

The Impact of Audit on Company Performance

Abstract: *The aim of this research is to examine the impact of financial statement auditing on company profitability, measured by return on assets (ROA), while identifying the key determinants of financial performance in companies operating in Sector C – Manufacturing and Sector G – Trade in the Republic of Serbia, during the period 2023-2024. The research hypothesis was formulated that the audit of financial statements has a positive effect on company profitability. A multiple regression model was applied to assess the effects of selected independent variables on the dependent variable ROA. The analysis includes variables reflecting the key characteristics of companies' size, current liquidity, indebtedness, the share of fixed assets, and the existence of a financial statement audit. The dataset analyzed comprises 200 observations, with sectors selected due to their significant role in the overall economic structure of the country. The results indicate that current liquidity, indebtedness, and financial statement auditing have a statistically significant positive effect on company profitability. In contrast, company size and the share of fixed assets do not exhibit a statistically significant impact on ROA. The findings suggest that efficient management of liquidity and financial structure, as well as transparency in financial reporting through auditing, represent key factors for improving profitability in the observed sectors. The results are relevant for company managers, investors, creditors, and policymakers, as they demonstrate that audited financial statements strengthen the confidence of external users of financial information, thereby enhancing the quality and reliability of business and investment decision-making in the contemporary business environment of the Republic of Serbia.*

Keywords: *audit, profitability*

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INTRODUCTION

Financial statements represent a key source of information for investors and other users of financial data in the process of making economic decisions. Their importance lies not only in providing insight into the current financial position of a company but also in serving as a basis for assessing future performance and business sustainability. The quality and reliability of financial statements have a direct impact on investment decisions and the allocation of capital in the market (9).

The audit of financial statements is one of the key mechanisms of modern corporate governance, contributing to the increased credibility of financial information. Its primary role is to provide independent, objective, and professional verification of accuracy, reliability, and fair presentation of financial information contained in a company's financial statements. In developed capital markets, auditing plays a crucial role in reducing information asymmetry between management, as the internal holder of information, and external users of financial statements, thereby contributing to greater transparency. From the perspective of agency theory, auditing is viewed as an instrument that mitigates conflicts of interest between owners of capital (principals) and management (agents) by increasing the level of control and verification of financial reporting (16). In this context, the external auditor is responsible for assessing whether the financial statements fairly reflect the financial position, business results, and cash flows of the company, in accordance with relevant accounting standards and regulatory requirements.

Users of audit reports include a wide range of stakeholders, such as investors, creditors, analysts, management, employees, state institutions, and regulatory bodies (34). Investors rely on audited financial statements as a basis for capital allocation decisions, while creditors use them to assess credit risk and the solvency of companies. Regulatory authorities and market supervisors use auditing as an important instrument for maintaining the stability of the financial system and protecting the public interest. Given the heterogeneity of users and the importance of the information provided by financial statements, auditing emerges as a key mechanism for ensuring their reliability. Its role is primarily reflected in the independent and objective assessment of the accuracy and truthfulness of financial statements, thereby ensuring greater transparency of business operations. In this way, auditing contributes to reducing information asymmetry between companies and external users, improving the quality of economic decisions. By increasing the credibility of financial statements, auditing reduces investor risk perception, which may lead to a lower cost of capital, improved access to external financing, and a stronger market position for companies. Thus, auditing assumes a broader economic function, as it not only verifies financial statements but also strengthens the trust of external users and contributes to more efficient market functioning.

Companies operate in competitive market conditions with the primary goal of achieving positive financial results, that is, generating profit that ensures long-term sustainability, development, and the ability to respond to market demands. Profitability represents the ability of a company to generate revenue exceeding total expenses, measuring the

efficiency of resource use in the process of generating profit. Profitability is influenced by a wide and complex set of internal and external factors. Among the most significant internal factors are company size, liquidity measures, indebtedness indicators, asset structure, growth, investments, company age, productivity, and lagged profitability, (26)(45) (38), while external factors most commonly discussed in the literature include market conditions, the development of the financial market, macroeconomic conditions (inflation, financial crises, instability), the tax system, and interest rates (40). Given that many of these determinants can be identified and quantified based on financial statement data, the availability of high-quality and reliable financial information is a key prerequisite for their adequate assessment and analysis by both internal and external stakeholders. In this context, the quality of financial reporting represents one of the essential prerequisites for sound decision-making within companies and among external users of information. A particularly important determinant among these factors is the audit of financial statements, as a mechanism that enhances their credibility and transparency. By increasing the credibility of financial statements, auditing strengthens the trust of investors and creditors, reduces risk perception, and facilitates access to external financing, which indirectly contributes to improved business performance.

