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REASONS FOR MODIFYING AUDIT OPINIONS ON FINANCIAL REPORTS OF LISTED COMPANIES IN BOSNIA AND HERZEGOVINA

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Abstract

This paper examines audit opinions on financial reports of listed companies in Bosnia and Herzegovina. The aim of the research is to determine the frequency of modified audit opinion as well as to identify the reasons that lead auditors to modify their opinion. The research was carried out on a sample of 886 auditor's reports. The period from 2017 to 2021 is covered by the research. The content analysis method was used in the research. This research shows that the frequency of modified audit opinions was on average 17.6%. The existence of materially significant misstatements in financial reports is a much more frequent reason for modifying the audit opinion than the existence of limitations in the scope of the audit. The most common misstatements in financial reports that were the reason for the modification of the auditor's opinion refer to the impairment of assets.

Keywords: the auditor's report, modified audit opinion, misstatements in financial reports

1. INTRODUCTION

The audit of financial reports is an important external mechanism of corporate governance. It contributes to the reduction of agency costs that arise as a result of conflicts of interest between owners and managers. The auditor's task is to obtain sufficient appropriate audit evidence to enable them to form an opinion on whether the financial reports have been prepared in accordance with the applicable financial reporting framework and to identify circumstances in which the applicable financial reporting framework has not been adequately applied in the preparation of the financial reports (Golmohammadi Shuraki, Pourheidari & Azizkhani, 2021; Mahaček, 2020). By

examining the truthfulness and objectivity of financial reports, auditors limit the opportunistic use of these statements by managers. In this way, audit contributes to increasing the reliability and quality of financial reports and reducing the risks associated with making business decisions based on these statements.

Conducting an audit requires a lot of time and effort. However, the only sign that an audit has been performed and the only audit result that is available to users of financial reports is the auditor's report. Therefore, the auditor's report is the most important aspect of the audit process. It is the main means of communication between auditors and users of financial reports. Auditors use the auditor's report to communicate the results of the audit to the users of the financial reports. Through the auditor's report, the auditors inform the users of financial reports about whether the financial reports present a true and objective financial position, financial result and cash flows of the company.

The auditor's report "must be understandable, objective and accepted by the users as a relevant source of information" (Al-Thuneibat, Khamees & Al-Fayoumi, 2007, 84). The relevance of the auditor's report implies that it has informational content that affects decision-making, otherwise users of financial reports will not read nor consider it in the decision-making process.

In his report, the auditor may express a standard unqualified audit opinion or a modified audit opinion (IAASB, 2015a). An unqualified audit opinion implies that the financial reports are truthfully and objectively presented and that they do not contain materially significant misstatements. Auditors usually issue an unqualified opinion. A modified audit opinion implies that the financial reports contain material misstatements or that the auditor could not conclude that the financial reports are free of material misstatements due to the limitations of the scope of the audit.

There are three types of modified audit opinion: qualified opinion, adverse opinion and disclaimer of opinion (IAASB, 2015b). The auditor will express a qualified opinion, an adverse opinion or a disclaimer of opinion depending on whether the financial reports contain material misstatements or the auditor could not gather sufficient evidence to conclude that the financial reports do not contain material misstatements and depending on its assessment of the pervasiveness of identified misstatements and limitations on the scope of the audit and their potential impact on the financial reports.

The modified audit opinion is a clear sign that the quality of the audited financial reports is not at a satisfactory level. By expressing a modified opinion, the auditor questions the reliability of the financial reports. This can lead to the violation of trust of investors and other external stakeholders in the financial reports and can have a negative impact on the operations of companies whose financial reports have received a modified audit opinion. It is assumed that the modified audit opinion leads to the assessment of investment risk and credit risk at a higher level, a decrease in the share price, an increase in the cost of capital and the cost of debt, and more difficult access to sources of financing. A certain number of studies have confirmed these assumptions (Chen, Su & Zhao, 2000; Guillamon, 2003; Lin, Tang & Xiao, 2003; Ianniello & Galloppo, 2015), while some other studies have reached results that indicate that there

is no significant impact of a modified audit opinion on the behaviour and decisions of investors and creditors (Martínez, Martínez & Benau, 2004; Al-Thuneibat et al., 2007; Czernekowski, Green & Wang, 2010). Due to the inconsistency of empirical research results, there is no clear standpoint on the consequences that a modified audit opinion has on the company's operations.

