

# CENTRE FOR AUDIT QUALITY

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Audit Quality  
Maturity Model  
(AQMM)

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The Institute of Chartered Accountants of India



# With you today

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# Audit Quality Maturity Model (AQMM)

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## AQMM is

- Capacity building Measure
- Self evaluate Audit Maturity
- Identify areas of competencies
- Road Map for Up-grading to Higher level of Maturity



# 1: Practice Management – Operation

- ▶ Practice Areas of the Firm
- ▶ Work Flow - Practice Manuals
- ▶ Quality Review Manuals or Audit Tool
- ▶ Service Delivery - Effort monitoring
- ▶ Quality Control for engagements
- ▶ Benchmarking of service delivery
- ▶ Client Sensitisation
- ▶ Technology Adoption
- ▶ Performance evaluation measures carried out by the firm (KPI's)

# 2: Human Resource Management

- ▶ Resource Planning & Monitoring as per the firm's policy
- ▶ Employee Training & Development
- ▶ Resources Turnover & Compensation Management
- ▶ Qualification Skill Set of employees

# 3: Practice Management - Strategic/Functional

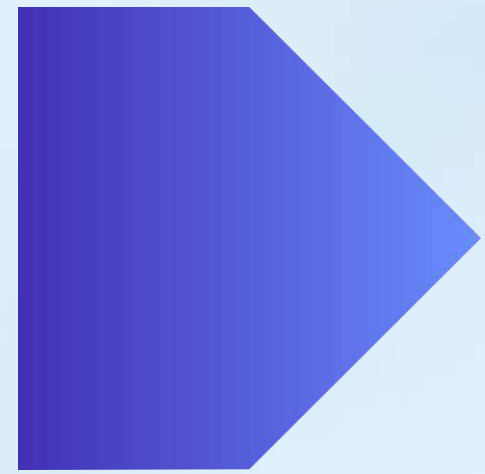
- ▶ Practice Management
- ▶ Infrastructure – Physical & Others
- ▶ Practice Credentials

# Firm Audit Quality Maturity Rating

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>

Basis

Up to 25% in each section	Level 1 Firm	Indicates that the firm is nascent stage -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 some progress -will have to develop further to reach the highest level of maturity.
Above 50% to 75% in each section	Level 3 Firm	Indicates firm has made significant adaption of standards and procedures - should focus on optimizing further.
Above 75% in each section	Level 4 Firm	Indicates firms that have made significant adoption of standards and procedures – should stay focused on leadership in all areas.



# 1: Practice Management – Operation





# 1.1 Practice Areas of the Firm

- a) Revenue from audit and assurance services
  - b) Does the firm have a vision and mission statement? Does it address Forward looking practice statements/Plans?
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# 1.2 Work Flow - Practice Manuals

- a) Presence of Audit manuals containing the firm's methodology that ensures compliance with auditing standards.
- b) Availability of standard formats relevant for audit quality like -
  - EL
  - Representation letter
  - Significant working papers
  - Reports



# 1.3 Quality Review Manuals or Audit Tool

- a) Usage of Client Acceptance/engagement acceptance checklists
- b) Evaluation of Independence for all engagements (partners, managers, staff, trainees)
- c) Does the Firm maintain the engagement withdrawal/rejection policy, templates, etc?
- d) Availability of standard checklists in performance of an Audit for Compliance with Accounting and Auditing Standards
- e) Availability of standard formats for audit documentation of Business Understanding, Sampling basis, Materiality determination, Data analysis, and Control Evaluation
- f) Are the documents related to Quality control mentioned from (i) to (v) above reviewed and updated on a frequent basis (say annually) or with each change in the respective regulation or statute?

# 1.4 Service Delivery - Effort monitoring

- a) Does the firm carry out a Capacity planning for each engagement?
- b) Is a process of Budgeting & Planning of efforts required maintained (hours/days/weeks) ?
- c) Are Budget vs Actual analysis of time and effort spent carried out to identify the costing and pricing?
- d) 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.)

# 1.5 Quality Control for engagements

- a) 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?
- b) Total engagements having concluded to be satisfactory as per quality review vs No of engagements quality reviewed
- c) No. of engagements without findings by ICAI, Committees of ICAI and regulators that require significant improvements
- d) 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?
- e) Is appropriate time spent on understanding the business, risk assessment and planning an engagement?



# 1.6 Benchmarking of service delivery

- a) Does the firm follow/ implement Standard delivery methodology – the adoption of audit manuals, adherence to practice standards and tools?
- b) Does the firm evaluate the efficiency and benchmark delivery by monitoring the number of statutorily backed engagements closed on time/before due date/delayed filing, completion etc.
- c) The number of statutory audit engagements re-worked (filing errors, information insufficiency, wrong interpretation of provisions, etc.)
- d) Number of client disputes
- e) Review frequency of backlog, engagement agreed upon and not commenced, WIP, etc. (Excl. of client-side delays).