Accordingly, audited financial statements possess a higher level of reliability and credibility, which may contribute to a more favorable position of companies in the capital market and better financing conditions. In this context, audit quality plays a significant role in shaping the decisions of financial statement users, with auditors being responsible for ensuring quality in accordance with professional auditing standards (12). Conversely, companies whose financial statements are not audited face a higher degree of information uncertainty. Although unaudited statements do not necessarily imply inaccuracy, they indicate a greater risk of potentially incorrect or insufficiently verified information, which may negatively affect risk perception and the decisions of external users.

The aim of the paper is to examine whether the existence of a financial statement audit affects company profitability. The research will examine whether companies whose financial statements are audited achieve better performance, measured through profitability indicators, compared to companies whose financial statements are not subject to the audit process.

LITERATURE REVIEW

Company performance represents a key indicator of business success and provides investors with insight into the overall financial and operational condition of a firm. It also serves as a “snapshot” of economic stability and managerial performance. (3) In this context, performance refers to the results achieved by individuals or organizational units within their responsibilities and competencies, in the function of achieving corporate objectives (43). From a theoretical standpoint, performance reflects a company’s ability

to efficiently combine and manage available resources in order to achieve and maintain competitive advantage in the market. Accordingly, a higher level of performance indicates that a company uses its resources successfully and rationally, ensuring greater efficiency and effectiveness in operations.

Within the measurement of business performance, profitability occupies a central position as one of the most important financial indicators of corporate success. The most commonly used profitability indicators in empirical research are Return on Assets (ROA) and Return on Equity (ROE), while some studies also use Earnings per Share (EPS) as an additional measure of profitability from the perspective of market value. (17)(18)(9) EPS is calculated as the ratio of net income minus preferred dividends to the weighted average number of ordinary shares outstanding. However, the literature emphasizes that EPS should be observed in combination with other financial indicators and ratios to ensure a more complete and reliable assessment of a company's financial position and overall performance (17) (18). ROE expresses the ratio of net income after taxes to total equity, indicating the efficiency of capital management and the company's success in creating value for shareholders. The literature notes that ROE may be influenced by financial leverage and capital structure, which is why it is recommended to observe it in combination with other profitability indicators to obtain a more objective picture of corporate performance. (9) Return on Assets (ROA) enables the assessment of resource management efficiency and the quality of managerial decisions (41). This indicator expresses the ratio of net income after taxes to total assets (17) (18), and the literature emphasizes that ROA directly reflects a company's ability to generate profit through efficient use of available resources (5) (18). Due to its relative stability and lower sensitivity to accounting distortions compared to other profitability indicators, ROA is widely used in empirical studies as a primary measure of financial performance (42) (19). Therefore, ROA, as the most relevant indicator for explaining firm value (6), will be used as the basis for further profitability analysis.

Based on previous empirical and theoretical research, audit quality is most commonly examined through several dimensions: auditor independence, audit firm tenure, audit firm size, audit fees, and regulatory mechanisms such as mandatory audit firm rotation. These aspects of audit quality are analyzed in the context of their impact on various indicators of corporate performance, most commonly profitability measures such as ROA, ROE, EPS, and cost of capital as an indicator of investor risk perception.

A study conducted in Korea (24) examines the effects of mandatory audit firm rotation on the perceived quality of auditing and investor decision-making, with a particular focus on its impact on the cost of capital as a measure of market risk perception. The aim was to determine whether mandatory rotation increases perceived auditor independence and contributes to more efficient capital market resource allocation. The study analyzes the relationship between mandatory rotation and cost of capital for the period 2006–2008 on a sample of 191 observations. The results show that mandatory rotation reduces the cost of capital, indicating that investors react positively to auditor changes and incorporate this information into their decisions.

