

Organized by
ICAI Nagpur Branch (WIRC)

- ▶ **Seminar on -**
- ▶ **AUDIT QUALITY MATURITY MODEL-
(AQMM) V1.0 and V2.0**
- ▶ **Date-24/12/2024, ICAI Bhawan, Nagpur**
- ▶ **Speaker- CA. RAMLAXMAN NOLAKHA**
- ▶ **Note- disclaimer applied, finally refer ICAI publications or website, this PPT not for circulations and only for explanation by author.**

Remember–

“Invest in books, seminars, good clothing's and other things that will increase your confidence and sense of worth.”

Avoid time wasters, such as bored friends, unnecessary phone calls and idle chatter.

ICAI Emblem...



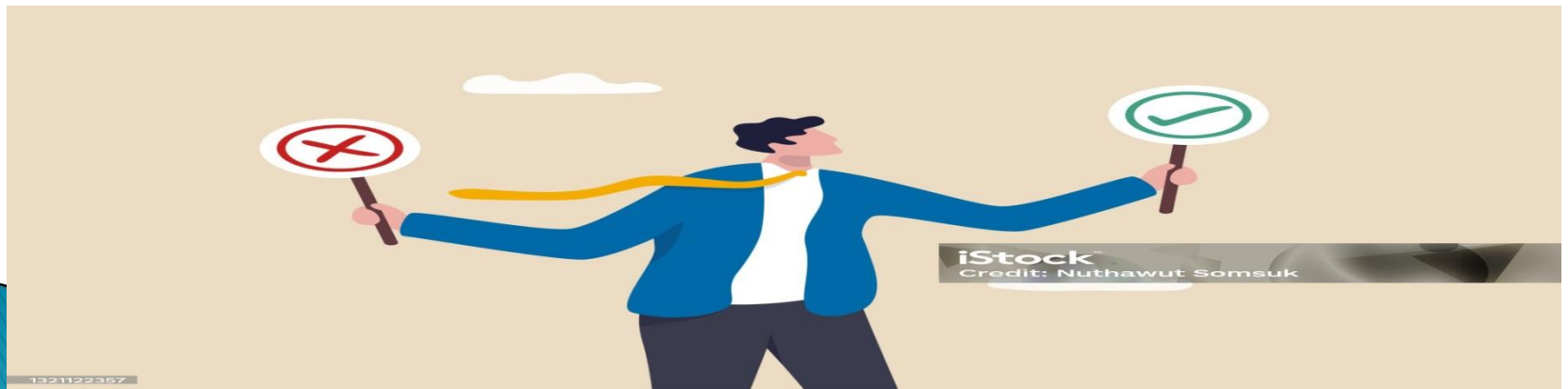
- ▶ ICAI Emblem with “GARUDA” in centre “.....ya esa supteshu jagarti..” symbolizes qualities of “GARUDA” and CA. being fearless, decisive, strong, innovative and ability to face challenges.

Identify motto for quality.....



Core elements of Professional Ethics–

- ▶ Integrity,
- ▶ Objectivity,
- ▶ Confidentiality,
- ▶ Professional behavior,
- ▶ Professional Competence and due care,
- ▶ Independence



AUDIT QUALITY MATURITY MODEL v1.0 and v2.0 source ICAI publication.

Disclaimer=ICAI may not necessarily subscribe
to the views expressed by the author of this
session.

COVERAGE WEF Period..

- ▶ PU submitting application in form 1 on or after 01/04/2025 will be covered (i.e. 01/04/2022 to 31/03/2025) assurances signed,
- ▶ PU can adopt AQMM v 2.0 earlier too.
- ▶ AQMM v 1.0/rev 1.0 mandatory applicable w.e.f. 1st april 2023 for practice units conducting audit of specified entities and recommendatory for others.

