


## AUDITORS' TENDENCY TO ISSUE GOING CONCERN OPINIONS: EVIDENCE FROM SERBIAN CAPITAL MARKET

UDC 657.6(497.11)"2021/2023"  
657.375(497.11)

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**Abstract.** *This study investigates possible going concern issues in listed companies in the foreseeable future by analyzing the opinions presented in auditors' reports covering the period 2021-2023. We use descriptive analysis to conclude that auditor reporting on going concern in the Republic of Serbia is below the level typical for developed economies. The dominant share of other audit firms, those outside the Big 4 group, and consequently the fear of legal costs and loss of reputation may be the reasons why auditors in most cases do not modify their going concern opinions. We analyze all paragraphs of the auditor's report in which auditors point to the circumstances that caused the crisis in companies, and find that the most frequently mentioned indicators are net loss, accumulated loss and over-indebtedness. Furthermore, we include modified audit opinions based on other key issues in financial statements in the analysis, and conclude that the share of modifications is significantly above the average in developed economies. In this way, we further shed light on financial reporting in the Republic of Serbia and confirm that efforts to improve it are yet to come.*

**Key words:** *auditor's report, going concern assumption, auditor's opinion, indicators of financial distress, listed companies*

**JEL Classification:** M41, M42, G33, G34

### 1. INTRODUCTION

Without external audit, the desired level of confidence in financial statements is not possible, which is crucial for reducing investor information risk and the efficient capital market. Based on the external auditor's report, users receive information about whether financial statements have been prepared in accordance with professional and legal regulations

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Received February 18, 2025 / Revised May, 16, 2025 / Accepted May 20, 2025

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and whether they give an objective insight into companies' assets, sources of financing and profitability.

For an adequate opinion on financial statements, when planning and performing audit the auditor must consider the correctness of the going concern assumption, as a fundamental principle for the preparation of financial statements. Users consider the opinion on this issue to be very important, because it can warn of events or conditions that may raise significant doubt about the company's ability to continue as a going concern (Gallizo & Saladriges, 2016). Although various factors give rise to this doubt, Desai et al. (2020) point out that auditors get to know the company's finances by analyzing financial indicators. These authors examine companies' profitability, liquidity, cash flow and solvency and find that problems with profitability and liquidity have the greatest impact on business vulnerability.

Despite the above, auditor's personal interest, which is contrary to professional ethics, lead users to a dilemma as to whether the auditor's conclusions have been made in an objective manner (Arnedo et al., 2012). Moreover, inadequate auditor's decisions can significantly impact the well-being of a large number of people. For example, Alexeyeva & Sundgren (2022) find that expressing an unmodified audit opinion instead of a modified audit opinion (MAO) on going concern can call into question the quality of the audit, as well as the reputation of the audit firm, and can also mislead investors when making business and financial decisions. On the other hand, expressing a MAO can make it difficult for a company to continue as a going concern and worsen its financial situation (Rosner, 2003; Gallizo & Saladriges, 2016).

As the frequency of inadequate auditor's opinion has increased over time, so has the users' need for more transparent auditor reporting. Their dissatisfaction has culminated in a series of corporate financial scandals, making it necessary for auditors and regulatory bodies to take appropriate steps. Under the revised International Standards on Auditing (ISAs), the auditor's report shall now have a new paragraph for auditors to express their opinion on the company's going concern with the possibility of defining this issue as a key audit matter (KAM). It is certainly recommended that auditors consider possible courses of action and the likely effects of each of them when making decisions, as well as strictly comply with the requirements of professional ethics formalized through a code of ethics.

When the auditor finds a business crisis and clearly highlights this in the auditor's report, he or she needs to warn the company management of the need to immediately start the reorganization process, either voluntarily or within insolvency procedure, in line with the Serbian Bankruptcy Law. However, if the crisis cannot be overcome, it may threaten the company's survival and lead to its liquidation in bankruptcy proceedings (Škarić Jovanović & Spasić, 2022).

Given that in 2021, 25,351 out of 106,111 companies in the Republic of Serbia were over-indebted (Malinić, 2023), we are interested in the auditor's tendency to issue an opinion regarding going concern, as many Serbian companies face high bankruptcy risk. Therefore, the research subject in this paper is the analysis of auditor reporting regarding going concern assumption in companies whose securities are included in the regulated market of the Belgrade Stock Exchange in the period 2021-2023. The research focuses on the analysis of all paragraphs of the auditor's report that relate to material uncertainty regarding going concern in the foreseeable future, both in the case of an unmodified and modified audit opinion. In addition, the paper seeks an answer to the issue of dominant indicators that led to a company crisis and increased the risk of bankruptcy proceedings. Finally, the paper examines other key issues in financial statements and the underlying

reasons for the modifications issued, thus pointing to current situation with financial reporting and the need for changes, which is particularly important for transition economies.