The study examining the impact of audit quality on company performance in Malaysia (36) represents an extension of previous research on audit firm rotation, as it incorporates audit fees as an additional indicator of audit quality alongside rotation. The aim of the research was to analyze the influence of these factors on the performance of companies listed in Malaysia during the period 2003–2012. The empirical analysis was conducted on a sample of 542 companies using OLS regression and lagged regression models. Audit fees and audit firm rotation were used as independent variables, while return on assets (ROA) served as the key accounting-based measure of profitability (with Tobin's Q included as an additional market-based measure). The results show no consistent statistically significant relationship between audit quality indicators and ROA, although the baseline model reveals a negative association between audit fees and ROA, whereas in lagged models this relationship becomes positive but remains weak.

Moutinho and Cerqueira (27) analyzed the relationship between audit fees and firm performance using a sample of U.S. publicly listed companies for the period 2000–2008. Their findings indicate a negative relationship between audit fees and firm performance, with evidence that changes in audit fees reflect changes in financial and operational performance, confirming their role as indicators of performance trends.

Regarding audit firm rotation, Sayyar et al. (36) report that the results suggest a negative or statistically insignificant effect on firm performance, implying that auditor changes do not necessarily contribute to improved business outcomes. Instead, continuity in the auditor–client relationship may offer certain advantages through the accumulation of client-specific knowledge. These findings complement previous research on auditor rotation, indicating that the effects of audit quality on firm performance depend on the selected indicators, and that incorporating audit fees as an additional dimension allows for a more comprehensive understanding of the relationship between audit quality and economic outcomes.

The study (9) examines the impact of audit committee independence, as an element of auditing practices, on corporate financial performance. The aim of the research was to determine the extent to which audit independence contributes to improving company profitability, measured through ROA and ROE. The analysis was conducted on a sample of listed companies from the three most developed Eurozone countries—Germany, France, and Italy—covering the period from 2009 to 2019. The methodological approach was based on OLS regression estimates, with audit committee independence treated as the key independent variable, while ROA and ROE were used as measures of financial performance. The results show that audit committee independence has a positive effect on company profitability, with the effect being more pronounced for ROA than for ROE.

The study (7) examines the impact of financial reporting quality and audit quality on the investment efficiency of companies in the Gulf Cooperation Council (GCC) countries. The aim of the research was to determine whether the quality of financial reporting contributes to more efficient investment allocation, as well as whether audit quality has a direct and moderating effect on this relationship. For the purposes of empirical analysis, data

on financial reporting and auditors were obtained from the DataStream database, along with the financial statements of 150 companies covering the period from 2012 to 2015. Financial reporting quality and audit quality were treated as key independent variables, with audit quality operationalized through audit firm size, while the dependent variable was investment efficiency. Although audit firm size is frequently used as a proxy for audit quality, the literature emphasizes that this indicator has certain limitations and may not fully reflect actual audit quality (37). The results show that financial reporting quality has a significant and positive effect on investment efficiency, whereas audit quality does not exhibit a statistically significant direct or moderating effect. These findings further highlight the need to employ a broader set of audit quality indicators when analyzing its influence on economic decision-making.

The study (19) examines the impact of audit quality on the financial performance of listed insurance companies in Nigeria, with particular focus on audit fees, audit independence, and audit firm size. The aim of the research was to analyze how different elements of audit quality influence company profitability, measured through return on assets (ROA) as the key indicator of financial performance in the insurance sector. The empirical analysis covers a sample of 22 listed insurance companies for the period 2017–2021, using secondary data, descriptive statistics, and multiple regression analysis. Audit fees, audit independence, and audit firm size were treated as the key independent variables, while ROA was used as the measure of financial performance. The results show that audit fees have a significant positive effect on ROA, and that audit independence also contributes positively to profitability, although to a lesser extent. In contrast, audit firm size exhibits a statistically significant negative effect on ROA, indicating that larger audit firms do not necessarily contribute to better financial outcomes. These findings complement previous discussions on the role of audit firm size and audit committee independence in economic decision-making, confirming their important implications in this context.

The study (18) examines the relationship between audit quality and corporate financial performance in Nigeria, measured through return on assets (ROA) and earnings per share (EPS). The aim of the research is to analyze the impact of audit quality components on financial performance, while assessing both short-term and long-term effects. The empirical analysis is based on secondary time-series data for the period 1981–2021, using a case study of First Bank of Nigeria. For the purposes of the analysis, the ARDL and DOLS econometric methods were applied. The key independent variables included auditor independence, audit tenure, and audit firm size, while ROA and EPS were used as the dependent variables. The results show a stronger relationship between audit quality and ROA compared to EPS. Auditor independence and audit tenure do not have a statistically significant effect on ROA, whereas audit firm size exhibits a statistically significant negative effect. In the case of EPS, audit firm size has a statistically significant positive effect, while the other variables are not statistically significant. Overall, the findings indicate that audit quality has a significant short-term and long-term impact on ROA, while no stable long-term effect is observed for EPS.

