



To what extent does financial performance influence audit opinion modification in the Republic of Serbia?

U kojoj meri finansijske performanse preduzeća utiču na modifikaciju mišljenja revizora u Republici Srbiji?

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Article info

Original scientific paper/ Originalan naučni rad

Received/ Rukopis je primljen:

1 June, 2025

Revised/ Korigovan:

10 July, 2025

Accepted/ Prihvaćen:

18 August, 2025

Published online: 17 December, 2025

DOI:

<https://doi.org/10.71159/bizinfo250028D>

UDC/ UDK:

658.155:657.635(497.11)

Abstract

The aim of this research is to examine the impact of companies' financial performance on the modification of audit opinion. The sample consists of manufacturing companies listed on the Belgrade Stock Exchange. Based on a sample of 71 companies (representing 84.52% of the entire population) over the period 2021–2023, we investigated whether profitability, liquidity, and leverage influence whether auditors issue an unqualified/unmodified or a modified opinion. Our analysis is grounded in the financial and audit reports of these companies over a three-year period, encompassing a total of 213 observations. The data were analyzed using multiple logistic regression. The results indicate that companies with higher liquidity levels are more likely to receive an unmodified opinion. Conversely, companies with higher levels of leverage are more likely to receive a modified opinion. Profitability, as a financial performance indicator, did not exhibit a statistically significant effect on audit opinion in this model, suggesting it does not influence the auditor's opinion.

Keywords: profitability, liquidity, leverage, audit opinion

Sažetak

Cilj ovog istraživanja je ispitivanje uticaja finansijskih performansi preduzeća na modifikaciju mišljenja revizora. Uzorak u ovom istraživanju čine preduzeća prerađivačke industrije koja se kotiraju na beogradskoj berzi. Na uzorku od 71 preduzeća (što čini 84,52% od čitave populacije) za period 2021-2023 godine ispitivali smo da li profitabilnost, likvidnost i leveridz utiču na to da revizori izdaju pozitivno ili neko od modifikovanih mišljenja. Osnovu naše analize činili su finansijski i revizorski izveštaji ovih preduzeća za trogodišnji period, te na taj način obuhvaćeno 213 opservacija. Analiza podataka izvršena je primenom multiple logističke regresije. Rezultati istraživanja su pokazali da će preduzeća koja imaju viši nivo likvidnosti pre dobiti pozitivno mišljenje nego modifikovano. Takođe, preduzeća koja imaju viši nivo zaduženosti imaju veću verovatnoću da dobiju neko od modifikovanih mišljenja, nego pozitivno mišljenje. Profitabilnost preduzeća je finansijska performansa čiji uticaj na mišljenje revizora nije statistički značajan, odnosno u ovom modelu ne opredeljuje mišljenje revizora.

Кljučне речі: profitabilnost, likvidnost, leveridz, mišljenje revizora


1. Introduction

Financial statements provide insight into a company's financial position, operating performance, and cash flows, thereby reflecting the outcomes of its business strategies and managerial decisions. In addition to enabling the assessment of past performance, the information contained in financial statements serves as a basis for evaluating future performance and for making informed business decisions by various stakeholders. Based on this

information, company management, as well as all interested stakeholders, can respond promptly to potential issues and reduce the risk of poor decision-making. Since financial statements function as a communication tool between a company and its stakeholders, and form the foundation of mutual trust among interested parties, the pursuit of high-quality information within these reports is both justified and necessary.

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Audit plays a vital role in enhancing the credibility of financial statements by providing independent assurance regarding their truthfulness and fair presentation. Baah and Fogarty (2018) emphasize that the notion of audit as the “cornerstone” of efforts aimed at increasing corporate accountability in financial reporting has long been established. Auditor reports, as the final outcome of the audit process, aim to clearly and unambiguously convey the auditor's conclusions and to inform interested users whether the disclosures presented in the financial statements are prepared in accordance with the applicable accounting standards. However, the most critical component of the auditor's report, the one that provides the greatest credibility to the information and has the strongest influence on stakeholder reactions is the auditor's expressed opinion. The audit opinion represents the auditor's judgment on the truthfulness and objectivity of the financial statements prepared and disclosed by the company.