# 1.7 Client Sensitisation

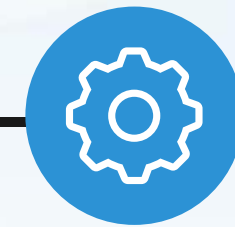
a) Awareness meetings and Knowledge dissemination meetings/ articles/document sharing with clients including:



- Updating client on audit issues, formally- effectiveness of the process of communication with management and those charged with Governance;



- Updating client on changes in accounting, legal, audit aspects, etc with client specific impact;



- Follow through on previous audit observations and updates to management and those charged with Governance.

a) Alerts and reminders mechanism for due dates, payment and filings for clients

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

c) Instances where actual hours exceed budget by more than say 20%

# 1.8 Technology Adoption

a) Technology adoption at office :



Internal communication- chats



Cybersecurity measures



Digital storage of records (scan, etc.),



Centralised server/ Cloud



Digital Library (Own or ICAI)



Video conferencing facilities adopted,



Data security



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



Use of anti-virus and malware protection tools,



Various security, etc



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



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



Project or activity management/ Timesheet management,



Client interaction (Alerts, updates, availability of information in website, etc),

b) 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.



# 1.9 Revenue, Budgeting & Pricing



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

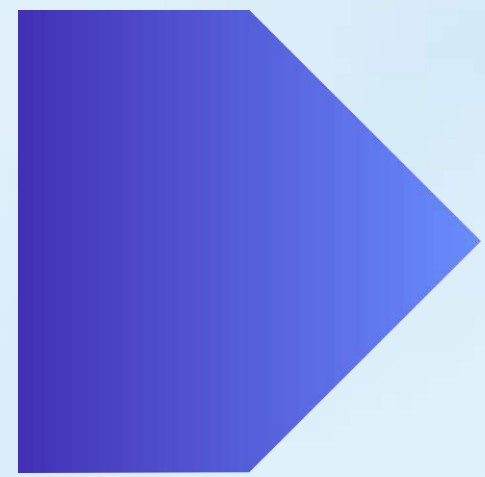
b) Fee considerations and scope of services should not infringe upon the quality of work and documentation as envisaged in SQC 1 under Leadership is responsible for quality within the firm.

c) Adherence to a minimum scale of fees standards recommended by ICAI



# 1.10 Performance evaluation measures carried out by the firm (KPI's)

- a) Does the firm have written KPIs for performance evaluation of the firm and partners?
- b) Method for measurement and evaluation as mentioned above (i) are determined / specific.
- c) There is a decided frequency for the evaluation and is consistently applied
- d) Are engagement partners reviewed based on the review results of the engagements of each partner



# 2: Human Resource Management



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

a) Does the firm document the resource plan for each engagement and file it for reference during the engagement?

b) Does the firm monitor the Utilisation & Realisation rate per employee

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

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

e) Methods/Tools used by the firm for Resource Allocation (use of spreadsheets, work flow tools, etc.)

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

## 2.2 Employee Training & Development

a) Does the firm have an employee training policy?

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

c) Employees are equipped with technological skill sets – AI, Blockchain, Audit & Data analytical tools, etc.

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



## 2.3 Resources Turnover & Compensation Management

- a) 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?
- b) Does the firm maintain and monitor the employee turnover ratio and identify measures to keep it minimal?
- c) Qualified professionals retained by the firm (resources available to a partner)
- d) 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?
- e) Statutory contributions wherever applicable, Health Insurance and other benefits, available in the firm for staff members and partners

## 2.3 Resources Turnover & Compensation Management

- ▶ f) Does the firm evaluate for which kind of audits does it have a revolving door (between different engagements) for people below partner level?
- ▶ g) 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
- ▶ h) Access to technology, infrastructure, methodology for better enablement of day to day work / including favorable remote working policies
- ▶ i) Coaching and mentoring program investment, especially for women colleagues to enhance the diversity of audit leaders in the profession
- ▶ j) Special policies to provide people time to rejuvenate especially after busy audit seasons

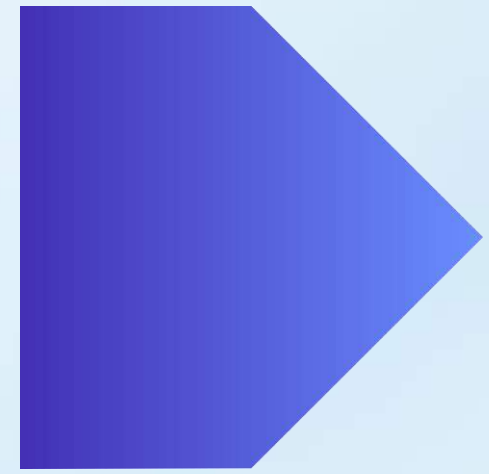
## 2.3 Resources Turnover & Compensation Management

- ▶ k) Focused policies and support for staff well - being, engagement and communication
- ▶ l) 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.
- ▶ m) Standards of recruiting people – Assessment methodology, evaluation of quality and fitment to the job and culture
- ▶ n) 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?

## 2.4 Qualification Skill Set of employees

- a) 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.
- b) 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.
- c) Members with Specialisation courses or Certifications – (Ranking can be based on newer areas or international qualification – say, Dip. IFRS or Firm Ind AS / IFRS Accreditation Requirements, etc.)





