

Implementation Guide for Audit Quality Maturity Model Version 1.0 (AQMM v1.0)



Center For Audit Quality
The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)
New Delhi

Implementation Guide for Audit Quality Maturity Model – Version 1.0 (AQMM v1.0)



Centre for Audit Quality
The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)
New Delhi

© The Institute of Chartered Accountants of India

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form, or by any means, electronic mechanical, photocopying, recording, or otherwise, without prior permission, in writing, from the publisher.

DISCLAIMER:

The views expressed in this material are those of author(s). The Institute of Chartered Accountants of India (ICAI) may not necessarily subscribe to the views expressed by the author(s). The information in this material has been contributed by various authors based on their expertise and research. While every effort has been made to keep the information cited in this material error free, the Institute or its officers do not take the responsibility for any typographical or clerical error which may have crept in while compiling the information provided in this material. There are no warranties/claims for ready use of this material as this material is for educational purpose. The information provided in this material are subject to changes in technology, business and regulatory environment. Hence, members are advised to apply this using professional judgement. All copyrights are acknowledged. Use of specific hardware/software in the material is not an endorsement by ICAI.

First Edition : Feb, 2022
Committee/Department : Centre for Audit Quality, ICAI
E-mail : caq@icai.in
Website : <http://www.icai.org>
ISBN : 978-93-90668-68-7

Typeset by : Elite-Art, New Delhi-110002
Published by : The Publication Department on behalf of the
Institute of Chartered Accountants of India,
ICAI Bhawan, Post Box No. 7100,
Indraprastha Marg, New Delhi - 110 002.
Printed by : Sahitya Bhawan Publications, Hospital
Road, Agra - 282 003.

Foreword

Audit Quality is a very important aspect of the Chartered Accountancy Profession. With the changing business dynamics and in the advanced digital era, auditors today need to reinvent themselves and use technologies like Robotic Process Automation and Data Analytics, like force and speed multipliers. They would need to continuously upskill themselves and invest in their people. There are a variety of factors that will contribute to the success of the auditor but none is more omnipresent than independence.

Professional skepticism should survive personal and professional barriers and focus should be not only on 'audit what is there' and also on 'audit what is not there'. Today 'independent elements' in those charged with governance of an entity are under increased scrutiny and would be a good ally for the auditor.

Audit quality is a complex subject and no analysis of it has achieved universal recognition. Audit quality cannot be measured so the judgement of audit quality can be highly subjective. At a macro level, all this can be achieved when there is awareness about audit quality, key stakeholders are encouraged to explore ways to improve audit quality, and greater dialogue is facilitated between the key stakeholders.

Even though the bird's eye view of an audit firm's overall audit quality is important, what is relevant is the worm's eye view of the quality of the engagement. The Audit Quality Maturity Model (AQMM) is an amalgamation of a well-researched set of Audit Quality Indicators (AQIs), which will not only help firms to arrive at their current maturity level but will also provide a mechanism to help and guide the members to specifically improve upon their audit quality.

I am happy that the AQMM v1.0 released by the Centre for Audit Quality of ICAI will provide a model that will help in creating demand for audit quality and protect the interests of all stakeholders.

I compliment CA. Durgesh Kumar Kabra, Convenor, CA. Shrinivas Y. Joshi, Deputy Convenor, CA. (Dr.) Debashis Mitra, Vice President and other

members of the Centre for Audit Quality for bringing out this Implementation Guide to assist the members in enhancing their audit quality.

I am confident that the members and other stakeholders would find the Implementation Guide highly useful in their audit journey.

CA. Nihar N. Jambusaria
President, ICAI

Place: New Delhi

Date: Feb, 2022

Preface

Audit quality is the hallmark of the audit profession. It is very essential to perform an audit of high quality to create trust in the external stakeholders and users of the financial information. Today business organizations, industry, and the Government rely upon the assurance given by the Chartered Accountants for sound financial accounting, reporting, and effective financial management. Chartered Accountants with their strong expertise render high-quality services that ultimately benefit the economy.

So how can one spot audit quality? It can be seen at the engagement, firm and national level. Audit Quality indicators are taken as a whole to help Audit Committees, Auditors and Investors to evaluate the job of their auditors. At a firm level, the AQIs could include the tone at the top which may be gauged based on an independent survey of firm personnel, firm's independence policies, Investment in people, process and technology, Relationship between audit quality and financial reporting quality. At the engagement level, Alignment of auditor compensation to audit quality, Allocation of hours to risk areas, timely reporting of internal control weaknesses and going concern issues in the auditor's report, Internal quality review and Peer review findings, etc. The firm should have the ability to consistently deliver high-quality services and engagements on time and within budget.

The AQMM v1.0 has been developed after deep international research on systems to enhance audit quality and widespread outreach activities have been conducted across India. This capacity-building measure of ICAI will significantly empower the firms to be able to improve their audit quality. The AQIs should raise more questions, bring about competition between audit firms and create market demand for audit quality.