The paper is structured as follows. The second section provides a literature review and highlights changes in the way auditors report on going concern, as per revised ISAs. The third section describes the research sample and methodology. The fourth section presents and analyzes the results obtained. In the last section, we present conclusions, point out research limitations, and suggest ideas for future research.

## 2. THEORETICAL BACKGROUND OF THE RESEARCH – A LITERATURE REVIEW

Although external auditing is subject to inherent limitations that limit its scope, these limitations do not relieve auditors of the responsibility to provide timely warnings about financial difficulties a company faces (Casterella et al., 2000). However, despite the fact that audit strengthens the credibility of financial statements and increases user confidence in them, user expectations consistently exceed the benefits of audit (Vučković Milutinović, 2018). The problem of the expectation gap has become even more pronounced after a series of corporate financial scandals and the financial crisis of 2007. Among other things, users of financial statements and audit reports had the impression that auditors learn a lot of important information during the audit, but do not share it with users. Instead, users receive brief information presented on a single page of paper. Radical changes undertaken by professionals and regulators have led to a new model of the auditor's report, in line with revised ISAs and European Union (EU) regulations. One of the more complex issues that needed to be resolved when designing the new reporting model was the auditor reporting on going concern. Until the new reporting model, which was to be applied to audits ending on 15 December 2016 and later, the Emphasis of Matter (EoM) paragraph was used to report on going concern. However, the revised ISA 570, Going Concern got a separate paragraph entitled Material uncertainty related to going concern, which allowed for the expansion of the auditor's traditional responsibilities and increased the informative potential of the report within the existing responsibilities (IAASB, 2015a). In addition, the auditor's report has also been improved with a new paragraph that provides an explicit explanation of the roles and responsibilities of the auditor and management in relation to this issue. Finally, the new ISA 701, which deals with the auditor's responsibility to report on KAMs, states that issues related to material uncertainty related to going concern are, by their nature, key audit matters (IAASB, 2015b).

According to Laitinen & Laitinen (2020), the factors affecting the expression of a particular type of audit opinion regarding the going concern assumption can be classified as follows:

1. Client characteristics. The auditor uses various financial indicators to test the going concern assumption of the company, and may use various traditional and modern models to predict financial distress (Vlaović Begović & Bonić, 2020). Previous research has shown that auditors are more likely to express MAOs on going concern for less profitable, more leveraged, and less liquid companies (Menon & Schwartz, 1987; Altman & McGough, 1974; Mutchler, 1985; Zdolšek et al., 2022; Winarta & Kuntadi, 2022; Pham, 2022). In addition, LaSalle & Anandarajan (1996) identify three commonly used financial ratios in practice: (1) net assets/total liabilities; (2) cash flow from operating activities/total liabilities; and (3) current assets/current liabilities. In addition to financial ratios, auditors may also

use statistical and non-financial information, as well as company information from the capital markets.

2. Auditor characteristics. Research shows that auditors specialized in a particular business activity are more likely to express doubt about a company's ability to continue as a going concern, as they have the necessary knowledge, skills, and other competencies in that specific area (Choo, 1996). In addition, research results have shown that Big 4 audit firms have a larger client portfolio and greater bargaining power, and are more likely to express doubts about the client's ability to continue as a going concern (Sundgren & Svanström, 2014; Berglund et al., 2018). Although there is a certain risk that issuing MAOs could lead to the loss of a client, these audit firms focus more on preserving their professional responsibility, ethics and reputation. On the other hand, other audit firms (outside the Big 4 group) face greater pressure due to dependence on a few clients, limited resources, fear of competition and legal costs, which is why they are less inclined to issue MAOs (Chu et al., 2024). Sundgren & Svanström (2014) also find that the tendency to express doubts about going concern decreases as the auditor gets more engagements, while Mareque et al. (2017) and Pham (2022) state that the expression of an auditor's opinion is not sensitive to auditor characteristics.

3. Auditor-client relationship characteristics. In the case of audit engagements, the independence of the audit firm and members of the audit team from the audit client is a matter of public interest, as independence allows auditors to reach conclusions in an objective manner. If not addressed in a timely manner, threats to independence can threaten the auditor's ethical responsibilities. Therefore, it is necessary to tighten protection measures, along with control mechanisms, to allow for objective conclusions (Todorović & Vučković Milutinović, 2025).