In developed countries, auditors rarely find themselves in a situation to express a modified audit opinion (Lennox, 2000; Gassen & Skaife, 2009; Ianniello, 2011; Carson, Fargher & Zhang, 2016). In these countries, the practice of financial reporting and auditing is at an extremely high level. Managers are aware of the importance of true and objective financial reporting and regulatory authorities foresee severe penalties for financial reporting fraud (Vučković Milutinović, 2019). On the other hand, in developing countries, the practice of financial reporting is not sufficiently developed. Penalties for fraudulent financial reporting are absent or very mild so that they do not discourage managers from engaging in such activities. This results in a more frequent appearance of a modified audit opinion (Aljinovic Barac, Vuko & Šodan, 2017; Ocak & Kurt, 2019; Moalla & Baili, 2019; Vučković Milutinović, 2019; MohammadRezaei, Faraji & Heidary, 2021). This circumstance makes it possible to analyse, on a larger sample, the reasons that lead auditors to express a modified audit opinion and to identify the elements of financial reports where material misstatements occur most often, as well as the nature of those misstatements (Aljinovic Barac, Vuko & Šodan, 2017).

In this paper, the auditor's opinions on financial reports of listed companies in Bosnia and Herzegovina are examined. The goal of research is to determine the frequency of a modified audit opinion, as well as to identify the reasons that lead auditors to modify their opinion. The limitations of the scope of the audit and the material misstatements that lead to the modification of the audit opinion are analysed in the paper. The paper is organized as follows. Section 2 provides an overview of previous research on the frequency of modified audit opinions in developed and developing countries and the reasons that lead to the modification of audit opinions. In section 3, the research design is presented. In section 4, the results of the research are presented, and in section 5, concluding considerations are given.

2. LITERATURE REVIEW

Prior research has shown that the frequency of modified audit opinions in developed countries is very low. Based on a sample of 949 companies from the UK, covering the period from 1988 to 1994, Lennox (2000) determined that 2.96% of the analysed auditor's reports contained a modified audit opinion. It should be borne in mind that Lennox (2000) includes an unqualified audit opinion in the modified audit opinion if it contains the auditor's emphasis of some accounting problems or fundamental uncertainties. If this type of unqualified audit opinion is ignored, the modified audit opinion is contained in only 1.93% of the analysed auditor's reports.

Gassen and Skaife (2009) investigated the impact of audit reform in Germany on the informational role of audit in this country. In order to be able to observe the changes that occurred as a result of the audit reform in Germany, in addition to companies from Germany, they also included companies from Austria, Switzerland, France and the UK that were not affected by the audit reform in the analysis. As part of this research, they found that in the period 1996-1997, the frequency of modified audit opinions in these countries ranged from 0.00% in Austria to 6.51% in Switzerland, and that in the period 1999-2000, it ranged from 0.46% in the UK to 3.66% in Switzerland. They found that after the implementation of the audit reform, the probability of German companies receiving modified audit opinions increased and that the financial market reacted more negatively to the disclosure of modified audit opinions. This shows that the audit reform led to an improvement in the information role of audit in Germany.

Ianniello (2011) found that the frequency of modified audit opinions in Italy was 3.3%. The sample on which the research was carried out consisted of auditor's reports of 239 listed Italian companies for the year of 2007.

Carson, Fargher and Zhang (2016) investigated the trend in audit reporting in Australia. The research sample included 15,855 auditor's reports of Australian listed companies and covered the period from 2005 to 2013. They determined that the frequency of the modified auditor's report was low and that there were no significant oscillations in the frequency during the considered period. The frequency of modified audit opinions ranged from 2% to 4% during the period from 2005 to 2013.