We would like to profusely thank all the members of the Group constituted to help develop the Audit Quality Maturity Model – Version 1.0, viz., CA. Aniket Sunil Talati, CCM, CA. G. Sekar, CCM, CA. M P Vijay Kumar, CCM, CA. Prakash Sharma, CCM, CA. (Dr.) Sanjeev Kumar Singhal, CCM, CA. Amarjit Chopra, Past President, CA. Nilesh Vikamsey, Past President, CA. Archana Bhutani, CA. Manish Sampat, CA. P. R. Ramesh, CA. Rajani Kesari, CA. Rakesh Rathi, Ms. Ritika Bhatia, Principal Director (Commercial), Office of the CAG, CA. Shailesh Haribhakti, CA. Sushil Agarwal, CA. Vikas Kasat, and CA. Vikas Pansari for their dedication and support. We would especially like

to thank CA. (Dr.) Debashis Mitra, Vice President, ICAI for his able leadership as Convenor of the Group to help develop Audit Quality Maturity Model – Version 1.0.

We would also like to thank all members of the Centre for Audit Quality - CA. Nihar N Jambusaria, President, ICAI (Ex-officio member), CA. (Dr.) Debashis Mitra, Vice President, ICAI (Ex-officio member), CA. Atul Kumar Gupta, CA. Nandkishore Chidamber Hegde, CA. G. Sekar, CA. Prakash Sharma, CA. Satish Kumar Gupta, CA. (Dr.) Sanjeev Kumar Singhal and the special invitees to the CAQ - CA. T.V. Mohandas Pai, Chairman, Aarin Capital Partners, Ms. Ritika Bhatia, Principal Director (Commercial), Office of C&AG and Mr. Atma Sah, Joint Director, Ministry of Corporate Affairs.

We are extremely thankful to CA. Nihar N. Jambusaria, President, ICAI and CA. Atul Kumar Gupta, Past President for taking the visionary step of setting up the Special Purpose Directorate - Centre for Audit Quality (CAQ) and for supporting the activities of the Centre for Audit Quality.

We also wish to thank CA. Ambalika Singh, Secretary, CAQ and other office staff for their efforts in developing the Implementation Guide. We are sure that the Implementation Guide would be an essential tool for the capacity building of our members.

CA. Durgesh Kumar Kabra
Convenor,
Centre for Audit Quality

CA. Shrinivas Yeshwant Joshi
Deputy Convenor,
Centre for Audit Quality

Place: New Delhi

Date: Feb, 2022

Introduction

The Institute of Chartered Accountants of India

The Institute of Chartered Accountants of India (ICAI) is a statutory body established by an Act of Parliament, viz., The Chartered Accountants Act, 1949 (Act No. XXXVIII of 1949) for regulating the profession of Chartered Accountancy in the country. ICAI is the second largest professional body of Chartered Accountants in the world, with a strong tradition of service to the Indian economy in the public interest.

Over a period of time, ICAI has achieved recognition as a premier accounting body not only in the country but also globally, for maintaining the highest standards in technical, ethical areas and for sustaining stringent examination and education standards. Since 1949, the Chartered Accountancy profession in India has grown leaps and bounds in terms of:

- Members and student base.
- Regulate the profession of Accountancy
- Education and Examination of Chartered Accountancy Course
- Continuing Professional Education of Members
- Conducting Post Qualification Courses
- Formulation of Accounting Standards
- Prescription of Standard Auditing Procedures
- Laying down of Ethical Standards
- Monitoring Quality through Peer Review
- Ensuring Standards of performance of Members
- Exercise Disciplinary Jurisdiction
- Financial Reporting Review
- Input on Policy matters to Government

Centre for Audit Quality

The purpose of an independent audit is to provide confidence to the users of audited financial statements in the quality of financial reports, in particular their reliability. Improving audit quality and the consistency of audit execution is essential to maintain confidence in the independent assurance, provided by the auditors.

In this regard, ICAI decided to open **Centre for Audit Quality at ICAI's Centre of Excellence, Jaipur** which would enable the Institute to have a more angular discussion on the qualitative aspects of the audit function and to provide a conducive environment for doing research projects in the field.

Composition of the Centre for Audit Quality 2021-22

Council Members

Convenor

CA. Durgesh Kumar Kabra

Deputy Convenor

CA. Shrinivas Yeshwant Joshi

CA. Nihar Niranjana Jambusaria, President, ICAI (Ex-officio member)

CA. (Dr.) Debashis Mitra, Vice-President, ICAI (Ex-officio member)

CA. Atul Kumar Gupta, Past President ICAI

CA. Nandkishore Chidamber Hegde

CA. G. Sekar

CA. Prakash Sharma

CA. Satish Kumar Gupta

CA. (Dr.) Sanjeev Kumar Singhal

Government Nominee

Ms. Ritika Bhatia, Principal Director (Commercial), Office of C&AG

Mr. Atma Sah, Joint Director, Ministry of Corporate Affairs

Special Invitees

CA. T.V. Mohandas Pai, Chairman, Aarin Capital Partners

Secretary, CAQ

CA. Ambalika Singh

Members of office

CA. Renu Jonwal

CA. Tripti Singh

AQMM Version 1.0

Introduction

Audit Quality is a verb and cannot be easily measured. The need of the hour is to move away from the traditional approach of enforced regulation to a modern self-compliant model for our firms. This maturity model will make the firm future ready.

