

AUDIT QUALITY MATURITY MODEL (AQMM Rev v1.0)

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Turbulent History

2001 :

Enron Scandal :

The co. had been using accounting loopholes to hide billions of dollars of bad debt, while simultaneously increasing the co.'s earnings.

The scandal resulted in shareholders losing over \$74 billion as Enron's share price collapsed from 90\$ to under \$1 within a year.

Impact:

Resulting in disappearance of one of the biggest audit firms, also led to the introduction of the concept of Internal Financial Controls over Financial Reporting – IFCoFR

2008 :

Lehman Brothers Scandal :

During the 2008 financial crisis, it was discovered that the co. had hidden over \$50 billion in loans. These loans were disguised as sales using accounting loopholes.

Impact :

In addition to impacting the reputation of the auditor from what was considered poor auditing – resulted in significant revisions to new accounting standards (IFRS) and in auditing standards with revision to SA 700 and inclusion of SA 701 on key audit matters in 2015.

2009 :

Satyam Scandal :

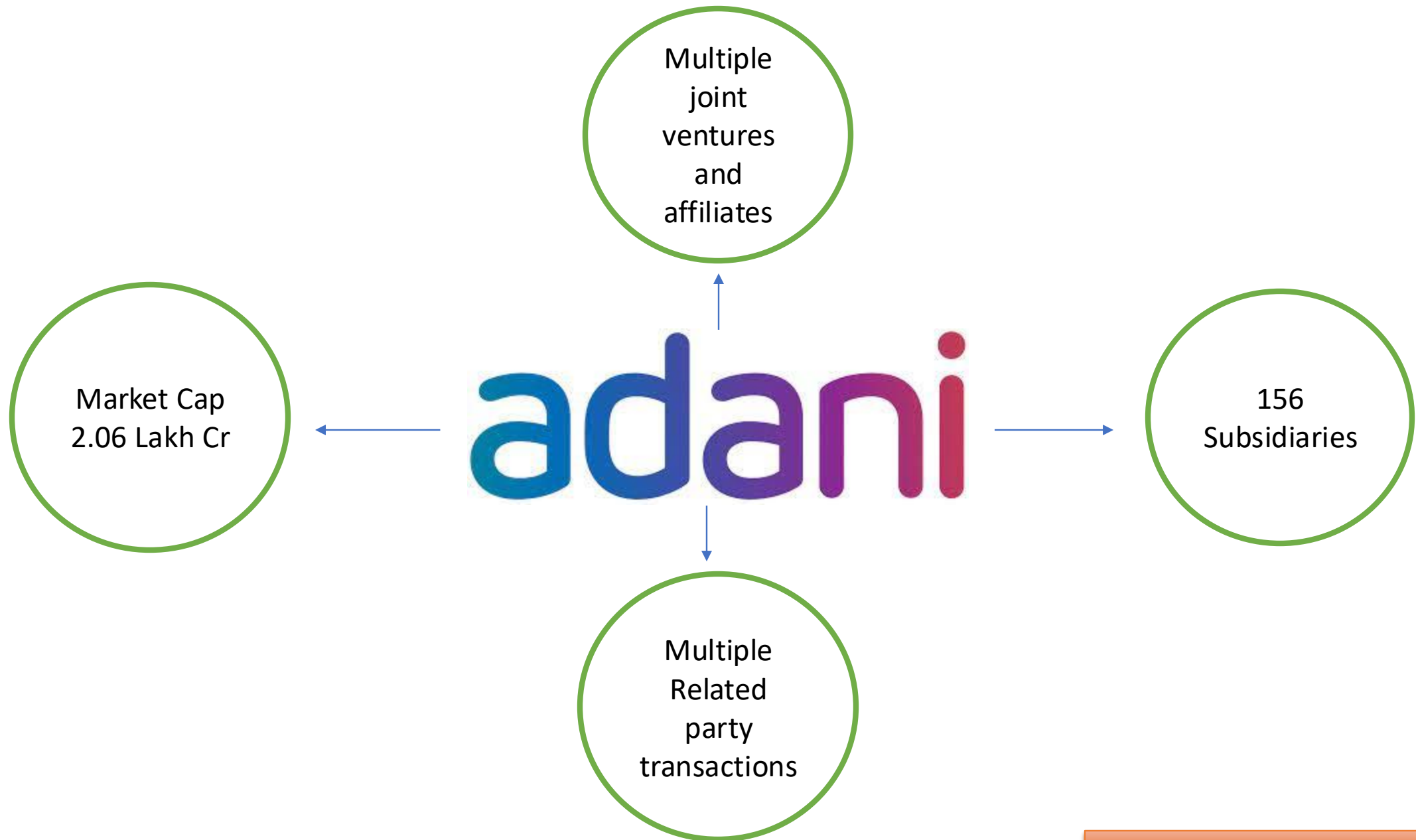
Co. had inflated revenue by \$1.5 billions.

