

## EMPHASIS OF MATTER PARAGRAPH IN AUDITOR'S REPORTS ON FINANCIAL STATEMENTS OF LISTED COMPANIES IN BOSNIA AND HERZEGOVINA

Amira Pobrić

University of East Sarajevo, Faculty of Economics Brčko  
amira.pobric@gmail.com, ORCID: 0000-0001-8902-7223

**Abstract:** This paper analyses auditor's reports on financial statements of listed companies in Bosnia and Herzegovina. The goal of the research is to determine the frequency of the inclusion of the Emphasis of Matter paragraph in auditor's reports, as well as to identify the matters to which auditors most often draw the attention of users of financial statements within this paragraph. The research was conducted on a sample of 689 auditor's reports and covered the period from 2018 to 2021. The content analysis method was used. This research shows that the frequency of the inclusion of the Emphasis of Matter paragraph in auditor's reports was 22.5%. On average, auditors were more likely to include this paragraph in auditor's reports containing a modified audit opinion compared to auditor's reports containing an unqualified opinion. The auditors mostly drew the attention of the users of financial statements to the violation of the requirements defined by the International Accounting Standards, then to the uncertainty regarding the future outcomes of litigations, the amount and structure of certain types of assets, liabilities and income, poor performance of companies, non-compliance with laws and regulations, etc. The results show that there are indications that auditors in certain situations use the Emphasis of Matter paragraph instead of modifying the audit opinion.

**Keywords:** the auditor's report, Emphasis of Matter paragraph.

## NAGLAŠAVANJE PARAGRAFA O VAŽNIM PITANJIMA U IZVEŠTAJIMA REVIZORA O FINANSIJSKIM IZVEŠTAJIMA KOMPANIJA LISTIRANIH U BOSNI I HERCEGOVINI

**Apstrakt:** Ovaj rad analizira izveštaje revizora o finansijskim izveštajima listiranih kompanija u Bosni i Hercegovini. Cilj istraživanja je utvrditi učestalost uključivanja paragrafa Naglašavanje važnih pitanja u izveštajima revizora, kao i identifikovati teme na koje revizori najčešće skreću pažnju korisnika finansijskih izveštaja unutar ovog paragrafa. Istraživanje je sprovedeno na uzorku od 689 izveštaja revizora i obuhvatilo je period od 2018. do 2021. godine. Korišćena je metoda analize sadržaja. Ovo istraživanje pokazuje da je učestalost uključivanja paragrafa Naglašavanje važnih pitanja u izveštajima revizora iznosila 22.5%. Prosečno, revizori su češće uključivali ovaj paragraf u izveštajima koji sadrže modifikovanu revizorsku mišljenje u poređenju sa izveštajima koji sadrže neizmenjeno mišljenje. Revizori su najčešće skretali pažnju korisnika finansijskih izveštaja na kršenje zahteva definisanih Međunarodnim standardima računovodstva, zatim na neizvesnost u vezi sa budućim ishodima sudskih sporova, iznos i strukturu određenih vrsta imovine, obaveza i prihoda, loše poslovne rezultate kompanija, nepoštovanje zakona i propisa, itd. Rezultati pokazuju da postoje naznake da revizori u određenim situacijama koriste paragraf Naglašavanje važnih pitanja umesto modifikovanja revizorskog mišljenja.

**Ključne reči:** izveštaji revizora, revizori, naglašavanje paragrafa.

**JEL codes:** M42, M41, M49

## INTRODUCTION

External auditing plays an important role in ensuring the quality of financial reporting. It represents an essential element of the surveillance infrastructure. The fact that the audit of financial statements is continuously conducted disciplines the management, that is, it demotivates them to conduct fraudulent financial reporting and encourages them to improve the quality of financial statements. In this way, external auditing gives credibility to financial statements. This contributes to the increase of the confidence of investors and other stakeholders in financial statements and the reduction of uncertainty when making decisions based on these statements.

The auditor's report is the main means of communication between auditors and users of financial statements. A number of factors influence what an auditor can and should communicate to users of financial statements. "These factors include the nature of financial reporting, the practical and legal limitations on the auditor's ability to obtain and disseminate information, and the need for the audit to be conducted within a reasonable period of time and at a reasonable cost" (IAASB, p. 6).