According to the International Standards on Auditing (ISA), the auditor's opinion may be either unqualified or modified. When auditors are convinced that the disclosed financial statements present a true and fair view of the company's operations and have been prepared, in all material respects, in accordance with the applicable financial reporting framework, they issue an unqualified opinion. Conversely, if auditors identify material misstatements in the financial statements, or if they are unable to obtain sufficient appropriate audit evidence, they issue a modified opinion. The specific type of modification - qualified, adverse or disclaimer of opinion depends on the degree and nature of the impact of the misstatement or the limitation in obtaining evidence. If the misstatements are material but not pervasive, the auditor will issue a qualified opinion. If the misstatements are both material and pervasive, an adverse opinion is issued. On the other hand, if auditors are unable to obtain sufficient appropriate audit evidence, they will issue a qualified opinion if the limitation is material but not pervasive, or disclaim an opinion if the limitation is both material and pervasive (ISA 705).

The auditor's opinion is undoubtedly one of the critical issues in the economic environment, as it provides public confidence in the financial information presented to the broader public. Consequently, it exerts a significant influence on stakeholder decisions, the company's operations, its future performance, and the overall economic activity of a country. This is why understanding the factors that affect the auditor's opinion is of great importance, a fact recognized by numerous authors in this field. A review of the literature on the determinants of audit opinions reveals that, globally, the characteristics of audit firms and client companies are the most commonly examined factors. Within the characteristics of client companies, aside from corporate governance attributes, financial performance has attracted particular attention. This is because financial performances „are significant in assessing company performance“ (Novičević Čečević et al. 2024), it directly indicates the stability and sustainability of business operations, as well as concerns about the company's ability to continue as a going

concern. Therefore, it is expected that analyzing financial performance significantly guides auditors and reduces the risk of issuing inappropriate audit opinions.

Research on the determinants of audit opinions in the context of the Republic of Serbia is, to our knowledge, quite limited. Some of the authors who have addressed specific factors influencing the expression of audit opinions include: Jovković (2018), who examined the frequency and reasons leading to the issuance of qualified audit opinions on the financial statements of insurance companies; Stanišić et al. (2014), who focused their research on investigating the relationship between changes in audit firms and the type of audit opinion issued; Đorđević & Spasić (2022), whose study aimed to explore whether auditors modify their opinions considering Earnings Management as a determinant of financial reporting quality in public companies; and Vučković Milutinović (2019), who analyzed relevant issues in financial reporting that represent the main causes of audit opinion modifications, as well as the tendencies of different audit firms in issuing modified opinions. The lack of studies examining the impact of realized financial performance, particularly profitability, liquidity, and leverage on the modification of audit opinions clearly indicates that the research presented in this paper will be of particular significance. Firstly, the results will fill a gap in the literature on this topic, especially in the rarely explored context of the Republic of Serbia. Moreover, we believe that the findings will contribute to the improvement of audit quality and the strengthening of trust in the auditing profession by highlighting the importance of financial performance as a factor influencing the formation of audit opinions.

The paper is structured as follows: The first part provides the theoretical underpinnings and a review of relevant literature related to the topic, on the basis of which the research hypotheses are formulated. The second part presents the design of the empirical study and the main findings obtained. The final part offers conclusions drawn from the conducted research.

1. Financial performance as a determinant of audit opinion – literature review and hypothesis development

The examination of the impact of financial performance on the auditor's opinion has attracted considerable attention due to its theoretical and practical significance in the fields of auditing and corporate governance. Analytical procedures involving the analysis of these indicators, particularly in accordance with IAS 520, often serve as signaling mechanisms for detecting potential irregularities, identifying unusual or illogical reporting patterns, significant deviations, and risks of material misstatement that may influence the formation of the auditor's opinion. The analysis of realized financial performance significantly shapes the auditor's professional judgment (Knechel et al., 2013), as it reflects the company's ability to continue operating, which is crucial in deciding the type of audit opinion to be issued. Auditors apply the results obtained from such analyses

when assessing “such as audit risk, initial risk measurement of business unit information, the possibility of error and fraud, risk assessment, risk control, and auditor’s reports” (Zarei, 2020, p. 5).

In accordance with the guidelines of the International Standards on Auditing (ISA 315), profitability, liquidity, and leverage are among the key indicators used as fundamental tools for identifying the risk of material misstatement. Accordingly, these indicators are expected to have a significant impact on the conclusions auditors reach and to largely shape their audit opinion.