4. Environmental characteristics. Competition among audit firms can reduce the quality of the audit and increase the number of unmodified reports. The World Bank Report on Serbia states that the long-term effects of systemic events are seriously damaging the audit market in this country (World Bank, 2015). Auditors' performance must be taken into account and controlled, not only by professionals, but the state as well, which needs to take regulatory and strict disciplinary measures to maximize the audit quality and consistency (Stojanović, 2024). Changes in auditing regulations and disciplinary measures may ultimately increase the frequency of modified auditors' reports expressing doubt about the client's ability to continue as a going concern.

In their professional work, auditors often make decisions that involve consideration of ethical issues. Even situations in which it is clear what should be done, but where there is an auditor's personal interest that conflicts with professional ethics, can create an ethical dilemma for the auditor. In general, there are two forms of erroneously expressed audit opinions related to going concern assumption (Vlaović Begović et al., 2022):

- Type I error: The auditor may express a MAO of a significant doubt about the company's ability to continue as a going concern, and that the company will continue as a going concern for a period shorter than 12 months from the end of the reporting period. This error is usually caused by the auditor being overly cautious. Damage to the client's reputation and relationships with key constituents, investors' decision to withdraw capital, and a decline in company's profitability are just some of the consequences of this type of error.

- Type II error: The auditor may express an unmodified opinion that there is no doubt about the company's ability to continue as a going concern, and that bankruptcy proceedings have been initiated against the company in a period shorter than 12 months from the end of the reporting period. This type of error often arises from a failure to respect the auditor's

essential independence, when he or she is unable to act with integrity, be objective, and exercise professional skepticism. Expressing an unmodified opinion instead of a modified opinion can have serious negative consequences for both the client and the auditor. Misleading investors and making wrong investment decisions, volatility of share prices, increased business and financial risk, as well as loss of public trust are just some of the effects of wrong audit decisions.

Considering the rigorous reporting requirements regarding the going concern assumption, as well as the fact that inadequate auditor decisions can affect the well-being of a large number of people, it is generally recommended that auditors always consider possible courses of action and the likely effects of each of them when making decisions.

### 3. SAMPLE DESCRIPTION AND RESEARCH METHODOLOGY

The research in this paper focuses on companies whose securities are included in the regulated market of the Belgrade Stock Exchange – Prime Listing, SMart Listing and Open Market. Directive 2014/56/EU, which was adopted with the aim of improving the quality of audits in the EU, defines that all entities whose securities are traded on a regulated market, credit institutions, as well as insurance companies, represent the public interest entities (PIEs) (European Union, 2014). Pursuant to Article 2 of the Serbian Audit Law, public interest entities shall be: (1) large legal entities classified under the law on accounting, (2) legal entities that are considered public companies under the law on the capital market and (3) all types of entities that the Government, upon the proposal of the competent ministry, has declared to be legal entities of public interest for the Republic of Serbia, regardless of their size.

Due to the role that PIEs play in ensuring market stability and given that a large number of users are interested in their operations, regulatory bodies are extremely interested in ensuring the reliability of their financial statements. Accordingly, the audit of financial statements is mandatory for all PIEs. However, despite strict reporting requirements, some financial statements of listed companies contain material misstatements and some auditors cannot find adequate evidence that the financial statements do not contain material misstatements, which is concerning. For example, in developed economies, such as Australia, the share of companies whose financial statements contain some kind of modification is about 3% (Carson et al., 2016). On the other hand, in developing economies this percentage is higher. In China, the average share of MAOs is recorded at 5% by the Big 10 audit firms, and 8% by small local audit firms (He et al., 2024). A study conducted in Turkey shows that the percentage of MAOs is 13%, with the majority of modifications issued by other audit firms (Kaya, 2017).

According to the Belgrade Stock Exchange Rules, companies are allowed to receive a MAO, while their securities continue to be included in the regulated market. Vučković Milutinović (2019) point to the economic reality in Serbia. The results of their study show a high percentage of MAOs on financial statements of listed companies (on average 30.4%). Such impaired reliability of financial statements, as well as investor distrust, can have negative consequences for the audit client, in terms of availability of sources of financing and the costs of obtaining them (Vučković Milutinović, 2019).

In order to provide a complete insight into the presence of going concern issues, our paper gives a descriptive analysis of auditors' reports of listed companies on the regulated market of the Belgrade Stock Exchange in the period 2021-2023. Legal entities in the financial sector were not included in the research due to the difference in the nature of the

business in the real and financial sectors, and consequently due to the difference in the structure and content of their financial statements.