ICAI Committee=CENTRE FOR AUDIT QUALITY DIRECTORATE-

- ▶ Released- v1.0 in February 2022 (v2.0 in August 2024)
- ▶ Convener/Deputy convener-
- ▶ V1.0 CA. Durgesh Kumar Kabra, CA. Shree Niwas Joshi (v2.0- CA. Vishal Doshi, CA. Pramod Jain)
- ▶ President- CA. Nihar Jambuaria in February 2022 (CA. Ranjeet Kumar Agarwal in August 2024)
- ▶ Adopting the principles and practices outlined in the Audit Quality Maturity Model v1.0,(v2.0)

Announcement by Centre for audit quality of ICAI-22/08/2024

- ▶ The AQMM v1.0/rev1.0 has been made mandatory w.e.f. april 1,2023 to the firm's auditing the following entities–next slide,
- ▶ There is no change regarding applicability of AQMM v2.0 therefore AQMM v2.0 is also mandatory for firm's auditing the aforesaid entities.

AQMM study for whom and why?

- ▶ To earn CPE hours,
- ▶ To Reviewers to enhance skill for evaluation,
- ▶ To Practice units for mandatory or recommendatory requirements,
- ▶ To Professionals in service or other fields,
- ▶ To all other professionals and non professionals to cope up with time developments,(SME,s)
- ▶ To become faculty with experience,
- ▶ To ICAI and its Branches for spreading skills for quality assurances etc.

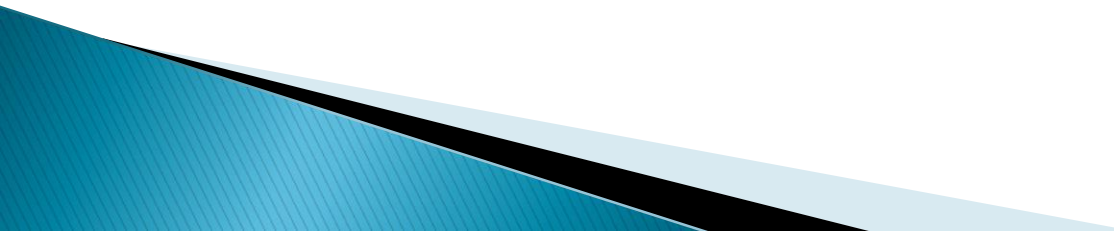
MANDATORY FOR FIRM,S (PU) AUDITING

- a) Listed entities
- b) Banks other than co-operative bank(except multistate cooperative banks)
 - c) Insurance Companies
- d) Note- Firm,s doing only branch audits are not covered

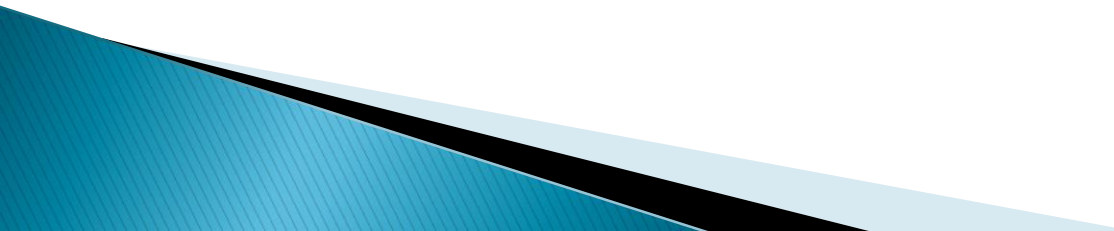
Extract from I.G.for AQMM v1.0

- ▶ *Audit quality is verb and cannot be easily measured. Need of hour is to move away from traditional approach of enforced regulations to a modern self compliant model for our firms. This maturity model will make the firm future ready....*
- ▶ *objective of this Evaluation Matrix is for firms to be able o self evaluate their current level of Audit Maturity , identify areas where competencies are good/lacking and then develop a road map for upgrading to a higher level of maturity.*
- ▶ *Suggested to read I.G. page xv v1.0*

