

ASSESSMENT OF THE QUALITY OF FINANCIAL STATEMENTS OF GOVERNMENT-OWNED ENTERPRISES IN BOSNIA AND HERZEGOVINA

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ABSTRACT

The aim of this paper is to assess the quality of financial statements of government-owned enterprises in Bosnia and Herzegovina based on the information contained in the audit reports of the supreme audit institutions. The research was conducted on a sample of 135 audit reports related to the reporting periods from 2018 to 2022. The method of content analysis was used to collect data. The results of the research show that in over 80% of cases the auditors gave a modified audit opinion indicating that the quality of the financial statements is not at the satisfactory level. Most of the reasons for modifying the audit opinion relate to noncompliance with the provisions of IAS 1, IFRS 9, IAS 36, IAS 16, IAS 37 and IAS 2. In most cases, irregularities in the financial statements of government-owned enterprises are the result of not performing an assessment of the impairment of fixed and current assets and reducing the value of these assets to a recoverable amount. Because of this, the value of the assets is overestimated, the expenses are underestimated and the financial result is overestimated.

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1. INTRODUCTION

Government-owned enterprises represent enterprises that perform activities of public interest and in whose equity capital the state or some part of it directly or indirectly has majority ownership. These enterprises are formed to provide electricity production and supply services, water supply services, waste collection and disposal services, rail transport services, etc. Through the establishment of government-owned enterprises, the state strives to improve the quality of life of its citizens and at the same time stimulate economic development and protect strategic resources. In many countries, government-owned enterprises have great

economic and political importance. They play an important role in improving the performance of the economy because they significantly contribute to the increase of the gross domestic product (GDP) and total employment and influence the operations and financial performance of private enterprises (Malinić, 2015).

However, the results of numerous studies have shown that government-owned enterprises do not fulfil their function as expected and that they are less successful than private enterprises (Wang & Shailer, 2018). Often, government-owned enterprises use resources inefficiently, realise large losses and face problems of insolvency. These are the consequences of inadequate management of these enterprises, insufficient transparency of their operations and lack of adequate supervision over their operations (Malinić, 2015). Managers of government-owned enterprises, especially in developing countries, are usually under the influence and protection of political structures, which allows them to behave very offhandedly, even in conditions when enterprises achieve bad results. They do not bear the consequences for poor management and poor performance of the enterprises. Due to the fact that they perform activities of public interest, government-owned enterprises are considered socially necessary. Therefore, their losses and financial recovery are financed from the state budget, with the aim of avoiding their bankruptcy (Malinić, 2015). This gives managers the assurance that government-owned enterprises will survive, and they will retain managerial positions, despite poor performance. Therefore, they do not have to make excessive efforts to improve the quality of management and business efficiency.

Government-owned enterprises in Bosnia and Herzegovina have a great influence on the country's economy. Čegar & Parodi (2019) determined that this impact is mostly negative due to their low profitability, high leverage and low liquidity. Namely, government-owned enterprises affect the labour market, fiscal sustainability and competitiveness of the economy. Of the total number of employees in Bosnia and Herzegovina, 11% are employed in government-owned enterprises. Labour productivity in these enterprises is lower than in private enterprises, but average salaries are 40% higher. Government-owned enterprises own 40% of all fixed assets in the economy, but these enterprises are responsible for only 10% of total turnover. The total debts of government-owned enterprises amount to about 26% of GDP. A significant part of the outstanding obligations refers to obligations for taxes and social contributions. This has a negative impact on the collection of tax revenues and the functioning of the public pension and health insurance system. Almost half of government-owned enterprises are insolvent and rely on government support to survive. There are no official policies that condition government support for government-owned

enterprises. Direct subsidies and loan guarantees are granted to government-owned enterprises without explicit obligations of these enterprises. Government-owned enterprises in Bosnia and Herzegovina do not contribute enough to the development of infrastructure, which calls into question the justification of their existence. All this indicates that it is necessary to reform government-owned enterprises.

Defining and implementing reform activities requires that government-owned enterprises have quality financial statements. Financial statements that give a true and objective view of the financial position and performance of these enterprises are needed. Only on the basis of such financial statements it is possible to objectively assess the current situation, assess the risks government-owned enterprises face and define adequate policies and strategies for future action. Financial statements that do not contain true and objective information can mislead the state as owner, prevent effective business decision-making and increase the risk of making wrong decisions.