The research carried out on a sample of companies from developing countries shows that the situation in these countries regarding the frequency of modified audit opinions is different. An interesting example is China. It is considered a developing country, but at the same time it represents a fast-growing economy. Earlier research shows a higher frequency of modified audit opinions, while more recent research shows a significant decrease in frequency. Lin, Jiang, and Xu (2011) found that from 1992 to 2009, the average rate of modified audit opinions in China was 11%. Another study that was carried out on a sample of companies from China showed that in the period from 2006 to 2011, an average of 5.5% of companies received a modified audit opinion (Xiao, Geng & Yuan, 2020). Furthermore, Liu, Cullinan and Zhang (2020) found that in the period from 2007 to 2013, an average of 5% of Chinese listed companies received a modified audit opinion. And finally, Zhang, Chen and Su (2020) found that in the period from 2007 to 2015, an average of 2.6% of listed companies received a modified audit opinion. The results of these studies indicate that the frequency of modified audit opinion decreases with economic development. In most other developing countries, the frequency of modified audit opinion is much higher.

Ocak and Kurt (2019) found that an average of 11.2% of Turkish listed companies received a modified audit opinion. They conducted the research on a sample of 1,060 Turkish listed companies in the period from 2008 to 2013.

Interestingly, Moalla and Baili (2019) found a relatively high frequency of modified audit opinion among financial companies in Tunisia. The research covered the period from 2005 to 2015. They determined that during the considered period, an average of 22.32% of Tunisian financial companies received a modified audit opinion.

Research shows a worryingly high incidence of modified audit opinion among companies in Iran. MohammadRezaei, Faraji and Heidary (2021) conducted research on a sample of 198 listed Iranian companies covering the period from 2012 to 2017. They found that of the total number of auditor's reports issued in that period, 60% of them contain a modified audit opinion. Golmohammadi Shuraki et al. (2021) found that the frequency of modified audit opinion among Iranian listed companies is somewhat lower, but still a concern. Their research was carried out on a sample of 104 listed Iranian companies for the period from 2015 to 2019. The research showed that on average 41.9% of Iranian listed companies received a modified audit opinion.

It is interesting to look at the results of similar research carried out in the countries of the region to which Bosnia and Herzegovina belongs. Aljinovic Barac, Vuko and Šodan (2017) investigated the frequency of modified audit opinion and the reasons that led to the modification of the audit opinion on a sample of listed companies from Croatia. The sample consisted of 1,152 auditor's reports that were issued in the period from 2008 to 2014. This research showed that 28.6% of the total number of reviewed auditor's reports contained a modified opinion. The most common cause of modification of the auditor's opinion is non-compliance with IAS 39, that is, disagreement between the auditor and the manager regarding allowances for uncollectible accounts receivables. The second most common reason for modifying the audit opinion is non-compliance with IAS 16 regarding the application of the revaluation model.

Similar research was done in Serbia. Vučković Milutinović (2019) investigated the frequency of modified audit opinion and the reasons for modifying the audit opinion on two samples. The first sample consisted of 112 auditor's reports of Serbian listed companies that were issued in the period from 2015 to 2017. The second sample consisted of auditor's reports of 95 largest companies in Serbia, which also refer to the period from 2015 to 2017. Based on the first sample, it was determined that the average frequency of modified audit opinion was 30.4% for the considered period, while on the basis of the second sample, the frequency of modified audit opinion was determined to be 21.6%. According to this research, the most common reason for the modification of the auditor's opinion is related to the impairment of assets, where in most cases it is about inappropriate accounting policies related to allowances for uncollectible accounts receivables. The second most common reason for modifying an audit opinion is related to a violation of disclosure requirements. The requirements for disclosure of material uncertainty associated with going concern are most often violated.

3. DATA AND METHODOLOGY

The aim of this research is to determine the frequency of modified audit opinion among listed companies in Bosnia and Herzegovina and to identify the reasons that lead auditors to modify their opinion on the financial reports of these

companies. The research was carried out on a sample of companies from Bosnia and Herzegovina whose securities are listed on the Banja Luka stock exchange. The initial sample was made up of all companies listed on this stock exchange. The Banja Luka Stock Exchange has two stock markets, the official stock market and the free market. According to the rules of the Banja Luka Stock Exchange, one of the conditions for listing securities on the official stock market is that the issuer has an auditor's report with an unqualified or qualified opinion. When listing securities on the free market, no conditions are imposed regarding the type of audit opinion. At the time of data collection, the securities of 32 companies were listed on the official stock market, while there were 422 companies on the free market. The initial sample comprised 454 companies.