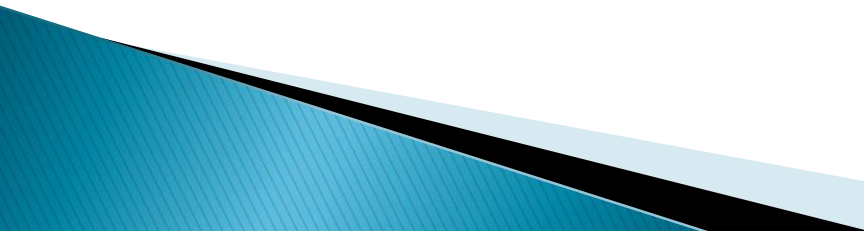
Firm's can systematically enhance their

- ▶ Quality of Audit process,
 - ▶ Mitigate Risks,
 - ▶ Uphold highest standards of professional integrity,
 - ▶ encourages a proactive approach,
 - ▶ Leveraging technology and investing in the development of audit professionals.
- 

AQMM—at a glance

- ▶ It is tool for self evaluation of audit firm's towards technological driven mechanism to increase operational efficiency,
 - ▶ It is amalgamation of well researched set of Audit Quality Indicators—AQI's,
 - ▶ It is cross functional evaluation model covering key areas of not only audit engagement but also audit practice at firm level,
- 

AQMM at a glance continued–

- ▶ It includes– operation of firm,
 - ▶ Revenue budgeting and pricing,
 - ▶ Audit practice manual,
 - ▶ Budgeting of engagements, time sheets,
 - ▶ Technology adoption,
 - ▶ Quality control for engagements,
 - ▶ Human resource management, planning, monitoring, performance, evaluation, compensation,
 - ▶ Physical and IT infrastructure,
- 

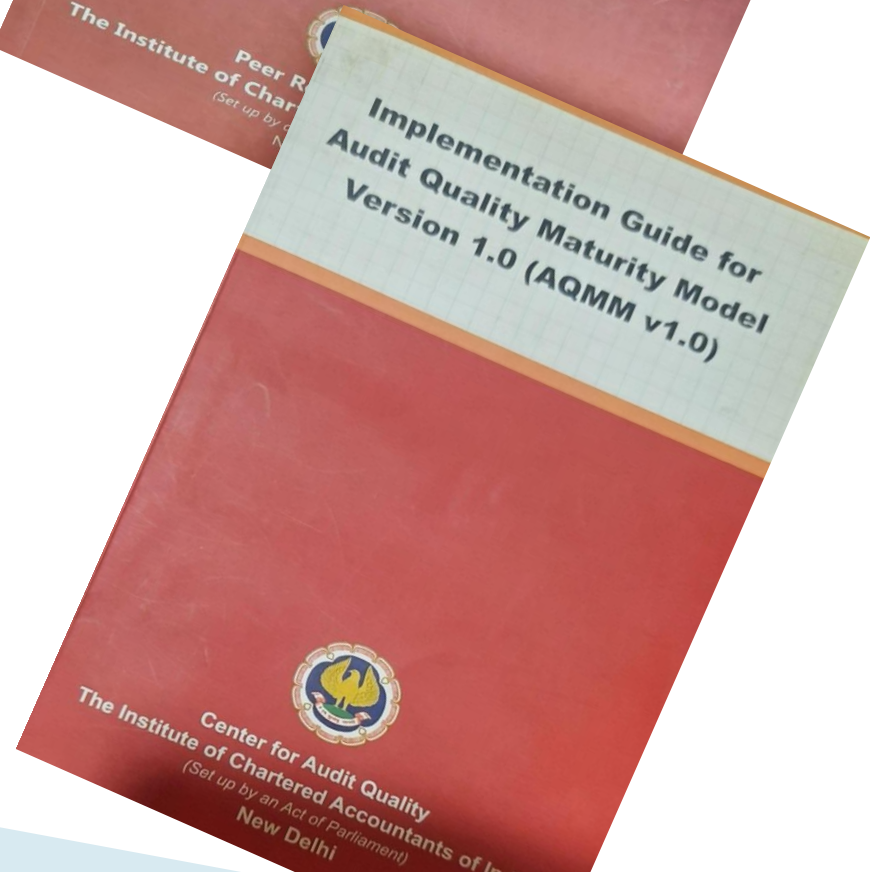
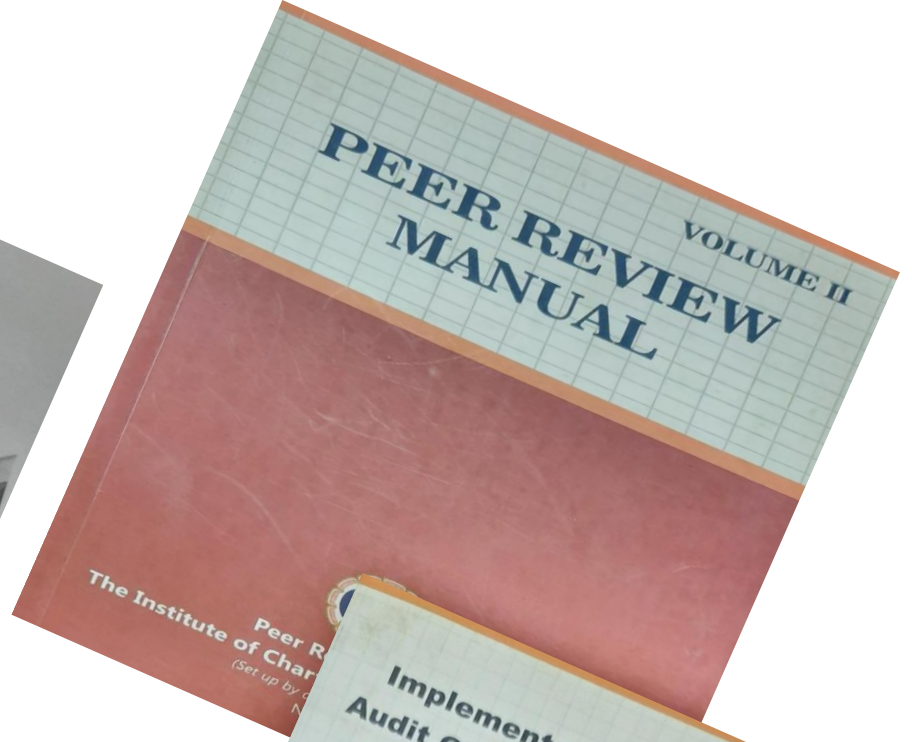
AQMM is motivation=