The maturity of an organization depends on the basis on which it functions as a whole and the individual activities that sum up. Various factors need to be evaluated by the firm to understand the level of maturity that they have achieved in their area of practice. The objective of this Evaluation Matrix is for firms to be able to 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.

The level of scores applies to each section and not to any one section alone. The audit quality is a derivation of the knowledge, training, experience and ethics of the members of the firm. This model aims at providing a self-evaluation matrix for members/firms the current level of maturity, identify areas for development and plan for achieving higher level of maturity by enhancing the overall quality of attestation functions.

The adoption of Audit tools should significantly help firms improve their level of maturity. Adoption of robotics process automation and Data Analytics can help act as force and speed multipliers for the firm. The firm should aim to adopt to these new age technologies while undertaking their audit engagements.

Disclaimer

“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. **However, after the end of a recommendatory phase, it may be made available on a specific request basis after adhering to guidance issued by the ICAI in this regard.**

Applicability of Audit Quality Maturity Model - Version 1.0 (AQMM v1.0)

The AQMM v1.0 is recommendatory initially and after 1 year the Council will review the date from which it would become mandatory.

Firms auditing the following entities are covered in AQMM v1.0:

- (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.

'Auditing' in the afore-mentioned paragraph is intended to apply to statutory audits.

In the Council meeting held on 9th of January, 2021 it was decided that both the Peer Review Board and the Centre for Audit Quality (CAQ) would need to develop an ecosystem that is acceptable to both and such a collaborative approach would have the advantage of the CAQ developing the quality standards and Peer Review Board testing the said standards. When the AQMM becomes mandatory, the self-assessment rating exercise of the firm would be subject to testing by the Peer Review Board.

AQMM Version 1.0

Section Categorisation

AQMM Version 1.0 comprises a questionnaire that enables firms to rate their current level of audit maturity, identify areas where competencies are strong or lacking, and then develop a road map for achieving a higher level of audit maturity. AQMM Version 1.0 includes the following dimensions of audit maturity organized into three sections:

- a) Practice Management –Operation
- b) Human Resource Management
- c) Practice Management-Strategic/Functional

Firm 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
Total	600

Basis: Up to 25% in each section	Level 1 Firm
Above 25% to 50% in each section	Level 2 Firm
Above 50% to 75% in each section	Level 3 Firm
Above 75% in each section	Level 4 Firm

Interpreting the Results

Level 1 - Indicates that the firm is very nascent -will have to take immediate steps to upgrade its competency or will be left lagging.

Level 2 - Indicates firm has made some progress -will have to fine-tune further to reach the highest level of competency.

Level 3 - Indicates firm has made substantial progress -will have to fine-tune further to reach the highest level of competency.

Level 4 - Indicates firms that have made significant adoption of standards and procedures - Should focus on optimizing further.

Implementation Guide

The Audit Quality Maturity Model – Version 1.0 (AQMM v1.0) is a cross-functional evaluation model for practicing firms covering engagement teams, firm leadership, IT helpdesks, human resources team, administration department, legal cell and the management information systems of the firm. It is a unifying force for having all hands-on deck to help steer the firm from the brown waters of unplanned audits to the blue waters of being globally recognized for audit quality.

Competency dimensions mentioned in each Section are targeted to enable firms to assess their current audit competency for moving to the next level. To assist professional audit firms to achieve various competency dimensions, the implementation guide to the AQMM v 1.0 has been issued in the form of implementation clues. These clues are practical based and are a sort of handholding for small and medium firms. The Implementation Clues given in this guide are generic and are minimum requirements under each domain. The firm is, however, free to adopt other comparable best practices.

The firm would need to develop a Management Information System (MIS) to be 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 an audit quality indicator. The investment that the firms will make will reap rich dividends to the firm in the form of improved decision making with respect to its triumvirate performance in operations, human resources and strategy, all of which enhance audit quality.

The Yes/No criteria in many instances talk of ‘availability’ and ‘use’ of standard formats of checklists and engagement documentation. The firm should allocate 100% of the score (until otherwise specifically mentioned) for actual implementation and use of the standard formats of documentation/policies.

Further, the names of some websites have been included as an example to help the firms. These examples are only illustrative in nature and are not meant for promoting/ recommending any particular website, and the list is based on market research conducted by the authors while drafting the clues.

This Implementation Guide is prepared to assist the Professional Accounting Firms (Firms) in the implementation of the AQMM v1.0 for self-assessing their audit maturity level. This AQMM needs to be filled in for each firm in a network even if the firms in the network follow the same SQC, HR and

operational practices, because questions specific to partners will apply only to the firms where such partners are partners. Completion of this AQMM requires exercise of professional judgement. Audit firms are required to maintain documentation justifying the judgement underlying the scores considered.