The research covers the period from 2017 to 2021. For 152 companies, auditor's reports were available for all five considered years. In the case of 302 companies, auditor's reports for one or more years were not available. Companies for which auditor's reports for three or more years of the considered period were not available were excluded from the initial sample. The final sample includes 187 listed companies, or 41.2% of the initial sample. The total number of auditor's reports that were the subject of analysis is 886. Table 1 shows the number of collected and analysed reports by year.

Table 1 Distribution of analysed auditor's reports in the period from 2017 to 2021

	2017	2018	2019	2020	2021
Number of companies in the sample	187	187	187	187	187
Number of missing auditor's reports	8	10	13	7	11
Number of available auditor's reports	179	177	174	180	176

Source: the author's calculation

The method of content analysis was applied in the research. It is an approach to analysing documents and texts in order to quantify their content. The collected audit reports were subject to content analysis in order to determine the type of audit opinion contained in the audit report and the reasons for issuing a modified audit opinion. The collected data were processed using descriptive statistics.

4. RESULTS

Table 2 shows the frequency of modified audit opinions for listed companies in Bosnia and Herzegovina in the period from 2017 to 2021. Out of a total of 886 auditor's reports, a modified audit opinion is contained in 156 auditor's reports. This means that 17.6% of auditor's reports contain a modified audit opinion. Observed by years, the frequency of modified audit opinion ranges from 14.7% to 19.4%. Almost all audit opinions refer to a qualified opinion. One auditor's report from 2020 contains an adverse opinion, and a disclaimer of opinion is contained in one auditor's report from 2019 and one auditor's report from 2020.

Table 2 Distribution of modified audit opinions (MAOs) in the period from 2017 to 2021

Year	No. of auditor's reports	No. of MAOs	% of MAOs
2017	179	32	17.2
2018	177	26	14.7
2019	174	29	16.7
2020	180	35	19.4
2021	176	34	19.3
Total	886	156	17.6

Source: the author's calculation

Table 3 shows the frequency of modified opinion in certain industries. It is relevant to look at the frequency of modified audit opinion in the industries for which a larger sub-sample was formed. In this regard, it is interesting to note that the frequency rate of modified audit opinion is significantly below average in financial and insurance activities (only 6%) and significantly above average in the activities of production and supply of electricity, gas, steam and air conditioning (as much as 41.2 %) and processing industry (20%).

Table 3 Distribution of modified audit opinions in the period from 2017 to 2021 by industry classification

Industry main section	No. of auditor's reports	No. of MAOs	% of MAOs
Agriculture, forestry and fishing	38	5	13.2
Ore and stone extraction	18	3	16.7
Processing industry	130	26	20.0
Production and supply of electricity, gas, steam and air conditioning	68	28	41.2
Water supply, sewage, waste management and environmental remediation activities	203	28	13.8
Construction	37	5	13.5
Wholesale and retail trade; repair of motor vehicles and motorcycles	68	16	23.6
Transportation and storage	51	13	25.5
Activities of providing accommodation, preparation and serving food	17	0	0.0
Information and communication	15	8	53.3
Financial and insurance activities	117	7	6.0
Real estate activities	55	4	7.3
Professional, scientific and technical activities	45	10	22.2
Administrative and support service activities	5	3	60.0
Education	5	0	0.0
Health care and social work activities	5	0	0.0
Arts, entertainment and recreation	9	0	0.0
Total	886	156	17.6

Source: the author's calculation

It may be interesting to look at the frequency of modified audit opinions according to company ownership. Table 4 shows the frequency of modified audit opinions among public and private enterprises. Auditor's reports with a modified audit opinion are more prevalent in public enterprises than in private enterprises. Although the sample includes 35% of public enterprises, as many as 44% of auditor's reports with a modified audit opinion refer to these enterprises. The frequency rate of modified audit opinion among public enterprises is above average, and among private enterprises it is below average. It is interesting that the sub-sample of companies engaged in the production and supply of electricity, gas, steam and air conditioning, in which as many as 41.2% of auditor's reports contain a modified audit opinion, consists only of public enterprises.

