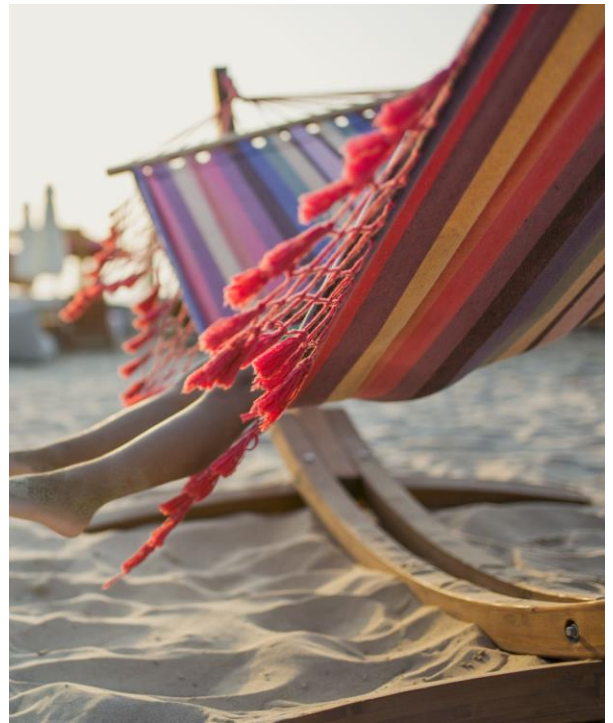


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# AQMM LINK WITH AUDITING STANDARDS

October 7 2021

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## WHY AQMM?

- Capacity building measure
  - Self-evaluate current levels of maturity
  - Competencies are good or lacking
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## PRESENT SCENARIO

- Peer Review Board
  - FRRB
  - NFRA
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## IS IT MANDATORY?

- Recommendatory for one year
  - Mandatory after that
  - 1 July 2021?
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## THE PRESENT ENVIRONMENT

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## NFRA

- Do you think that Micro, Small and Medium Companies (MSMCs) depending upon some criteria and threshold should be exempted from the mandatory statutory audit under Companies Act, 2013? If not, why not and if yes, what would be the criteria and thresholds for exemption?
  - Do you think there is a requirement for a separate set of auditing standards for MSMCs as it exists for accounting standards? If no, why not and if yes, what should be the basis for the same?
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## NFRA

- The cost of conducting an audit as per the prescribed standards is an important input for the responses to Questions 1 and 2. Do you agree with the approach for estimating standard cost of audit computed by NFRA? If not, which areas/ assumptions need changes?
  - Do you think the current exemption thresholds for CARO, ICFR and statutory audit applicability need to be standardised and made uniform? If no, why not and if yes, what would be the criteria and thresholds?
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## AQMM

- Its not a standard, its not a law, its not a Guidance Note
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## WHY?

- The Audit Quality Maturity Model -Version 1.0 (AQMM v1.0) is a capacity building measure initiated by ICAI and the objective of this Evaluation Matrix is for sole proprietors and Audit firms to be able to self-evaluate their current level of Audit Maturity, identify areas where competencies are good or lacking and then develop a road map for upgrading to a higher level of maturity.
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## SCOPE

- Firms auditing following entities are covered in AQMM v1.0:
  - A listed entity; or
  - Banks other than co-operative banks (except multi-state co-operative banks)
  - Insurance Companies
  - However, firms doing only branch audits are not covered.
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## THE AREAS

- Practice Management-Operation
  - Human Resource Management
  - Practice Management- Strategic/Functional
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## PRACTICE MANAGEMENT-OPERATION

- Practice Areas of the firm
  - Work flow- practice manuals
  - Quality review manuals or audit tools
  - Service delivery – effort monitoring
  - Quality control for engagements
  - Benchmarking of service delivery
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## PRACTICE MANAGEMENT-OPERATION

- Client sensitization
  - Technology adoption
  - Revenue, Budgeting and Pricing
  - Performance evaluation measures
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# HUMAN RESOURCE MANAGEMENT

- Resource Planning and Monitoring
  - Employee training and development
  - Resources turnover and compensation management
  - Qualification skill set of employees
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## PRACTICE MANAGEMENT- STRATEGIC

- Practice Management
  - Infrastructure-Physical and others
  - Practice credentials
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## PRACTICE AREAS

Area	Metric	Points
Revenue from audit and assurance services	Minimum revenue of 50% of the total revenue from audit and assurance services such as statutory audit, tax audit, internal audit, GST audit, Forensic audit, Sustainability audit, Social audit, etc., is considered specialisation, when consistently witnessed for a period of 3 years.	50-75%- 1 > 75%- 2
Does the firm have a vision and mission statement? Does it address Forward looking practice statements/Plans?	The presence of a vision/ mission is essential though it does not make it a criterion for scoring.	