Audit firms may complete this AQMM as soon as practicable based on this Implementation Guide to assess their current standing and plan steps for enhancement of their maturity as envisaged in the AQMM. Audit firms should maintain supporting documents to support their scores which should be made available to inspection teams in case of any inspection.

AQMM v 1.0 Road Map for Moving Up the Next Level of Maturity

Step 1: Benchmarking	Benchmark the current maturity level of the firm by completing the AQMM v1.0, and document a list of specific aspects that the Firm is currently lacking, and which needs to be initiated to move to the next level of the Maturity model.
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 small cross-functional team to own the execution of the plan, with a leader and 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 re-evaluating against the AQMM v1.0 and re-visit the execution plan half-yearly.
Step 5: Perform a peer review/ review by an external firm / internal inspection, if necessary	The firm may have its AQMM voluntarily reviewed by an external firm or a peer review or internal inspection and assess the position at periodical intervals. It is recommended to perform peer review on a regular basis by external firms or at the time when the firm ascends to the next level.

Contents

<i>Foreword</i>	iii
<i>Preface</i>	v
<i>Introduction</i>	vii
<i>Composition of the Centre for Audit Quality 2021-22</i>	ix
<i>AQMM Version 1.0</i>	x
<i>Applicability of Audit Quality Maturity Model - Version 1.0 (AQMM v1.0)</i>	xii
<i>AQMM Version 1.0</i>	xiii
<i>Implementation Guide</i>	xv
<i>AQMM v1.0 Road Map for Moving Up the Next Level of Maturity</i>	xvii
1. Practice Management - Operation	1
1.1 Practice Areas of the firm.....	1
1.2 Work Flow – Practice Manuals.....	3
1.3 Quality Review Manuals or Audit Tool	11
1.4 Service Delivery – Effort monitoring	22
1.5 Quality Control for engagements	25
1.6 Benchmarking of service delivery	37
1.7 Client Sensitisation.....	41
1.8 Technology Adoption	43
1.9 Revenue, Budgeting and Pricing.....	49
2. Human Resource Management	52
2.1 Resource Planning & Monitoring as per the firm’s policy	52
2.2 Employee Training and Development	55
2.3 Resources Turnover and Compensation Management.....	62

2.4	Qualification Skill Set of employees and use of Experts	72
2.5	Performance evaluation measures carried out by the firm (KPI's)	74
3.	Practice Management – Strategic/Functional	83
3.1	Practice Management	83
3.2	Infrastructure – Physical & Others	85
3.3	Practice Credentials	91

Section 1

Practice Management - Operation

1.1 Practice Areas of the firm

How to score your firm?

Competency Basis		Score Criteria		Score Basis	Max Scores
1	Practice Management – Operation				
1.1.	Practice Areas of the Firm				
I	Revenue from audit and assurance services.	i.	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. (Exception applies only in case of acquisition of another firm or a group of professionals).	(i) 50% to 75% – 5 Points (ii) Above 75% – 8 Points	8
li	Does the firm have a vision and mission statement? Does it address Forward looking practice statements/Plans?	i.	Scoring based on Presence and implementation or not. Answers: Yes/No	For Yes – 4 Points For No – 0 Point	4
Total					12

Implementation Guide for Audit Quality Maturity Model – Version 1.0

It is to be noted that although the AQMM v1.0 is itself applicable to firms performing a statutory audit of specified entities, this framework provides impetus to the firms which are having specialization in the field of audit including statutory audit, tax audit, internal audit, GST audit, Forensic audit, sustainability audit, social audit, etc. The firm would assess specialization based on revenue earned from the audit and assurance areas of a firm. It may be argued that a firm with hypothetically only one client and that too a listed entity may qualify for eight points, but for the entire panorama of firms, this would hypothetically again speaking be a minuscule phenomenon that would be ironed out easily over time.

An audit firm may have different practice areas such as Accounting, Auditing, and Taxation etc. However, some audit firms may have specialization in one area or the other.

(i) Revenue from Audit and Assurance Services

The firm would be collating certain revenue information, such as revenues by service line (e.g., audit, tax, consulting, and other). For example, an audit firm in which most revenues are generated from audit services (such as statutory audit, tax audit, internal audit, GST audit, Forensic audit, sustainability audit, social audit etc.) should be considered as a specialized firm. The bands of 50 to 75% revenue from audit attract 5 points and more than 75% revenue from audit attracts 8 points.

Note: The above criteria shall not be applicable in the case of acquisition of another firm or group of professionals.

(ii) Vision and Mission Statement of the Firm

. The tone at the top is very important as it sets forth the firm's culture and values. The vision and mission statement of the firm helps to unite all the firm's workforce into a committed team in which each team member can see his or her goal and eventual outcome of well-planned work. The firm personnel should be firmly rooted in ethics, knowledge, training and practical experience.