Profitability and audit opinion

Profitability represents a company’s ability to generate profit through its business activities, making it one of the leading indicators of efficiency and effective resource utilization. The financial metrics most commonly used to express profitability include Return on Assets (ROA), which measures the efficiency of managing total assets to generate profit and is considered “one of the leading indicators of corporate profitability” (Đorđević et al., 2024, p. 1035); Return on Equity (ROE), which assesses how much profit a company earns on each unit of invested equity; and Profit Margin, which shows the net profit generated from each unit of revenue. Ultimately, the level of profitability reflects the company’s ability to achieve a positive financial result (Syahzuni & Saputra, 2022). High profitability enables a company to pursue further growth and development, increase its market value, maintain flexibility in business decision-making, enhance resilience against market risks, and strengthen investor confidence. Conversely, low or negative profitability may indicate operational difficulties, poor management, or unfavorable market conditions. Profitability analysis is a crucial component in assessing the financial health of a company, and as a measure of business continuity, many authors have explored the relationship between profitability and audit opinion. For example, Ozcan (2016) concluded from his research that auditors are more likely to issue adverse opinions when the client has lower profitability compared to companies with higher profitability rates. Similarly, Yasar et al. (2015) found that companies receiving qualified audit opinions exhibit lower profitability than those receiving unqualified opinions. These findings are supported by Zarei et al. (2020), who investigated the predictive power of models based on financial and non-financial variables on auditors’ decisions to issue qualified opinions, concluding that the likelihood of issuing a qualified audit opinion increases as profitability decreases. Similar views are presented by numerous other authors (Tsipouridou & Spathis, 2014; Moradi Ghale Rudkhani & Jabbari, 2013; Mareque et al., 2019; Diab et al., 2021; Zdolšek et al., 2015). Based on these previous research results, the following hypothesis is formulated:

H1: Companies with higher levels of profitability are more likely to receive an unmodified (positive) audit opinion compared to companies with lower profitability levels.

Liquidity and audit opinion

Liquidity refers to a company’s ability to timely meet all its due obligations using available current assets. Depending on the required level of precision, purpose, and users of the information, liquidity is commonly expressed through the current ratio, quick ratio, and cash ratio. In any case, a low level of liquidity signals an increased risk of insolvency, that is, the inability to settle obligations on time, which may consequently lead to loss of trust from creditors, investors, and suppliers, as well as threaten the company’s going concern status. On the other hand, an optimal liquidity level enables the company to operate efficiently and remain agile in response to sudden market changes. Ensuring cash availability to timely meet due obligations determines the extent to which a company can bear arising risks (Syahzuni, 2022). The fact that companies with low liquidity levels may be exposed to risk in collecting current liabilities may raise auditors’ concerns about the financial stability of the company, justifying their tendency to issue a modified opinion. More specifically, if a company’s ability to pay off current debts is low, auditors may conclude that the entity is unable to sustain its operations over the long term and therefore prefer to issue a modified audit opinion related to going concern. This view is supported by numerous studies. For example, Himam & Masitoh (2020), Zdolšek et al. (2015), Yasar et al. (2015), Ozcan (2016), and Zarei et al. (2020), analyzing this issue in various contexts, argue that a clear relationship exists between liquidity and audit opinion, with a reduction in liquidity levels increasing the likelihood of receiving a modified opinion. However, on the other hand, some authors report findings that liquidity does not have a significant impact on audit opinion. Abadi et al. (2019) and Syahzuni & Saputra (2022) refute the assumption that a decrease in liquidity leads auditors to issue some form of modified opinion. Based on theoretical considerations and previous research results, the following hypothesis is formulated:

H2: Companies with higher liquidity levels are more likely to receive an unmodified (positive) audit opinion compared to companies with lower liquidity levels.