Unfortunately, there are numerous examples of fraudulent financial reporting by government-owned enterprises (Malinić, 2015). Poor financial performance is in itself a threat to the integrity of financial reporting. Government-owned enterprises are constantly exposed to criticism for achieving poor results, insufficient operational efficiency, excessive spending of resources, etc (Milojević, 2018). Because of this, managers feel the pressure to show in the financial statements that the financial condition and the achieved results are better than they are. They seek and find all possible ways to avoid showing the real situation (Milojević, 2018).

Auditing plays a significant role in improving the quality of financial statements. It contributes to the strengthening of accounting discipline and the responsibility of those who prepare financial statements (Đorđević & Spasić, 2022). An audit opinion based on objective evidence indicates the quality of the financial information contained in the financial statements. An unmodified audit opinion indicates that the financial statements are true and objective, while a modified audit opinion indicates the poor quality of the financial statements. By issuing a modified audit opinion, the auditor tries to limit the opportunistic behaviour of managers.

The quality of financial statements can be viewed in different ways. There is no single methodology for assessing the quality of financial statements. Researchers use different methods to assess the quality of financial statements such as, for example, the earnings management method, the accounting conservatism method, and accrual-based models (Rudžionienė & Gupta, 2019). The

quality of financial statements can also be evaluated based on the information contained in audit reports (Aljinovic Barac, Vuko, & Šodan, 2017; Vučković Milutinović, 2019). In most cases, a modified audit opinion is a consequence of the auditor's disagreement with management regarding the appropriateness of selected accounting policies, the application of selected accounting policies, or the appropriateness of disclosures in the financial statements. This means that a modified audit opinion usually indicates that, to a greater or lesser extent, the financial statements are not true and objective.

The aim of this paper is to assess the quality of financial statements of government-owned enterprises in Bosnia and Herzegovina based on the information contained in the audit reports of the supreme audit institutions. Based on the type of audit opinion, it will be determined how often the auditors indicate that the financial statements of government-owned enterprises are true and objective and how often they indicate that the financial statements are not of satisfactory quality. In this way, the scope of irregularities in the financial statements of government-owned enterprises in Bosnia and Herzegovina will be assessed. Also, based on the reasons for modifying the audit opinion that the auditors state in their audit reports, it will be determined which International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS), i.e. which provisions of these standards, are most often violated.

The remainder of the paper is structured as follows. The second section provides an overview of previous research. The third section describes the research design. Empirical results are presented and discussed in the fourth section. Concluding remarks are given in the fifth section.

2. LITERATURE REVIEW

In recent years, issues of quality of financial statements, quality of accounting information, quality of disclosure, etc. have attracted more attention from researchers, but the number of studies that have been done on this topic is still insufficient (Aljinovic Barac, Vuko & Šodan, 2017; Chaney, Faccio & Parsley, 2011; Gaynor, Kelton, Mercer & Yohn, 2016; Herath & Albarqi, 2017; Hope, Thomas & Vyas, 2013; Liu & Lu, 2003; Rudžionienė & Gupta, 2019; Tang, Chen & Lin, 2016). Most of the research was done on a sample of private enterprises or listed companies, regardless of their ownership (Aguguom & Egun, 2021; Aljinovic Barac, Vuko & Šodan, 2017; Demir & Bahadır, 2014; Herath & Albarqi, 2017; Hope, Thomas & Vyas, 2013; Mbawuni, 2019; Robu & Istrate, 2015; Tang, Chen & Lin, 2016; Vučković Milutinović, 2019). Although

the quality of financial statements of government-owned enterprises is equally important, fewer researchers have dealt with this topic (Chaney, Faccio & Parsley, 2011; Đorđević & Spasić, 2022; Istrate, 2018, Rudžionienė & Gupta, 2019).

There is a widespread opinion in the literature that government-owned enterprises are the root of operational inefficiency that affects the level of quality of accounting information (Wang & Yung, 2011). It is believed that state ownership of enterprises is associated with lower quality of accounting information and that there are several reasons leading to this (Chaney, Faccio & Parsley, 2011). Thanks to political connections, government-owned enterprises often receive certain benefits. Their managers try to hide these benefits in the financial statements. There is no manager's responsibility for poor financial reporting. They are not penalised for the low quality of accounting information and therefore do not feel the need and pressure to improve the quality of accounting information. Also, due to political connections, government-owned enterprises do not face the rise in debt prices due to the reporting of poor quality accounting information, which is the case with other enterprises.

