The Impact of Entity Specific Factors on External Audit Fees of Listed Non-Financial companies in Sri Lanka

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Abstract

Limited liability companies in Sri Lanka are statutorily required to secure the services of an auditor in order to obtain a professional opinion on their financial statements. The usefulness of an external audit in enhancing the credibility of financial statements depends on the quality of audit services being provided. This study sets out to examine the factors that may influence external audit fees paid by the Sri Lankan non-financial companies listed on Colombo Stock Exchange (CSE). Specific attention is focused on the investigation of the potential influence of corporate size, profitability, corporate risk, corporate complexity, sector classification, external audit report lag, audit committee independence, status of the audit firm on audit fees. Data used in this study are mainly collected from 2013 until 2017 annual reports published by the Sri Lankan non-financial companies listed on Colombo Stock Exchange. The sample which contains 50 numbers of companies and total observation is 250. Data were analyzed using regression model with an ordinary least squares (OLS) technique over E-Views package. The findings pointed that there is a significant and positive association between audit fees and each of corporate size, company’s profitability, risk and audit committee. A significant and negative relationship has been detected between business complexity and external audit fees. The findings also revealed that audit fees are not significantly associated with, industry type, status of audit firm and audit report lag.

Key Words: Audit fees, CSE, non-financial companies