Leverage and audit opinion

Leverage (LEV) represents the extent to which a company relies on borrowed funds to finance its activities and serves as a key indicator of the company’s long-term ability to meet its obligations to creditors. Various leverage ratios used in practice enable the assessment of capital structure and financial risk. A high level of leverage indicates significant exposure to long-term liabilities and greater dependence on external financing. Under such conditions, the financial risk of the company increases, potentially threatening its ability to continue operating. Moreover, higher leverage may signal increased pressure on management to manipulate financial statements in order to present a more favorable financial position than is actually the case. For these reasons, leverage is an indispensable indicator in auditors’ risk assessment, and its interpretation has direct implications for auditors’ conclusions regarding going

concern evaluation and the audit opinion issued. Numerous empirical studies highlight a significant relationship between leverage and audit opinion. Zarei et al. (2020) found that an increase in leverage corresponds with a higher likelihood of auditors issuing a qualified opinion. Similarly, Zdolšek et al. (2015) indicate that the greater the level of leverage, the higher the auditors' concern about the company's survival, thereby increasing the probability of issuing a modified opinion. Ozcan (2016), Srbinoska (2023), and Syahzuni & Saputra (2022) also confirmed a positive relationship between leverage and the modification of audit opinions - higher financial leverage corresponds to a greater likelihood of a modified audit opinion. However, contrasting findings were reported by Yasar et al. (2015) and Diab et al. (2021), who suggest a significant but negative association between leverage and modified audit opinion. Specifically, Yasar et al. (2015) argue that high leverage might indicate a company's need to engage auditors more willing to issue unmodified opinions or that management exerts pressure on auditors to do so. Based on these perspectives, the following hypothesis is proposed:

H3: Companies with higher leverage levels are more likely to receive a modified audit opinion compared to companies with lower leverage levels.

2. Methodology

Sample selection and data source

Table 1. Companies in the sample

Company size	Frequency	Percent	District	Frequency	Percent
Large	7	9.9%	Belgrade	14	19.7%
Medium	21	21%	Vojvodina	16	22.5%
Small	28	39.4%	Central and Western Serbia	26	36.6%
Micro	15	21.1%	Southern and Eastern Serbia	15	21.6%
Total	71	100%	Total	71	100%

Source: Author's calculation

Selection and measurement of variables

Measurement of dependent variable

The dependent variable in this study is the auditor's opinion (AO) on the financial statements. Considering that, according to IAS, an auditor's opinion can be either unqualified/clean or modified (qualified, adverse, or

The aim of this study is to examine the impact of financial performance—specifically profitability, liquidity, and leverage—on the formation of auditors' opinions on financial statements. The sample consists of companies listed on the Belgrade Stock Exchange operating within the manufacturing industry. The primary data sources are the financial statements of these companies for the period 2021–2023, along with the corresponding audit reports, which were accessed via the Serbian Business Registers Agency website. The initial sample comprised 84 companies. However, 11 companies were excluded due to missing financial or audit report data. The unavailability of financial or audit reports of companies listed on the Belgrade Stock Exchange, or data from those reports, initially raised concerns. However, the research findings of Mitrović et al. (2024) indicate, among other things, that during the period from 2019 to 2021, the number of companies listed on the Belgrade Stock Exchange whose financial reports are not available has increased. Additionally, 2 companies that significantly disturbed the normal distribution of the data were excluded from the analysis. Consequently, the final sample consists of 71 companies, providing 213 observations over the three-year period analyzed. This represents 84.52% of the total population of companies meeting the initial criteria, which is deemed sufficiently representative for the purposes of this research. The structure of the companies in the sample, categorized by size and region, is presented in Table 1.

disclaimer of opinion), this variable is defined as a dummy variable taking two possible values: 0 if the auditor's opinion is unqualified/clean, or 1 if the auditor's opinion is modified, i.e., qualified, adverse, or a disclaimer of opinion. The analysis of auditors' opinions on the financial statements of companies in the sample, by years and types, is presented in Table 2.

Table 2. Types of audit opinion

Type of auditor's opinion	2021		2022		2023	
Unqualified	34	47.9 %	32	45.1 %	34	47.9 %
Qualified	37	52.1 %	39	54.9 %	37	52.1 %
Total of audit opinions	71	100 %	71	100 %	71	100 %

Source: Author's calculation

Data Analysis of auditor opinions for the period 2021–2023 shows that qualified opinions were slightly more prevalent in all three years, accounting for between 52.1% and 54.9% of the total. Unqualified (clean) opinions were less frequent but remained relatively stable, with slight fluctuations (ranging from 32 to 34 annually). This distribution indicates the identification of certain irregularities in the financial statements of these

companies or limitations in the collection of audit evidence, which led auditors to issue qualified opinions.