Despite strong arguments in favour of the negative impact of state ownership on the quality of financial statements, the results of empirical research give conflicting results. Chaney, Faccio & Parsley (2011) examined the quality of accounting information reported by politically connected enterprises, which include government-owned enterprises. They measured the quality of accounting information by the quality of earnings. The authors found that the presence of political connections is associated with a lower quality of accounting information. Research done by Liu & Lu (2003) and Wang, Aharony & Yuan (2010) also showed that state ownership is related to earnings management.

However, Wang & Yung (2011) found a lower level of earnings for management among state-owned enterprises than among privately-owned enterprises. They found that the difference in the quality of earnings between state-owned and privately-owned enterprises becomes less apparent as the economy becomes more market-driven. Ding, Zhang & Zhang (2007) also found that privately-owned companies manage earnings more than state-owned companies. One possible explanation for these surprising results is that the government's protection of state-owned enterprises may have reduced the pressure on managers to manipulate information contained in financial statements (Wang & Yung, 2011). It should be borne in mind that both of these studies were conducted on a sample of Chinese companies and that the obtained results may reflect the specifics of the Chinese capital market. Chinese privately-owned companies are still in a weaker position due to specific political and historical factors and are therefore under pressure to

present financial results better than the real ones in order to convince the market (Ding, Zhang & Zhang). Conflicting results in existing research suggest that a better understanding of the relationship between state ownership and earnings management is needed.

Comparative analyses of the quality of financial reporting in different countries show that the quality of financial reporting in developed countries is at a higher level compared to developing countries (Tang, Chen & Lin, 2016). Economically developed countries have a developed capital market with established investor protection mechanisms, an efficient legal system, a lower degree of corruption and developed accounting and auditing practice. They have developed mechanisms that oblige managers of state-owned enterprises to operate more transparently and responsibly. Bearing this in mind, it is expected that the quality of financial statements of state-owned enterprises in developed countries is at a higher level than in developing countries. This is confirmed by research. For example, Olmo Vera & Brusca Alijarde (2021) found that 96% of the considered state-owned enterprises in Spain received an unqualified audit opinion, while in only 4% of cases the auditors gave a modified audit opinion indicating insufficient quality of financial statements.

Studies conducted on a sample of state-owned enterprises in Serbia, Romania and Kenya show that the quality of financial statements of state-owned enterprises in developing countries is at an extremely low level. Đorđević & Spasić (2022) determined that 36% of the considered state-owned enterprises in Serbia manipulated information on realised revenues in order to overestimate or underestimate the financial result of the enterprise. By reviewing the audit reports issued by the State Audit Institution, they determined that 83% of state-owned enterprises that made up the sample received a modified audit opinion. Istrate (2018) found that in 78% of the audit reports of the sampled Romanian state-owned enterprises, the auditors expressed a modified audit opinion on the financial statements, indicating that the financial statements contain material misstatements or that they were unable to gather sufficient evidence to express an audit opinion on the truth and objectivity of a particular position of the financial statement or the entire financial statements. Istrate (2018) also determined that the most common materially significant misstatements in financial statements relate to the recognition of certain assets and liabilities, the assessment of provisions, the determination of depreciation of fixed assets, the recognition of potential liabilities in connection with court cases, etc. Oruke, Iraya, Omoro and Otieno (2021) found that in 68% of the analysed audit reports of state-owned enterprises in Kenya, the auditors issued a modified audit opinion on the financial statements of these enterprises. The results of these studies show that the quality

of financial reporting in most state-owned enterprises in developing countries is not at a satisfactory level. Given that Bosnia and Herzegovina belongs to the group of developing countries, it could be expected that the quality of financial statements of government-owned enterprises in Bosnia and Herzegovina is also at a very low level.

3. RESEARCH DESIGN

The aim of this research is to assess the quality of financial statements of government-owned enterprises in Bosnia and Herzegovina based on audit opinions and other information contained in audit reports. The research was conducted on a sample of 135 audit reports on the financial statements of government-owned enterprises in Bosnia and Herzegovina. The research covered the period from 2018 to 2022.