The study (16) shows that the audit committee and audit independence have a significant effect on the quality of financial statements. The aim of this research was to examine the impact of the audit committee and audit independence on financial reporting quality, while including audit quality as a moderating variable. The study was conducted in Indonesia on a sample of 120 financial statements of manufacturing companies listed on the Indonesia Stock Exchange for the period 2019–2023. Multiple regression analysis was applied, with the audit committee and audit independence treated as independent variables, financial reporting quality as the dependent variable, and audit quality—measured by the engagement of Big Four audit firms—included as a moderating variable. The results indicate that both the audit committee and audit independence have a positive and statistically significant effect on the quality of financial statements, while audit quality does not have a significant moderate role in this relationship.

The study (13) examines the extent to which the audit of ESG reports influences the quality of ESG ratings, with particular emphasis on the reliability and transparency of non-financial information used by rating agencies in assessing corporate sustainability. The aim of the research was to determine whether the existence of external assurance of ESG reporting contributes to the stability and credibility of ESG ratings, especially in the context of corporate scandals. The analysis was conducted on a sample of 71 corporate scandals that occurred between 2007 and 2017, using data from the Thomson–Eikon database. The methodological approach involved comparing changes in ESG ratings before and after the disclosure of negative events, applying multivariate analysis and controlling firm characteristics. The key variable observed was the change in ESG rating, with the sample divided into companies with audited and unaudited ESG reports. The results show that, following the disclosure of scandals, there are no significant changes in ESG ratings at the aggregate level; however, companies without ESG assurance experience a statistically significant deterioration in their ESG ratings. In contrast, firms whose ESG reports were audited do not exhibit pronounced negative rating adjustments. These findings indicate that ESG assurance enhances the reliability and stability of ESG information, strengthening its credibility in the eyes of the market and rating agencies.

DESCRIPTION OF THE SAMPLE AND RESEARCH METHODOLOGY

The aim of this research is to examine whether the audit of financial statements contributes to achieving higher company profitability. In line with the stated objective, the following research hypothesis is defined:

- H1:** The audit of financial statements has a positive effect on company profitability, measured by return on assets (ROA).

In addition to the main objective, the research aims to identify other key determinants of corporate financial performance in order to understand the broader context in which auditing affects profitability.

A multiple regression model was applied to test the determinants influencing company profitability, measured through return on assets (ROA). The data used in this research refer to a sample of companies from the Republic of Serbia operating in Sector C – Manufacturing and Sector G – Trade, for the period 2023–2024. These sectors were selected because they represent the most prevalent sectors in Serbia in terms of the number of active enterprises. According to the Statistical Office of the Republic of Serbia, Sector C included 30,156 companies in 2023, decreasing to 29,879 in 2024. Similarly, Sector G recorded a slight decline from 65,183 companies in 2023 to 65,015 in 2024, indicating a downward trend in the number of active business entities during the observed period. (33)

The research was conducted using available financial statement data from the Serbian Business Registers Agency database (1), which includes balance sheets, income statements, and other relevant information on companies operating in the Republic of Serbia. The sample consists of 100 companies, resulting in a total of 200 observations for the two observed years. Of the total number of observations, 124 refer to companies whose financial statements were subject to independent audit, while 76 refer to companies not subject to mandatory audit. Data processing and model development were performed using the statistical software SPSS version 23.

The analysis of key determinants of profitability in the observed sectors is based on return on assets (ROA) as the dependent variable. The independent variables include company size, current liquidity, indebtedness (measured as the ratio of debt to equity), the share of fixed assets in total assets, and the existence of a financial statement audit. These variables represent relevant and frequently used determinants in empirical literature that may significantly influence company profitability.