Application=Capacity building–How?

- ▶ Motivation and direction to deliver high quality services and engagement on time with in budget, with capacity building,
- ▶ Brings healthy competition between audit firm's and create market demand for audit quality,
- ▶ National and international recognition,
- ▶ Roadmap for improvement,
- ▶ AQMM comprises questionnaire that enables firm's to rate their current level of audit maturity
- ▶ Identifying areas where competencies are strong or lacking and then develop a road map for achieving higher level of maturity,

Suggested publications of ICAI for AQMM v1.0, v2.0

- ▶ Implementation Guide for Audit quality maturity model v1.0, rv1.0
- ▶ Guidance for reviewers on AQMM model v1.0 page 100 to 136 peer review manual volume II,
- ▶ Hand book on peer review forms– page 79 to 107 – v1.0
- ▶ Audit quality maturity model v2.0–august 2024 edition



AQMM V1.0 SCORING PATTERN

SECTION	SUBJECT SECTION	MAX SCORES	%	
1	Practice Management Operations	280	46.67	
2	Human Resources Management	240	40.00	
3	Practice Management Strategic Functional	80	13.33	
	TOTAL	600	100.00	
Note	OVER ALL SCORES—if firm has different scoring in different sections then the one with the lowest score is to be considered for purposes of overall ranking of the firm.			

Overall scores v1.0

Scores received	level	narrative
Up to 25% <u>in each</u> section	Level firm 1	Indicates firm is nascent, take immediate steps
25% to 50% <u>in each</u> section	Level firm 2	Firm has made some progress to fine tune further,
50 to 75% <u>in each</u> section	Level firm 3	Has made substantial progress
75% and above <u>in each</u> section	Level firm 4	Have made significant adoption of standards and procedures -to optimise further
Note-1 if the firm has different scoring in different sections, then the one with lowest to be		

Small and medium firms.....V2.0

- ▶ *In v2.0 more weightage given to checklists, formats, and templates related to assurance function which will assist large number of small firms and medium firms to enhance the audit quality levels.(out of 370 maximum scores up to 230 is marked for checklist and templates under section 1)*