Defining the sample was accompanied by numerous difficulties due to the unavailability of information on the operations of government-owned enterprises. Data on the exact number of government-owned enterprises in Bosnia and Herzegovina is not publicly available. There is no single register of government-owned enterprises. There are registers of government-owned enterprises that are owned by certain parts of the state, but they are not updated regularly. Some of them have not been updated for years, so the reliability of the information they offer is highly questionable. In order to raise the level of transparency of the operations of government-owned enterprises in Bosnia and Herzegovina, certain non-governmental organisations strive to collect and publish as much information as possible about the operations of these enterprises. These organisations determined that there are 582 government-owned enterprises in Bosnia and Herzegovina ([Transparency International Bosna i Hercegovina, 2024](#)). Although all government-owned enterprises are obliged to submit to the competent institution the audit reports together with the financial statements that were the subject of the audit no later than the end of June of the current year for the previous year, a significant number of government-owned enterprises, more than 100 of them, do not submit their financial statements and audit reports. Competent institutions to which government-owned enterprises submit financial statements and audit reports have not made these reports publicly available.

Financial statements of government-owned enterprises in Bosnia and Herzegovina are subject to audit by the supreme audit institution, but in years when they are not included in the audit plan of the supreme audit institution, they are required to hire an external audit firm to audit their financial statements. Audit reports on

the financial statements of government-owned enterprises, which were prepared by independent external auditors, are not usually available to the public. In most cases, only audit reports related to listed government-owned enterprises are publicly available. However, the analysis of the audit reports of these enterprises would not give a real insight into the quality of the financial statements of all government-owned enterprises in Bosnia and Herzegovina, because listed companies, including listed government-owned enterprises, usually have a higher level of quality of financial statements compared to enterprises whose securities are not traded on stock exchanges. These companies strive to improve the quality of financial statements in order to meet the requirements for listing their securities on the stock exchange, attract potential investors, increase the turnover of their shares, etc. In this regard, the subject of analysis in this research are the audit reports prepared by the supreme audit institutions.

The supreme audit in Bosnia and Herzegovina is under the jurisdiction of entities (Republic of Srpska and Federation of Bosnia and Herzegovina) and Brčko District. Although the supreme audit offices at the entity level and at the district level have a legal obligation to conduct audits of the financial statements of all government-owned enterprises, audits are conducted only sporadically, due to limited capacity. In this regard, the Audit Office of the Institutions in the Federation of Bosnia and Herzegovina conducted a total of 95 audits of financial statements of government-owned enterprises for the reporting periods from 2018 to 2022. The Supreme Audit Office of the Republic of Srpska, Public Sector and the Office for the Audit of Public Administration and Institutions in the Brčko District each performed 20 audits of financial statements of government-owned enterprises for the same period. This means that for the reporting periods from 2018 to 2022, a total of 135 audits of financial statements of government-owned enterprises were performed in Bosnia and Herzegovina by competent supreme audit institutions. In the considered period, on average, 27 audits of financial statements of government-owned enterprises were performed annually. This means that the financial statements of less than 5% of government-owned enterprises in Bosnia and Herzegovina are audited annually. Only the Office for the Audit of Public Administration and Institutions in the Brčko District audited the financial statements of all 4 government-owned enterprises operating in the Brčko District every year. All completed audit reports are included in the sample.

The collected audit reports were subjected to content analysis. Content analysis was performed to determine the type of audit opinion contained in the audit report and the reasons for issuing a modified audit opinion.

4. RESULTS

Table 1 shows the frequency of certain types of audit opinions on the financial statements of government-owned enterprises in Bosnia and Herzegovina in the period from 2018 to 2022. In only 18.5% of audit reports, auditors expressed an unmodified audit opinion, while in as many as 81.5% of audit reports they expressed one of the modified audit opinions. In the largest number of audit reports (52.6%), the auditors expressed a qualified opinion. A negative audit opinion was expressed in 28.1% of audit reports, while in only one audit report the auditor gave a disclaimer of opinion.

