

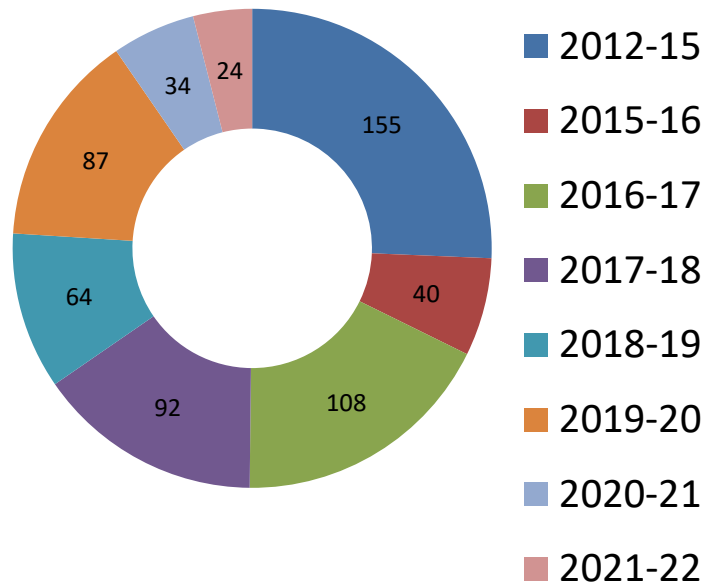


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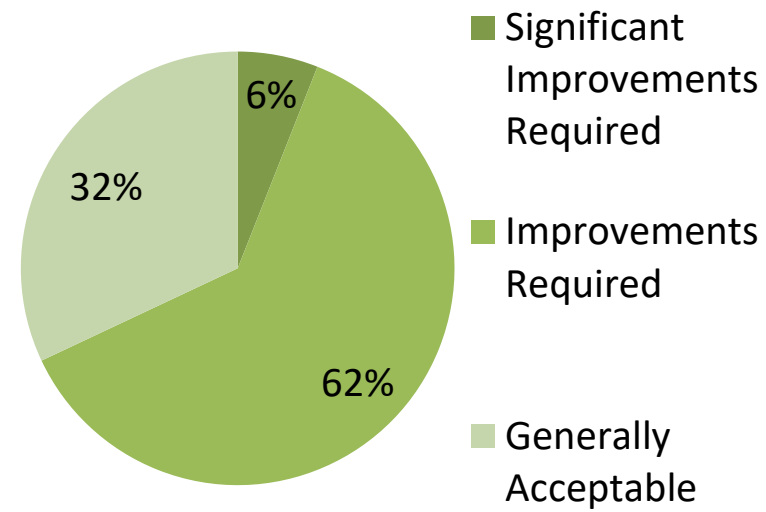
SPECIAL PURPOSE DIRECTORATE  
**CENTRE FOR AUDIT QUALITY**  
**Audit Quality Maturity Model**  
By CA Durgesh Kabra