V2.0 HAS 3 SECTIONS

- 
- ▶ 1–Practice Management Assurance
 - ▶ 2–Human Resource Management
 - ▶ 3–Digital Competency

Scoring Pattern i.e. maximum score that can be granted to a Firm

1-Practice management Assurance	Maximum scores 370 61.67% of total
2-Human Resources Management	Maximum scores 150 25.00% of total
3-Digital Competency	Maximum scores 80 13.33% of total

SCORING PATTERN – maximum/minimum scores –v2.0

SECTION	HEADS	MAXIMUM SCORES	% OF TOTAL SCORES	30% MINIMUM SCORES
1	PRACTICE MANAGEMENT (280 in v.1)	370	61.67	111
2	HUMAN RESOURCES MANAGEMENT (240 in v.1)	150	25.00	45
3	DIGITAL COMPETENCY (80 in v.1 –head practice management functional)	80	13.33	24
TOTAL		600	100	180

Minimum %age under each section to become eligible for level...v.2.

Section	Maximum scores possible	Minimum scores required	Minimum % age
1	370	111	30
2	150	45	30
3	80	24	30
Note—each section 30% minimum required to become eligible for level to be assigned,			

FIRM,S MATURITY LEVEL and interpretations v2.0

Firms maturity level–greater than	Firms, maturity level less than	Level to assign	Ranking judgment
30% or equal to 30%	Less than 50 %	I	Firm is very nascent take steps to upgrade
50% or equal to 50 %	Less than 70%	II	Some progress will have to fine tune
70% or equal to 70%	Less than 85%	III	Firm is in substantial progress
85% or equal to	Less than 100%	IV	Firm is in significant adoption of standard and procedures should focus on optimizing further
Note–			Level I to IV is in lower ranking to high rankings

SECTION 1 – PRACTICE MANAGEMENT ASSURANCE – 370 scores – (230 for checklist and 140 for others) V2.0

1-sub section	head	scores allocated
1.1	Practice areas of firm	
	–Revenue from operations	5
	–Vision and Mission Statement	2
1.2	Presence of SQC1 –Work flow	12
1.3	Service delivery	
	–Budget vs. actual time and efforts spent –20 top assurances based on billing	20

Section 1 – PRACTICE MANAGEMENT continued – V2.0

1.4	Quality control for engagements	scores
	–Advisory QRB/C&G	–5
	–Advisory FRRB,TAQRB	–5
	–Had been guilty any partner \ firm FRRB/TAQRB/PRB/QRB/C&G/	–10 per order–max – negative 50
	–NFRA–debarment, blacklisting	–50 per order–max negative –100
	–Professional misconduct– schedule II	–50 points(max. negative–50)
Note–		Total minus –scores restricted up to 25% of total score of firm

Section 1 – PRACTICE MANAGEMENT

Continued – V2.0

1.5	Client sanitization –TCWG communication and discussion	8
1.6	Regulatory Compliances	
	–disclosures gross annual fee for 2 years exceeds prescribed threshold % more than 40% of the total fee in non PIE	–20
	More than 20% of total fee in case if PIE	
	Adherence to ICAI minimum fee recommended	scale of %age 25

Section 1 – PRACTICE MANAGEMENT continued – V2.0

1.7	Practice management strategic functional	scores
	<ul style="list-style-type: none">–Adequate experienced partners–Whistleblower policy	12
1.8	Infrastructure–physical	
	<ul style="list-style-type: none">–Number of branches (excluding associates network firm and affiliated)	12
1.9	Practice Credentials	
	<ul style="list-style-type: none">–Had been Peer Reviewed earlier	6
1.10	Presence and implementation of formats/checklists/template s	230

Section 1 – PRACTICE MANAGEMENT continued – V2.0

1.10 continued	What major areas covered checklist	What major areas covered checklist
	-CARO	-Schedule III
	-AS	-SA
	-Secretarial compliances	-CL/EL/MRL/IC
	-KYC/Laws and regulations, ICFR, EQCR	-Preliminary analytical procedures
	-Materiality	-Identifying risk, fraud risk
	-Risk of material misstatement	-Testing, team planning
	-Substantive audit procedures adopted and performed for each item of B/S, operating income and expenses,	Certificate in accordance ICAI, G/N

Section 1 – PRACTICE MANAGEMENT continued..