Table 1: Distribution of different types of audit opinions in the period from 2018 to 2022

Type of audit opinion	2018		2019		2020		2021		2022		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Unmodified opinion	6	24.0	7	25.9	4	13.8	3	12.0	5	17.2	25	18,5
Modified opinion	19	76.0	20	74.1	25	86.2	22	88.0	24	82.8	110	81,5
Qualified opinion	7	28.0	15	55.6	17	58.6	14	56.0	18	62.1	71	52,6
Adverse opinion	12	48.0	5	18.5	7	24.1	8	32.0	6	20.7	38	28,1
Disclaimer of opinion	0	0.0	0	0.0	1	3.5	0	0.0	0	0.0	1	0,7
Total	25	100.0	27	100.0	29	100.0	25	100.0	29	100.0	135	100.0

Source: Author's calculation

The presented data show that the financial statements of a relatively small number of government-owned enterprises give a true and objective view of their profitability and financial position. In an extremely large number of financial statements of these enterprises, there are materially significant misrepresentations that distort the picture of the financial performance of enterprise and make the financial statements an unreliable basis for decision-making. The fact that the auditors issued an adverse opinion in 28% of cases is particularly worrying. An adverse opinion indicates that materially significant misstatements pervade the entire financial statements, which is why the financial statements do not give a true and objective view of the achieved results and are not usable for decision-making.

In the audit report in which the modified audit opinion is expressed, the auditor is obliged to describe the reasons for the modification of the audit opinion. The auditor may have one or more reasons for modifying the audit opinion.

The reasons for the modification of the audit opinion may be the existence of a material misstatement in the financial statements or the impossibility to gather enough adequate audit evidence. In this research, attention is focused on the reasons for modifying the auditor's opinion related to the existence of materially significant misstatements, i.e. violations of the provisions of IAS and IFRS.

Table 2 shows the number and percentage of violations of certain accounting standards in the financial statements of government-owned enterprises in the period from 2018 to 2022. Given that auditors in their audit reports usually state several reasons for modifying the audit opinion, the number of violations of accounting standards is greater than the number of audit reports that contain a modified audit opinion. The average number of violated accounting standards per modified audit report is 1.96 for the considered period.

Table 2: Reported number (percentage) of violations of accounting standards in financial statements of government-owned enterprises in the period from 2018 to 2022

IAS/IFRS	2018	2019	2020	2021	2022	Total
IAS 1	13 (26.5)	4 (10.0)	7 (12.7)	9 (16.1)	18 (27.7)	51 (19.2)
IAS 2	6 (12.2)	2 (5.0)	5 (9.1)	6 (10.7)	2 (3.1)	21 (7.9)
IAS 7	1 (2.0)	1 (2.5)	2 (3.6)	0 (0.0)	4 (6.2)	8 (3.0)
IAS 8	0 (0.0)	0 (0.0)	3 (5.5)	0 (0.0)	4 (6.2)	7 (2.6)
IAS 16	6 (12.2)	5 (12.5)	6 (10.9)	9 (16.1)	7 (10.8)	33 (12.5)
IAS 18	0 (0.0)	0 (0.0)	1 (1.8)	0 (0.0)	0 (0.0)	1 (0.4)
IAS 20	2 (4.1)	1 (2.5)	1 (1.8)	0 (0.0)	0 (0.0)	4 (1.5)
IAS 21	0 (0.0)	0 (0.0)	0 (0.0)	0 (0.0)	1 (1.5)	1 (0.4)
IAS 36	4 (8.2)	5 (12.5)	9 (16.5)	15 (26.7)	12 (18.4)	45 (17.0)
IAS 37	7 (14.4)	4 (10.0)	2 (3.6)	7 (12.5)	6 (9.2)	26 (9.8)
IAS 38	1 (2.0)	2 (5.0)	3 (5.5)	1 (1.8)	0 (0.0)	7 (2.6)
IAS 39	1 (2.0)	0 (0.0)	0 (0.0)	0 (0.0)	0 (0.0)	1 (0.4)
IAS 40	0 (0.0)	0 (0.0)	2 (3.6)	0 (0.0)	1 (1.5)	3 (1.1)
IFRS 5	0 (0.0)	2 (5.0)	0 (0.0)	1 (1.8)	0 (0.0)	3 (1.1)
IFRS 9	7 (14.4)	12 (30.0)	13 (23.6)	7 (12.5)	10 (15.4)	49 (18.6)
IFRS 15	1 (2.0)	1 (2.5)	1 (1.8)	1 (1.8)	0 (0.0)	4 (1.5)
IFRS 16	0 (0.0)	1 (2.5)	0 (0.0)	0 (0.0)	0 (0.0)	1 (0.4)
Total	49 (100)	40 (100)	55 (100)	56 (100)	65 (100)	265 (100)

Source: Author's calculation

As can be seen from Table 2, noncompliance with IAS 1 is the most frequently reported reason for modifying the audit opinion (19.2%). A detailed analysis of the reasons for this noncompliance shows that the disagreement between managers

and auditors in almost half of the cases is related to the fact that the enterprise did not make an assessment, nor did it disclose a significant uncertainty regarding the ability of the enterprise to operate as a going concern. Other audit qualifications related to the provisions of IAS 1 relate to the fact that certain assets, liabilities, capital, income or expenses are not recognised in accordance with the accrual basis of accounting, that the disclosures required by this standard are missing and that the appropriate classification of certain liabilities into short-term and long-term and certain assets into fixed and current has not been carried out.