The vision statement may have a 5-year term plan which sees the firm progressing from one step to another. The vision statement should have a medium to long term perspective. In the present times only professional ethics, independence and greater use of technology and dialogue with client management and those charged with governance will stand an auditor in good stead.

The mission statement could stress quality or ethics or best in class reporting. The mission is what is most important for a firm to achieve. It is what is 'material' to the firm and a firm would judge itself based on this materiality threshold.

The firm gets 1 point for having a Vision and Mission statement and 3 points for actually implementing the same.

1.2 Work Flow – Practice Manuals

How to score your firm?

Competency Basis		Score Criteria	Score Basis	Max Scores
1.2.	Work Flow - Practice Manuals			
i.	Presence of Audit manuals containing the firm's methodology that ensures compliance with auditing standards and implementation thereof.	Scoring based on Presence or Not. Answers: Yes/No	For Yes – 8 Points For No – 0 Point	8
ii.	Availability of standard formats relevant for audit quality like - - Letter of Engagement - Representation letter - Significant working papers - Reports and implementation thereof.	Scoring based on Presence or Not. Answers: Yes/No	For Yes – 8 Points For No – 0 Point	8
Total				16

(i) Presence of Audit Manual

The presence of Audit manuals containing the firm's methodology that is

Implementation Guide for Audit Quality Maturity Model – Version 1.0

updated and current ensures compliance with auditing standards and implementation thereof. The adoption of audit manual could be in physical or electronic mode and will award 8 scoring points for the availability of a current and updated manual.

An Audit manual is a written document that lays out the policies and procedures that a firm must follow while conducting an audit. Audit methodologies are the sets of processes to comply with the standards on auditing and improve the overall quality of service. There are four stages in an audit methodology- starting from preliminary risk assessment, followed by planning, control and substantive testing, ending with assessment and communication of audit findings, and relevant and reliable reporting. However, these phases cannot exist in the absence of well-documented and well-communicated audit policies and procedures, which make up the audit manual. The Audit manual should join all the dots from the client and engagement acceptance to the closing meeting with the client.

A well-documented audit manual outlines the authority and scope of the audit function. There are various auditing standards in place, alongside the guidance notes prescribed by the ICAI. Documenting the requirements of the auditing standards constitutes effective quality assurance practice. The audit manual will act as a cohesive guide to promote consistency, stability, continuity, acceptable performance standards, and act as a means of coordinating the efforts of audit staff effectively.

Although an audit manual is an extensive compilation of resource material intended to be used by audit staff, a well-developed and appropriately communicated audit manual can:

1. Serve as a guide to those responsible for audit activities
2. Represent a key benchmark by which audit can be measured
3. Be a reference for undertaking an audit assignment
4. Aid in making effective decisions
5. Assist in undertaking staff appraisals, training, and development
6. Enhance quality of service and staff productivity
7. Assist in clarifying audit issues and audit staff job routines

Not to mention when faced with the Peer Review Board, the first item the

peer reviewer will ask for is information to help him or her understand the firm's audit function. In such cases, an audit manual can be a lifesaver.

Contents of the Audit Manual

In many firms, the content already exists and would only require a dedicated effort to bring it all together into one centralized policies and procedures manual, with regular review and maintenance. An audit manual typically is divided into below-mentioned sections:

- The Audit Profession, its advantages, limitations, quality of good auditor, various type of audit and related material on pronouncements of ICAI like, The Auditing and Assurance Standards, Accounting Standards, Guidance notes and Statements.
- Scope of audits and modifications as per the requirement of statute, phases and function of audits.
- Implementation of standards of quality control and other regulatory requirements in the case of LLPs.
- Organization structure and set up of master audit plan to be followed in each audit with required modifications.
- Audit procedures and techniques covering audit process, audit software, engagement planning, audit fieldwork, audit reporting, audit effectiveness questionnaire, follow-up information, operational auditing, IT systems auditing, and fraud auditing and investigation.
- Audit staff resources, which describes staff levels, job descriptions, article training and development, transfers, contractual staffs and use of other resources.
- Audit Administration comprises staff meetings, intranet, acquiring routine and capital items, department's budget and monthly performance reports, annual reporting, staffing and management surveys, and benchmarking and key performance indicators.
- Reference Material Acronyms; glossary; control risk and resources; audit manual maintenance; and audit library.

This is just an illustrative list, an audit manual with this basic information can prove to become a powerful tool for a high-quality sustainable and well-respected audit function.

Implementation Guide for Audit Quality Maturity Model – Version 1.0

An audit manual should be kept constantly updated. Staying current and making necessary changes should form part of follow-up processes with respect to change in the environment in which the firm exists. An outdated or obsolete audit manual will not bring the desired results as expected by the Audit Quality Maturity Model – Version 1.0.

