors because they have a preferred working relationship with a particular auditor.	57	1	5	2.46	1.78
q23	Managers seek an auditor which is more accommodating with respect to their choice and application of accounting policies.	56	1	5	2.39	1.78
q24	The new management will select the audit firm which is suitable for the problems that appear.	56	1	5	2.32	1.53
F. Qualified audit opinion						
q25	Management may attempt to influence the auditors by threatening to change to other auditors to avoid a qualified opinion.	56	1	4	2.29	1.14
q26	Clients receiving an unclean audit report were likely to switch auditors.	55	1	4	3.45	1.07
q27	Corporations changing auditors after receiving a qualified opinion.	55	1	4	2.18	0.77
q28	Corporations may have change auditors to seek a more amenable auditor and to obtain a more favorable report.	56	1	5	2.55	1.14
q29	No association between a qualified opinion and changing auditors.	57	1	5	2.39	1.08

Based on the assumption adopted by the study that any determinant with a mean greater than 3.5 is important determinant, the most determinants of audit switch as shown in the Table above: are "National affiliate - the big four", " the company's auditor set a very high audit fees", "choosing PAF that is reputable as it can convince users of the financial statements", users of financial statements would generally believe the accuracy of the data that are published when it is audited by a large PAF as compared to small accounting firm", "Competition among PAF(s) is beneficial to your company as the firm is able to fulfill all the requirements of the company given the fact that PAF(s) will have difficulty in getting new clients and fear of losing existing clients" "Choosing PAF that always meet all the requirements of our company", "Competition among PAF(s) is beneficial to your company as

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it can easily choose PAF that is able to meet the requirements of the company" with means (4.66, 4.43, 4.21, 4.04, 4.04, 3.91, 3.91, 3.87, 3.84, 3.81, 3.79, respectively). These results indicate that these factors are very important determinants of audit switch in Bahraini listed companies.

However, the analysis shows that other factors such as "Management influences auditor choice decision and have a motivation of switching auditor in order to pursue their own self interests", "If your company is experiencing financial difficulties, i.e. liquidity problems, then it cause the company to change PAF", "Corporations changing auditors after receiving a qualified opinion", "Management may attempt to influence the auditors by threatening to change to other auditors to avoid a qualified opinion", "The new management will select the audit firm which is suitable for the problems that appear", with means (1.68, 1.98, 2.18, 2.29, respectively) are not important because the study considers that any determinant with a mean below 3.00 is not important determinant. Table 3 shows the descriptive analysis by sections as follows:

Table 3: determinants ordered according to their means by sections

determinants ordered by Sections according their means					
Section	N	Mean	SD	Min	Max
Competition among PAF	47	3.84	0.42	2.00	4.43
Size of Public Auditing Firm (PAF)	47	3.83	0.35	3.00	4.73
Audit Fee	42	3.51	1.30	1.83	5.00
Financial Condition of Client	50	3.06	0.40	1.80	4.20
Qualified Audit Opinion	50	2.58	0.73	1.00	3.60
Change in Management	52	2.30	1.48	1.00	4.25

Table 3 reveals that the most important section of determinants is Section C (Competition among PAF) with Mean = 3.84 and SD = 0.42, followed by Section D (Size of Public Auditing Firm (PAF)) with Mean = 3.83 and SD = 0.35, followed by Section B (Audit Fees) with mean of 3.51 and SD = 1.30. Note that the respondents based on the SD have consensus about these determinants and no differences in their answers about these sections of determinants.

However, the results also indicate that Section F "Qualified Audit Opinion", and Section E "Change in Management" are less important determinants of auditor switching since the means of these section are 2.58 and 2.30 respectively).