The second most frequently reported reason for modifying the audit opinion refers to noncompliance with IFRS 9 (18.6%). Most of the qualifications refer to the fact that the enterprises did not perform an assessment of expected credit losses for receivables older than one year and, therefore, did not perform a value adjustment of these receivables. One part of the qualifications refers to the fact that enterprises have not written off receivables that they have determined to be uncollectible. The aforementioned violations of the provisions of IFRS 9 result in expenses being understated, and assets (receivables) and the financial result being overstated.

A large number of audit reports state a violation of IAS 36 (17.0%). In almost half of the cases related to the violation of the provisions of this standard, the auditors state that the enterprise did not evaluate whether there are any indicators that the value of an asset is impaired, without specifying the type of assets. Obviously, this relates to all assets that the enterprise owns, which the provisions of this standard apply to. In a smaller number of cases, the auditors state that the enterprise did not assess whether there are any indicators that the value of a certain group of assets is impaired (property, plant and equipment; only property, plant and equipment under construction; or investments in subsidiaries).

The next most frequently reported reason for modifying the audit opinion refers to the violation of the provisions of IAS 16 (12.5%). A more detailed analysis revealed that the auditors state the violation of numerous provisions of this standard. The auditors state in their audit reports that a certain number of enterprises did not recognise all property, plant and equipment, they did not activate property, plant and equipment under construction that were completed, they did not calculate depreciation on all property, plant and equipment, they did not apply the appropriate depreciation method, they did not write off certain assets even though the conditions for that were met, they did not provide all the necessary disclosures, etc.

The auditors also indicate frequent violations of the provisions of IAS 37 (9.8%) and IAS 2 (7.9%). Noncompliance with the provisions of IAS 37 in most cases

refers to the fact that the enterprises did not recognise provisions for court cases against the enterprises and for land restoration. As a result, expenses and liabilities are underestimated, and the financial result is overestimated. Other violations of this standard refer to failure to assess the value of provisions, failure to cancel long-term provisions even though the conditions for this have been met, failure to make necessary disclosures, etc. Inconsistencies with the provisions of IAS 2 mostly relate to the fact that enterprises did not determine the net recoverable value of inventories on the balance sheet date and, therefore, did not perform inventory value adjustments. Other violations of this standard refer to the fact that enterprises do not determine conversion costs of inventory that are necessary to determine the balance sheet value of finished goods inventory and work-in-progress inventory. Violations of the provisions of other IAS and IFRS are less often mentioned in audit reports.

5. CONCLUSIONS

This research has shown that the quality of financial statements of government-owned enterprises in Bosnia and Herzegovina is at an extremely low level. The data show that the financial statements of over 80% of government-owned enterprises in Bosnia and Herzegovina do not provide a true and objective view of the financial position and profitability of these enterprises. This means that the financial statements of the vast majority of government-owned enterprises are not a reliable basis for decision-making. The state, as the owner of these enterprises, does not have at its disposal a reliable instrument for assessing the current situation, assessing risks and defining policies and strategies for future actions that should pull government-owned enterprises out of the financial hole where they find themselves.

Providing data on IAS and IFRS that are most often violated, i.e. about the provisions of these standards that are most often violated, this research allows us to see the ways in which the picture of the achieved financial performance of government-owned enterprises is distorted. In a large number of audit reports, violations of the provisions of IFRS 9, IAS 2 and IAS 36 related to the value adjustments of receivables, inventories and fixed assets were reported. A large number of government-owned enterprises do not assess the impairment of fixed and current assets and do not reduce the value of these assets to a recoverable amount. Because of this, the asset value is overestimated, the expenses are underestimated and the financial result is overestimated. In addition, auditors report a frequent violation of the provisions of IAS 37, which refer to the recognition of provisions for certain categories of expenses. Due to the non-

recognition of provisions, liabilities and expenses are understated and the financial result is additionally overstated. It shows that the financial performance of many government-owned enterprises is much worse than their financial statements show.

