



**The Institute of
Chartered Accountants
of Pakistan**

HEAD OFFICE

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All Members of the Institute.


**MINIMUM HOURLY CHARGE OUT RATES AND MINIMUM FEE FOR AUDIT
ENGAGEMENTS. SECTION INDEX ATR-14 (REVISED 2007)**

Dear Member

The Council of the Institute in its 188th meeting held on 30 March 2007 has revised Section Index ATR-14 (Revised 2003) on the subject.

The Section Index ATR-14 (Revised 2007) is enclosed which is to be filed in Section C of Part II of Member's Hand Book Vol. II.

Yours truly


**F.H. Saif
Secretary**

Enclosure: as stated.

(Established under the Chartered Accountants Ordinance, 1961-X of 1961)

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SECTIONAL INDEX

PART II

SECTION C TECHNICAL RELEASES

- ATR-1 Only Members to sign audit documents
- ATR-2 **Withdrawn**—(Communication—Statement on the explanation and its clarification of the word)
- ATR-3 **Withdrawn** – (Incoming auditors to help in clearing the professional dues of retiring member)
- ATR-4 **Withdrawn** – (Audit of government corporations)
- ATR-5 **Withdrawn** – (Replying to enquiries for audit jobs)
- ATR-6 **Withdrawn** – (Audit by ex-employees)
- ATR-7 **Withdrawn** – (Some glaring omissions by the auditors pointed out by Corporate Law Authority)
- ATR-8 Preparation of accounts from incomplete records and report thereon as auditors (Reformatted 2002)
- ATR-9 Signing of correspondence and financial statements by members
- ATR-10 **Withdrawn** – (Communication of consent by incoming auditors)
- ATR-11 Appointment of auditors-I (Reformatted 2002)
- ATR-12 **Withdrawn** – (Appointment of auditors-II)
- ATR-13 Lien on books of accounts due to non-payment of professional dues
- ATR-14 Minimum hourly charge out rates and minimum fee for audit work by practicing members (Revised 2007)
- ATR-15 **Withdrawn** – (Qualification in auditor's report - going concern assumption for organization formed with a limited life)
- ATR-16 Acceptance of audit assignments by new auditor(s) when audit fee of existing auditor(s) is outstanding
- ATR-17 Auditors' Report to the Trustees/Board of Governors/Management Committee (Revised 2004)
- ATR-18 Bank Reports for audit purposes

MINIMUM HOURLY CHARGE OUT RATES AND MINIMUM FEE FOR AUDIT ENGAGEMENTS

1. The audit engagements carry immense responsibility. To meet the expectations of various stakeholders and more stringent regulatory requirements, the members need to perform the audit exercising high degree of "professional care." Such work is also required to be properly documented to support the opinion expressed by the auditors.

IFAC has recently issued various revised and new standards including ISQC 1 - *Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements*, ISA 220 *Quality Control for Audits of Historical Financial Information*, ISA 230 *Documentation* etc. These standards require extensive documentation of audit procedures and recruitment of qualified staff. Hence, the cost to perform audit by the firms has significantly increased to ensure quality control procedures are adequately complied with by the firms.

2. The Council of the Institute of Chartered Accountants of Pakistan periodically reviews and prescribes minimum hourly rates, which it considers reasonable and compatible under the existing market conditions and quality of professional standards to be observed by the practicing members of the Institute. The current minimum chargeable rates as prescribed by the Council of the Institute are shown below.

	Rupees Per man- hour
Partner	5,000
Qualified Manager:	
Senior (5 years or above)	3,000
Junior (0-5 years)	2,000
Partly qualified Assistant	1,000
Supervisor	750
Senior	500
Semi-Senior	350
Junior	250

3. The level of fee is to be mutually agreed between the auditor and his client, which largely depends upon the volume of work involved and estimated time to be incurred by the auditor. The Council whilst recognizing this principle is however, of a view that there has to be minimum threshold of audit fee.
4. To achieve the desired objective, the following minimum audit fee is prescribed (which may be increased by consent having regard to specific circumstances of a company).