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## WORK FLOW- PRACTICE MANUALS

Area	Metric	Points
Presence of Audit manuals containing the firm's methodology that ensures compliance with auditing standards.	Scoring based on Presence or Not. Answers: Yes/N	For Yes – 2 Points For No – 0 Point
Availability of standard formats relevant for audit quality like - - LOE - Representation letter - Significant working papers - Reports	Scoring based on Presence or Not. Answers: Yes/No	For Yes – 2 Points For No – 0 Point

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## QUALITY REVIEW MANUALS

Area	Metric	Points
Usage of Client Acceptance/engagement acceptance checklists	Scoring based on Presence or Not. Yes/No Answers	For Yes – 1 Point For No – 0 Point
Evaluation of Independence for all engagements (partners, managers, staff, trainees) based on the extent required. The firm must identify self-interest threat, familiarity threat, intimidation threat, self-review threat, advocacy threat and conflict of interest.	Scoring based on Presence or Not. Yes/No Answers	For Yes – 1 Point For No – 0 Point

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## QUALITY REVIEW MANUALS

Area	Metric	Points
Does the Firm maintain the engagement withdrawal/rejection policy, templates, etc	Scoring based on Presence or Not. Yes/No Answers	For Yes – 1 Point For No – 0 Point
Availability of standard formats for audit documentation of Business Understanding, Sampling basis, Materiality determination, data analysis, and Control Evaluation	Scoring based on Presence or Not. Yes/No Answers	For Yes – 1 Point For No – 0 Point
Availability of standard checklists in performance of an Audit for Compliance with Accounting and Auditing Standards	Scoring based on Presence or Not. Yes/No Answers	For Yes – 1 Point For No – 0 Point

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## SERVICE DELIVERY- EFFORT MONITORING

Does the firm carry out a Capacity planning for each engagement?	Scoring based on Presence or Not. Yes/No Answers	<b>Yes-1</b> <b>No-0</b>
Is a process of Budgeting & Planning of efforts required maintained (hours/days/weeks) ?	Scoring based on Presence or Not. Yes/No Answers	Yes-1 No-0

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## SERVICE DELIVERY- EFFORT MONITORING

Are Budget vs Actual analysis of time and effort spent carried out to identify the costing and pricing?	Scoring based on % of engagements in which the compliance with budget vs actual is carried out	Upto 10%- 0 points More than 10% and up to 30% – 1 Point More than 30% and up to 50% – 2 Points More than 50% and up to 70% – 3 Points More than 70% and up to 90% – 4 Points More than 90% – 5 Points
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## SERVICE DELIVERY- EFFORT MONITORING

<p>Does the firm deploy technology for monitoring efforts spent - Utilisation of tools to track each activity (similar to Project management - Say timesheets, task management, etc.) Note: DCMM Version 2 may be referred to arrive at the technical maturity of the firm/ CA.</p>	<p>Scoring based on Presence or Not. Yes/No Answers</p>	<p>For Yes – 2 Points For No – 0 Point</p>
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## QUALITY CONTROL

- Does the firm have a Partner review/ Quality review for all audit assignments and is there a document of time spent for review of all engagements?
  - Total engagements having concluded to be satisfactory as per quality review vs No of engagements quality reviewed
  - No. of engagements without findings by ICAI, Committees of ICAI and regulators that require significant improvements
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## QUALITY CONTROL

- Documentation of the firm in accordance with SQC 1
- 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
- Is appropriate time spent on understanding the business, risk assessment and planning an engagement?

Total 19 points

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## SERVICE DELIVERY BENCHMARKING

- Does the firm follow/ implement Standard delivery methodology – the adoption of audit manuals, adherence to practice standards and tools?
  - Does the firm evaluate the efficiency and benchmark delivery by monitoring the number of statutorily backed engagements closed on time/before due date/belated filing, completion etc. (Ex. Tax audits, Statutory audits, IT filings, GST returns, ROC compliances, FEMA compliances, TDS returns, etc)
  - The number of statutory audit engagements re- worked (filing errors, information insufficiency, wrong interpretation of provisions, etc.)
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## SERVICE DELIVERY

- Number of client disputes
  - Review frequency of back-log, engagement agreed upon and not commenced, WIP, etc. (Excl. of client-side delays).
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## NEGATIVE SCORING??