Table 1: Determinants of Profitability

Determinant	Calculation
Company size	Natural logarithm of total assets
Current liquidity	Current assets / Current liabilities
Indebtedness	Total liabilities / Equity
Share of fixed assets	Fixed assets / Total assets
Audit	Dummy variable: 1 = audited company; 0 = unaudited company

Source: *Authors*

Company size can be measured using various indicators such as total assets, sales revenue, or number of employees. In this research, company size is measured as the natural logarithm of the book value of total assets. Larger companies not only achieve higher business volume and greater revenue-generating capacity but also have better access to financial markets (39), and lower borrowing costs (44). Therefore, company size is expected to have a positive effect on profitability. However, previous research is

not unanimous: while Isik et al. (21), John and Adebayo (22), and Doğan (15) found a positive effect, Nireesh and Thirunavukkarasu (29) and Kartikasari and Merianti (23) reported a negative relationship.

Current liquidity indicates a company's ability to settle short-term obligations using its short-term assets. In this study, liquidity is measured as the ratio of current assets to current liabilities (current ratio). Financially stable companies typically maintain this ratio at or above 1.0. The ability to meet short-term obligations is an important element of financial stability, and may significantly influence overall performance. Previous studies show mixed results: Doğan (15), Saleem and Rehman (35), and Madushanka and Jathurika (25) found a positive relationship between liquidity and profitability, while Akbar and Fauziah (4) and Alarussi and Alhaderi (2) found no statistically significant effect.

Indebtedness represents the extent to which a company uses external financing in its capital structure and can be measured through various indicators, such as the ratio of total liabilities to equity or total debt to total assets. In this research, indebtedness is defined as the ratio of total debt to total assets. Empirical findings suggest that the relationship between indebtedness and profitability is nonlinear and follows an inverted U-shape. Higher indebtedness may negatively affect profitability due to increased financing costs and financial risk. Conversely, debt can serve as an important source of capital for investment, which—if efficiently allocated—may improve performance. Empirical results are mixed: Doğan (15) and Pattitoni et al. (31) found a negative relationship, while Kartikasari and Merianti (23), Bortych (8), and Mpanju (28) found a positive effect.

The share of fixed assets reflects the structure of a company's assets and is defined as the ratio of fixed assets to total assets. Higher values indicate a larger share of long-term assets, which may limit financial flexibility and reduce the efficiency of working capital use. Empirical literature does not provide a uniform conclusion: some studies confirm a positive effect of tangible assets on profitability, suggesting that a higher share of fixed assets may reduce financing costs and improve performance (20). Conversely, Chukwu and Egbuhuzor (10) show that the effect depends on asset structure—machinery and equipment may have a positive effect, while land and buildings may have a negative effect on ROA. Other studies (Osei & Appiah (30); Derbali (14) find no significant relationship, while Prattheepan (32) reports a negative and significant effect, suggesting that excessive investment in fixed assets may reduce efficiency. Companies oriented towards R&D and innovation tend to achieve higher profitability.

Audit of financial statements represents an external control mechanism aimed at increasing the reliability and credibility of financial reporting. In this research, audit is treated as a dummy variable, where a value of 1 indicates that the company is subject to independent audit, and 0 indicates that it is not. Audit is expected to positively influence profitability by improving financial reporting quality, reducing information asymmetry, and increasing investor confidence.

Multiple Regression Model

To identify the key determinants and their impact on financial performance, the following multiple regression model is specified:

$$ROA_{it} = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \varepsilon_i$$

Where:

- ROA_{it} – Dependent variable
- β_0 – Model constant
- β_1 – Coefficients of independent variables
- X_1 – Company size
- X_2 – Current liquidity
- X_3 – Indebtedness
- X_4 – Share of fixed assets
- X_5 – Audit of financial statements
- ε – Error term with normal distribution
- i – Company ($i = 1, \dots, N$)
- t – Time period ($t = 1, \dots, T$)

RESULTS AND DISCUSSION

The empirical analysis of the selected variables includes descriptive statistics, a correlation matrix, and multiple regression analysis.

Descriptive statistics for the dependent and independent variables included in the developed model are presented in Table 2.