	Checklist items continued	
	-Any other formats	30
	-Review once a year	15
<u>Total scores serial 1.10</u>		<u>230</u>

Section 2, v2.0–HUMAN RESOURCE MANAGEMENT

2–sections	Heads	Marks prescribed
2.1	<ul style="list-style-type: none">–Role and responsibilities of accounts/admin/IT/–Leave policy, appointment letters,–interviews, orient new joinee,–client register,–complaints,	21
2.2	<p>Resources planning and marketing as per firm's policy,</p> <ul style="list-style-type: none">–adequate qualified personnel,	12

Section 2–HUMAN RESOURCE MANAGEMENT continued

2.3	Employee training and development	scores
	–Training policy–30 hours	52
	–Appraisal of personnel–45 hours	
2.4	Resources T.O. and compensation management	21
	–Employee T.O. ratio monitoring	
	–Statutory compliances PF/ESIC/Maternity/POSH	
	–Occasions, festivals, new year, annual day	

Sectin 2– HUMAN RESOURCES MANAGEMENT– continued

2.4 continued	head	scores
	–Mechanism to listen employee suggestions,	
	–Salary mapped with knowledge	
2.5	Qualification skill set of Employees,	
	–encourage CA employee for Diploma/Certificate courses of ICAI or National/International repute,	4
	If implemented above,	24

Section 2– HUMAN RESOURCE MANAGEMENT Continued ...

2.6	Head	scores
	KPI–performance evaluation measures carried by Firm,	16
<u>Total 2.1 to 2.6</u>	<u>Section 2 total page 22 to 35</u>	<u>150</u>

Section 3– DIGITAL COMPETANCY,V2.0

	Head	scores
3.1	<ul style="list-style-type: none">–Registered domain name,–corporate mail id,–Social media presence–Website updated	8
3.2	Operational process automation	6
	<ul style="list-style-type: none">–Biometric attendance–HR tools–Fill time sheets–Time sheet correlated with attendance–Digital workflow tools	
3.3	Centralized file storage/server	8

Section 3– DIGITAL COMPETANCY– Continued---V2.0

Serial	Head	scores
3.4	Application for invoicing and receivable management	2
3.5	Redundancy and continuity	4
3.6	Laptop and data security	11
3.7	Copy right and licenses	2
3.8	Digital mode for communication	4
3.9	Protecting personal data security	6

Section 3– DIGITAL COMPETANCY continued–V2.0

Serial	Head	scores
3.10	–Information system related audits/reviews	3
3.11	–Design and application level control	1
3.12	–Custody of digital assets	4
	–inventory of assets –unique ID given –digital signature custody and approval	
3.13	–Availability of qualified resources pool and talent development relating to digital competencies	9
	–IT maintenance and training	

Section 3– DIGITAL COMPETANCY continued–V2.0

Serial no.	Head	points
3.14	–Level of automation to audit processes and nature of audit services being rendered	11
3.15	–Adoption of advanced and emerging technologies	1
<u>Total 3.1 to 3.15</u>	<u>Section 3–page 35 to 51</u>	<u>80</u>

General instructions for Scoring– source–PRM Vol. 2 ,v1.0 page 100

- ▶ Scoring is either full or zero, in quantitative terms,
- ▶ If firm has implemented something then it has to get marks, implementation has to be in full and not partial,
- ▶ The PR can make qualitative recommendations for improvements for the benefit of the PU in his report as a separate annexure to PRB and PU,
- ▶ I.G. to refer for more clarity,
- ▶ PR IS REQUIRED TO GO THROUGH THE ENTIRE AQMM QUESTIONNAIRE AND SCORE IN TOTALITY AND TEST CHECKS IS NOT RECOMMENDED,

General instructions–continued

- ▶ Report in annexure III duly awarded scores by both PU and reviewer alongside explanation for difference,
- ▶ Level of firm assigned by reviewer based on rating is also to be inserted in the final report,
- ▶ Read the Peer Review Board advisories for peer reviewer as per APPENDIX XVIII page282,of PR manual vol 1.
- ▶ Note– Implementation guide for v2.0 yet to arrive,

How to Mark Scores and Evaluation too?

