

Guidelines on Minimum Recommended Scale of Fees in Audit Services provided by the Practicing Chartered Accountants in Sri Lanka - 2018

Frequently Asked Questions(FAQs)

01. What is the effective date of this guideline?

The Guidelines on Minimum Recommended Scale of Fees in Audit Services provided by the Practicing Chartered Accountants in Sri Lanka is effective from 01 May 2018. Therefore, this guideline could be applied when agreeing audit fees with the client on or after 01 May 2018.

02. What are the expected benefits of issuing this guideline to the accountancy profession?

- a) Enable practicing members to recover their costs in providing services with a reasonable margin while maintaining quality standards in providing such services to the clients.
- b) Ensure that the fees being charged would commensurate with the value of services being rendered and would not encourage unhealthy competition among the practicing accountants.
- c) Enhance the quality of the audit work to the satisfaction of all the stakeholders, including the client, regulators and the general public.

03. How this guideline could be applied by a practicing member / firm?

Two schedules of Minimum Recommended Scale of Audit Fees have been included in this guideline.

Schedule 1.1 - Minimum Scale of Audit Fees based on the Staff Rate per Hour

This schedule gives some guidelines for working out the costs/fees to clients. However, the costing of one member firm may be different to another by taking into account the factors such as generic organizational criteria, the time required to complete the audit assignments, nature and complexity of assignments, risks involved and costs that are specific to the engagements concerned such as travelling, government taxes.

Schedule 1.2 - Minimum Scale of Audit Fees based on the Nature of the Business

This schedule prescribes the minimum scale of audit fees that are expected be charged by practicing chartered accountants for their specific audit engagements stipulated therein. The objective is to ensure that the practicing members receive at least these prescribed amounts and would not quote a fee lower than these amounts under any circumstances.

04. What entities are scoped out from this guideline?

Certain Public Interest Entities have been excluded from this guideline in recommending minimum scale of audit services.

Eg: Banking, Financial Services, Leasing and Insurance Companies

However, the quoted public companies based on the nature of the business (i.e. Trading, Manufacturing, Diversified and Other services in terms of Schedule 1.2), excluding the above public interest entities are covered in this guideline.

Further, this guideline is not applicable for the initial audit of the financial statements of a company within its first year of operation.

05. If my audit fees are lower than that is stipulated in the Schedule 1.2 of this guideline, what practice need to be applied?

If the audit fees charged by the existing practicing accountant/s is significantly lower than 10% of the minimum recommended scale of fees as per this guideline, the practicing accountant/s in consultation with the client need to revise the fee upwards over a period of two consecutive years on a prorated basis. In arriving at such basis of two years, last issued audited financial statement date shall be considered as the year zero.

Illustration 1:

The client is engaged in the business of manufacturing and the turnover for the financial year ended 31 March 2019 is Rs. 80 million.

The minimum amount of audit fees to be charged for the engagement in accordance with this guideline is Rs. 100,000.

The audit fees charged for the year ended 31 March 2018 is R. 80,000 (i.e. 20% lower than the recommended scale of audit fees).

The minimum incremental audit fees for the years ended 31 March 2019 and 2020 are Rs. 10,000 each. (The minimum audit fees will be Rs. 90,000 and Rs. 100,000 respectively)

Illustration 2:

The chargeable hours of staff for an audit of a Trading entity with a turnover (for the current financial year) of Rs. 90 million are as follows:

- Engagement partner – 4 hours
- Audit manager with 2 years of post qualifying experience – 6 hours
- Audit supervisor with 4 years of experience – 10 hours
- Two audit trainees with 1 ½ years of experience and under practical training – 30 hours by each trainee

The audit firm has only two partners.

Applying Schedule 1.1: The Minimum Scale of Audit Fees based on the Staff Rate per Hour would be:

○ Engagement partner	(4 hours x Rs. 6,000 per hour)	=	Rs. 24,000
○ Audit manager	(6 hours x Rs. 2,500 per hour)	=	Rs. 15,000
○ Audit supervisor	(10 hours x Rs. 1,250 per hour)	=	Rs. 12,500
○ Two audit trainees	(30 hours x 2 x Rs. 400 per hour)	=	Rs. 24,000

The minimum Audit fees to be charged = Rs. 75,500

Applying Schedule 1.2, minimum scale of audit fees based on the nature of the business would be:

The minimum Audit fees to be charged = Rs. 50,000

The audit firm may decide to charge an audit fee of more than Rs. 75,500 for the current financial year.