(ii) Standardized formats for relevant documents

The scoring will be determined on the presence and implementation of below mentioned standardized formats and the firm will be awarded 8 points:

- Letter of Engagement (LOE)
- Representation letter
- Significant working papers
- Reports

The said formats should be easily made available to all members of the firm either through email or better still by being hosted on an easily accessible folder for standard formats.

Letter of Engagement (LOE)

The ICAI has approved the illustrative format of the engagement letter, also known as LOE – Letter of Engagement, issued by Auditing and Assurance Standard boards for audit of Financial Statements under the Companies Act, 2013 and the Rules thereunder, in its council meeting held on November 2014. These illustrative formats had been added to Appendix 1 'Examples of an Audit Engagement Letter' of Standard on Auditing (SA) 210 Agreeing the Terms of Audit Engagements, issued by ICAI. Each firm is expected to take references from the same or can draft their format on similar lines.

Representation Letters

SA – 580 Written Representations, vastly covers the management representation letter and the illustrative format of the representation letter has been provided in the appendix of the material issued by ICAI. The firm is advised to either follow the same or develop its own on similar guidelines. However, a standard format must be used.

Significant work papers

The audit work papers constitute two types of files- Permanent and Current. The following are the list of contents that forms part of a good quality audit

file:

Permanent File

Following should constitute contents of the permanent file, apart from the above two letters.

1. Correspondence from the retiring auditor
2. Copies of Memorandum and Articles of Association in case of corporate entities or partnership agreement in case of partnership firm or. Act, Regulation, by-laws, trust deeds, as applicable under which the entity functions.
3. Documentation of background and organization structure of the entity being audited.
 - a. Nature and history of the business
 - b. Profile of ownership
 - c. Registered office details
 - d. Management structure including organization chart. Industry specification the reference to client's size, economic factors affecting the industry, seasonal fluctuations and demands.
 - e. Facility locations, plant capacity, owned or leased, age, capital expenditures budget, etc.
 - f. Products specifying diverse range along with classification.
 - g. Purchase details, main suppliers, policies
 - h. Inventory norms, inventory levels during the last five years and related ratios
 - i. Sales details including exports, main customers, methods of distribution, pricing policies, credit policy.
 - j. Personnel showing numbers, analyses by departments or function, method of remuneration, contracts, union agreements, HR policy.
 - k. Significant audit observations of the past.
 - l. Statistical information showing 5 years comparison of *performance indicators* (major accounting ratios) vis-à-vis

Implementation Guide for Audit Quality Maturity Model – Version 1.0

industry statistics.

4. Systems (For larger audits this section could be held on a separate file)

Information contents: -

- a. Details of methods of accounting including cost accounting, flowcharts
 - b. Specimens of accounting documents, code structure and list of accounting records
 - c. EDP - systems security, source code security, authorization and backup policy.
5. Group structure consisting of subsidiaries, joint ventures, associates etc.
 6. List of professional advisors like bankers, auditors, solicitors, investment analysts, Registrars and Credit Rating Agencies.
 7. Details of other client information of a permanent nature

It is recommended to have a permanent file to be kept as a separate file or part of the current audit file in a separate section such that it can be carried forward to subsequent years.

Current File

The Auditor firm should document the following with respect to every audit being conducted by it:

1. Preliminary understanding of the client business and entity achieved through preliminary overall analytical analysis of the financial statements and discussion with management
2. Risk assessment and mapping of the risks to an appropriate response
3. Planning Materiality based on financial metrics which are material to the users of the financial statements
4. Audit Plan
 - a. Planning programme
 - b. Time and cost summary

- c. Briefing notes
 - d. Copy of planning letter to client
 - e. Points carried forward from previous year
5. Documentation of Audit items which are of utmost significance and processes used for deriving sufficient and appropriate audit evidence includes:
- a. Lead Schedules
 - b. Audit programme
 - c. List of significant accounts, class of transactions and strategy of control and substantive testing
 - d. Detailed working paper and conclusion, it comprises documentation of test of controls and where relevant test of details
 - e. Audit queries raised and explanations received thereto
 - f. Third-Party confirmation sent and received or alternative substantive audit procedures performed in absence of confirmations
 - g. Weakness or deficiency identified, and letter of material weakness sent to the client.
6. Audit work papers
- a. Schedules
 - b. Trial Balances
 - c. Cross-reference to audit work performed
 - d. Linking the audit work papers with figures flowing from the trial balance and leading to the lead schedules and signed financial statements
 - e. Work done notes should be included in the working paper.

For example, the objective of the work may be documented as “To enhance our understanding that the xxxxx assertions of xxxxxxxxxx are not materially misstated”. After the objective is set out, the work done note should be detailed, followed by the findings and

Implementation Guide for Audit Quality Maturity Model – Version 1.0

conclusions. Errors identified should throw up control issues- whether it is a deficiency in the design or operative effectiveness. Material weaknesses in internal controls should be communicated to management and those charged with governance.