# OVERALL TREND (FY 2012-13 TO FY 2021-22)

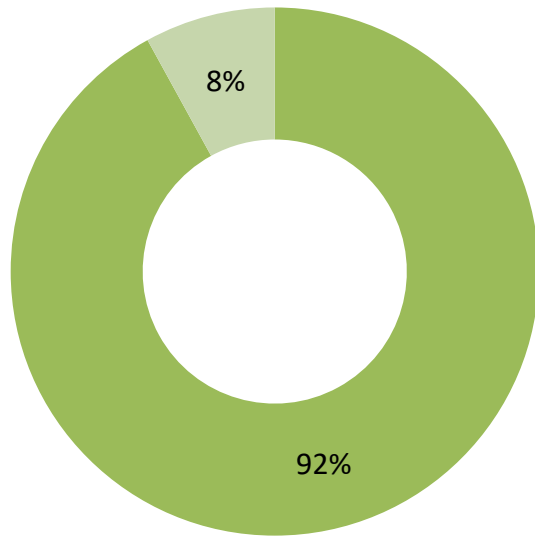
No. of Audit Engagements  
Reviewed



Findings of Audit Engagements  
Reviewed



# AUDIT QUALITY REVIEWS - KEY FIGURES (FY 2021-22)

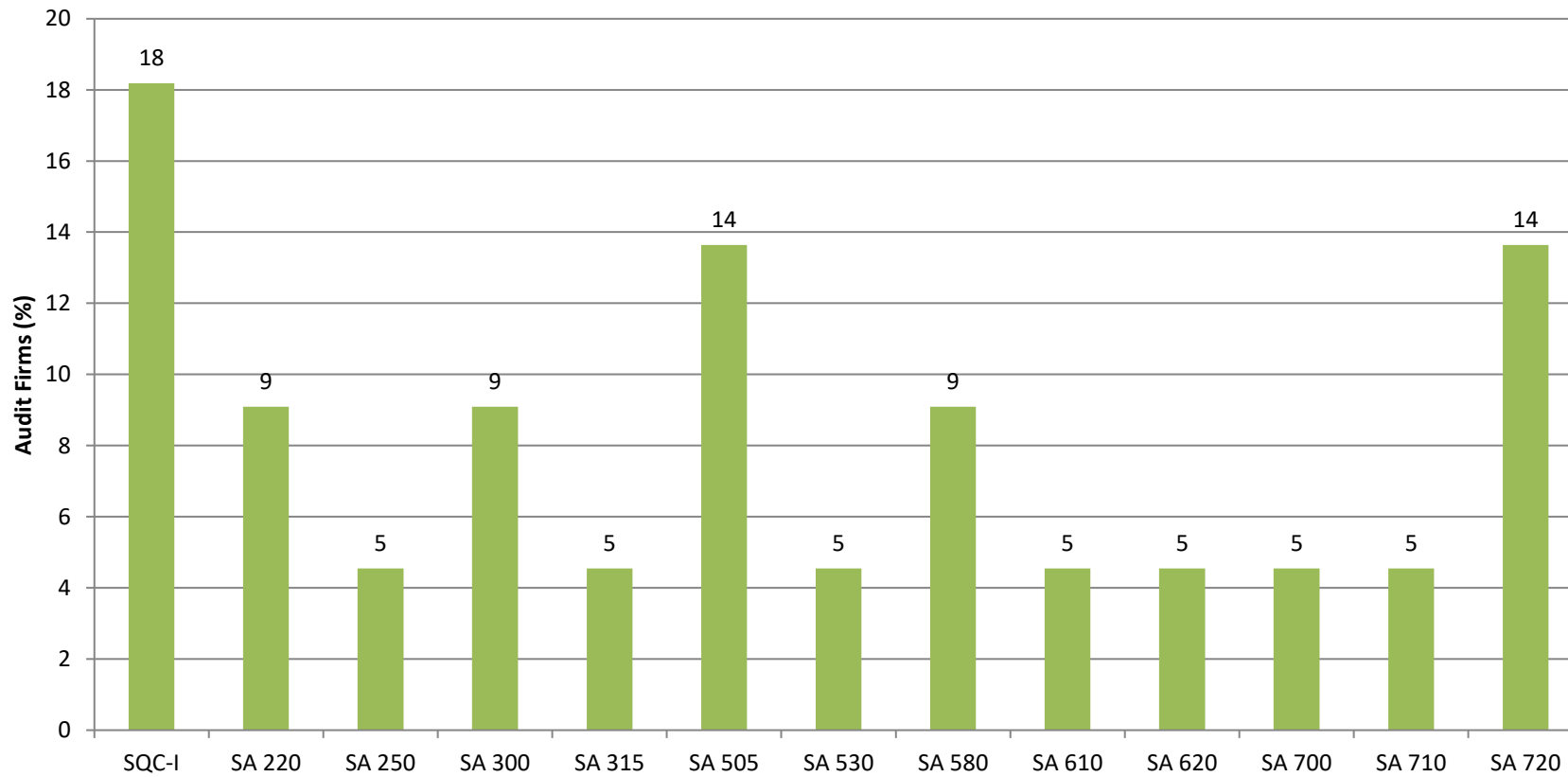


- Significant Improvements Required
- Improvements Required
- Generally Acceptable

|                      |    |
|----------------------|----|
| Audit firms reviewed | 22 |
| Entities covered     | 23 |
| Audit files reviewed | 24 |