For many years, the audit profession has insisted on the standardization of auditor's reports to ensure their comparability. It was considered that the benefits of standardizing auditor's reports were greater than the benefits that would be achieved if auditor's reports were adapted to the specifics of the reporting entities (Simnett & Huggins, 2019, pp. 212-223). However, users of financial statements consider such auditor's reports templated and believe they have no informational and communication value (Czerney & Schmidt, 2019, pp. 2115-2149). Especially, bearing in mind that most auditor's reports contain an unqualified audit opinion. They need specific information about the reporting entity and its financial statements, as well as information about the specifics of the audit that was conducted at the audited entity. They want to get this information directly from reporting entities and/or auditors. Users of financial statements believe that this information would help them in assessing the company's financial performance as well as in assessing the quality of financial statements and audit quality (IAASB, 2011).

The International Auditing and Assurance Standards Board reformed the International Auditing Standards to adapt the auditor's report to the requirements of users of financial statements. The most significant change relates to the inclusion of a Key Audit Matters paragraph in the auditor's report. Within this paragraph, the auditors should communicate the matters that, in their professional judgment, are of greatest importance in the audit of the current period's financial statements. Relevant information about the audit client and his/her financial statements can be communicated by the auditors within the Emphasis of Matter paragraph and the Other Matter paragraph.

The auditor's opinion on the truthfulness and objectivity of financial statements is the most important information in the auditor's report. However, the Emphasis of Matter paragraph can contain important information. The auditor uses the Emphasis of Matter

paragraph to expand communication with users of financial statements and increase the usefulness of the auditor's report. The auditor will include an Emphasis of Matter paragraph in the auditor's report if he/she believes that some matters that are already adequately disclosed in financial statements are of such importance that they are critical to the understanding of financial statements by users 8. (IAASB, 2012) In this way, he/she will focus the attention of users of financial statements on these issues.

By including the Emphasis of Matter paragraph, the auditor does not modify his/her opinion. This paragraph cannot be a substitute for a qualified opinion, an adverse opinion or disclaiming an opinion. In the case of an unqualified opinion, its inclusion in the auditor's report does not call into question the general conclusion that financial statements are true and objective, but emphasizes the information that the management has already disclosed. To avoid any confusion, when including this paragraph, the auditor is required to state that the audit opinion has not been modified in relation to the matter emphasised.

According to International Auditing Standards, the auditor is required to include an Emphasis of Matter paragraph in his/her report "when a financial reporting framework prescribed by law or regulation would be unacceptable but for the fact that it is prescribed by law or regulation; to alert users that the financial statements are prepared in accordance with a special purpose framework; when facts become known to the auditor after the date of the auditor's report and the auditor provides a new or amended auditor's report" IAASB (2015). In addition to this, the auditor may consider it necessary to include the Emphasis of Matter paragraph when there are "an uncertainty relating to the future outcome of exceptional litigation or regulatory action; a significant subsequent event that occurs between the date of the financial statements and the date of the auditor's report; early application (where permitted) of a new accounting standard that has a material effect on the financial statements; a major catastrophe that has had, or continues to have, a significant effect on the entity's financial position". IAASB (2015)

The Emphasis of Matter paragraph does not provide new information compared to what is disclosed in the financial statements. However, by using this paragraph, the auditor helps users of financial statements navigate complex financial statements by drawing attention to important information contained in these statements. Auditors typically draw attention to uncertainties associated with litigations, subsequent events, related party transactions, and the like. They use the Emphasis of Matter paragraph as a practical mechanism to convey information about the risks that reporting entities face in their operations. Czerney et al. (2014) believe that managers of reporting entities do not look favourably on the inclusion of this information in the auditor's report. Auditors strive to maintain good relationships with their clients, so they are unlikely to insist on emphasising matters that would damage the auditor-client relationship unless there is a significant concern about the financial statements. The International Auditing and Assurance Standards Board has expressed the view that, except in circumstances where the emphasis of matter is specifically required, auditors rarely use this paragraph in practice IAASB (2012).