Table 4 Distribution of modified audit opinions in the period from 2017 to 2021 by ownership of companies

	No. of auditor's reports	No. of MAOs	% of MAOs
Public enterprises	309	68	22.0
Private enterprises	577	88	15.3
Total	886	156	17.6

Source: the author's calculation

It is useful to see whether companies received a modified audit opinion only once or more than once in the considered period. 42.6% of companies received a modified audit opinion only once, while 57.4% of companies received a modified audit opinion more than once. The number of companies that received three, four or five modified audit opinions in the considered period is worrying. Of the total number of companies that received a modified audit opinion at least once, 49.2% of companies received three or more modified auditor's reports in the period from 2017 to 2021, while 16.4% of companies received a modified audit opinion every year in the considered period. Among these companies, there is an equal number of public and private enterprises.

The auditor is obliged to describe the issues or the reasons for the modification of the audit opinion in the auditor's report (IAASB, 2015b). The auditor may have one or more reasons for modifying the audit opinion. Table 5 shows the number of reasons for modifying the audit opinion according to auditor's reports. In a total of 156 auditor's reports containing a modified audit opinion, 326 reasons for the modification of the opinion were stated. Table 5 shows that in almost half of the auditor's reports with a modified audit opinion, only one reason for the modification of the audit opinion was stated.

Table 5 Number of the reasons for modification in auditor's reports with MAO

No. of the reasons for modification in auditor's reports with MAO	No of auditor's reports with MAOs	% of auditor's reports with MAOs
One	76	48.8
Two	40	25.6
Three	14	9.0
Four	13	8.3
Five	5	3.2
Six	5	3.2
Seven	3	1.9
Total	156	100.0

Source: the author's calculation

The reason for the modification of the audit opinion may be the existence of a material misstatement in the financial reports or the impossibility to gather enough adequate audit evidence (IAASB, 2015b). If there is a material misstatement in the financial reports that refers to specific amounts in the financial reports, the auditor is obliged to include a description and amount of the financial effect of the misstatement in the auditor's report. If it is not possible to quantitatively express the financial effects, the auditor states this in his/her report. If there is a material misstatement in the financial reports related to narrative disclosures or non-disclosure of information whose disclosure is mandatory, the auditor provides an explanation of the misstatement in the disclosure or describes the nature of the omitted information. If the modification of the audit opinion is a consequence of the impossibility to collect sufficient adequate audit evidence, the auditor describes the reasons for this impossibility in the auditor's report.

Table 6 shows the nature of the reasons that led to the modification of the audit opinion on the financial reports of listed companies in Bosnia and Herzegovina.

Table 6 Reasons for modification in auditor's reports with MAO

Reasons for modification in auditor's reports with MAO	Number	%
Inability of auditor to obtain sufficient appropriate audit evidence	57	17.5
Material misstatement in the financial reports	269	82.5
Material misstatement that relates to specific amounts	245	91.1
<i>Auditor quantified the financial effects of misstatement</i>	<i>135</i>	<i>55.1</i>
<i>Auditor was unable to quantify the financial effects of misstatement</i>	<i>110</i>	<i>44.9</i>
Material misstatement that relates to disclosures	24	8.9
Total	326	100.0

Source: the author's calculation

Table 7 shows the reasons for modifying the audit opinion related to the auditor's inability to collect sufficient appropriate audit evidence. Table 8 shows the material misstatements in the financial reports that were the reason for modifying the auditor's opinion on the financial reports.