Measurement of independent variables

Since this research aims to examine the impact of financial performance on auditor opinion, and in accordance with the defined hypotheses to test them, the independent

variables are: Profitability, Liquidity, and Leverage. Additionally, a control variable — Size of the company — has been introduced, given that it has been frequently used in previous studies where it is recognized to directly influence management heterogeneity, the quality of financial statements, and consequently, the auditor’s

opinion on them (Yendrawati & Mahendra, 2018; Diab et al., 2021; Salah et al., 2020). By including this variable, the effect of the main independent variables mentioned above can be assessed more precisely. An overview of the variables used in the research, their measurement methods, and interrelations is provided in Table 3.

Table 3. Description of all variables

Variable	Variable type	Measurement Techniques	Expected results
Return on assets (ROA)	Independent	The ratio of net income to total assets	+
Liquidity (LIQ)	Independent	The ratio of current assets to current liabilities	+
Leverage (LEV)	Independent	The ratio of total debt to total assets	-
Size of the client (SoC)	Control	Natural logarithm of total assets	-
Audit opinion (AO)	Dependent	1 - qualified type of opinion and 0 - otherwise	

Source: Author’s calculation

Methods

Testing the impact of selected financial performance indicators on auditor opinion, i.e., their predictive power, requires the application of multiple logistic regression. The developed regression model has the following form:

$$AO_{i,t} = \beta_0 + \beta_1 SoC_{i,t} + \beta_2 ROA_{i,t} + \beta_3 LIQ_{i,t} + \beta_4 LEV_{i,t} + \varepsilon_{i,t}$$

i_t indicates the observed predictor variables for company i in time t .

3. Research results and discussion

The analysis results first refer to descriptive statistics, which were used to analyze central tendency, including mean, median, and mode, as well as to assess data variability through standard deviation. These data for each variable and for the total of 213 observations are presented in Table 4.

Table 4. Descriptive Statistics

Variables	N	Minimum	Maximum	Mean	Std. Deviation
AO	213	0	1	.53	.500
SoC	213	8.26	17.33	12.8162	1.91284
ROA	213	-7.24	2.49	-.0741	.59206
LIQ	213	.00	16.16	2.49294	2.0146
LEV	213	.03	15.05	.9957	1.72017
Valid N (listwise)	213				

Source: Author’s calculation

SoC ranges from a minimum value of 8.26 to a maximum of 17.33, with an average value of 12.82 and a standard deviation of 1.91. For the ROA variable, the average value is -0.074, indicating low profitability, meaning that the companies in the sample recorded losses in previous years. The range extends from -7.24 to 2.49. LIQ ranges from 0 to 16.16, with a mean of 2.49 and a standard deviation of 2.01, indicating significant differences in companies’ ability to meet their short-term obligations. The last variable in the model, LEV, has a mean value of 0.99; however, companies differ significantly in their level of debt utilization.

Further analysis required the application of point-biserial correlation analysis to examine whether there is a relationship between the selected variables in the study, as well as the strength and direction of that relationship. Point-biserial correlation is a statistical technique used to investigate the relationship between a dichotomous variable and continuous variables. This method is particularly suitable when the research objective is to assess whether and how strong the linear association is between, for example, the presence of a certain characteristic (expressed binarily: yes/no, present/absent) and some quantitative metric, such as profitability, company size, or liquidity. Essentially, point-biserial

correlation is a specific case of Pearson’s correlation that quantifies the association between two variables of different types, assuming that the continuous variable is normally distributed within each group of the dichotomous variable. Table 5 presents the correlation coefficient matrix.

The results of the point-biserial correlation presented in Table 5 indicate that the dependent variable AO (audit opinion) has a statistically significant correlation with all independent variables. Specifically, the correlation between AO and SoC (size of the company) is negative and significant ($r = -0.365, p < 0.01$). This negative correlation suggests that larger companies have a lower likelihood of receiving a qualified audit opinion. In other words, smaller companies are more prone to obtaining qualified opinions, whereas larger companies are more likely to receive unmodified (positive) opinions.

The relationship between AO and ROA (return on assets) is very weak and on the borderline of statistical significance ($r = -0.013, p = 0.052$). There is an inverse and significant relationship between AO and LIQ (liquidity) ($r = -0.351, p < 0.01$). Companies with lower liquidity levels are more likely to receive a qualified audit opinion, which

may indicate financial difficulties regarding their ability to meet short-term obligations.