This paper analyses the content of the Emphasis of Matter paragraph in the auditor's reports on the financial statements of listed companies in Bosnia and Herzegovina. The aim of the research is to determine how often auditors include this paragraph in their auditor's reports and to which matters they draw the attention of users of financial statements. The article is organized as follows. Part 2 provides an overview of previous research related to emphasising matters in auditor's reports. The research design is presented in part 3. In part 4, the results of the research are presented, and in part 5, concluding considerations are given.

## **LITERATURE REVIEW**

There is a small amount of research regarding the inclusion of the Emphasis of Matter paragraph in the auditor's report. Many believe that this paragraph has no informational value for users of financial statements because it does not offer new information but refers to the information already disclosed in financial statements (Bessell et al. 2003). However, although rare, there are studies that disprove such beliefs.

Vučković-Milutinović (2019) examined the frequency of the use of the Emphasis of Matter paragraph in auditor's reports in Serbia, as well as the nature of the issues that are emphasised. She conducted research on a sample of auditor's reports of 112 listed companies that were issued in the period from 2015 to 2017. The research found that about 41% of the analysed auditor's reports contain the Emphasis of Matter paragraph and that this rate slightly decreases during the considered period. Also, it was found that auditors more often include this paragraph in auditor's reports that contain a modified audit opinion. These data showed that the use of the Emphasis of Matter paragraph is not as rare as assumed. The research covers the period before the application of the latest changes to the auditor's reporting model. Namely, before the latest amendments to the International Auditing Standards related to the form and content of the auditor's report, the Emphasis of Matter paragraph included matters related to the existence of material uncertainties related to going concern. In this research, it was determined that auditors most often emphasized these matters, followed by matters related to "assets pledged as security for liabilities, as well as uncertainties about the future outcome of litigations, tax effects of related parties' transactions and non-compliance with laws and regulations" (Vučković-Milutinović 2019). Based on a detailed content analysis, Vučković-Milutinović made an observation that the Emphasis of Matter paragraph is sometimes used instead of modifying the audit opinion.

Damascena and Paulo (2013) investigated whether accounting and non-accounting characteristics of companies influence whether an auditor will issue a qualified opinion and whether he/she will include an Emphasis of Matter paragraph in his/her auditor's report. The research was conducted on a sample of 1,466 auditor's reports on the financial statements of listed companies in Brazil that refer to the period from

2006 to 2008. As part of this research, it was determined that 41.4% of auditor's reports contain the Emphasis of Matter paragraph. This shows that auditors do include this paragraph in auditor's reports more often than previously thought.

Kim and Jung (2020) investigated the impact of corporate social performance on the number of audit hours and whether the inclusion of an Emphasis of Matter paragraph in the auditor's report moderates the association between these variables. The research was conducted on a sample of Korean listed companies and covered the period from 2011 to 2016. The sample included 1,796 units. As part of this research, it was determined that 18% of the total number of analysed auditor's reports contain the Emphasis of Matter paragraph. Also, it was determined that auditors most often draw the attention of users to transactions with related parties (in 36% of cases), then to changes in accounting policy (29%), subsequent events (10%), key changes in the operating environment and corporate governance (10%), etc.

Carson, Fargher and Zhang (2016) analysed trends in auditor's reporting in Australian listed companies from 2005 to 2013. The research was conducted on a sample of 15,855 auditor's reports. This research found that approximately 20% of auditor's reports contain an Emphasis of Matter paragraph and that auditors were more likely to include this paragraph in auditor's reports that contain an unqualified audit opinion. In over 90% of cases, auditors emphasized matters related to uncertainties related to going concern. Other types of emphasis of matters rarely appeared in the considered period.

Czerney, Schmidt, and Thompson (2019) did not examine how often auditors include an Emphasis of Matter paragraph in their auditor's report, but whether the additional information that auditors include in an auditor's report with an unqualified audit opinion has informational value for investors. The research was conducted on a sample of companies whose shares are listed on stock exchanges in the USA. The research covered the period from 2000 to 2009. The sample consisted of 20,373 units. It was found that emphasis of matter in the auditor's reports did not affect the share price, but it did affect the trading volume of the shares. Based on this, the researchers concluded that emphasis of matter in auditor's reports has informational value for investors.