Table 7 Reasons for modifying the audit opinion related to the auditor's inability to obtain sufficient appropriate audit evidence

Inability of auditor to obtain sufficient appropriate audit evidence	Number	%
Auditor was unable to gather sufficient appropriate audit evidence regarding receivables	24	42.1
Auditor was unable to gather sufficient appropriate audit evidence regarding property, plant and equipment	11	19.3
Auditor was unable to attend physical inventory counting	6	10.6
Auditor was unable to gather sufficient appropriate audit evidence regarding liabilities	6	10.6
Auditor was unable to gather sufficient appropriate audit evidence regarding provisions	4	7.0
Auditor was unable to gather sufficient appropriate audit evidence regarding prepaid expenses and accrued income	2	3.6
Other inability of the auditor to obtain sufficient appropriate audit evidence	4	7,0
Total	57	100.0

Source: the author's calculation

As can be seen from Table 7, auditors were most often faced with the inability to collect sufficient appropriate audit evidence related to receivables. In most cases, this was related to the impossibility to confirm the accuracy of the determined impairments or to determine the completeness of the receivables. Auditors were also relatively often faced with the impossibility of gathering appropriate sufficient audit evidence regarding property, plant and equipment. In most cases, they could not determine the ownership of property and determine the correctness of the estimated useful life of the assets. They were also faced with the inability to attend physical inventory counting and gather sufficient appropriate evidence regarding liabilities, provisions and prepaid expenses and accrued income. In the framework of "Other inability of the auditor to collect sufficient appropriate audit evidence", the auditor's inability to collect sufficient appropriate evidence that occurred only once in the sample is included. They refer to the auditor's inability to gather sufficient appropriate audit evidence regarding non-current assets held for sale, to determine whether the statement of cash flows is prepared in accordance with IAS 7, to determine whether income and expenses are recorded in the appropriate accounting period and to determine whether inventories are valued in accordance with IAS 2.

Table 8 Reasons for modifying the audit opinion related to the material misstatement in the financial reports

Material misstatement in the financial reports	Number	%
Misstatements related to the impairment of assets	87	32.3
Misstatements related to the liabilities	40	14.9
Misstatements related to intangibles, property, plant and equipment, other than impairment	39	14.5
Misstatements related to the recognition and valuation of provisions	27	10.0
Misstatements related to violations of disclosure requirements	24	8.9
Misstatements related to the recording of investments by the owner	16	6.0
Misstatements related to the correction of errors and changes in accounting estimates	9	3.3
Misstatements related to the recognition of borrowing costs	8	3.0
Misstatements related to receivables, other than impairment	7	2.6
Other misstatements	12	4.5
Total	269	100.0

Source: the author's calculation

As shown in Table 8, almost a third of the misstatements in the financial reports that were the reason for the modification of the audit opinion are related to asset impairment. This shows that companies tend to overvalue their assets and avoid timely recognition of impairment losses. A more detailed analysis showed that most of the misstatements concerning asset impairment refer to receivables (67%), that is, the application of inappropriate accounting policies related to the allowances for uncollectible receivables. In 13% of cases, it is about misstatements in the impairment of short-term and long-term financial assets, while an equal percentage (10%) refers to misstatements in the impairment of intangible assets, property, plant and equipment, on the one hand, and inventories, on the other hand.

Almost 15% of misstatements in financial reports relate to liabilities. Of the total number of misstatements regarding liabilities, 30% refers to the incorrect classification of long-term and short-term liabilities, 22% refers to the lack of compliance with supplier records, 17% refers to the fact that not all obligations are recorded, 12% refers to the recording of non-existent liabilities, while the other misstatements concern the fact that impairments of liabilities were not determined, that impaired liabilities were not written off and that liabilities were not valued at amortized cost.

Misstatements concern intangible assets, property, plant and equipment, excluding impairments of these assets, occur in 14.5 cases. Most of these misstatements (54%) are the result of incorrect application of the revaluation model for the subsequent measurement of these assets. The main problem was that the

companies did not perform revaluation regularly. Other reasons for the modification refer to the fact that a certain asset was not recorded, that a shortage of assets was not recorded, that the asset was not written off, that the purchase value of the asset was not correctly determined, that the assets were incorrectly classified, that depreciation was not recorded for the entire accounting period, etc.

Of the total number of misstatements in the financial reports that were the basis for modifying the auditor's opinion, 10% relate to the recognition and valuation of provisions. Of the total number of these misstatements, 67% refer to the fact that provisions were not recorded even though the conditions for this were met, while 33% of cases refer to the fact that the provisions were underestimated.