Table 5 Correlation matrix

Variables	Correlation	AO	SoC	ROA	LIQ	LEV
AO	Pearson Correlation Sig. (2-tailed)	1	-.365** .000	-.013 .052	-.351** .000	.276** .000
SoC	Pearson Correlation Sig. (2-tailed)		1	.051 .462	.124 .070	-.333** .000
ROA	Pearson Correlation Sig. (2-tailed)			1	.086 .212	-.110 .110
LIQ	Pearson Correlation Sig. (2-tailed)				1	-.325** .000
LEV	Pearson Correlation Sig. (2-tailed)					1

** Correlation is significant at the 0.01 level (2-tailed).

Source: Author's calculation

A positive and statistically significant correlation was found between AO and LEV (leverage) ($r=0.276$, $p<0.01$), indicating that companies with higher levels of debt have a greater chance of receiving a qualified opinion.

After examining the correlation relationships between variables, we tested for multicollinearity, i.e., the interrelationship among the independent variables. Variance Inflation Factor (VIF) and Tolerance are two key statistical tests used to detect multicollinearity among independent variables in regression models. VIF measures how much the variance of a regression coefficient is increased due to correlations between independent variables. High VIF values indicate high multicollinearity, meaning that one independent variable may be highly correlated with other independent variables in the model. This can cause instability in coefficient estimates, making them less reliable.

Tolerance is the direct reciprocal of VIF, i.e., $Tolerance = 1/VIF$. It measures the proportion of variance in an independent variable that is not explained by its correlation with other independent variables in the model. Lower Tolerance values indicate higher multicollinearity, while higher values indicate lower intercorrelation among independent variables. Table 6 shows the VIF and Tolerance values for the independent variables, where it can be observed that all VIF values are below 10, and Tolerance values are above 0.10, indicating an acceptable level of multicollinearity among the variables.

Table 7. Variables in the equation

Variables	B	Std.Error	Wald	df	Sig.	Exp(B)	95% C.I. for EXP(B)	
							Lower	Upper
SoC	-.399	.099	16.215	1	.000	.671	.553	.815
ROA	.154	.299	.267	1	.606	1.167	.649	2.097
LIQ	-.322	.097	10.960	1	.001	.725	.599	.877
LEV	.247	.169	2.140	1	.044	1.280	.920	1.781
Const.	5.701	1.351	17.799	1	.000	299.075		

Source: Author's calculation

The results from Table 7 demonstrate that among the independent variables, the size of the company (SoC), liquidity (LIQ), and leverage (LEV) significantly influence the auditor's opinion regarding the financial statements of manufacturing companies listed on the Belgrade Stock Exchange. Specifically, larger companies

Table 6. Multicollinearity of independent variables

Variables	Collinearity Statistics	
	Tolerance	VIF
SoC	.889	1.125
ROA	.985	1.015
LIQ	.891	1.122
LEV	.802	1.247

Source: Author's calculation

For the presented regression model, it was first verified whether it meets all the key assumptions for its application. To this end, the results of the Hosmer-Lemeshow test were initially checked. This test examines the model's goodness of fit, i.e., the quality of prediction. The results showed that the p-value of this test was high ($p=0.152$), which implies that the model predicts the data well and that there is no significant discrepancy between the predicted and actual values.

Additionally, to verify the overall statistical significance of the regression model, the Omnibus test was used. The Omnibus test results showed a $p<0.005$, which means that the proposed regression model is statistically significant. Based on this, we can conclude that the independent variables in the model are relevant and have a significant impact on the dependent variable. After confirming that the regression assumptions were not violated, regression analysis was run in SPSS. The contribution, i.e., the impact of each predictor variable on AO, is given in Table 7

tend to receive an unqualified (clean) audit opinion, while smaller companies are more prone to receiving qualified or modified opinions.

Profitability and auditor's opinion - The profitability indicator, Return on Assets (ROA), however, did not show

a statistically significant effect on audit opinion in this sample. Despite the positive sign of the regression coefficient suggesting that higher profitability might be associated with a greater likelihood of a modified opinion, the lack of statistical significance ($p=0.606$) leads us to reject hypothesis H1. This outcome contrasts with findings in existing literature, where ROA often appears as a significant predictor of audit opinion (see Ozcan, Yasar et al., 2015; Zarei et al., 2020; Tsiouridou & Spathis, 2014, among others).