# 3: Practice Management - Strategic/Functional



# 3.1 Practice Management

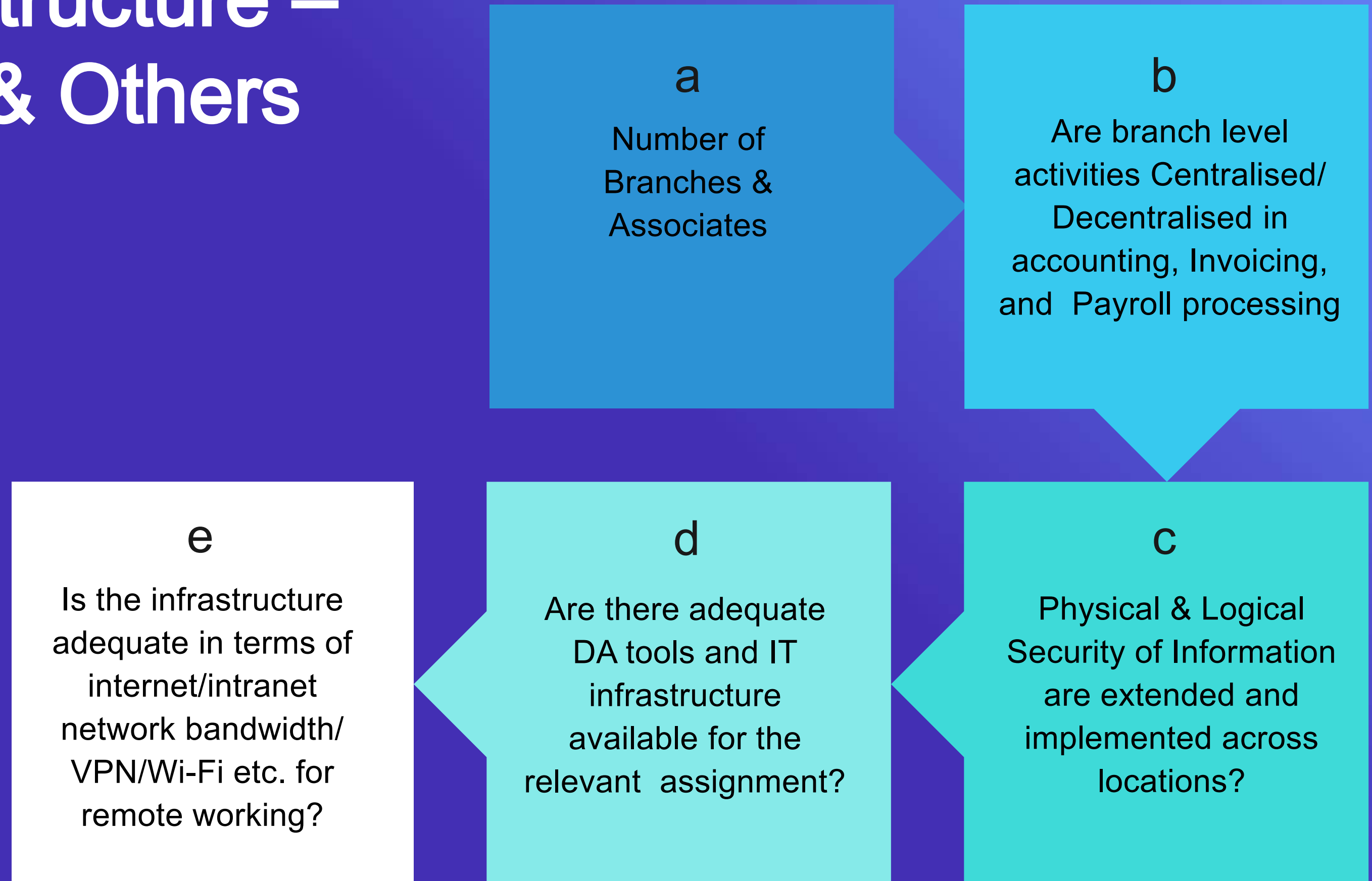
Does the firm Manage the following attributes relating to partners to maintain the same at optimum levels as deemed fit for the respective organisations?

a) Does the firm have a balanced mix of experienced and new partners?

b) 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?

c) Is there is a 'whistle blower' policy?

## 3.2 Infrastructure – Physical & Others



# 3.3 Practice Credentials

What are the credentials of the firm that distinguish the firm or stands as testimony to the quality of the firm:

- ▶ a) Is the firm ICAI Peer Review certified?
- ▶ b) Empanelment with RBI and C&AG
- ▶ c) Does the firm hold any ISO certifications as result of Standard practices being followed
- ▶ d) Is there an advisory as well as a decision, to not allot due to unsatisfactory performance by the CAG office?
- ▶ e) Have any Government Bodies/ Authorities evaluated the performance of the firm to the extent of debarment/ blacklisting?
- ▶ f) Any negative assessment in the report of the Quality Review Board?
- ▶ g) Has there been a case of professional misconduct on the part of a member of the firm where he has been proved guilty?



# Thank You!

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## Centre for Audit Quality

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