

The Impact of Fair Value Estimates on External Audit Fees: Evidence from Listed Banks and Finance Companies in Sri Lanka

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Abstract

Fair value measurement has been considered as vital aspect in the preparation of financial statements and in auditing such financial statements. Since, the ever-increasing use of Fair value accounting is more useful for providing such benefits as relevant financial information and improving transparency of financial reporting. Further, the concept of fair value accounting is relatively new to the accounting and auditing profession when compared to the traditional accounting method. Hence, the application of the fair value concept is rather complex. Consequently, more audit effort is required from auditors to provide assurance in financial reporting. Specially, the primary motivation of this study is no research has been done on fair value estimates and audit fees in the Sri Lankan context. Therefore, the main purpose of the current study is to examine the impact of fair value estimates on audit fees of listed banks and finance companies in Sri Lanka.

Data was collected from the annual reports of all banks and finance companies listed in the Colombo stock exchange for four years from 2017 to 2020. The data was analyzed by using e- views statistical package. This study used descriptive statistics, correlation, and regression analysis to find out the association between the independent variables and dependent variable. Accordingly, findings of this will offer a better understanding of the influence of fair value estimates has on audit fees. Further, the findings of this study will provide interesting insights for policymakers, auditors, companies, standard setters, and investors.

Key words: *Sri Lanka, Fair value, Audit fees, Colombo stock exchange, Banks, and Finance companies*