Table 2: Descriptive Statistics

Variable	N	Min	Max	Mean	Std. Dev.
ROA	200	-0.476	0.6474	0.058	0.116
Company size	200	0.693	9.293	5.123	1.401
Current liquidity	200	0.183	25.098	3.183	4.112
Indebtedness	200	0.028	3.554	0.505	0.368
Share of fixed assets	200	0.229	0.691	0.461	0.133
Audit	200	0	1	0.62	0.487

Source: Authors

The above results indicate that the sample of companies from the manufacturing and trade sectors includes both profitable and unprofitable firms during 2023–2024, given that the minimum ROA value is –47.6%, while the maximum reaches 64.74%. The average

ROA is 0.0578, meaning that companies, on average, generate 5.78% net income relative to total assets. Considering the benchmark ROA value ($\geq 10\%$), it can be concluded that these companies did not achieve an acceptable return on assets during the observed period, suggesting that future development and stability will require greater focus on improving this indicator. The average current liquidity ratio is 3.18, which aligns with the benchmark value (≥ 2). This indicates that the companies were liquid, possessing current assets 3.18 times higher than current liabilities. However, liquidity values range widely—from 0.18 to 25.09—indicating significant differences in short-term financial stability. The average indebtedness ratio (debt to equity) is 0.505, indicating a moderate level of debt usage and relatively stable financial structure, with moderate variability (0.368). The share of fixed assets ranges from 0.229 to 0.691, with an average of 0.46, meaning that companies, on average, have less than 50% fixed assets in total assets, implying a higher share of inventories, receivables, cash, and other liquid assets.

Table 3: Correlation Matrix

	ROA	Size	Liquidity	Indebtedness	Fixed assets	Audit
ROA	1	0.234	0.035	0.147	0.071	0.366
Size	0.234	1	-0.077	0.029	-0.031	0.441
Liquidity	0.035	-0.077	1	-0.431	0.040	-0.014
Indebtedness	0.147	0.029	-0.431	1	0.068	-0.109
Fixed assets	0.071	-0.031	0.040	0.068	1	0.020
Audit	0.366	0.441	-0.014	-0.109	0.020	1

Source: Authors

The correlation results indicate weak to moderate relationships among the variables. The strongest positive correlation is between audit and ROA ($r = 0.366$), suggesting that audited companies achieve higher profitability. A positive and statistically significant correlation is also found between company size and ROA ($r = 0.234$), and between indebtedness and ROA ($r = 0.147$), although these relationships are weaker. No correlation exceeds 0.7, indicating no multicollinearity concerns.

Table 4: Model Summary

Model	R	R ²	Adjusted R ²	Std. Error
1	0.441	0.195	0.174	0.1054

Source: Authors

Table 5: ANOVA Test

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	0.522	5	0.104	9.389	0.000
Residual	2.156	194	0.011		
Total	2.678	199			

Source: Authors

The correlation coefficient ($R = 0.441$) indicates a moderate relationship between the independent variables and ROA. The coefficient of determination ($R^2 = 0.195$) shows that the model explains 19.5% of the variation in profitability, while the remaining 80.5% is influenced by factors not included in the model. The adjusted R^2 (0.174) indicates slightly lower explanatory power, accounting for the number of predictors.

The ANOVA results show that $\text{Sig.} < 0.05$, indicating that the independent variables (audit, indebtedness, liquidity, company size, and fixed assets) jointly have a statistically significant effect on ROA.

Table 6: Multiple Regression Results

Variable	B	Std. Error	Beta	t	Sig.	Tolerance	VIF
Constant	-0.100	0.041	—	-2.421	0.016	—	—
Size	0.007	0.006	0.082	1.138	0.256	0.796	1.257
Liquidity	0.004	0.002	0.151	2.101	0.037	0.804	1.243
Indebtedness	0.078	0.023	0.246	3.396	0.001	0.791	1.265
Fixed assets	0.038	0.056	0.044	0.672	0.503	0.986	1.014
Audit	0.085	0.017	0.358	4.927	0.000	0.787	1.270

Source: Authors

VIF values are below 5, indicating no multicollinearity issues.

Based on the significance values (Sig.), it is possible to identify the independent variables that have a statistically significant effect on profitability measured by ROA. The regression results presented in Table 6 indicate that the proposed model is statistically significant at the 5% level ($p < 0.05$). Current liquidity, indebtedness, and the audit of financial statements emerge as variables with a positive and statistically significant impact on ROA. In contrast, company size and the share of fixed assets exhibit positive but statistically insignificant effects, suggesting that their contribution to explaining variations in profitability within this model is not empirically confirmed.