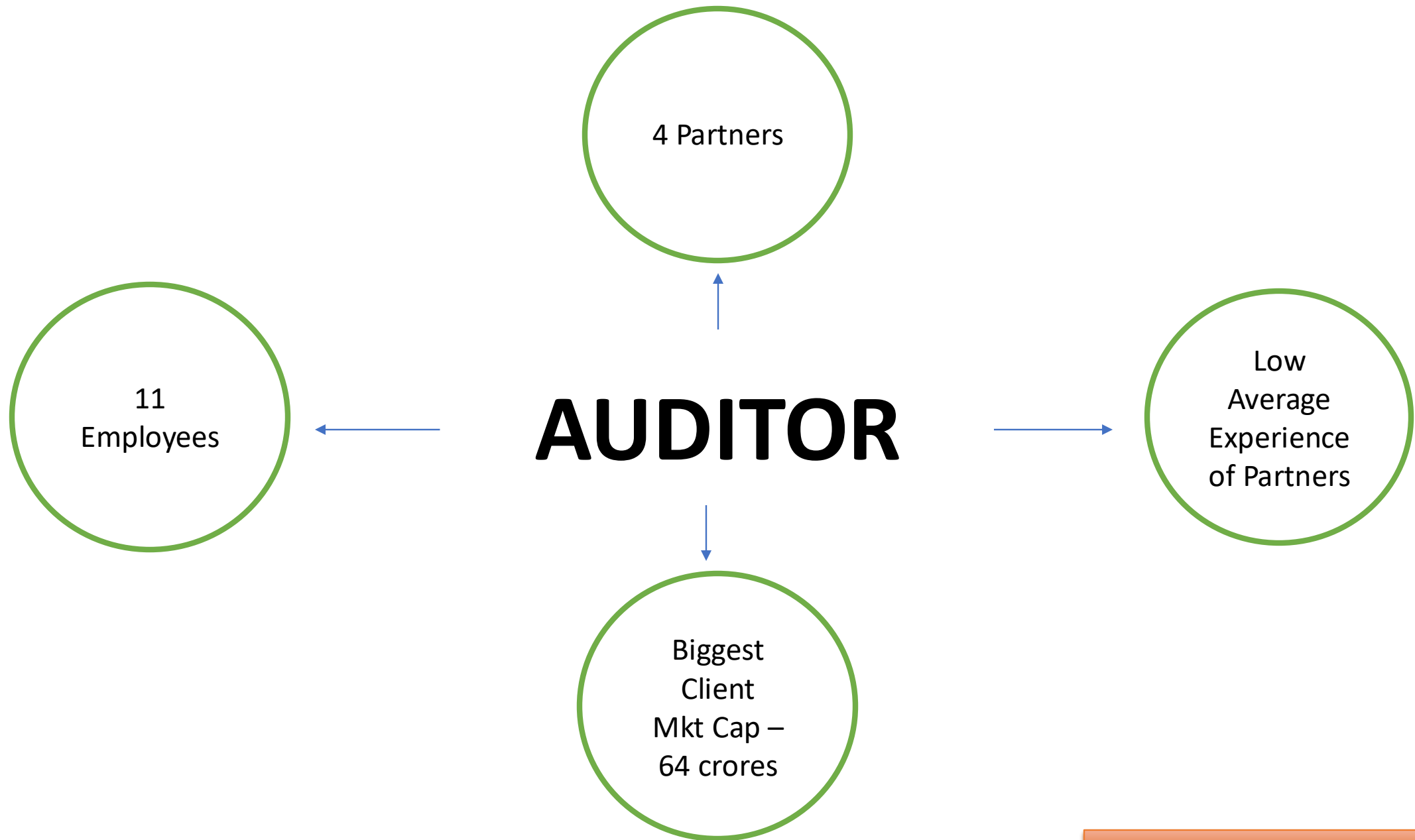
An investigation by CBI revealed that the founder and chairman, Ramalinga Raju, had falsified revenues, margins, and cash balances.