**Table 1** Structure of analyzed companies by the number of available auditors' reports

Availability of auditor's report	Number of companies	Number of analyzed auditors' reports
For one year	2	2
For two years	10	20
For three years	163	489
Total	175	511

Source: Author

Financial statements together with the auditors' reports of the analyzed companies have been taken from the Business Registers Agency's database of financial statements. Table 1 shows the structure of companies in the sample according to the number of available reports. Of the initial 177 companies whose securities are included in the regulated market of the Belgrade Stock Exchange, two companies belong to the financial sector, so a total of 175 companies have been analyzed. Of these, reports are available for 2 companies for 1 year, for 10 companies for 2 years, while for 163 companies reports are available for a three-year period. In the final analysis, 511 auditors' reports, previously collected manually, have been analyzed.

#### 4. ANALYSIS OF RESEARCH RESULTS

##### 4.1. Analysis of the audit opinion regarding the going concern assumption

The situation when going concern assumption is threatened affects the auditor's report, while the audit opinion depends on whether the company's management has adequately disclosed material uncertainty in the financial statements. Table 2 presents different cases, depending on the specific circumstances.

**Table 2** Types of auditor reporting regarding the going concern assumption of the analyzed companies

Method of auditor reporting regarding the going concern assumption	2021		2022		2023		Total
	No.	%	No.	%	No.	%	No.
(a) Unmodified opinions with paragraphs Material uncertainty related to going concern or EoM	21	4.1	21	4.1	18	3.5	60
(b) MAOs with paragraphs Material uncertainty related to going concern or EoM	25	4.9	28	5.5	30	5.9	83
(c) MAOs with modification on going concern assumption	17	3.3	17	3.3	16	3.1	50
Total	63	12.3	66	12.9	64	12.5	193

Source: Author

Of the 511 auditors' reports analyzed, in 193 of the reports, auditors reported on issues related to going concern, which is 37.8%. Of these, the most common are reports, namely as many as 83, in which the auditor used separate paragraphs (mentioned above) to state that the application of the going concern basis of accounting is appropriate, although there

is a material uncertainty, which is adequately disclosed in the financial statements (Table 2, case (b)). The auditor discussed with management its plans for resolving the problems identified. The most common plan is the Letter of Support from the company's owner, by which he or she confirms the intention to continuously financially support the company's operations and guarantee the fulfillment of its obligations with his or her personal assets. In addition, different plans are often mentioned, such as: adopting a reorganization plan to reduce the overall debt burden, changing the management structure, reducing business activities to a minimum in anticipation of the company takeover by a strategic partner, selling part of the real estate, leasing investment properties, conquering new markets, increasing business efficiency, etc. However, although the opinion regarding the going concern was not modified, there are other indicators that prompted the auditors to modify their opinion. The average rate of these auditors' reports over the observed period is 5.4% compared to all reports issued.

In a slightly smaller number of reports, 60 of them, the auditor agrees with management that the application of the going concern basis of accounting is appropriate, and that the material uncertainty is adequately disclosed in the financial statements (Table 2, case (a)). It is important to note here that the auditor's opinion was not modified on this issue, nor on any other issue. The average rate of such auditors' reports over the observed period is 3.9% in relation to all reports issued.

Finally, in 50 of the analyzed reports, the auditors, expressing various types of disagreement with management regarding the assessment made, were forced to modify their opinion on going concern (Table 2, case (c)). Specifically, the auditors stated in the Basis for Qualified Opinion paragraph that the application of the going concern basis of accounting is appropriate, but that there is a material uncertainty that may cast doubt on the company's ability to continue as a going concern, and that the financial statements do not adequately present this matter. Of particular concern are financial statements prepared using the going concern basis of accounting, which, from the auditor's point of view, is not appropriate. The auditors were then required to express an adverse opinion and describe the circumstances that led to this opinion in the Basis for Adverse Opinion paragraph. Finally, when the auditors were unable to obtain appropriate evidence regarding management's use of the going concern basis of accounting, or when they were unable to obtain audit evidence about management's plans to address the issue, they disclaimed their opinion. The average rate of such auditors' reports over the observed period is 3.3% compared to all reports issued.

Table 2 shows that in the period 2021-2023, the average rate of auditors' reports in which auditors reported on going concern was about 12.6% compared to all reports issued. The highest rate was in 2022, when 12.9% of reports contained this issue.