# % OF REVIEWED AUDIT FIRMS HAVING OBSERVATIONS ON STANDARDS ON AUDITING (SA) IN FY 2021-22

% of Reviewed Audit Firms having Observations on Standards on Auditing (SA) for Reviews conducted during FY 2021-22





# **Audit Quality Maturity Model - Revised Version 1.0 (AQMM Rev v1.0)**



# Audit Quality

Audit Quality has always been a significant aspect of the audit profession.

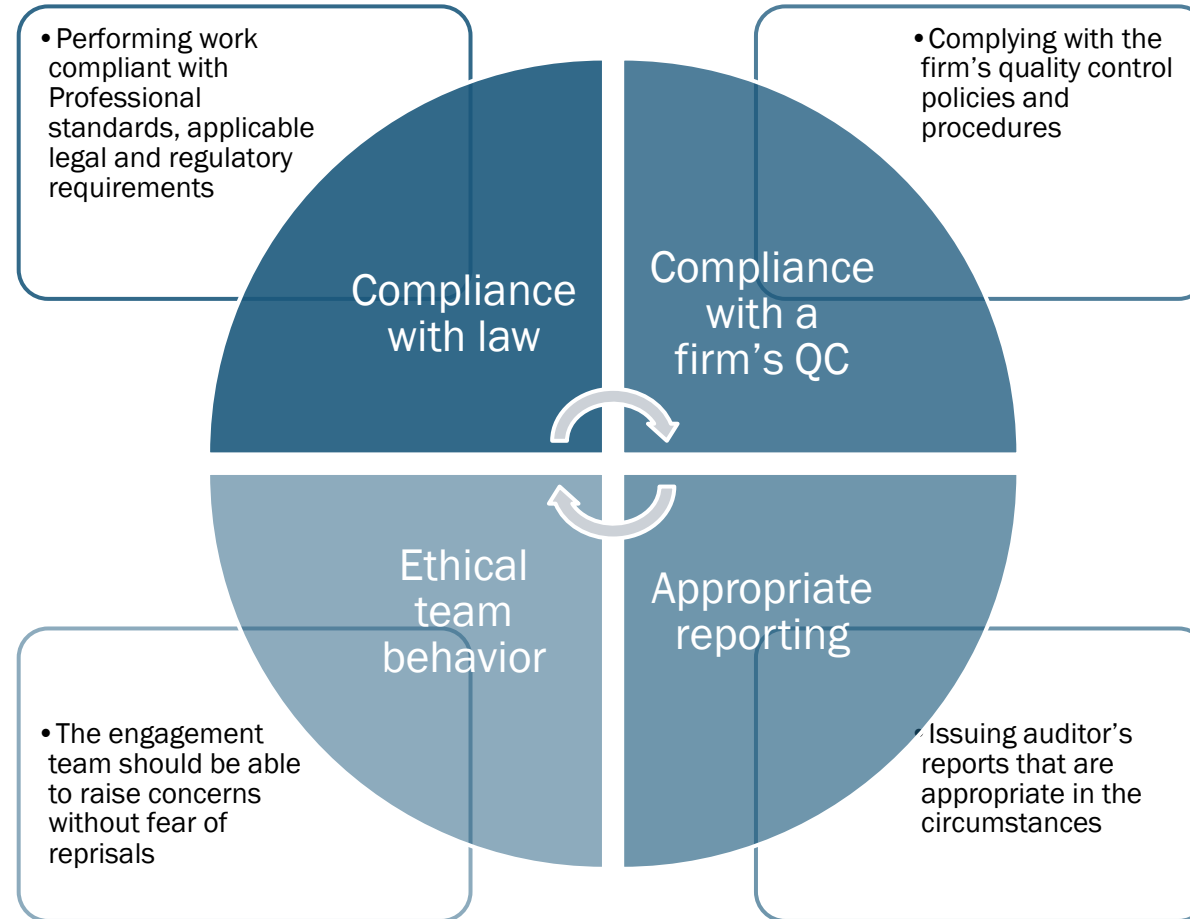
# Enhancing Audit Quality



- Users depend on Audit Quality to have confidence in financial statements
- Audit quality is a complex subject and there is no analysis of it that has achieved universal recognition
- Audit quality should be improved at the Engagement, Firm and National levels