Impact :

The Auditors were banned for 2 years by Sebi.

Revision in regulations, auditing standards and reporting requirements in India.





Centre for Audit Quality

In order to have a more **in-depth discussion on the qualitative components of the audit** function and to create a favorable environment for **conducting field research projects**, the ICAI decided to open the Centre for Audit Quality at its **Centre of Excellence in Jaipur**.

The purpose is to:

- Provide **confidence to the users** of audited financial statements;
- **Reliability**;
- Improving **audit quality**;
- **Consistency** of audit execution.

Objective of CAQ :

- to develop **Framework** for Audit Quality
- to work on **key elements** of Audit Quality
- to develop **Audit Quality Maturity Model**
- to develop and promote **Audit Quality Indicators**
- identifying areas where **competencies** are good or lacking
- create **trust in stakeholders** and users of financial statements

AQMM v 1.0

- Audit quality measurement is a highly subjective matter
- AQMM has been developed by **Centre for Audit Quality (CAQ)**, Jaipur
- AQMM is an amalgamation of a well researched set of **Audit Quality Indicators (AQIs)**
- A model launched for **self-evaluating** the current level of Audit Maturity;
- Identifying areas where **competencies** are good or lacking;
- Developing a **road map** for upgrading to a higher level of maturity.
- The maturity of an organization depends on the basis on which it functions as a whole and the individual activities that sum up.
- The level of scores **applies to each section** and not to any one section alone.
- AQMM was initially **recommendatory** but **effective April 1, 2023 it becomes mandatory** for firms meeting certain prescribed conditions.
- The self assessed rating of the firm would be subjected to testing by **Peer Review Board (PRB)**

Note :

- “Implementation Guide for Audit Quality Maturity Model – Version 1.0 (AQMM v1.0)” has to be used **ONLY for self-evaluation by audit firms of their audit quality maturity level and taking steps to move up the maturity model.**
- The results of the self-evaluation conducted should **NOT be published/displayed in any form/manner**, until issuance of guidance in this regard by the ICAI, otherwise, it may be deemed to be a violation of the Code of Ethics of the Institute of Chartered Accountants of India.
- Upon self evaluation, the firm may **approach CAQ or PRB voluntarily for getting peer review done** of its self-assessment rating or else it can be done as a part of normal peer review cycle.
- The peer reviewed AQMM rating shall be **published on ICAI website** at a prescribed location

Peer Review Process

- Case 1: If peer review cycle due- AQMM can be conducted along with **periodic peer review cycle**, as an add-on service for **not more than Rs. 30000/-**
- Case 2: If peer review cycle not due- AQMM can be conducted by **making an application in CAQ or PRB**, for a cost **not more than 20-25% of peer review cost.**

No Additional Compliance

Applicability

The firms auditing the following types of entities are to **mandatorily assess their level of audit quality maturity** using the AQMM Rev v1.0 from 1st April 2023:

- A **listed entity**; or
- **Banks** other than co-operative banks (except multi-state co-operative banks); or
- **Insurance Companies.**

Note: However, firms doing **only branch audits** are not covered.