7. Key Audit Observations and internal control findings etc.
8. Extract of a meeting of strategic importance like directors meeting, members meeting, risk function, legal function, audit committee meeting, investment and other board committee meetings.
9. Industry reports published by regulators like RBI and performance indicators collected that have bearing on nature, timing and extent of substantive testing performed by the auditor.
10. Evidence of performance of Engagement Quality Control Review in accordance with SA 200 and SQC 1.
11. Audit Report and financial statements, including drafts thereof, as applicable.
12. Contracts, Agreements, and Minutes
 - a. Lease Agreements, photocopies/extracts of the same
 - b. Title Deeds inspected by Auditors.
 - c. Minutes of compliance significance e.g., director' meeting, members' meeting
 - d. Related party details and other important matters.
 - e. Minutes of meetings of the risk assessment function of the client
 - f. Minutes of meetings of the legal function of the client if any
13. Documentation of background and organization structure of the entity being audited
 - a. Annual Client and Engagement Acceptance/ Continuance check
 - b. Signed Engagement Letter
 - c. Determination of audit fees based on time and expense estimate

- d. Management Representation Letter
- e. Bank Confirmations
- f. Significant Debtor and Creditor Confirmation
- g. Legal opinions taken
- h. Signed financial statements
- i. Copy of Audited Financial Statement for previous years if it exists.
- j. Study and evaluation of internal controls related to an accounting system.

Audit Reports

SA 700 Forming an Opinion and Reporting on Financial Statements issued by Auditing and Assurance Standards Boards, lays down the format and items to be covered while forming an independent audit opinion. Every practicing organization is required to adhere to the same. The Appendix had been attached to the material issued by the ICAI and can be easily referred to. Also reporting with respect to CARO rules shall be made as per the applicability and format specified in the Companies Act, 2013.

1.3 Quality Review Manuals or Audit Tool

How to score your firm?

Competency Basis		Score Criteria	Score Basis	Max Scores
1.3.	Quality Review Manuals or Audit Tool			
i.	Usage of Client Acceptance/engagement acceptance checklists and adequate documentation thereof.	Scoring based on Presence or Not. Yes/No Answers	For Yes – 4 Points For No – 0 Point	4
ii.	Evaluation of Independence for all engagements	Scoring based on Presence or Not. Yes/No Answers	For Yes – 4 Points For No – 0	4

Implementation Guide for Audit Quality Maturity Model – Version 1.0

Competency Basis		Score Criteria	Score Basis	Max Scores
	(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.		Point	
iii.	Does the Firm maintain and use the engagement withdrawal/ rejection policy, templates, etc.?	Scoring based on Presence or Not. Yes/No Answers	For Yes – 4 Points For No – 0 Point	4
iv.	Availability and use 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 – 4 Points For No – 0 Point	4
v.	Availability and use 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 – 4 Points For No – 0 Point	4
vi.	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	Scoring based on Presence or Not. Yes/No Answers	For Yes – 4 Points For No – 0 Point	4

Competency Basis		Score Criteria	Score Basis	Max Scores
	respective regulation or statute and remedial action taken?			
	Total			24

Quality Review Manual

The quality review manual deals with a firm's responsibilities to review its system of quality control for audits and reviews of financial statements, and other assurance and related services engagements. This manual is established to ensure that necessary controls are in place and the same has been properly implemented, monitored and potential ways of strengthening, improving and enlarging the controls are identified. This Manual is to be read in conjunction with the requirements of the related Regulations, the Code of Ethics and other relevant pronouncements of the Institute. The objective of the Quality review manual is that a firm is required to maintain a system of quality control to provide it with reasonable assurance that (a) the firm and its personnel comply with the professional standards and applicable legal and regulatory requirements and (b) the reports or certificates issued by the firm or engagement partners are appropriate in the circumstances.

The nature and extent of a firm's quality control policies and procedures to comply with this Manual will depend on several factors such as the size and nature of its practice, operating characteristics, geographic dispersion of the organization. Accordingly, the policies and procedures adopted by individual audit firms vary, so also the extent of their documentation.

Audit Tools

There are many Audit Tools available which can be used by audit firms to maintain the quality of audit. Audit tools and training on those tools go hand in hand. They require time and money. It depends on the audit firms how they make use of these audit tools effectively and efficiently.

(i) Engagement and Client acceptance/ Continuation

An evaluation of prospective clients and a review, on an ongoing basis, of existing clients should be conducted annually. The decision of acceptance should be reviewed periodically for recurring client engagement. The integrity

Implementation Guide for Audit Quality Maturity Model – Version 1.0

of management and those charged with governance should be reviewed from multiple sources like the Electoral database, MCA website, data.gov.in and other data warehouses.

Before agreeing to the engagement, a firm must ensure that it has the requisite talent to take on the job i.e., the engagement team has appropriate competencies as well as the required industry knowledge. The firm should use the standard checklists and have adequate documentation of the Client and engagement acceptance/ continuation.