The data obtained differ from the results of other research. Coello et al. (2024) state that the global going concern rate began to gradually reach the values present before the Covid-19 pandemic and the Russian-Ukrainian conflict. The share of going concern opinions reached 24.3% in 2022, which is a rise of 2.7 percentage points compared to 2021. There is a high chance that the increase in this rate is due to the aforementioned systemic events that led auditors to express greater concern about the ability of companies to continue as a going concern. The authors also note that the number of United States (US) companies that received going concern opinions increased by 5% in 2022 compared to the previous year, leading to a going concern rate of 23.4% in 2022, the highest recorded since 2012. Other authors reached similar results and confirm that the going concern rate tends to increase in the post-crisis period. Carson et al. (2016) report that in Australia, the share

of unmodified audit opinions with an EoM paragraph reporting on the going concern principle was around 19% in the period 2008-2010. The increasing trend of this rate continued in the period 2011-2013, when it peaked at 31% in 2013, which is significantly higher compared to the results we obtained. However, when it comes to MAOs regarding going concern, they are, as in our study, very rare. Mareque et al. (2017) also examine whether auditors were more likely to express doubts about the going concern of Spanish companies before or after the financial crisis. In the period 2007-2010, the authors found that deterioration in this systemic event increased the share of MAOs related to the going concern assumption. Our findings differ even from the other research results in Serbia (Vučković Milutinović, 2019), which indicate that the average going concern rate in listed companies was 21.4% in the period 2015-2017.

Given that the size of audit firm plays an important role in determining the method of risk assessment and expressing doubts about the going concern, what follows is a more detailed analysis of audit opinions, with a special focus on their differences depending on the type of audit firm.

#### 4.2. Analysis of the audit opinion regarding the going concern assumption by type of audit firm

According to the Chamber of Certified Auditors, there are currently 77 audit firms operating in the Republic of Serbia. The firms that audited financial statements of the companies in the sample are divided into the Big 4 group (Deloitte, Ernst & Young, KPMG and PricewaterhouseCoopers) and others. Table 3 shows the number of auditors' reports issued and the frequency of auditor reporting on the going concern assumption by type of audit firm.

**Table 3** Frequency of auditor reporting on going concern of the analyzed companies depending on the type of audit firm

Audit firm	Number of auditors' reports		Auditor reporting on going concern					
			(1)		(2)		(3)	
	Number	%	Number	%	Number	%	Number	%
Big 4	27	5.3	2	3.33	0	0	0	0
Others	484	94.7	58	96.67	83	100	50	100
Total	511	100	60	100	83	100	50	100

Source: Author

Although the Big 4 audit firms dominate the Serbian market with an uneven share of business income, number of employees and net profit in relation to the total number of audit firms (Jakšić et al., 2012), Table 3 shows that other audit firms audited an incomparably larger number of financial statements during the entire observed period – as much as 94.7%. When it comes to listed companies in developed countries, the results are completely different. The Big 4 audit firms are dominant in most EU member states (Le Vourch & Morand, 2011). Kitiwong & Srijunpetch (2018) state that one group of clients is willing to pay a higher price for the services provided by these four firms due to the quality of their work and good market reputation. It is discouraging to learn that another group of clients, such as the companies in our sample, sees the audit service as a “commodity” and



hires only smaller audit firms at lower fees, regardless of the competence and independence of the auditor.

The second part of this analysis reveals that during the research period, the share of auditors' reports on going concern issued by the four largest audit firms was significantly lower than the share of such reports issued by other audit firms. Only Deloitte issued two reports with EoM paragraph to emphasize that a material uncertainty was adequately disclosed in the financial statements. In these auditors' reports, the opinion was not modified on this issue or on any other issue (Table 3, case (a)). This practically means that in all cases ((a), (b) and (c)) the other audit firms had a dominant share in reporting on the going concern of companies. Our results are consistent with research (Chu et al., 2024) that found that fear of high litigation costs and reputational damage is one of the main reasons why smaller audit firms are reluctant to express MAOs on going concern. They are more susceptible to local pressures and are less likely to disclose risks that could jeopardize client relationships. Other authors indicate that larger audit firms have a broader client portfolio, greater bargaining power, and a greater focus on maintaining their professional responsibility, ethics, and reputation, which is why they are more likely to express doubts about a client's going concern (Sundgren & Svanström, 2014). Their goal is to protect the interests of the public, investors, and other stakeholders, rather than focusing on temporarily preserving the client relationship. Berglund et al. (2018) also find that Big 4 audit firms are more likely to issue MAOs. Rahman et al. (2024) reach similar results and state that large audit firms are more likely to issue modifications to economically significant clients, as this indicates a higher level of quality of the audit services they provide.

Regardless of the different engagements of audit firms under research, the companies' threatened ability to continue as a going concern requires an in-depth analysis of the prevailing indicators that led to the crisis in their operations, especially if we know that some of these indicators are the main reasons for initiating bankruptcy proceedings.