In another study, Czerney, Schmidt and Thompson (2014) investigated whether additional information that auditors include in an auditor's report with an unqualified audit opinion indicates an increased risk of financial statement misstatements. This research was also conducted on a sample of companies whose shares are listed on stock exchanges in the USA and covered the period from 2000 to 2009. This research was conducted on a sample of 30,825 units. They found that companies that have an auditor's report that contains Emphasis of Matter have a higher probability of subsequent correction of financial statements on the same accounts to which the auditor drew attention in the Emphasis of Matter paragraph.

## RESEARCH DESIGN

The aim of this research is to determine how often auditors include the Emphasis of Matter paragraph in their auditor's reports and to which matters they draw the attention of users of financial statements. The research was conducted on a sample of companies from Bosnia and Herzegovina that are listed on the Banja Luka Stock Exchange. The initial sample consisted of all the companies listed on the Banja Luka Stock Exchange. Securities on the Banja Luka Stock Exchange are included in the official stock market and the free market. There are 32 companies on the official stock market, while the securities of 422 companies are listed on the free market. This means that the initial sample consisted of 454 companies.

The research covers a four-year period, from 2018 to 2021. The year 2018 was taken as a starting point because the amended International Auditing Standards concerning the audit reporting model (IAS 570, IAS 700, IAS 701, NRS 705, IAS 706 and IAS 720) were applied from that year on. These standards were adopted in 2015, but due to their untimely translation, there was a delay in their application.

For 155 companies from the initial sample, auditor's reports were available for all four considered years. For the remaining 299 companies, auditor's reports for one or more years were not available. It was decided to include the companies with available auditor's reports for three or four years of the considered period in the sample. The final sample includes 178 listed companies, or 39.2% of the initial sample. A total of 689 auditor's reports were collected. The number of analysed auditor's reports by year is given in Table 1.

Table 1: Distribution of analysed auditor's reports in the period from 2018 to 2021

	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
Number of companies in the sample	178	178	178	178
Number of missing auditor's reports	8	8	1	6
Number of available auditor's reports	170	170	177	172

Source: the author's calculation.

The structure of the sample according to the main industry sectors is given in Table 2. As can be seen from Table 2, the sample includes companies from 17 different industry sectors. The most represented companies are those that perform water supply, sewerage, waste management and environmental remediation activities; then companies that deal with the processing industry; and companies that perform financial and insurance activities.

Table 2: The structure of the sample by main industry sectors

<b>Industry main section</b>	<b>No. of companies</b>	<b>% of companies</b>
A Agriculture, forestry and fishing	7	3.9
B Ore and stone extraction	3	1.7
C Processing industry	25	14.0
D Production and supply of electricity, gas, steam and air conditioning	14	7.9
E Water supply, sewerage, waste management and environmental remediation activities	40	22.5
F Construction	8	4.5
G Wholesale and retail trade; repair of motor vehicles and motorcycles	14	7.9
H Transportation and storage	11	6.1
I Activities of providing accommodation, preparation and serving food	4	2.2
J Information and communication	3	1.7
K Financial and insurance activities	24	13.5
L Real estate activities	11	6.1
M Professional, scientific and technical activities	9	5.1
N Administrative and support service activities	1	0.6
P Education	1	0.6
Q Health care and social work activities	1	0.6
R Arts, entertainment and recreation	2	1.1
Total	178	100.0

Source: the author's calculation.

Table 3 shows the structure of the sample according to ownership. Both private and public enterprises are represented in the sample, with more private enterprises. Out of the total number of companies that make up the sample, 65.2% are privately owned, and 34.8% are publicly owned.

Table 3: The structure of the sample by ownership of companies

	<b>No. of companies</b>	<b>% of companies</b>
Private enterprises	116	65.2
Public enterprises	62	34.8
Total	178	100,0

Source: the author's calculation.