What are AQIs ?

- Audit Quality Indicators (AQIs) are **quantitative and qualitative measures** of audit quality;
- They indicate the **firm's historical, present and future ability** to perform quality audits;
- It is a **capacity building** measure for Firms;
- These indicators help the firms to **monitor trends in quality** which would provide an insight into the functioning of the audit practice.

Key Elements of AQIs – At Firm Level

- Tone at the top
- Competency levels of firm's personnel
- Firm's independence policies
- Investment in people
- Investment in processes and technologies
- Relationship between audit quality and financial reporting

Section Categorisation

There are three Sections in this Model :



Section 1. Practice Management –
Operation



Section 2. Human Resource Management



Section 3. Practice Management –
Strategic / Functional

Section Scoring Reference

Sections	Total Possible Points
Section 1. Practice Management – Operation	280
Section 2. Human Resource Management	240
Section 3. Practice Management Strategic/Functional	80
Total	600

Competency Basis		Maximum Scores
Practice Management Operation	Quality Control for Engagements	80
	Technology Adoption	64
	Service Delivery – Effort Monitoring	36
	Quality Review Manuals or Audit Tool	24
	Work-flow - Practice manuals	16
	Benchmarking of Service Delivery	16
	Revenue, Budgeting & Pricing	16
	Practice areas of the firm	12
	Client Sensitisation	8
Total		280
Human Resource Management	Resources Turnover & Compensation Management	104
	Employee Training & Development	44
	Qualification Skill Set of Employees and Use of Experts	32
	Performance Evaluation Measures carried out by the Firm (KPIs)	32
	Resource Planning & Monitoring as per the Firm's Policy	28
Total		240
Practice Management – Strategic/ Functional	Infrastructure – Physical & Others	48
	Practice Management	20
	Practice Credentials	12
Total		80
Grand Total		600

Firm Maturity Ratings

Firm Levels	Based on Score Obtained	Interpretation
Level 1	up to 25 % in each section	Indicates that the firm is very nascent -will have to take immediate steps to upgrade its competency or will be left lagging behind
Level 2	above 25 % and up to 50 % in each section	Indicates firm has made some progress - will have to fine-tune further to reach the next level of competency
Level 3	above 50 % and up to 75 % in each section	Indicates firm has made substantial progress - will have to fine-tune further to reach the highest level of competency
Level 4	above 75 % in each section	Indicates firms that have made significant adoption of standards and procedures - Should focus on optimizing further

Section 1

Practice

Management -

Operation

Competency Basis

Score Basis

i. Revenue from audit and assurance services.

50% to 75% - 5 Points

Above 75% - 8 Points

(Min. 50 % of total revenue from audit and assurance services, consistently witnessed for a period of 3 years.)

ii. Does the firm have a Vision and Mission statement?

Does it address Forward looking practice statements/Plans?

If Yes – 4 Points

If No – 0 Points

Competency Basis

i. Presence of **Audit manuals** containing the firm's methodology that ensures compliance with auditing standards and **implementation** thereof.

ii. Availability of **standard formats** relevant for audit quality (e.g., Engagement Letter (SA210), Representation Letters (SA580), Significant working Papers (SA230), reports (SA700) etc.)

Score Basis

If Yes - 8 Points
If No - 0 Points

If Yes - 8 Points
If No - 0 Points

Competency Basis

Score Basis

i. Usage of Engagement acceptance checklists and adequate documentation thereof.

If Yes - 4 Points
If No - 0 Points

ii. Evaluation of Independence for all engagements

If Yes - 4 Points
If No - 0 Points

iii. Does the Firm maintain and use the engagement withdrawal/ rejection policy, templates, etc.?