Schedule of Minimum Audit Fee:

Type of entity	Minimum Fee Rupees
Listed companies	
Turnover upto 1 billion	150,000
Turnover over 1 billion	200,000
ESE	150,000
MSE	75,000
SSE	40,000

Note:

- i) The terms Economically Significant Entity (ESE), MSE and SSE shall have the same meaning as defined in the "Accounting and Financial Reporting Standards for Medium-Sized Entities (MSEs) and Small-Sized Entities (SSEs) as published by the Institute and is being reproduced below for ready reference.

"A Medium-Sized Entity (MSE) is an entity that;

- (a) is not a listed company or a subsidiary of a listed company;
- (b) has not filed, or is not in the process of filing, its financial statements with the Securities and Exchange Commission of Pakistan (SECP) or other regulatory organization for the purpose of issuing any class of instruments in a public market;
- (c) does not hold assets in a fiduciary capacity for a board group of outsiders, such as a bank, insurance company, securities broker/dealer, pension fund, mutual fund or investment banking entity;
- (d) is not a public utility or similar entity that provides an essential public service;
- (e) is not economically significant on the basis of criteria as defined in paragraph 3 below; and
- (f) is not Small-Sized Entity (SSE) as defined in paragraph 4 below.

Economically Significant Entity

An entity is considered to be economically significant if it has:

- (i) turnover in excess of Rs.1 billion, excluding other income;
- (ii) number of employees in excess of 750;
- (iii) total borrowings (excluding trade creditors and accrued liabilities) in excess of Rs.500 million.

In order to be treated as economically significant any two of the criterion mentioned in (i), (ii) and (iii) above have to be met. The criteria followed will be based on the previous year's audited financial statements. Entities can be delisted from this category where they do not fall under the aforementioned criteria for two consecutive years.

Small-Sized Entity (SSE)

A Small-Sized Entity ((SSE) is an entity that :

- (i) has paid up capital plus undistributed reserves (total equity after taking into account any dividend proposed for the year) not exceeding Rs.25 million and
- (ii) has annual turnover not exceeding Rs.200 million, excluding other income.

In order to qualify as a Small-Sized Entity, both the above-mentioned conditions must be satisfied."

- ii) Considering the practical difficulties being faced by various practicing members in the determination of audit fee, the Council has decided that the prescribed minimum audit fee shall be charged without any exception. However, in case of an existing audit client, the present audit fee shall be enhanced to the aforesaid prescribed level over a period of three years with mutual consent provided it is not less than 60% of the prescribed minimum in the first year. Nevertheless, in case of acceptance of an audit client by a practicing member for the first time the prescribed fee levels shall be strictly observed.

5. MINIMUM AUDIT FEE IN CERTAIN CIRCUMSTANCES

For audit engagements of clients in the pre-incorporation / pre-operation stages or in case of sickness of the project or closed operations or discontinuation of business, the prescribed minimum audit fee chargeable by the practicing members shall be as under.

	Listed Companies	MSEs	SSEs
Minimum audit fee	Rs.40,000	Rs.25,000	Rs.15,000

6. The Code of Corporate Governance requires the auditors to:
- o Attend the Audit Committee Meetings of clients
 - o Issue a Review Report on Statement of Compliance with Best Practices of Corporate Governance
 - o Issue Review Report on half – yearly financial statements
 - o Special certification required by regulators over and above normal scope of audit

The minimum audit fee prescribed above is exclusive of the above additional services to be rendered by a statutory auditor and professional fee for such services shall be charged separately by mutual consent.

7. In case of joint audits, fee may be shared among the auditors as may be mutually agreed between them.
8. The fee may be reviewed annually to cover inflationary effects in costs.
9. The hourly rates and fee are exclusive of traveling and hotel expenses, out of pocket expenses and other incidental costs which would be reimbursable to auditors at actual.
10. In case of a religious or charitable institution or a company “not for profit”, the practicing members may undertake to do the audit on a token fee or on an honorary basis.
11. At the time of quality control review, the reviewer will ensure the compliance of this ATR.

This Directive supersedes ATR-14 (Revised) issued pursuant to the Council’s decision of April 14, 2003 and would apply to all audit appointments made after 31 March 2007.

(188th meeting of the Council held on 30th March 2007)