All the collected auditor's reports were subjected to content analysis. The content analysis was performed to determine whether the auditor's reports included an Emphasis of Matter paragraph and to which matters the auditors drew the attention of the users using this paragraph.

## RESULTS

Table 4 shows how often auditors included the Emphasis of Matter paragraph in auditor's reports on financial statements of listed companies in Bosnia and Herzegovina in the period from 2018 to 2021. Out of a total of 689 auditor's reports, the Emphasis of Matter paragraph is included in 155 auditor's reports. This means that 22.5% of auditor's reports contain this paragraph. Observed by year, the frequency of the inclusion of this paragraph in auditor's reports ranges from 19.2% to 25.5%, with a downward trend.

Table 4: Frequency of Emphasis of Matter (EoM) paragraph in auditor's reports in period from 2018 to 2021

	<b>Auditor's reports with unqualified audit opinion</b>	<b>Auditor's reports with modified audit opinion</b>	<b>Total</b>
<b>2018</b>			
Total no. of auditor's reports	145	25	170
No. of auditor's report with EoM	33	11	44
% of auditor's report with EoM	22.8	44.0	25.9
<b>2019</b>			
Total no. of auditor's reports	141	29	170
No. of auditor's report with EoM	28	10	38
% of auditor's report with EoM	19.9	34.5	22.4
<b>2020</b>			
Total no. of auditor's reports	144	33	177
No. of auditor's report with EoM	29	11	40
% of auditor's report with EoM	20.1	33.3	22.6
<b>2021</b>			
Total no. of auditor's reports	139	33	172
No. of auditor's report with EoM	27	6	33
% of auditor's report with EoM	19.4	18.2	19.2
<b>Total</b>			
Total no. of auditor's reports	569	120	689
No. of auditor's report with EoM	117	38	155
% of auditor's report with EoM	20.1	31.7	22.5

Source: the author's calculation.

On average, auditors were more likely to include an Emphasis of Matter paragraph in auditor's reports containing a modified audit opinion. The average frequency of the inclusion of this paragraph in auditor's reports with a modified audit opinion is 31.7%, while in auditor's reports with an unqualified opinion it is 20.1%. This could mean that auditors are more careful when preparing an auditor's report for clients whose financial statements are of poorer quality and that they warn users about the risks that are present in the business of these clients more often. However, observed by year, it can be noticed that there is also a downward trend here, so that in the last year of the



considered period, the frequency of the inclusion of the Emphasis of Matter paragraph is slightly lower in auditor’s reports containing a modified audit opinion than in auditor’s reports containing an unqualified audit opinion.

Table 5 shows the matters to which the auditors drew the attention of the users of financial statements through the Emphasis of Matter paragraph. An auditor can draw attention to several matters within this paragraph. In this regard, in 155 auditor’s reports that included the Emphasis of Matter paragraph, the auditors drew the attention of users of financial statements to 228 matters.

Table 5: Matters to which the auditors draw attention in the Emphasis of Matter (EoM) paragraph

<b>Matters to which the auditors draw attention</b>	<b>No. of EoM paragraphs</b>	<b>% of EoM paragraphs</b>
Violation of the requirements of International Accounting Standards	32	14.0
Uncertainties regarding future outcomes of litigations	31	13.6
Amount and structure of certain types of assets, liabilities and income	26	11.4
Poor business performance	22	9.7
Non-compliance with laws and regulations	22	9.7
Related party transactions	17	7.5
Problems in determining ownership of property	16	7.0
Rescheduling of the company's obligations	12	5.3
Assets pledged as security for obligations	11	4.8
Missing or poor internal controls	8	3.5
Change in the amount and structure of the capital	7	3.1
The impact of the corona virus on business	4	1.7
The company corrected the financial statements and they were subject to an audit	4	1.7
The company is a guarantor for the obligations of other companies	3	1.3
Other	13	5.7
<b>Total</b>	<b>228</b>	<b>100.0</b>

Source: the author’s calculation.