If Yes - 4 Points
If No - 0 Points

iv. Availability and use of standard checklists in performance of an Audit for Compliance with Accounting and Auditing Standards

If Yes - 4 Points
If No - 0 Points

v. Availability and use of standard formats for audit documentation

If Yes - 4 Points
If No - 0 Points

vi. Are the documents mentioned from (i) to (v) above reviewed and updated on a frequent basis

If Yes - 4 Points
If No - 0 Points

Competency Basis

i. Does the firm carry out a Capacity planning for each engagement?

ii Is a process of Budgeting & Planning of efforts required maintained

iii Are Budget vs Actual analysis of time and effort spent carried out to identify the costing and pricing?

iv Does the firm deploy technology for monitoring efforts spent

Score Basis

If Yes - 4 Points
If No - 0 Points

If Yes – 4 Points
If No – 0 Points

Upto 10% - 0	11% to 30% - 4	31% to 50% - 8
51% to 70% - 12	71% to 90% - 16	>90% - 20

(based on % of engagements in which the compliance with budget vs actual is carried out)

If Yes – 8 Points
If No – 0 Points

Competency Basis

Score Basis

i. Does the firm have a Quality review for all listed audit engagements as per para 60 of the SQC-1 ?
Is there a document of time spent for review of all engagements?

If Yes - 8 Points
If No - 0 Points

ii. Total engagements having concluded to be satisfactory as per quality review vs No. of engagements quality reviewed.

Upto 10% - 0	11% to 30% - 4	31% to 50% - 8
51% to 70% - 12	71% to 90% - 16	>90% - 20

Based on % of Quality Review

iii. No. of engagements without findings by ICAI, Committees of ICAI and regulators that require significant improvements.

Upto 10% - 0	11% to 30% - 4	31% to 50% - 8
51% to 70% - 12	71% to 90% - 16	>90% - 20

Based on % of engagement meeting quality review standards

Competency Basis

iv. Documentation of the firm in accordance with SQC 1.

(based on Presence in the below mentioned areas:

- (a) Leadership responsibilities for quality within the firm
- (b) Ethical requirements
- (c) Acceptance and continuance of client relationships and specific engagements
- (d) Human resources
- (e) Engagement performance
- (f) Monitoring

Score Basis

If (b), (c), (e) Yes - 6 Points
If No - 0 Points

If (a), (d), (f) Yes - 6 Points
If No - 0 Points

v. Does the firm have Accounting and Auditing Resources in the form of soft copies of archives, Q&As, firm thought leadership, a dedicated/ Shared Technical desk?

If Yes - 8 Points
If No - 0 Points

vi. Is appropriate time spent on understanding the business, risk assessment and planning an engagement?
Have risks been mitigated through performance of audit procedures?

If Yes - 12 Points
If No - 0 Points

Competency Basis

Score Basis

i. Does the firm follow/ implement **Standard delivery methodology** – the adoption of audit manuals, adherence to practice standards and tools?

If Yes – 4 Points
If No – 0 Points

ii. The number of statutory audit engagements reworked

0% to 5% - 0
6% to 15% - (-1) 16% to 30% - (-2)
31% to 50% - (-3) 51% to 100% - (-4)

iii. Number of client disputes (other than fees disputes) and how they are addressed.

0% to 5% - 0
6% to 15% - (-1) 16% to 30% - (-2)
31% to 50% - (-3) 51% to 100% - (-4)

Is the timing of audit interactions with management planned in such a way that integrates with the auditor's requirements so that audit timelines can be met?

If Yes – 12 Points
If No – 0 Points

Competency Basis

Score Basis

Awareness meetings and Knowledge dissemination meetings/ articles/document sharing with clients including:

- 1) Updating client on audit issues, formally effectiveness of the process of communication with management and those charged with Governance;
- 2) Updating client on changes in accounting, legal, audit aspects, etc. with client specific impact; and
- 3) Follow through on previous audit observations and updates to management and those charged with Governance.