- ▶ FOR PU TO DO–Understand the self evaluation question asked completely, identify applicable/applied version,
- ▶ Practice unit allocating scores shall have designated person well trained and studied guidelines,
- ▶ Discuss with leadership of firm overall questions and take note, directions,
- ▶ Each question to be marked on the basis and evidence direct or indirect with integrity,
- ▶ Interact with every section of firm, engagement, HR, digital competent staff,
- ▶ Assign questions to concerned section and seek first answer,
- ▶

Scoring-continued

- ▶ Assign provisional scores with honesty,
- ▶ Let it review by one more senior in firm,
- ▶ Finalize scores and put on record documents relied and basis,
- ▶ Now ready for self evaluation and review , to put note by reviewer if scoring changed,
- ▶ PR to explain and evidence by firm, variance to check, PR to award scores against the provided by firm in annexure III,
- ▶ Level to acknowledge by all in firm for further improvements,
- ▶ Do the exercise periodically either for full 3 sections or deficient one,
- ▶ Do not publish results any where, PRB will do,

Scoring continued...source I.G.,

PAGE XV

- ▶ VERY IMPORTANT-ATTENTION-PU,s
- ▶ *The firm would need to develop a Management Information System (MIS) to able able to collate data from each engagement and do the heavy lifting of arriving at the average to determine whether it makes it into the YES or NO criteria for being awarded a score respective for AQI,s*
- ▶ *YES/NO criteria in many cases talk of availability and use of standard formats of checklists and engagement documentations, the PU should allocate 100% of the score(until mentioned) for actual implementation and use of the standard formats of documentation/policies-*

FEE SCALE for reviewer-PRM vol 1

page 225 appendix XI

- ▶ There shall be additional fee for the first time AQMM review where such review is conducted as a separate exercise. Fee to the PU is based on the average gross receipts /revenue from assurance clients of the PU, minimum fee RS. 5000/-maximum Rs.30000/-
- ▶ Fee structure notified is exclusive of TA/DA to be paid is to be mutually decided by the PU and the reviewer and shall be borne by PU,
- ▶ FEE do not include GST, shall be charged separately,

Disclaimer at end of list of reviewed firms on PRB website-18/12/2024

- ▶ Level has been assessed as at 31st march of the relevant FY. As per review cycle, the review is based on the professional judgments of the PR/AQMM reviewer and the level arrived at is independent of the disciplinary mechanism/review by the appropriate authorities powered by law,
- ▶ The level of the firm using AQMM is derived at the firm level on sample basis and there is no assurance that all the engagements undertaken by the firm are of same quality, the model merely depicts that the firm has systems and procedures in place to maintain audit quality,

Few clauses and guidance–Practice lesson 1.v1.0 section 1

Competency basis	Scores basis prescribed	Max scores	remarks for scoring and corrections note
Does the firm have a vision and mission statement? Does it address forward looking practice statements?	Scores based on presence and implementation or not For yes –1 For implementing–3 For no–0	4	Firm should not only have a vision and mission statement but must also demonstrate steps for its adoption, implementation .

Practice lesson 2....v1.0 section1.2

Competency basis	Scores basis	Max scores	Remarks for scoring, corrections note	
Presence of audit manual containing the firm's methodology that ensures compliance with auditing standards and implementation there of,	Scoring based on presence or not, Answer yes/no	For yes-8 points For no- 0 points		

Practice lesson 3–section v1.0

1.2/1.3

section	Competency basis	Score criteria	Score basis	Max scores
1.2 ii	Availability of standard formats relevant for audit quality like –letter of engagement –Representation letter –Significant work papers –Reports and implementations	Scoring based on presence or not Answer yes/no	For yes 8 points For no –0 points	8
1.3 i	Usage of client acceptance/engagement checklist and adequate documentation there of	Scoring based on presence or not– answer yes/no	For yes–4 points For no–0 points	4