In 14% of cases, auditors drew the attention of users to the violation of requirements defined by International Accounting Standards. According to “International Auditing Standard 706 –Emphasis of Matter paragraph and Other Matter paragraph of the independent auditor's report”, the Emphasis of Matter paragraph “refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor’s judgment, is of such importance that it is fundamental to users’ understanding of the financial statements”. (IAASB, 2015) Issues related to violations of requirements defined by International Accounting Standards are not appropriately presented or disclosed in the financial statements. Half of the cases refer to the fact that the

company should have, but did not, perform a subsequent valuation of a certain type of asset (fixed assets, receivables or inventory). According to Vučković-Milutinović (2019) and Aljinović Barac, Vuko and Šodan (2017), this is a frequent reason for modifying the audit opinion. Other violations of the requirements of the International Accounting Standards refer to the fact that the chosen accounting policy is not in accordance with the standards, the long-term liabilities that are due within a year have not been reclassified to short-term liabilities, the fixed asset revaluation model has been incorrectly applied, uncollectible receivables have not been written off, etc.

As can be seen from Table 5, 13.6% of cases refer to uncertainties regarding the future outcomes of legal disputes. Auditors drew the attention of users to the notes to the financial statements in which the reporting entities state the legal disputes they lead and that are being led against them, the estimated outcomes of those disputes and the provisions and potential liabilities that have been recorded on that basis.

In 11.4% of cases, the auditors drew the users' attention to the amount and structure of certain types of assets, liabilities and income. Most often, they drew attention to the amount and structure of certain categories of property, plant and equipment, intangible assets and receivables. In 9.7% of cases, the auditors drew the attention of the users to the poor performance of the company. Most often, they indicated that the company is making a loss or that the profit made in the current period is not enough to cover the loss accumulated in previous periods. Somewhat less often, they drew the attention of users to the fact that short-term liabilities are greater than current assets. Also, in 9.7% of cases, auditors drew attention to non-compliance with laws and other regulations by the company. They pointed out that the company did not comply with the Law on Income Tax and the Law on Contributions regarding the payment of taxes and contributions to wages, then, the company did not comply with the rulebook defining the form and content of financial report forms when compiling certain financial statements, the reconciliation of receivables and payables records with the records of all business partners was not performed, as required by the Law on Accounting and Auditing, etc.

The auditors also drew attention in their auditor's reports to the risks arising from transactions with related parties, the problems that the reporting entities have in determining and proving the ownership of real estate, the fact that the company submitted a request for a rescheduling of obligations, that the rescheduling of obligations was approved or that the company regularly settles rescheduled obligations as well as other matters listed in Table 5. In Table 5, the "Other" category includes matters that the auditors indicated in the Emphasis of Matter paragraph and which arose in only one instance.

## CONCLUSION

The auditor's report represents the basic means of communication between auditors and users of financial statements. Although the audit opinion represents the most important information in the auditor's report, the Emphasis of Matter paragraph may also contain useful information for investors and other users of financial statements. This research shows that the frequency of the inclusion of the Emphasis of Matter paragraph in auditor's reports on financial statements of listed companies in Bosnia and Herzegovina is 22.5%. It is less than in Serbia (Vučković-Milutinović, 2019) or Brazil (Damascena, Paulo, 2013), but it cannot be said that auditors rarely include this paragraph in their auditor's reports. In the considered period, from 2018 to 2021, the frequency of the inclusion of this paragraph ranged from 19.2% to 25.5%, with the presence of a downward trend. On average, auditors were more likely to include an Emphasis of Matter paragraph in auditor's reports containing a modified audit opinion. The same conclusion was reached by Vučković-Milutinović (2019). This could mean that auditors more often warn users about the risks that are present in the business of clients whose financial reports are of poorer quality.

In the Emphasis of Matter paragraph, the auditors drew the attention of the users of financial statements to the violation of the requirements of defined International Accounting Standards, uncertainties regarding the future outcomes of litigations, the amount and structure of certain types of assets, liabilities and income, poor performance of companies, non-compliance with laws and regulations and other matters. When it comes to violating the requirements of the defined International Accounting Standards, the auditors most often drew attention to the fact that the company should, but did not, perform a subsequent valuation of fixed assets, receivables or inventory. This is a frequent reason for modifying the audit opinion (Barac et al., 2017; Vučković-Milutinović, 2019). It could be concluded from this that in certain situations auditors use the Emphasis of Matter paragraph instead of modifying the audit opinion, which is contrary to International Auditing Standards.