If Yes - 8 Points
If No - 0 Points

Monitoring planned hours vs actual hours across engagement; the focus is on the existence of a monitoring mechanism.

If Yes - 8 Points
If No - 0 Points

1.8. Technology Adoption

64 points

Competency Basis

Score Basis

Internal Communication chats

If Yes - 4 Points

If No - 0 Points

Has the firm automated its office with automated Attendance System and Leave management?

If Yes - 4 Points

If No - 0 Points

Project or activity management/ Timesheet management

If Yes - 4 Points

If No - 0 Points

Digital storage of record

If Yes - 4 Points

If No - 0 Points

Centralised server/ Cloud

If Yes - 4 Points

If No - 0 Points

Digital Library (Own or ICAI)

If Yes - 4 Points

If No - 0 Points

Client interaction

If Yes - 4 Points

If No - 0 Points

Video conferencing facilities adopted

If Yes - 4 Points

If No - 0 Points

Does the firm use only licensed operating system, software etc.?

If Yes - 4 Points

If No - 0 Points

1.8. Technology Adoption

64 points

Competency Basis

Score Basis

Own E-mail domains, E-mail usage policies, etc.

If Yes - 4 Points
If No - 0 Points

Use of anti-virus and malware protection tools

If Yes - 4 Points
If No - 0 Points

Data security, etc.

If Yes - 4 Points
If No - 0 Points

Cyber security measures

If Yes - 4 Points
If No - 0 Points

Awareness and Adoption of Technology for Service delivery – Say, use of Audit tools, usage of analytical tools, use of data visualization tools or adoption of an audit tool.

If Yes - 12 Points
If No - 0 Points

Competency Basis

Score Basis

i. Whether the client wise revenue is in compliance with the Code of Ethics (currently fees from one client should not exceed 40% of total revenue unless safeguards are put in place) and once the deferred clauses of Part A are implemented this will be reduced to 15%.

If Yes - 4 Points
If No - 0 Points

ii. Fee considerations and scope of services should not infringe upon the quality of work and documentation as envisaged in SQC 1 under Leadership is responsible for quality within the firm.

If Yes - 8 Points
If No - 0 Points

iii. Adherence to a minimum scale of fees recommended by ICAI.

Upto 50% of the engagements – 2
Above 50% - 4
For none - 0



Section 2

Human Resources Management

Competency Basis

Score Basis

i. Does the firm have a process of Employee/ Resource Planning for the engagements based on skill set requirement, experience, etc.?

If Yes - 4 Points
If No - 0 Points

ii. Methods/Tools used by the firm for Resource Allocation (use of spreadsheets, workflow tools, etc.).

If Yes - 4 Points
If No - 0 Points

iii. Is there a method of tracking the employee activity, to identify resource productivity (e.g., timesheet)?

If Yes - 4 Points
If No - 0 Points

2.1. Resource Planning & Monitoring as per the firm's policy

28 points

Competency Basis

Score Basis

iv. Does the firm maintain a minimum Staff to Partner Ratio, Partner to Manager, Manager to Articles, Client to Staff ratio, etc.?

If Yes - 8 Points
If No - 0 Points

v. Does the firm monitor the Utilisation & Realisation rate per employee?

If Yes - 4 Points
If No - 0 Points

vi. Does the firm document the resource plan for each engagement and file it for reference during the engagement?

If Yes - 4 Points
If No - 0 Points

Competency Basis

Score Basis

i. Does the firm have an employee training policy?

If Yes - 4 Points
If No - 0 Points

ii. Number of Professional Development hours/days spent (Frequency) as a firm – per employee.