#### **4.3. Analysis of events or conditions that may cast significant doubt on the company's ability to continue as a going concern**

As is already known, in final auditors' reports auditors must state circumstances that, individually or in the aggregate, have cast significant doubt on the company's ability to continue as a going concern. According to the revised ISA 570, such circumstances may be found not only in the accounting reports, but in other sources as well (IAASB, 2015a). Greater exposure to general uncertainty, caused by the pandemic and the Russian-Ukrainian conflict, has resulted in a significant number of companies suffering significant losses in the form of reduced staff numbers, reduced orders, loss of market share, non-performance of business activities, etc. The above circumstances negatively affected the earning capacity of these companies, which could no longer generate business income based on their registered activity. Table 4 shows that the decrease in profitability was reflected in the accumulation of losses, which led to the depletion of their own equity and over-indebtedness (recognized in the balance sheet as the item Loss exceeded the equity). Due to unprofitable operations, such companies also began to lose creditors' funds, and the amount of liabilities exceeded the value of their assets. On the other hand, the decrease in cash inflows led to a liquidity crisis, which manifested itself in difficult payments. Slow settlement of liabilities to commercial banks and other creditors blocked their current accounts, which is a signal that some companies in our sample are in serious financial difficulties that are leading them to bankruptcy.

**Table 4** Prevailing indicators indicating a breach of the going concern assumption

Prevailing indicators expressing doubts about the going concern assumption	Number	%
Net loss	44	24
Accumulated loss	46	25
Loss exceeded the equity	14	8
Liabilities greater than assets	51	28
Pending insolvency	13	7
Blocked current accounts	15	8
Total	183	100

Source: Author

The pending insolvency of the analyzed companies is not new. According to previous studies (Malinić, 2023), all liquidity risk indicators show that the Serbian economy is facing serious problems in the process of settling its due liabilities. The seriousness of the threats to which a large number of companies are exposed becomes more apparent if we consider Article 11 of the Serbian Bankruptcy Law, which states that bankruptcy proceedings are opened when the existence of at least one of four bankruptcy grounds is established: (1) permanent insolvency, (2) pending insolvency, (3) over-indebtedness, and (4) failure to comply with the adopted reorganization plan. Therefore, we wonder how it is possible that there are so many active, but over-indebted companies, if we know that the over-indebtedness is the basis for initiating bankruptcy. In addition, it is undeniable that operating with losses also increases the risk of opening bankruptcy proceedings.

Given that the structure of the analyzed companies is dominated by smaller companies, many of them are trying to overcome the crisis through voluntary reorganization (out-of-court reorganization) in order to avoid significant costs associated with bankruptcy reorganization and achieve a more favorable position due to close relations with creditors and suppliers. Since the reorganization goes on according to a detailed reorganization plan, many companies in financial distress have adopted this plan and are complying with it. Unfortunately, research shows that there is a 50:50 chance that a company will successfully reorganize, either in bankruptcy or voluntary reorganization. Even in the case of satisfactory performance, a large number of companies later re-start reorganization or go bankrupt (Todorović, 2023).

In addition to expressing an opinion on the going concern, users particularly expect the auditor's report to assure them that the financial statements have been prepared in accordance with relevant regulations, as well as that they do not contain elements of creative financial reporting that knowingly impair their objectivity. For these reasons, in the last part of the paper, we analyze the frequency of MAOs that are based on other key issues in the financial statements of the analyzed companies.

#### **4.4. Analysis of modified audit opinions based on other key issues in the financial statements of companies**

Table 5 shows the prevalence of unmodified and modified audit opinions in the period 2021-2023. In 2021, the percentage of MAOs was 45%, reaching a peak of 51% in 2022, after which it decreased slightly to 50%. The average in the given period was around 49%, which represents an extremely high share of MAOs. Moreover, of the total number of

MAOs issued in this research, 20% of them relate to a breach of the going concern assumption.

**Table 5** Overview of audit opinions of the analyzed companies in the period 2021-2023

Type of audit opinion	2021		2022		2023	
	Number	%	Number	%	Number	%
Unmodified	93	55	85	49	84	50
Modified	76	45	88	51	85	50
▪ Qualified	52	31	63	36	62	37
▪ Adverse	3	2	4	3	5	3
▪ Disclaimer	21	12	21	12	18	10
Total	169	100	173	100	169	100