SCALE MEASUREMENT

Reliability Test

The objective of reliability test is to examine the uniformity and reliability level of the data using the Cronbach's alpha measurement (Sekaran, 2003). The internal consistency of the questionnaire's reliability was measured by using Cronbach's coefficient alpha statistical test as shown in Table 4 as follows:

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Table 4: Alpha Coefficient Range and Strength of Association

Factor	Cronbach's Alpha	No. of items	Strength of Association
Financial condition of the client	-0.966	5	
Audit fee	0.911	6	Strong
Competition among Auditing Public Firm (PAF)	0.676	7	Moderate
Size of PAF	0.397	11	Weak
Change of management	0.961	4	Strong
Qualified audit opinion	0.688	5	Moderate

The analysis provides an indication of the average correlation among the items of each factor that made up the scale. The results in Table 4 demonstrate that some indices obtained were considered to be strong (0.911 and 0.961) and others considered moderate (0.676 and 0.688) which are considered adequate. Only one indices considered weak (0.397). The scale that shows an alpha value above 0.70 is considered as reliable (Bryman & Cramer, 2001). Therefore, the indices for the questionnaire's reliability are generally considered as adequate for this research.

Inferential Analysis

Inferential analysis is used in the study to explain the findings. It includes:

T-test

Table 5 shows the analysis of the T-test regarding Factors affecting auditor switching among companies listed in Bahraini Bourse as follows:

Table 5: Independent Sample test (T-Test)

Factors (determinants) affecting auditor switching among listed companies	Does your company change PAF within years 2010-2014						
	N	Mean	SD	SE	Min.	Max.	P-value
Financial conditions of the client	50	3.06	0.40	0.06	1.80	4.20	< 0.005
Audit Fees	42	3.52	1.30	0.20	1.83	5.00	< 0.005
Competition among Public Auditing Firm (PAF)	47	3.84	0.42	0.06	2.00	4.43	0.053
Size of PAF	47	3.83	0.35	0.05	3.00	4.73	0.106
Change in management	52	2.3	1.48	0.20	1.00	4.25	< 0.005
Qualified audit opinion	50	2.58	0.73	0.10	1.00	3.60	< 0.005

The T-test analysis reveals that the following factors "Financial conditions of the client", "Audit Fees", "Change in management", and "Qualified audit opinion" are significant factors with P-value < 0.005 and have great impact upon auditor switching. The results also indicate that the "H1: There is a positive relationship between Change in management and auditor switch", "H2: There is a positive relationship between qualified opinion and auditors switch", "H5: There is a positive relationship between financial condition of the client and auditor switch", and "H6: There is a positive relationship between audit fees and auditor switch",

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whereas "H4: There is a positive relationship between the factor "Competition among Public Auditing Firm (PAF) and auditor switch". And H3 "Size of PAF" have significant positive relationship with P-value equal 0.10 between these factors and auditor switch and therefore, is accepted. This means that all the hypotheses of the study are accepted. The Table also shows that the standard deviation and standard error are small which means that there are no deviations in the answers of respondents around the mean. In other words, there is a consensus among the respondents regarding these factors. However, the analysis indicates that there are

Multiple Logistic Regression Analysis

Multiple logistic regression analysis shown in Table 6 below is employed to measure the association between a single dependent variable (auditor switch) and ~~multiple~~ independent variables (Financial Condition of Client, Audit Fee, Competition among PAF, Size of Public Auditing Firm (PAF), Change in Management, Qualified Audit Opinion) using maximum likelihood estimate procedure in stepwise Logistic Regression on all data. This analysis is capable to identify the most significant independent variables towards the dependent variable, and this was Size of Public Auditing Firm (PAF) at (p-value=0.02). The results show that financial condition of client, size of public audit firm and change in management have negative relationships with auditor switch. Audit fees, competition among PAF and qualified audit opinion respectively have positive relationships with auditor switch as predicted. However, financial condition of client, and change in management that were predicted to have positive relationships with auditor switch, yield negative relationship against what predicted.

Table 6: Logistic Regression Results

Multiple Logistic Regression							
Predicted Variable	**sign**	**Coeff.**	**S.E.**	**Wald**	**df**	**P-value**	**Exp(B)**
Financial Condition of Client	-	-0.337	1.533	0.048	1	0.826	0.714
Audit Fee	+	1.666	1.082	2.371	1	0.124	5.289
Competition among PAF	+	5.659	4.295	1.736	1	0.188	286.738
Size of Public Auditing Firm (PAF)	-	-6.843	2.941	5.413	1	0.020*	0.001
Change in Management	-	-2.625	1.535	2.925	1	0.087	0.072
Qualified Audit Opinion	+	2.996	1.820	2.710	1	0.100	20.000
Constant		-3.287	11.540	0.081	1	0.776	0.037

* Significant at 5% level.