INTERPRETATION OF KEY FINDINGS

Company size. Company size shows a positive but statistically insignificant effect on profitability ($p > 0.05$), indicating that within the observed sample of firms from Sector C – Manufacturing and Sector G – Trade, its influence is not empirically confirmed. Although the literature often emphasizes that larger firms benefit from certain advantages—such as economies of scale, more efficient resource utilization, more developed distribution channels, and better access to financing—the results of this study suggest that these advantages do not necessarily translate into higher profitability. In the sectors under consideration, profitability may be more strongly influenced by other factors, such as managerial efficiency, cost structure, competitive pressures, or market-specific characteristics, which diminish the importance of firm size as a determinant of financial performance. This

finding indicates that firm size, although potentially relevant, is not a decisive factor in explaining variations in profitability measured by ROA within the analyzed sample, which is consistent with the findings of Niresh and Thirunavukkarasu (29) and Kartikasari and Merianti (23).

Current liquidity. Has a positive and statistically significant effect on ROA. Efficient liquidity management supports operational continuity, timely settlement of obligations, and financial flexibility. This is crucial in both manufacturing (production cycles) and trade (inventory turnover). The result aligns with Doğan (15), Saleem & Rehman (35), and Madushanka & Jathurika (25). The results of the study indicate that current liquidity, measured by the current ratio, has a statistically significant positive effect on the profitability of the observed companies ($p < 0.05$). In the manufacturing sector, an adequate level of liquidity ensures uninterrupted financing of the production cycle, the procurement of raw materials, and the maintenance of operational efficiency. In the trade sector, liquidity is particularly important due to the need for continuous inventory replenishment and the alignment of cash flows between the collection of receivables and the settlement of payables to suppliers. Effective liquidity management contributes to improved financial performance, which is consistent with previous empirical findings confirming a positive and statistically significant relationship between liquidity and profitability, including the studies of Doğan (15), Saleem and Rehman (35), and Madushanka and Jathurika (25).

Indebtedness. The results of the study indicate that indebtedness, measured as the debt-to-equity ratio, has a statistically significant effect on the profitability of companies in the manufacturing and trade sectors. The positive and statistically significant effect of indebtedness can be interpreted through the fact that the use of debt provides firms with additional funds to finance operating and investment activities, which may enhance operational efficiency and increase returns on total assets. This effect is particularly evident in the manufacturing sector, where substantial investments in production capacity and working capital are required, as well as in the trade sector, where debt is often used to finance inventory and maintain business continuity. The obtained result is consistent with the assumptions of the trade-off theory, which posits that debt can positively contribute to firm performance as long as the benefits of the tax shield and external financing outweigh the costs of indebtedness. It can also be partially linked to the pecking order theory, according to which firms resort to external borrowing when internal funds are insufficient to meet business needs. Overall, the findings suggest that indebtedness, when used efficiently, can represent an important factor in improving firm profitability in both sectors, which aligns with numerous previous empirical studies confirming the positive effect of an adequate level of debt on financial performance, including the studies of Kartikasari and Merianti (23), Bortych (8), and Mpanju (28).

Share of fixed assets. The share of fixed assets, as an indicator of asset structure defined by the ratio of fixed to total assets, does not exhibit a statistically significant effect on firm profitability measured by ROA in this study. Although a higher share of fixed assets may signal more intensive investment in long-term capacity, it may simultaneously limit

financial flexibility and affect the efficiency of working capital utilization, particularly under conditions of fluctuating demand and strong competitive pressures. However, in the manufacturing and trade sectors—where operational efficiency, working capital management, and market dynamics play a more prominent role, this indicator does not show a direct or statistically confirmed effect on profitability. This finding is consistent with the studies of Osei and Appiah (30) and Derbali (14).

Audit. The audit of financial statements shows a statistically significant effect on firm profitability measured by ROA within the manufacturing and trade sectors ($p = 0.000$). This result indicates that the existence of an audit represents an important determinant of the financial performance of the observed companies, which is consistent with the relevant literature emphasizing that audit quality, namely, the fact that financial statements are audited—can contribute to improving corporate financial performance. The positive and statistically significant effect of auditing can be explained by its contribution to enhancing the reliability, transparency, and credibility of financial reporting, which in turn strengthens the confidence of investors, creditors, and other external users of financial information. Under such conditions, companies with audited financial statements have easier access to external financing and more favorable business conditions, which may be reflected in their profitability. In the manufacturing and trade sectors, where financial decisions are often conditioned by the availability of external financing and the reliability of information, auditing may have a particularly pronounced role in strengthening financial discipline and improving overall profitability.