2 Points for general training
6 points for specialized technical training
(Junior Level – 60 hours/year;
Mid Level – 30 to 60 hours/year;
Partners – more than 30 hours/year)

iii. Employees are equipped with technological skill sets – AI, Blockchain, Audit & Data analytical tools, etc. and sponsored by the firm

If Yes - 8 Points
If No - 0 Points

iv. Whether the firm has a performance management culture that rewards high performing employees and those who demonstrate high levels of quality and ethics?

If Yes - 8 Points
If No - 0 Points

Competency Basis

Score Basis

i. Does the Firm evaluate a team composition overall to build the Team Strength - say, Number of Managers, Assistant Managers, Paid Assistants, Article Assistants, Other Degree holders?

If Yes - 8 Points
If No - 0 Points

ii. Does the firm maintain and monitor the employee turnover ratio and identify measures to keep it minimal?

If Yes - 8 Points
If No - 0 Points

iii. Qualified professionals retained by the firm
(based on the % of chartered accountants and articles available per partner)

10 and above- 20 points
8 to 9- 16 points
6 to 7- 12 points
4 to 5- 8 points
Upto 3- 4 points

iv. Does the firm evaluate the Employee relation with the firm (No. of Professionals vs. No. of years employed with firm) to identify reasons for turnover if any?

If Yes - 4 Points
If No - 0 Points

v. Statutory contributions wherever applicable, Health Insurance and other benefits, available in the firm for staff members and partners.

If Yes - 8 Points
If No - 0 Points

Competency Basis

Score Basis

vi. Does the firm evaluate for which kind of audits does it have a revolving door (between different engagements) for people below partner level?

If Yes - 4 Points
If No - 0 Points

vii. Progress of people through an established framework and time commitment of Managers and Partners – Engagement level review and overall performance evaluation and rewards mechanism for differentiated performance levels.

If Yes - 8 Points
If No - 0 Points

viii. Access and use of technology, infrastructure, methodology for better enablement of day-to-day work / including favorable remote working policies

If Yes - 8 Points
If No - 0 Points

ix. Coaching and mentoring program investment, especially for women colleagues to enhance the diversity of audit leaders in the profession

If Yes - 8 Points
If No - 0 Points

Competency Basis

Score Basis

x. Special policies to provide people time to rejuvenate especially after busy audit seasons.

If Yes - 4 Points
If No - 0 Points

xi. Focused policies and support for staff well - being, engagement and communication.

If Yes - 8 Points
If No - 0 Points

xii. An established mechanism to listen to people and their views and suggestions. Credible Employee survey and its outcome demonstrate how well people are taken care of and heard.

If Yes - 8 Points
If No - 0 Points

xiii. Standards of recruiting people – Assessment methodology, evaluation of quality and fitment to the job and culture.

If Yes - 4 Points
If No - 0 Points

xiv. Are the employees of the firm compensated as per a defined approach where salary is mapped to the knowledge and experience level of the employee?

If Yes - 4 Points
If No - 0 Points

Competency Basis

Score Basis

i. Number of Professionally qualified members – ACA/FCA

(If evaluation is being done for a firm that primarily offers Statutory and Tax Audit Services then only ACA / FCA should be considered for evaluation purposes.)

Upto 30% – 4 Points

31% to 50% – 8 Points

Above 50% – 12 Points

(based on the % of employees with necessary qualification or skill sets - including partners)

ii. Post Qualification Certifications obtained from professional bodies or similar organizations (DISA, IP, etc.) DISA and IP are courses that are required in Information System Audits. If qualified resource is not available in the firm, whether the services of expert are taken? Whether all partners have complied with CPE requirements of ICAI?

Applicable – 8 Points

Not Applicable – 0 Point

(Where firms are not involved in any Information systems audit/engagements with complex IT systems should not be rated for this competency)

iii. Members with Specialization courses or Certifications

Upto 30% – 4 Points

31% to 50% – 8 Points

Above 50% – 12 Points

2.5. Performance evaluation measures carried out by the firm (KPI's)

32 points

Competency Basis

Score Basis

i. Does the firm have written KPIs for performance evaluation of the firm and partners?