Liquidity and auditor's opinion - Liquidity, measured by the ratio of current assets to current liabilities, exhibits a strong negative association with receiving a modified audit opinion. Companies with higher liquidity are more likely to receive a positive opinion, confirming hypothesis H2. This result aligns with several prior studies (e.g., Himam & Masitoh, 2020; Zdolšek et al., 2015; Moalla, 2017; Yasar et al., 2015; Ozcan, 2016), although it contradicts some others (Abadi et al., 2019; Syahzuni & Saputra, 2022), indicating that the relationship between liquidity and audit opinion may be context-dependent.

Leverage and auditor's opinion - Finally, leverage was found to have a marginally significant positive effect on the likelihood of a modified audit opinion. Companies with higher debt ratios are more likely to receive qualified or adverse opinions, likely due to increased financial risk and concerns over solvency. This supports hypothesis H3 and aligns with findings from Abadi et al. (2019), Syahzuni & Saputra (2022), and Moalla (2017), while differing from some other studies (Yasar et al., 2015; Diab et al., 2021).

Overall, these findings contribute to a nuanced understanding of how different financial performance indicators affect auditor judgment, emphasizing the importance of liquidity and leverage over profitability in this context.

4. Conclusion

The primary objective of this study was to investigate the influence of financial performance, specifically profitability, liquidity and leverage on the type of audit opinion issued within the manufacturing industry in the Republic of Serbia. Employing multiple logistic regression analysis on a dataset comprising 213 observations, this research identified differentiated impacts of these financial indicators on auditors' judgments.

The empirical results indicate that profitability (ROA) does not exert a statistically significant effect on the audit opinion type, leading to the rejection of the first hypothesis (H1). These findings challenge prior studies that suggested profitability as a key determinant of audit opinions and calls for further inquiry into the contextual factors that may mediate this relationship in emerging markets. In contrast, liquidity (LIQ) was found to be a significant negative predictor of a modified audit opinion. Companies exhibiting higher liquidity levels tend to receive unqualified audit opinions, confirming the second

hypothesis (H2) and underscoring the importance of short-term financial health in auditor assessments. Additionally, leverage (LEV) demonstrated a statistically significant positive association with the likelihood of a modified audit opinion, thereby supporting hypothesis H3. This suggests that higher indebtedness levels may raise concerns regarding financial stability and solvency, which auditors duly consider when forming their opinions.

Beyond the key independent variables, company size emerged as a notable control factor influencing audit opinion outcomes. Larger enterprises demonstrated a greater propensity to obtain unmodified audit opinions, which may be attributed to better governance mechanisms, enhanced financial reporting quality, and more robust internal controls commonly observed in bigger companies. These insights provide valuable implications for corporate management and auditing practitioners, emphasizing the necessity of maintaining adequate liquidity and managing leverage prudently to enhance the likelihood of favorable audit outcomes.

Despite these contributions, the study is subject to several limitations that should be acknowledged. The exclusive focus on the manufacturing sector constrains the generalizability of the findings to other industries, which may differ in financial characteristics and audit risk profiles. Moreover, the relatively short observation period (2021–2023) limits the analysis to a snapshot in time, potentially overlooking longer-term trends and external environmental factors such as macroeconomic shifts, regulatory reforms, or evolving auditing standards. Future research would benefit from expanding the sample to include diverse sectors and extending the temporal scope to better capture dynamic effects and validate the robustness of these results. In addition, qualitative investigations involving interviews with auditors and financial managers could provide deeper insights into the decision-making processes underlying audit opinions and the contextual nuances influencing auditor judgments. Furthermore, exploring additional financial and non-financial variables, such as corporate governance indicators, auditor characteristics, or market competition intensity, may enrich the understanding of factors shaping audit opinions.

In conclusion, this study contributes to the extant literature on audit quality and financial reporting by highlighting the differentiated roles of key financial performance indicators in shaping auditors' professional judgments within the Serbian manufacturing context. The findings offer practical relevance for companies aiming to improve their financial transparency and audit outcomes, thereby enhancing stakeholder confidence and supporting the development of more reliable financial markets.

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