

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

The Institute of Chartered Accountants of Sri Lanka

April, 2018

Preface:

Enhancement of financial reporting requirements, adoption of new rules and regulations, complexities in the business environment, emerging technology, globalization and heightened public expectations have led to greater risks and challenges being faced by auditors. These have begun to crystalize greater responsibility on the overall work of practicing chartered accountants. In spite of these challenges, practicing chartered accountants are expected to maintain highest standards of quality, while exercising due professional care and therefore need to be remunerated adequately to maintain and uphold such standards. The audits conducted by the practicing chartered accountants shall be in compliance with the Sri Lanka Auditing Standards adopted by the Council of the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).

The objective of this guideline is to bring in a minimum recommended scale of fees that could be charged by the practicing chartered accountants who are engaged in providing audit services to clients in Sri Lanka.

CA Sri Lanka believes that this guideline would enable practicing chartered accountants to recover their costs in providing services with a reasonable margin while upholding the quality standards to be maintained in delivering such services to the clients. Further, it is also expected that fees being charged would commensurate with the value of services being rendered. Ultimately, this would lead towards enhancing the quality of the audit work, which would deem to satisfy all stakeholders, including the practicing chartered accountants, clients, regulators and the general public.

In terms of the Code of Ethics issued by CA Sri Lanka, when entering into negotiations regarding professional services, a professional accountant in public practice may quote whatever fee is deemed appropriate. The fact that one professional accountant in public practice may quote a fee lower than another is not in itself unethical. Nevertheless, there may be threats to compliance with the fundamental principles arising from the level of fees quoted and may bring disrepute to the profession as a whole.

Several countries in the region including India and Bangladesh have already established the minimum recommended fees for services provided by their practicing chartered accountants.

The Council expects that the practicing chartered accountants would follow the minimum scale of audit fees as stipulated in this guideline when accepting engagements for rendering audit services as specified herein and shall review and amend these guidelines periodically. It is strongly recommended that the fee should be negotiated with Audit Committee of the client / client directly / any other relevant authority (as applicable). CA Sri Lanka shall extend its fullest support to the practicing accountants to implement the guidelines wherever possible and the cooperation of all practicing accountants is necessary in implementing these guidelines.

Schedules of Minimum Recommended Scale of Audit Fees

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

Category		Staff Rate per Hour Rs.
1. Partners (based on the post qualifying experience) – Note (i)	(a) Partners > 10 years	10,000.00
	(b) Partners 5 to 10 years	7,000.00
	(c) Partners < 5 years	6,000.00
2. Qualified staff (based on the post qualifying experience)	(a) qualified staff > 15 years	5,000.00
	(b) qualified staff 10 to 15 years	4,000.00
	(c) qualified staff 5 to 10 years	3,000.00
	(d) qualified < 5 years	2,500.00
3. Partly Qualified staff (based on the experience and those under the practical training)	(a) partly qualified staff > 5 years	1,750.00
	(b) partly qualified staff 3 to 5 years	1,250.00
	(c) partly qualified staff with 2 to 3 years (under practical training)	750.00
	(d) partly qualified staff 1 to 2 years (under practical training)	400.00
4. Other staff (based on the experience)	(a) other staff with > 4 years	1,500.00
	(a) other staff with < 4 years	650.00

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

Amount of the Turnover	Minimum Scale of Audit Fees based on the Nature of the Business			
	Trading	Manufacturing	Diversified	Other services
Up to. 20 million or equivalent	25,000	40,000	45,000	30,000
Above Rs. 20 million – Rs. 50 million or equivalent	40,000	75,000	85,000	50,000
Above Rs. 50 million – Rs. 100 million or equivalent	50,000	100,000	110,000	80,000
Above Rs. 100 million – Rs. 500 million or equivalent	0.05% of the turnover	200,000	220,000	150,000
Above Rs. 500 million – Rs 1 billion or equivalent		0.06% of the turnover	0.06% of the turnover	0.05% of the turnover

Notes:

- (i) The practicing firms in which the number of partners are three or less, may apply the minimum scale of rate of fees based on the staff rate per hour for the partners' category; irrespective of the number of years of post-qualifying experience.
- (ii) This guideline is not applicable for the initial audit of the financial statements of a company within its first year of operation.
- (iii) The aforesaid information given in the table is to work out the minimum recommended scale of fees by taking into account generic organizational criteria, the time required to complete the audit assignments etc. However, subject to the minimum fees compliance, practicing accountants are free to charge higher fees than the minimum recommended scale of fees depending upon the nature, complexity of assignment, risks involved and time involved in completing etc.
- (iv) Travelling and any other out-of-pocket expenses that would be chargeable and reimbursed have not been considered in arriving at the minimum recommended scale of fees as they may vary from audit to audit and therefore are to be mutually agreed between the client and the practicing accountant/s concerned.
- (v) Applicable Government taxes and levies that are applicable in accordance with the prevailing laws shall be chargeable have not been considered in arriving at the Minimum Recommended Scale of Fees. Consequently, they shall be added to the minimum recommended scale of fees.
- (vi) It is expected that the fees pertaining to the partner and manager time put together, shall not be less than 10% of the minimum recommended scale of fees.
- (vii) It is also recommended to add a sufficient premium in agreement with the client to reflect the additional time, work and services devoted for an audit of a client that is regulated and has a public accountability.
Eg: audit of a client that is under the supervision of the Sri Lanka Accounting and Auditing Standards Monitoring Board.
- (viii) Public Interest Entities have been excluded from this guideline in recommending minimum scale of audit services.
Eg: Banking, Financial Services, Leasing and Insurance Companies

Transitional provisions

2. 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.

Eg:

The client is engaged in the business of manufacturing and the turnover for the current financial year ended 31st 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 31st 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 31st March 2019 and 2020 are Rs. 10,000 each. (The minimum audit fees will be Rs. 90,000 and Rs. 100,000 respectively)

Effective Date

3. 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.

Definitions

Audit Services – Audit of the annual financial statements of a client

Practicing Chartered Accountant – A person shall be deemed to practice as an accountant, if, in consideration of remuneration received or to be received, and whether by himself or in partnership with any other person or as a director of a company, he -

- (a) engages himself in the practice of accountancy or holds himself out to the public as an accountant; or
- (b) offers to perform or performs service involving the auditing or verification of financial transactions books, accounts or records, or the preparation, verification, or certification of financial accounting and related statements; or
- (c) renders professional service or assistance in or about matters of principle or details relating to accounting procedures or company taxation or business matter or certification of financial facts or data; or
- (d) renders any other services which may be declared by the Council by regulation to be service constituting practice as any accountant.

A person who is the salaried employee of the Government, or of any one employer shall not, by reason only that he does any act referred to earlier in his capacity as such employee, be deemed to practice as an accountant.