Practice lesson 5...v2.0

section1.6iii

Competency basis	Scores criteria	Scores basis	Maximum scores	If change-note
Number of UDIN generated with in specified time	Scoring based on % of assurance engagements for which UDINs are generated with in 2 working days from the date of signing	1-If the % of UDINs generated with in 2 working days from signing date-100%-30 points 2-less than 100% but 80% and above-25 points 3-less than 80% but above 60%	30	

Practice lesson-6 v1.0 and 2.0- section 1.2

section	Competency basis	Scores criteria	Scores basis	Maximum scores
1.2	Presence of SQC1 manual with well defined policies and procedures in respect of the following 1-Leadership 2-Ethical requirements 3-Acceptance and... 4-Human resources 5-Engagement performance 6-monitoring	Scores based on presence of SQC1 manual	For yes- 2 points for each 6 areas ie. 12 points For no-0 point	12

Practice lesson 7 v2.0 section 3.1 ii....

Competency basis	Score criteria	Scores basis	Maximum scores	If score change-note
Does the firm have website? If updated on regular basis	Scoring based on yes/no	For having website-1 point For regular updation-1 point	2	
Are there a centralized file storage system/server	Presence or not Answer yes/no	For yes-2 points For no-0 points		

Practice lesson 8. v2.0–section 2.4ii

Competency basis	Score criteria	Score basis	Maximum scores	If change–note
Whether firm has complied statutory requirements for PF/ESI/GRAUITY/MATERNITY LEAVE/POSH /OTHERS	Negative marking for non compliance	For yes–0 For no–(–1 for each non compliance, maximum –5 points	Negative points	

Challenges – no problem...



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Challenges ---

- ▶ MIS system requirement,
- ▶ PU,s have tendency to assign scores at higher level then eligible,(AQMM)
- ▶ Training with technology timely,
- ▶ Subjective assessment possible, high level of judgment required for marking scores, strategy for conflict management,
- ▶ Time and cost involved–high, low fees to reviewer,
- ▶ Application for small firm's vs. big firm's
- ▶ Firm's desire must to upgrade and maintain further and not just level,
- ▶ Elaborate Documentations by reviewer

GET-SET AND GO--



Continuous training –best assets of firm.



QUIZ for fun, interactions–

FUNDOO
FRIDAY



QUIZ–revision

Serial no. quiz	Quiz/question–on AQMM	Answer options
1	AQMM v.2/O applicable from–	A–WEF 01 /04/2025 B–WEF 01 /04/2023
2	AQMM issued by	A–Peer review board B–Directorate of Centre for Audit quality
3	Mandatory for Firm’s auditing	A–Non listed entities B–insurance companies
4	AQMM–is a tool for self evaluation	A–Yes B–No
5	Firms, have option to choose v 1.00 or 2.00	A–Yes B–No
6–	There are 4 sections in v 2.0	A–Yes B–No
7	Total score points are	A–650 B–600

QUIZ-Continued

Quiz-serial no.	Quiz/question	Choice to answer
8	For checklist scores allotted are-v2.0	A-620, B-230, C-370
9-	There are 4 levels of ratings for Firms, and 4th level is poorest	A-Yes B-No, C-partly yes and partly no,
10	Minimum % in each section required-for level assignment-v2.0	A-33% B-32% C-315 D-30%
11	Peer reviewer only have to evaluate points assigned by Firm	A-Yes B-No C- Not clarified
12	AQMM applies to all types of services by Firm and it evaluate at Firm level and engagement level too	A-True B-False C-partly true

QUIZ-Continued

- ▶ After attending this session on
- ▶ AQMM, I, DECIDED TO EVALUTE MY FIRM,S SCORING and get EVALUATED by my fellow professional on friendly basis for practice and understanding=
- ▶ choose any one...
- ▶ *Answer A- yes*
- ▶ *Answer B- no*
- ▶ *Answer C- let me think*
- ▶ *Answer D- CPE completed so not much concerned.*

QUIZ-continued-thanks

Dear professionals -93221 40998

Quiz-serial no.	Question/quiz	Options to answer
13	Firm's not requiring Peer review too can opt AQMM and get evaluated	A-True B-False C-Need more elaboration,