CONCLUSION

The results of the empirical analysis confirm that certain determinants have a statistically significant effect on the profitability of the observed companies. Current liquidity shows a statistically significant and positive impact on ROA, indicating that adequate liquidity management contributes to maintaining business continuity, reducing the risk of illiquidity, and improving financial performance. Indebtedness, measured as the ratio of debt to equity, also has a statistically significant positive effect on profitability, suggesting that the use of debt can support more efficient financing of business and investment activities and increase returns on assets, provided that borrowing costs are managed effectively. On the other hand, company size and the share of fixed assets do not show statistically significant effects on profitability. These results indicate that, within the analyzed sectors, neither company size nor asset structure represents a key determinant of financial performance measured by ROA. Although theory often emphasizes that larger companies and a higher share of fixed assets may contribute to economies of scale, more efficient resource utilization, and more stable operations, the findings of this research suggest that such effects are not empirically confirmed in the observed sample.

A particular focus of this study was placed on financial statement auditing as a determinant of profitability, for which a positive and statistically significant effect was identified.

The empirical findings indicate that audited financial statements contribute to greater transparency, reliability, and credibility of financial reporting, thereby reducing information asymmetry between companies and external users of financial information. A higher level of reliability in financial reporting strengthens the confidence of external users—primarily investors and creditors—which is reflected in a more favorable position of companies in the capital market and the ability to secure better financing conditions. In this context, audit quality plays an important role in shaping the decisions of financial statement users, with investors more likely to invest in companies whose financial statements are audited compared to those that are not. Although unaudited financial statements do not necessarily contain inaccurate information, they carry a higher level of risk and informational uncertainty, further emphasizing the importance of auditing in economic decision-making. Therefore, it can be concluded that auditing, by enhancing transparency and trust, contributes to improving overall financial performance.

This research has certain limitations that also represent directions for future studies. First, the research is geographically limited to the Republic of Serbia and focuses only on two sectors—manufacturing and trade. Additionally, the analysis is based exclusively on data available in financial statements published by the Serbian Business Registers Agency (SBRA), which may limit the scope of available information. Future research should include a broader set of profitability determinants and expand the concept of auditing by incorporating additional dimensions such as audit firm size and independence, audit tenure, audit fees, and mandatory audit firm rotation. It is also recommended to apply additional measures of profitability to obtain a more comprehensive picture of financial performance. This study provides an empirical foundation for future research examining the relationship between financial statement auditing and corporate financial performance across different dimensions of profitability.

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Uticaj revizije na performanse poslovanja preduzeća

Apstrakt: Ovo istraživanje ispituje uticaj revizije finansijskih izveštaja na profitabilnost preduzeća, meren povraćajem na ukupnu imovinu (ROA) uz identifikovanje ključnih determinanti finansijskih performansi preduzeća iz sektora C – prerađivačka industrija i sektora G – trgovina u Republici Srbiji u periodu 2023-2024 godine. Istraživačka hipoteza je da revizija finansijskih izveštaja ima pozitivan uticaj na profitabilnost preduzeća. Modeoml višestruke regresione analize ispitani su efekti nezavisnih varijabli na zavisnu varijablu ROA. Nezavisne varijable odražavaju ključne karakteristike preduzeća - veličinu, likvidnost, zaduženost, učešće stalne imovine i postojanje revizije finansijskih izveštaja. Podaci obuhvataju 200 opservacija. Rezultati pokazuju da likvidnost, zaduženost i revizija finansijskih izveštaja imaju statistički značajan pozitivan uticaj na profitabilnost preduzeća. Veličina preduzeća i učešće stalne imovine ne pokazuju statistički značajan uticaj na ROA. Dobijeni nalazi ukazuju da efikasno upravljanje likvidnošću i finansijskom strukturom, kao i transparentnost finansijskog izveštavanja kroz reviziju, predstavljaju ključne faktore unapređenja profitabilnosti u posmatranim sektorima. Rezultati su od značaja za menadžere, investitore, kreditore i donosiocje ekonomskih politika, jer ukazuju na doprinos revidiranhi finansijskhi izveštaja jačanju poverenja eksternih korisnika finansijskih informacija, čime se unapređuje kvalitet i pouzdanost donošenja poslovnih i investicionih odluka u savremenom poslovnom okruženju u Republici Srbiji.

Ključne reči: revizija, profitabilnost.