SUMMARY AND CONCLUSIONS

This study aimed to investigate the major factors (determinants) for auditor switch among listed companies in Bahrain Bourse. This study may serve as a comprehensive reference for developing countries in general and for Gulf Cooperation countries, in creating awareness on the significant determinants of auditor switching. It is believed that this study would supplement literature by providing answers to the following research questions:

1. Does the financial conditions (stress) of the client affect auditor switching?

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2. Does the audit fees affect auditor switching?
3. Does the level of competition among audit firms affect auditor switching?
4. Does the size of audit firm affect auditor switching?
5. Does the change in management of the client affect auditor switching?
6. Does the qualified audit opinion affect auditor switching?
7. What are some other compelling reasons that may induce a client to change auditors?

Data for the study were collected by distributing an administered questionnaire to the sample study that consists of 41 companies listed on the Bahraini Bourse (BB) to be investigated in this study. Based on the statistics eXtracted from Bahrain Bourse, there are 41 listed companies (Investors' Guide, Bahrain Bourse, 2014). The sample study includes the general and financial managers of each company listed on the BSE. Therefore, 82 sets of the questionnaire were distributed to the respondents between October and December 2014 and 58 questionnaires were returned. The response rate was 71%. The Average mean and standard deviation for all the hypothesis questions together resulted in rejection to the null hypothesis.

Based on the assumption adopted by the study that any determinant with a mean greater than 3.5 is important determinant, the most determinants of audit switch as shown in the Table: "National affiliate - the big four", " the company's auditor set a very high audit fees", "choosing PAF that is reputable as it can convince users of the financial statements", users of financial statements would generally believe the accuracy of the data that are published when it is audited by a large PAF as compared to small accounting firm", "Competition among PAF(s) is beneficial to your company as the firm is able to fulfill all the requirements of the company given the fact that PAF(s) will have difficulty in getting new clients and fear of losing eXisting clients" "Choosing PAF that always meet all the requirements of our company", "Competition among PAF(s) is beneficial to your company as it can easily choose PAF that is able to meet the requirements of the company" with means (4.66, 4.43, 4.21, 4.04, 4.04, 3.91, 3.91, 3.87, 3.84, 3.81, 3.79, respectively). These results indicate that these factors are very important determinants of audit switch in Bahraini listed companies.

However, the analysis shows that other factors such as "Management influences auditor choice decision and have a motivation of switching auditor in order to pursue their own self interests", "If your company is experiencing financial difficulties, i.e. liquidity problems, then it cause the company to change PAF", "Corporations changing auditors after receiving a qualified opinion", "Management may attempt to influence the auditors by threatening to change to other auditors to avoid a qualified opinion", "The new management will select the audit firm which is suitable for the problems that appear", with means (1.68, 1.98, 2.18, 2.29, respectively) are not important because the study considers that any determinant with a mean below 3.00 is not important determinant.

Multiple logistic regression analysis is employed to measure the association between a single dependent variable (auditor switch) and multiple independent variables. The results show that financial condition of client, size of public audit firm and change in management have negative relationships with auditor switch. Audit fees, competition among PAF and qualified audit opinion respectively have positive relationships with auditor switch as predicted.

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The results of the study should be interpreted in the light of the limitations of the study. First the study is limited to Bahrain. Findings of such a study may not be generalized to different countries at different stages of development or with different business environments and cultures. A comparative study of auditor switch for different countries with emerging capital markets might also be fruitful. Therefore, it would be interesting to replicate this study in other GCC countries or Middle Eastern countries. Secondly, the sample selected for this study is restricted to listed (publically – traded) companies in Bahraini Bourse. The data do not consist privately limited companies. Therefore, the sample is insufficient to represent the overall auditing switching issue in non listed private limited companies, reducing the comprehensiveness and representativeness of the study. Future studies could be useful to investigate privately limited companies. Third, the results are based on a limit number of respondents, we cannot assume that the views of non-respondents are similar to the study findings .However, determinants other than those included in the study may affect the auditor switch. Despite these limitations, the researchers believe that this study has added to our understanding of the factors that auditor switch in Bahrain.

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