# How does one measure Audit Quality?



Source: IAASB



# AQMM & its purpose



The AQMM is a model developed to enable the audit firms to **self-evaluate** their level of Audit Maturity, identify strength and lacking areas, and accordingly develop a road map for upgrading to a higher level of maturity.

It is a cross-functional evaluation model covering key areas of not only audit engagements but also audit practice at the firm level. It includes operations of the firm include revenue budgeting and pricing, audit practice manual, budgeting of engagements, time sheet, use of technology adoption, quality control for engagements, Human Resource Management including resource planning and monitoring, performance evaluation and compensation, physical and IT infrastructure.



# Entities to which AQMM apply

The AQMM mandatorily applies to the **firms auditing** the following entities from the 1<sup>st</sup> April 2023:

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

However, firms doing only branch audits are not covered.

# Applicability of AQMM



AQMM needs to be evaluated for **each firm** in a network even if the firm follow the same SQC, HR & operational practices.

Evaluation of AQMM requires exercise of professional judgment.

Audit firms are required to maintain documentation justifying the judgement underlined the scores considered.

# Evaluation of AQMM by firms



## Periodicity

The firms will need to **Self-evaluate** the level of audit maturity using AQMM rev v 1.0 as at March 31.

The scores evaluated under AQMM shall be reviewed by Peer /AQMM reviewer. The peer reviewer shall review the scores and the level alongside the peer review cycle of the firms.

# Scores evaluated using AQMM



The AQMM Status (self evaluated) should not be publicized or mentioned on the public domain e.g. on professional documents, visiting Cards, letterheads, or signboards, etc. as it may amount to solicitation in view of the provisions of Chartered Accountants Act, 1949. It should not be disclosed even on a website.

The level arrived for the firm and reviewed by the peer reviewer shall be hosted on the website of ICAI alongside the peer review details.

# Scores under Audit Quality Maturity Rating



The scoring under AQMM Rev 1.0 has been divided into 3 broad Sections

| Section Reference                                     | Total Possible Points |
|---|-----------------------|
| Section 1. Practice Management – Operation            | 280                   |
| Section 2. Human Resource Management                  | 240                   |
| Section 3. Practice Management - Strategic/Functional | 80                    |
| <b>Total</b>  | <b>600</b>            |



# Sub-sections under the sections

The 3 sections of AQMM are bifurcated into various sub-sections

- Section 1 has been divided into 9 sub-sections
- Section 2 has been divided into 5 sub-sections
- Section 3 has been divided into 3 sub-sections
- In total we have 17 sub-sections under the AQMM

# Section 1 - Practice Management - Operation



|     | <b>Evaluation Criteria</b>           | <b>Max Score</b> |
|-----|--------------------------------------|------------------|
| 1.1 | Practice Areas of the Firm           | 12               |
| 1.2 | Work Flow - Practice Manuals         | 16               |
| 1.3 | Quality Review Manuals or Audit Tool | 24               |
| 1.4 | Service Delivery - Effort monitoring | 36               |
| 1.5 | Quality Control for engagements      | 80               |
| 1.6 | Benchmarking of Service delivery     | 16               |
| 1.7 | Client Sensitisation                 | 16               |
| 1.8 | Technology Adoption                  | 64               |
| 1.9 | Revenue, Budgeting & Pricing         | 16               |
|     | <b>Total of Section 1</b>            | <b>280</b>       |



# Section 2 – Human Resource Management



|     | <b>Evaluation Criteria</b>                                      | <b>Max Score</b> |
|-----|---|------------------|
| 2.1 | Resource Planning & Monitoring as per firm's policy             | 28               |
| 2.2 | Employee Training & Development                                 | 44               |
| 2.3 | Ressources Turnover & Compensation Management                   | 104              |
| 2.4 | Qualification Skill Set of employees and use of experts         | 32               |
| 2.5 | Performance evaluation measures carried out by the firm (KPI's) | 32               |
|     | <b>Total of Section 2</b>                                       | <b>240</b>       |