If Yes - 8 Points
If No - 0 Points

ii. Method for measurement and evaluation as mentioned above (i) are determined / specific.

If Yes - 8 Points
If No - 0 Points

iii. There is a decided frequency for the evaluation and is consistently applied.

If Yes - 8 Points
If No - 0 Points

iv. Are engagement partners reviewed based on the review results of the engagements of each partner.

If Yes - 8 Points
If No - 0 Points

Section 3

Practice

Management – Strategic/Functional

Competency Basis

Score Basis

i. Does the firm have a balanced mix of experienced and new Assurance partners?

Avg. Partner experience > 5 years
- 4 points
Avg. Partner experience > 10 years
- 8 points

ii. Is the firm compliant with the ICAI Code of Ethics, Companies Act 2013 and other regulatory requirements in relation to Professional Independence and Conflict of Interest?

If Yes - 8 Points
If No - 0 Points

iii. Is there is a 'whistle blower' policy?

If Yes - 4 Points
If No - 0 Points

3.2. Infrastructure – Physical & Others

48 points

Competency Basis

i. Number of Branches & Associates and network firms and affiliates.

ii. Are branch level activities Centralised/ Decentralised in accounting, Invoicing, and Payroll processing.
(Complete automation is not a mandate)

iii. Physical & Logical Security of Information are extended and implemented across locations?

iv. Are there adequate DA tools and IT infrastructure available and are they being used for the relevant assignment?

v. Is the infrastructure adequate in terms of internet/intranet network bandwidth/ VPN/Wi-Fi etc. for remote working?

Score Basis

Upto 3 – 2 Points

8 to 15 – 6 Points

4 to 7 – 4 Points

More than 15 – 8 Points

Centralised – 8 Points
Decentralised – 4 Points

If Yes - 8 Points
If No - 0 Points

If Yes - 12 Points
If No - 0 Points

If Yes - 12 Points
If No - 0 Points

Competency Basis

Score Basis

i. Is the firm ICAI Peer Review certified?

If Yes - 4 Points
If No - 0 Points

ii. Empanelment with RBI / C&AG.

If Yes - 8 Points
If No - 0 Points

iii. Is there an advisory as well as a decision, to not allot work due to unsatisfactory performance by the CAG office?

If Yes – (-5) Points
If No - 0 Points

iv. Have any Government Bodies/ Authorities evaluated the performance of the firm to the extent of debarment/ blacklisting?

If Yes – (-10) Points
If No - 0 Points

v. Any negative assessment in the report of the Quality Review Board?

If Yes – (-5) Points
If No - 0 Points

vi. Has there been a case of professional misconduct on the part of a member of the firm where he has been proved guilty?

If Yes – (-5) Points
If No - 0 Points



Roadmap for moving up the next level of maturity





Step 1: Benchmarking

Benchmark the current maturity level of the firm and document a list of specific aspects that the Firm is currently lacking.



Step 2: Planning Initiatives

Convert the initiative to be taken into an action plan- with timelines quarterly/annual.



Step 3: Identifying resources and execution plan

Identify a cross-functional team for execution of the plan;

Make the execution of the plan an important part of the Key Result Areas/KPI of this team.

Define accountability for reporting progress and challenges in implementation.



Step 4: Assessing progress

Assess the progress by reevaluating against the AQMM v1.0 and re-visit the execution plan half-yearly



Step 5: Perform a review

The firm may have its AQMM voluntarily reviewed.

An external firm or a peer can review.

Internal inspection may also be performed.

It is recommended to perform peer review on a regular basis

References

ICAI Notice : <https://www.icaai.org/post/mandatory-evaluation-of-the-audit-quality-maturity-of-the-firms>

AQMM Rev

v1.0: <https://resource.cdn.icaai.org/71488caq57512.pdf>

Implementation

guide: <https://resource.cdn.icaai.org/71489caq57513.pdf>



Thank You

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