Source: Author

The fact that auditors issued MAOs in the Basis for Opinion paragraph on half of the analyzed reports of listed companies may mean that they concluded that the financial statements contained material misstatements or that they did not have sufficient and appropriate audit evidence to conclude that the financial statements did not contain material misstatements. It may also indicate that the auditor proposed corrections for the observed misstatements, but management refused to implement them or implemented them only partially. In situations where the financial statements contained material misstatements that were not pervasive, the auditor expressed a qualified opinion, which is the most common in our structure of MAOs – on average about 35%. Also, the inability to obtain sufficient appropriate evidence may lead to a qualified opinion, provided that the effect of such inability is material but not pervasive. If potential material misstatements are pervasive, the auditor should, if possible, withdraw from the engagement or, if withdrawal is not possible, disclaim an opinion. In the structure of our sample, disclaimers account for 11.74%. Of particular concern is the fact that there are financial statements in which material misstatements have a pervasive effect, which led to the expression of an adverse audit opinion – on average about 2.3%.

The unfavorable situation, which raises serious concerns about the quality of financial information, suggests that the regulatory framework for financial reporting in Serbia is not strict and that the level of quality of the financial statements of the analyzed companies is very low. The current results differ significantly from the results reached by Vučković Milutinović (2019), where a significant percentage of MAOs on the financial statements of listed companies in Serbia was identified in the period 2015-2017 (on average 30.4%). The share of MAOs in our study is higher than the share of MAOs in developing economies, such as Poland, where it is 10% (Wyrobek & Stańczyk, 2015) or in developed economies, such as Croatia, where in the period 2008-2014 it was on average 28% (Barać et al., 2017).

The significant share of MAOs in some economies can also be explained by the high level of quality of audit services. In general, an audit can be considered high-quality if it is performed competently and independently by the auditor. Therefore, a high presence of MAOs may indicate that auditors had the knowledge, skills and other competencies required to respond to their responsibilities, and were able to reach conclusions without influences that call into question their professional judgment. Unfortunately, in Serbia, where market supply and demand forces are not strong enough to drive high audit quality, such a situation is unlikely. One way to increase audit quality in Serbia could be to establish strong external

quality control of auditors' work, as well as to implement strict disciplinary measures for possible abuses.

In order to uncover the main reasons for the MAOs issued, we analyzed the Basis for Opinion paragraph. We found that the modifications mostly related to: inconsistent application of previously adopted accounting policies, mismatch of accounts receivable and payable, inadequate fair value measurement of some balance sheet items, inadequate performance of provisions for litigation, failure to record deferred tax assets/tax liabilities, delay in submitting the tax balance sheet and tax return, limitations of evidence caused by the time for performing audit procedures, as well as untimely submission of necessary accounting records.

Based on the analysis performed, we conclude that most of the reasons for the MAOs related to the fact that the financial statements contained material misstatements, which are mainly the result of inadequate compliance with professional, legal or internal accounting regulations. A smaller share of material misstatements was caused by insufficient disclosures in the financial statements, which means that the transparency of the related reports was not significantly compromised. The two most problematic issues in the financial statements are the balance sheet item Property, plant, and equipment (PP&E) and asset impairment, which indicate that companies are underutilizing PP&E, holding obsolete inventory, and having difficulty collecting their receivables. Also, auditors expressed qualified opinions or disclaimed an opinion even in situations where they were unable to collect sufficient and appropriate evidence that the financial statements were free from material misstatements. Scope limitations were most often related to time constraints (e.g., the auditor was appointed after the start of the inventory count) and to the failure to provide adequate accounting documentation. The foregoing indicates that managers are willing to do many things to artificially present a more favorable picture of the company's financial position and profitability than it actually is.

## 5. CONCLUSION

This study focused on the analysis of auditor reporting on the going concern of companies whose securities are included in the regulated market of the Belgrade Stock Exchange in the period 2021-2023 and led us to several conclusions.

First, the average rate of auditors' reports regarding the presence of issues related to going concern of listed companies is lower than the average rate in developed economies. The dominant share of other audit firms, fear of legal costs and loss of reputation may be the reasons why auditors reported less on the threatened going concern, and even less modified their opinion on this issue. In competitive conditions, auditors often make compromise decisions – to retain the client and ignore situations that threaten the credibility of the financial statements. Even the increased overall business risk and instability of the financial system, caused by the pandemic and geopolitical changes, did not bring a logical increase in the average going concern rate. The reason for this is not Serbia's lower exposure to systemic events, but the presence of compensating effects in aggregate reports, which include all sectors, both those suffering the greatest damage and those in a more favorable position. As a result, different adjustment strategies have led to an unequal assessment of risk and financial stability.