There is considerable scope for further empirical research. It would be useful to investigate whether the information contained in the Emphasis of Matter paragraph has informational value for users and whether users react equally when this paragraph is included in an auditor's report with an unqualified opinion and an auditor's report with a modified opinion. It would also be important to examine whether auditors in certain circumstances use the Emphasis of Matter paragraph instead of modifying the audit opinion.

## BIBLIOGRAPHY

1. Aljinovic Barac, Z., Vuko, T., Šodan, S. (2017) What can auditors tell us about accounting manipulations?, *Managerial auditing journal*, 32(8), pp. 788-809.
2. Bessell, M., Anandarajan, A., Umar, A. (2003) Information content, audit reports and going-concern: an Australian study, *Accounting & Finance*, 43(3), pp. 261-282.

3. Carson, E., Fargher, N., Zhang, Y. (2016) Trends in auditor reporting in Australia: A synthesis and opportunities for research, *Australian Accounting Review*, 26(3), pp. 226-242.
4. Czerney, K., Schmidt, J. J., Thompson, A. M. (2014) Does auditor explanatory language in unqualified audit reports indicate increased financial misstatement risk?, *The Accounting Review*, 89(6), pp. 2115-2149.
5. Czerney, K., Schmidt, J. J., Thompson, A. M. (2019) Do investors respond to explanatory language included in unqualified audit reports?, *Contemporary Accounting Research*, 36(1), pp. 198-229.
6. Damascena, L. G., Paulo, E. (2013) Audit Opinion: A study of qualification opinion and paragraphs of emphasis on the financial statements of Brazilian public firms, *Revista Universo Contábil*, 9(3), pp. 104-127.
7. IAASB (2011) Enhancing the value of auditor reporting: Exploring options for change. Consultation paper, May 2011. International Auditing and Assurance Standards Board.
8. IAASB (2012) Invitation to comment - Improving the auditor's report. International Auditing and Assurance Standards Board.
9. IAASB (2015) International standard on auditing 706 (revised) – Emphasis of matter paragraphs and other matter paragraphs in the independent auditor's report. International Auditing and Assurance Standards Board.
10. Kim, H. A., Jung, N. C. (2020) The effect of corporate social performance on audit hours: moderating role of the emphasis of matter paragraphs in audit report, *Sustainability*, 12(3), pp. 1-17.
11. Simnett, R. Huggins, A. (2014) Enhancing the auditor's report: To what extent is there support for the IAASB's proposed changes?, *Accounting Horizons*, 28(4), pp. 719-747.
12. Vučković-Milutinović, S. (2019) Analysis of modifications to auditor's opinion on financial statements of listed companies in Serbia, *Ekonomika preduzeća*, 67(3-4), pp. 212-223.

## **RESUME**

This paper analyses auditor's reports on financial statements of listed companies in Bosnia and Herzegovina. The goal of the research is to determine the frequency of the inclusion of the Emphasis of Matter paragraph in auditor's reports, as well as to identify the matters to which auditors most often draw the attention of users of financial statements within this paragraph. The research was conducted on a sample of 689 auditor's reports and covered the period from 2018 to 2021. The content analysis method was used. This research shows that the frequency of the inclusion of the Emphasis of Matter paragraph in auditor's reports was 22.5%. On average, auditors were more likely to include this paragraph in auditor's reports containing a modified audit opinion compared to auditor's reports containing an unqualified opinion. The auditors mostly drew the attention of the users of financial statements to the violation of the requirements defined by the International Accounting Standards, then to the uncertainty regarding the future outcomes of litigations, the amount and structure of certain types of assets, liabilities and income, poor performance of companies, non-compliance with laws and regulations, etc. The results show that there are indications that auditors in certain situations use the Emphasis of Matter paragraph instead of modifying the audit opinion.