Criteria	Benchmark	Scoring
The number of statutory audit engagements re- worked (filing errors, information insufficiency, wrong interpretation of provisions, etc.)	Negative Scoring based on %	Less than 5%- 0 point  5-15%- Minus 1 point  15-30%- Minus 2 points  ➤ 30%- Minus 3 points ➤ 40%- Minus 4 points
Number of client disputes		

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## TECHNOLOGY ADOPTION

- Internal communication - chats
  - Has the firm automated its office with automated Attendance System and Leave management?
  - Project or activity management
  - Timesheet management,
  - Digital storage of records (scan, etc.)
  - Centralised server/ Cloud
  - Digital Library (Own or ICAI)
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## TECHNOLOGY ADOPTION

- Client interaction (Alerts, updates, availability of information in website, etc),
  - Video conferencing facilities adopted,
  - Does the firm use only licensed operating system, software etc.?
  - E-mail ids, E-mail usage policies, etc.
  - Use of anti-virus and malware protection tools,
  - Data security, etc
  - Cybersecurity measures
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## TECHNOLOGY ADOPTION

- Awareness and Adoption of Technology for Service delivery – Say, use of Audit tools, usage of analytical tools, use of data visualisation tools or adoption of an audit tool.
  - Note: DCMM Version 2 may be referred to arrive at the technical maturity of the firm/ CA.
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## HUMAN RESOURCES

- Resource Planning and Monitoring
  - Employee Training and development
    - Employee training policy
    - No of days spent per employee
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## AI/ML?

- Employees are equipped with technological skill sets – AI, Blockchain, Audit & Data analytical tools, etc. and sponsored by the firm to develop the same:
  - 1. Knowledge of technological skill sets will be more relevant for large audits (Audit Engagements of Listed entity, Banks other than co-operative banks (except multi-state co-operative banks) and Insurance Companies). Hence, the question should be relevant only for such audit engagements.
  - 2. The audit Teams should be aware of Data Analytics Tools and comprehend the results of the tools to adjust the audit strategy.
  - 3. Technologies like AI and blockchain may be considered as an incremental factor for differentiation purposes, if the firms are scored at the same level.
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## SCORING

- Use of Analytical Tools for the listed entity, Banks other than co-operative banks (except multi-state co-operative banks) and Insurance Companies audit engagements:
  - For Yes – 2 Points
  - For No – 0 Point / NA
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## HR IN AUDIT FIRMS?

- 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?
  - Statutory contributions wherever applicable, Health Insurance and other benefits, available in the firm for staff members and partners
  - Does the firm evaluate for which kind of audits does it have a **revolving door** (between different engagements) for people below partner level?
  - 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
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## HR IN AUDIT FIRMS?

- Access to technology, infrastructure, methodology for better enablement of day to day work / including favorable remote working policies
  - Coaching and mentoring program investment, especially for women colleagues to enhance the diversity of audit leaders in the profession
  - Special policies to provide people time to rejuvenate especially after busy audit seasons
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## HR IN AUDIT FIRMS

- Focused policies and support for staff well - being, engagement and communication
  - 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.
  - Standards of recruiting people – Assessment methodology, evaluation of quality and fitment to the job and culture
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## HR IN AUDIT FIRMS

- 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?
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## PRACTICE MANAGEMENT

- Does the firm have a balanced mix of experienced and new partners?
  - 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?
  - Is there is a 'whistle blower' policy?
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## PRACTICE CREDENTIALS

- Is the firm ICAI Peer Review certified?
  - Empanelment with RBI and C&AG
  - Does the firm hold any ISO certifications as result of Standard practices being followed
  - Is there an advisory as well as a decision, to not allot due to unsatisfactory performance by the CAG office?
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## PRACTICE CREDENTIALS

- Have any Government Bodies/ Authorities evaluated the performance of the firm to the extent of debarment/ blacklisting
  - Any negative assessment in the report of the Quality Review Board
  - Has there been a case of professional misconduct on the part of a member of the firm where he has been proved guilty?
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## THE SCORECARD

Section reference	Total Possible points
1	80
2	50
3	20

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## RATING

Marks	Rating	Rating indicator
Up to 30% in each section	1	Indicates that the firm is very nascent -will have to take immediate steps to upgrade its competency or will be left lagging behind
Above 30% to 60% in each section	2	Indicates firm has made some progress -will have to fine-tune further to reach the highest level of competency
Above 60% in each section	3	Indicates firms that have made significant adoption of standards and procedures - Should focus on optimising further

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## WHERE ARE WE?

- Level 1?
  - Should move towards Level 2.
  - Level 3 should be achieved in 3-4 years time
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## CLARIFICATIONS NEEDED

- How frequently should the AQMM be done?
  - Would there be a counter-check?
  - Where will the ratings be used?
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# THANK YOU!

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