In their audit reports, the auditors point to frequent violations of IAS 1, i.e. provisions related to the assessment of the ability of the enterprise to operate as a going concern. Managers of government-owned enterprises are aware of the fact that, despite poor performance, the survival of these enterprises will not be questioned. They will receive financial resources from the budget in order to continue its operations. Because of this, managers probably feel that it is not necessary to assess the ability of the enterprise to continue operating as a going concern because it will not be called into question. Therefore, they probably feel that there is no need to disclose anything about it in the financial statements.

The results of this research could be useful to the state as the owner of government-owned enterprises and the regulatory bodies in charge of designing and implementing initiatives to improve the quality of financial statements. In order to create preconditions for improving the quality of financial statements of government-owned enterprises, it is necessary to increase the capacity of supreme audit institutions in Bosnia and Herzegovina. If audits of the financial statements of less than 5% of government-owned enterprises are carried out annually, this means that up to 20 years can pass between two audits of the financial statements of a government-owned enterprise. An audit of financial statements that is done every 5, 10 or 20 years cannot contribute to strengthening accounting discipline and the responsibility of those who prepare financial statements. Increasing the capacity of supreme audit institutions is necessary, but not sufficient to increase the quality of financial statements of government-owned enterprises. It is crucial to make government-owned enterprise managers accountable for the quality of financial statements and the overall performance of the enterprise. Managers have to bear the consequences for low-quality financial reporting, but also for poor enterprise performance. Only then will they be interested in improving all aspects of the operations of government-owned enterprises, including financial reporting.

When interpreting the results of this research, the limitations that existed in the research should be taken into account. The research was conducted on a relatively small sample. This limitation is of an objective nature and is the consequence of the number of financial audits performed by the supreme audit institutions in Bosnia and Herzegovina in the period covered by the research. However, there is a possibility that the sample is not sufficiently representative and this should

be taken into account when generalizing the results. Also, it should be borne in mind that the type of audit opinion and the reasons for modifying the audit opinion do not only depend on the quality of the financial statements, but also on the quality of the audit. Audit quality is reflected in auditors' ability to identify material misstatements in financial statements and their willingness to disclose information about identified material misstatements in their audit reports.

Finally, there is considerable scope for further empirical research. It would be interesting to determine the reasons for the low quality of financial statements of government-owned enterprises in Bosnia and Herzegovina, to compare the quality of financial statements of government-owned enterprises and enterprises that are privately owned, and to determine whether ownership affects the quality of financial reporting. Also, it would be useful to assess the quality of the financial audit that is being conducted in Bosnia and Herzegovina.

Conflict of interests

The authors declare there is no conflict of interest.

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ОЦЈЕНА КВАЛИТЕТА ФИНАНСИЈСКИХ ИЗВЈЕШТАЈА ЈАВНИХ ПРЕДУЗЕЋА У БОСНИ И ХЕРЦЕГОВИНИ

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САЖЕТАК

Циљ овог рада је да се оцијени квалитет финансијских извјештаја јавних предузећа у Босни и Херцеговини на основу информација садржаних у ревизорским извјештајима врховних ревизорских институција. Истраживање је спроведено на узорку 135 ревизорских извјештаја који се односе на извјештајне периоде од 2018. до 2022. године. За прикупљање података коришћен је метод анализе садржаја. Резултати истраживања показују да су у преко 80% случајева ревизори дали модификовано ревизорско мишљење указујући на то да квалитет финансијских извјештаја није на задовољавајућем нивоу. Већина разлога за модификацију ревизорског мишљења се односи на неусклађеност са одредбама МРС 1, МСФИ 9, МРС 36, МРС 16, МРС 37 и МРС 2. У највећем броју случајева неправилности у финансијским извјештајима јавних предузећа су посљедица тога што се не врши процјена обезвријеђености сталне и текуће имовине и свођење вриједности ове имовине на надокнадив износ. Као резултат тога, вриједност имовине је прецијењена, трошкови су потцијењени и финансијски резултат је прецијењен.

Кључне ријечи: квалитет финансијских извјештаја, јавна предузећа, ревизорски извјештај, врховна ревизорска институција, кршење одредби МРС и МСФИ.