In 8.6% of cases, the reason for modifying the auditor's report was a violation of disclosure requirements. In most cases, the auditors stated in their reports that not all disclosures required by International Accounting Standards and International Financial Reporting Standards were made, without specifying which disclosure requirements were violated. In a smaller number of cases (33%), the reasons for the modification of the audit opinion were related to disclosures of material uncertainty related to going concern.

Other reasons for modifying the audit opinion include misstatements related to the recording of the owner's investment, correction of errors and changes in accounting estimates, recognition of borrowing costs, recording of receivables, excluding impairments, etc. Under "Other misstatements", the misstatements that occurred once or twice in the considered sample are included. These are misstatements related to the recognition of income and expenses, recognition of state aid, recording of prepaid income and calculated expenses, etc.

5. DISCUSSION AND CONCLUSION

This research shows that the frequency of modified audit opinions in Bosnia and Herzegovina in the period from 2017 to 2021 was 17.6% on average, which is significantly above the level characteristic of developed countries. This is expected, bearing in mind that developing countries are most often faced with the problem of insufficiently developed financial reporting practice. In these countries, the regulatory framework and market mechanisms do not sufficiently encourage the improvement of the financial reporting quality. In many cases, a modified audit opinion could be avoided if the companies corrected the identified misstatements. However, it is clear that they do not feel enough pressure to do so, as the regulation does not provide rigorous penalties for fraudulent financial reporting, nor do market participants penalize a company for such financial reporting.

The financial market in Bosnia and Herzegovina is not sufficiently developed. Ownership of companies is not widely diversified and often the function of ownership is not separated from the function of management, so there is no pronounced agency problem between owners and managers. The economy is bank-centric, so companies usually rely on banks to raise additional capital. In such

conditions, banks are the most important users of financial reports, but they often ignore the modified audit opinion when making lending decisions if other factors indicate a lower exposure of the bank to credit risk. Bearing this in mind, it cannot be expected of companies to strive to improve the quality of financial reporting on their own initiative. The fact that companies do not suffer the economic consequences of receiving a modified audit opinion and that they are not exposed to pressure to harmonize their financial reports with accounting standards is also shown by the fact that 57.4% of companies from the sample received a modified audit opinion more than once in the considered period. The question arises as to what real role audit committees play in these companies, which should monitor the financial reporting process and contribute to its improvement.

The frequency of modified audit opinions in Bosnia and Herzegovina is higher among public enterprises than among private enterprises. This indicates that the level of quality of financial reporting in public enterprises is at a lower level than in private enterprises and that managers of public enterprises are exposed to even less pressure to improve financial reporting. Regardless of the performance they achieve, public enterprises have access to budget resources and financial assistance from the government. Managers of public enterprises do not bear the consequences due to poor management and poor performance of the company, nor due to the low quality of financial reporting and the obtained modified audit opinion.

It would be expected that the frequency of modified audit opinions in Bosnia and Herzegovina is at the approximately same level as in other developing countries in the region. However, this research shows that the frequency of modified audit opinions among listed companies in Bosnia and Herzegovina is lower than in Croatia and Serbia. This could lead to the conclusion that the quality of financial reporting in Bosnia and Herzegovina is at a slightly higher level than in Croatia and Serbia. However, this is not the only possible explanation. The lower incidence of modified audit opinion may be a consequence of auditors' inability to detect misstatements in financial reports and their reluctance to disclose identified misstatements in their reports. This means that there is a possibility that the quality of the audit in Bosnia and Herzegovina is at a lower level than in Croatia and Serbia. However, it is difficult to draw a final conclusion, bearing in mind that the research carried out in these countries is not completely comparable, as there are differences in terms of sample size and the period covered by the research.

The results of this research show that the existence of materially significant misstatements in financial reports is a much more frequent reason for modifying the audit opinion than the existence of limitations in the scope of the audit. Materially significant misstatements mainly refer to specific amounts in the financial reports, while in a smaller percentage they refer to the omission of disclosure or inadequate disclosures. In almost half of the cases, the auditors did not quantify the financial effects of the misstatements. This significantly reduces the usefulness of auditor's reports because it prevents users of financial reports from understanding the extent of misstatements.