Another important conclusion can be drawn from the analysis of financial and structural disruptions and unsatisfactory profitability. High net and accumulated losses, the state of over-indebtedness and the pending insolvency reveal the main indicators of the crisis and

point to the conclusion that the vulnerability of the economy has increased. The persistent repetition of the MAOs on going concern from year to year does not give optimism that the effects of systemic events will not be felt in the coming period. This, of course, does not mean that the performance of the economy will not increase, but that the road to recovery is thorny and may take longer than expected. Here, we also note that no company in financial distress has so far gone bankrupt. Despite the existence of losses, accounting over-indebtedness is not always a decisive factor for initiating bankruptcy proceedings. In some cases, after the discovery of latent reserves in the financial statements, it may be established that the company is not over-indebted, but that there are opportunities for its reorganization. In this way, companies, such as those in our sample, are given the chance to try to overcome the business crisis through voluntary reorganization and debt restructuring.

Expanding the analysis to MAOs related to other problematic issues in financial statements, as a third conclusion, we highlighted a high share of modifications that is significantly above the average in developed economies, which means that the regulatory framework for financial reporting in Serbia is not strict and that the level of quality of financial statements is very low. Most MAOs relate to the balance sheet item PP&E, as well as asset impairment, which indicates that companies are underutilizing PP&E, have obsolete inventories and have difficulty collecting their receivables. Considering the economic reality in Serbia, we cannot help but notice that managers have tried to resort to financial manipulations in order to deceive investors about the financial performance of companies and their economic health. Overstatement of assets and understatement of liabilities could have led investors to believe that companies' profits were higher, their cash flows more compact and their balance sheet positions more stable than they actually were.

We also note that auditors are currently very cautious in determining the going concern status as KAM, since we did not find such a classification in any report. The fact that ISA 701 has only just come into effect in Serbia indicates that a longer period of time is needed to assess the relevance of the new audit report model (IAASB, 2015b).

Given the public nature of auditors' reports and their importance for investors, it is clear how much responsibility regulatory institutions have in supervising audits and how dangerous improvisations in this area can be. The results of this study are relevant for Serbian capital market regulators, who need to tighten the protection measures in order to enable audit conclusions in a more objective manner with the help of these control mechanisms. A higher quality audit could identify a larger number of MAOs related to the going concern assumption, which would further shed light on the state of the Serbian financial reporting system.

One of the limitations of the paper may be the short time period for analysis; however, availability of the database often determines the length of the analyzed period in research papers in Serbia. Also, the paper did not analyze the paragraph of the auditor's report dedicated to KAMs, and we know that the goal of introducing this paragraph was to improve the communication value of the previous report. Therefore, in future research, we could identify issues that, in the auditor's opinion, are of fundamental importance for understanding companies' financial statements, as well as analyze the factors that significantly influence auditor reporting on these issues.

**Acknowledgement:** *This research was financially supported by the Ministry of Science, Technological Development and Innovation of the Republic of Serbia (Contract No. 451-03-136/2025-03/200371).*

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## **SKLONOST REVIZORA KA IZDAVANJU MIŠLJENJA O STALNOSTI POSLOVANJA: PODACI SA SRPSKOG TRŽIŠTA KAPITALA**

*Ova studija istražuje prisutnost pitanja vezanih za nastavak poslovanja listiranih kompanija u doglednoj budućnosti putem analize mišljenja iskazanih u revizorskim izveštajima za period 2021-2023. Koristeći deskriptivnu analizu, zaključili smo da je izveštavanje revizora o stalnosti poslovanja u Republici Srbiji ispod nivoa karakterističnog za razvijene ekonomije. Dominantno učešće ostalih revizorskih firmi, koje ne pripadaju „Velikoj četvorci“, i posledično strah od sudskih troškova i gubitka reputacije mogu biti razlozi zbog kojih revizori u najvećem broju slučajeva nisu modifikovali mišljenje po pitanju stalnosti poslovanja. Analizom sadržaja svih pasusa revizorskog izveštaja u kojima revizori navode okolnosti koje su izazvale krizu u poslovanju kompanija, otkrili smo da se kao najučestaliji indikatori pominju neto gubitak, akumulirani gubitak i prezaduženost. Šireći analizu na modifikovana mišljenja revizora koja su zasnovana na drugim ključnim pitanjima u finansijskim izveštajima, zaključili smo da je udeo modifikacija značajno iznad proseka u razvijenim ekonomijama. Time smo dodatno rasvetlili stanje u praksi finansijskog izveštavanja u Republici Srbiji i potvrdili da naponi ka njenom unapređenju tek predstoje.*

*Ključne reči: izveštaj revizora, pretpostavka stalnosti poslovanja, mišljenje revizora, indikatori finansijskih nevolja, listirane kompanije*