# Section 3 - Practice Management- Strategic/ Functional



| Evaluation Criteria |                                    | Max Score |
|---------------------|------------------------------------|-----------|
| 3.1                 | Practice Management                | 20        |
| 3.2                 | Infrastructure – Physical & Others | 48        |
| 3.3                 | Practice Credentials               | 12        |
| Total of Section 3  |                                    | 80        |

# Does the firms get negative scoring using AQMM?

## Section 1



| Section  | Particulars  | Total Possible Points   |
|----------|--|---|
| 1.6(ii)  | The number of statutory audit engagements re-worked (filing errors, information insufficiency, wrong interpretation of provisions, etc.) | Less than 5% : 0 Point<br>More than 5% to 15%: (-1) Point<br>More than 15% to 30%: (-2) Points<br>More than 30% to 50%: (-3) Points<br>More than 50%: (-4) Points |
| 1.6(iii) | Number of client disputes (other than fees disputes) and how they are addressed.   | Less than 5% : 0 Point<br>More than 5% to 15%: (-1) Point<br>More than 15% to 30%: (-2) Points<br>More than 30% to 50%: (-3) Points<br>More than 50%: (-4) Points |

# Does the firm get negative Marking under AQMM?...

## Section 3



Yes, AQMM provides for negative marking under the following sections:

| Section   | Particulars   | Total Possible Points                      |
|-----------|---|--|
| 3.3 (iii) | Is there an advisory as well as a decision, to not allot work due to unsatisfactory performance by the CAG office?      | For Yes – (-5) Points<br>For No – 0 Point  |
| 3.3(iv)   | Have any Government Bodies/ Authorities evaluated the performance of the firm to the extent of debarment/ blacklisting? | For Yes – (-10) Points<br>For No – 0 Point |
| 3.3(v)    | Any negative assessment in the report of the Quality Review Board?  | For Yes – (-5) Points<br>For No – 0 Point  |
| 3.3(vi)   | Has there been a case of professional misconduct on the part of a member of the firm where he has been proved guilty?   | For Yes – (-5) Points<br>For No – 0 Point  |

# Levels of Firm under Audit Quality Maturity Rating



| Score in Each Section            | Level of Firm | Interpretation of the result   |
|----------------------------------|---------------|--|
| Up to 25% in each section        | Level 1 Firm  | Indicates that the firm is <b>very nascent</b> – will have to take immediate steps to upgrade its competency or will be left lagging behind. |
| Above 25% to 50% in each section | Level 2 Firm  | Indicates firm has made <b>some progress</b> -will have to fine tune further to reach the highest level of competency.                       |
| Above 50% to 75% in each section | Level 3 Firm  | Indicates the firm has made <b>substantial progress</b> – will have to fine-tune further to reach the highest level of competency.           |
| Above 75% in each section        | Level 4 Firm  | Indicates firms that have made <b>significant adoption</b> of standards and procedures – should focus on optimizing further.                 |

# Comparison of AQMM v 1.0 & Rev v 1.0



| Section Reference of AQMM           | PARA UNDER AQMM | AQMM v1.0  | AQMM Rev v1.0   |
|-------------------------------------|-----------------|--|---|
| 1.5 Quality Control for engagements | (i)             | Does the firm have a Partner Review/Quality Review for all audit engagements and is there a document of time spent for review of all engagements ? | Does the firm have a Quality Review of all listed audit engagements as per para 60 of the SQC1?<br>Is there a document of time spent for review of all engagements? |
| 3.3 Practice Credentials            | (ii)            | Empanelment with RBI and C&AG.   | Empanelment with RBI / C&AG.  |

# In the pipeline.....



- The digitization of the AQMM is under pipeline. It would help the firms to save the AQMM scores over the years and help in chalking out a roadmap
- The digitization would also help the peer reviewer to award the scores against the self-evaluated scores

# Thank You!



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