The most common misstatements in financial reports that were the reason for the modification of the auditor's opinion refer to the impairment of assets. Companies in Bosnia and Herzegovina face serious problems related to the collection of receivables, underutilization of fixed assets and obsolescence of inventory, but they refuse to record losses arising from the impairment of these assets. In this way, they overestimate the value of the assets, underestimate the costs and overestimate the financial result. Also, a large number of misstatements in financial reports refer to liabilities and provisions. These misstatements usually go in the direction of its underestimation. All this leads to an inaccurate presentation of the profitability and financial position of the company and the creation of a more favourable picture of the achieved financial performance.

The results of this research contribute to the existing academic literature in the field of auditing and financial reporting. They indicate the quality of financial reports and the most common misstatements that occur in the financial reports of companies in developing countries. Also, this research is significant for the practice of financial reporting and audit reporting in Bosnia and Herzegovina. To the best of our knowledge, this is the first study of the frequency of modified audit opinions and the reasons for modifying audit opinions in Bosnia and Herzegovina. The results of this empirical research can be useful to regulatory authorities, auditors, audit committees, managers and other users of financial reports. The results indicate that certain measures should be taken to reduce the number of modified audit opinions. This implies the improvement of the overall business climate and the improvement of the financial reporting system. It is necessary to encourage managers to raise the level of quality of financial reporting through the introduction of stricter penalties for fraudulent financial reporting. Of course, it is necessary to raise the quality of the audit. However, one should be aware that an improvement in audit quality can lead to an increase in the number of auditor's reports with a modified audit opinion if not accompanied by an improvement in the quality of financial reporting.

It is important to note the limitations of the study. In order to increase the sample size, companies for which audit reports were not available for all years covered by the considered period were included in the sample. It is possible that companies did not submit audit reports that contain modified audit opinions and that the share of modified audit opinions is actually higher than this study shows. Also, when interpreting the results of the study, it should be noted that the issuance of a modified audit opinion also depends on the quality of the audit, i.e. the auditor's ability to identify the reasons for modifying the audit opinion as well as his willingness to modify the audit opinion if the audit client's management refuses to correct the financial reports. Auditors may withdraw their requests for correction of financial reports or their intention to modify the audit opinion in order not to lose the client.

Finally, there is significant room for further research. It would be useful to determine the trend of the frequency of modified audit opinions in Bosnia and Herzegovina, to perform a comparative analysis with countries in the region and to examine the reasons why managers do not accept to correct identified

misstatements in financial reports at the auditor's request. Also, it would be interesting to examine how certain categories of users of financial reports react to a modified audit opinion.

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RAZLOZI ZA MODIFICIRANJE REVIZORSKOG MIŠLJENJA O FINACIJSKIM IZVJEŠTAJIMA KOTIRANIH DRUŠTAVA U BOSNI I HERCEGOVINI

Sažetak

Ovaj rad ispituje revizorska mišljenja o finacijskim izvještajima kotiranih društava u Bosni i Hercegovini. Cilj je istraživanja utvrditi učestalost modificiranog revizorskog mišljenja te identificirati razloge zbog kojih revizori modificiraju svoje mišljenje. Istraživanje je provedeno na uzorku od 886 revizorskih izvješća, a obuhvatilo je razdoblje od 2017. do 2021. godine. Korištena je metoda analize sadržaja. Ovo istraživanje pokazuje da je učestalost modificiranih revizorskih mišljenja u Bosni i Hercegovini u razdoblju 2017. – 2021. u prosjeku iznosila 17,6%. Postojanje materijalno značajnih pogrešnih prikazivanja u finacijskim izvještajima mnogo je češći razlog za modificiranje revizorskog mišljenja nego postojanje ograničenja u opsegu revizije. Najčešći netočni prikazi u finacijskim izvještajima koji su bili razlog modificiranja revizorskog mišljenja odnose se na umanjenje vrijednosti imovine.

Ključne riječi: revizorsko izvješće, modificirano revizorsko mišljenje, pogrešna prikazivanja u finacijskim izvještajima.

JEL klasifikacija: M41, M42.