(ii) Evaluation of Independence for all engagements and Identification of various threats to the firms

The evaluation of Independence must be carried out for all engagements and it should be carried out for all partners, managers, staff and others in the Engagement Team and also the EQCR and specialists involved in the audit. Some firms could have stricter independence rules where all employees of the firm need to be independent of the client of the firm even when they are not client-facing. This would depend on the firm's policies but as a minimum, the client-facing staff needs to be independent of the audit client.

It is a prerequisite for the audit firms to evaluate that they are accepting the audits as an independent auditor and performing their duties without any biases that they may be unintentionally carrying. The auditor must both be and appear to be independent. The judgements of the individuals must be free from all economic, financial and other relationships. Acceptance of expensive gifts by firm personnel from the clients is not acceptable.

Independence shall be maintained during both:

- (a) The engagement period; and
- (b) The period covered by the financial statements.

The engagement period starts when the audit team begins to perform the audit. The engagement period ends when the audit report is issued. When the engagement is recurring in nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final audit report. Where the audit client is a statutory audit client under the Companies Act, 2013, the engagement period shall be determined in accordance with the provisions of Section 139 of the Companies Act, 2013.

If an entity becomes an audit client during or after the period covered by the financial statements on which the firm will express an opinion, the firm shall determine whether any threats to independence are created by: (a) Financial or business relationships with the audit client during or after the period covered by the financial statements but before accepting the audit engagement; or (b) Previous services provided to the audit client by the firm or a network firm.

The firm must identify threats to the engagement if any before accepting the new client relationship. Threats to independence are created if a non-assurance service was provided to an audit client during, or after the period

Implementation Guide for Audit Quality Maturity Model – Version 1.0

covered by the financial statements, but before the audit team begins to perform the audit, and the service would not be permitted during the engagement period.

Subject to compliance with the requirements of Section 144 of the Companies Act, 2013, where applicable, examples of actions that might be safeguards to address such threats include:

- Using professionals who are not audit team members to perform the service.
- Having an appropriate reviewer review the audit and non-assurance work as appropriate.
- Engaging another firm outside of the network to evaluate the results of the non- assurance service or having another firm outside of the network re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

Threats to compliance with the fundamental principles fall into one or more of the following categories:

(a) Self-interest Threat

It is the threat that a financial or other interest will inappropriately influence a professional accountant's judgment or behavior. It occurs when an auditing firm and its partners could benefit from a financial interest in an audit client. It could be (i) direct financial interest or materially significant indirect financial interest in the client, loan or guarantee to or from the concerned client, (ii) undue dependence on a client's fees which leads to concerns about losing the audit engagement, (iii) Close business relationship with an audit client (v) contingent fee for the audit engagement etc.

(b) Self-review threat

It is the threat that a professional accountant will not appropriately evaluate the results of a previous judgment made; or an activity performed by the accountant, or by another individual within the accountant's firm or employing organization, on which the accountant will rely when forming a judgment as part of performing a current activity. It may occur when the audit team member was previously a director or a senior employee of the client and concluded or reached any judgement having a review during the current period. These threats come into play when the auditor of the engagement

team was previously appointed at a client's place as a senior employee or a director.

Self-review threat can also arise when a firm has performed say an accounting advisory and also performed an audit, albeit with different partners but having the same reviewer for both the advisory and audit engagements. The firms may argue that for the advisory assignment the accounting policy choices were clarified and presented to the management and those charged with governance and the final accounting policy choice was made by the management/ those charged with governance. However, for want of technical resources, the review of the accounting advisory assignment and the engagement quality review of the audit assignment was done by one individual partner. This practice leads to circular referencing and should be avoided entirely.

(c) Advocacy Threat

It is the threat that a professional accountant will promote a client's or employing organization's position to the point that the accountant's objectivity is compromised.

(d) Familiarity threat

It is the threat that due to a long or close relationship with a client, or employing organization, a professional accountant will be too sympathetic to their interests or too accepting of their work. This threat occurs when auditors form a relationship with the client and they end up being too sympathetic to the client's interest. This threat can occur in many ways like acceptance of gifts from the client or former partner of the audit firm being a director or senior employee of the client, etc.

(e) Intimidation Threat

It is the threat that a professional accountant will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over the accountant. For example, an auditor might be put under undue pressure or threat that will influence his independence and objectivity to complete the engagement without any bias. In times like these, the auditor should communicate in writing to those charged with governance in a timely fashion and highlight the issues being faced in execution of the engagement.

(f) Conflicts of Interest

A conflict of interest creates threats to compliance with the principle of objectivity and might create threats to compliance with the other fundamental principles. Such threats might be created when:

- (a) A professional accountant undertakes a professional activity related to a particular matter for two or more parties whose interests concerning that matter conflict; or
- (b) The interest of a professional accountant concerning a particular matter and the interests of a party for whom the accountant undertakes a professional activity related to that matter conflict. A party might include an employing organization, a vendor, a customer, a lender, a shareholder, or another party.

Before agreeing to the engagement terms for the audit engagement, one must evaluate potential conflicts of interest.

As required by SQC 1, at least annually, the firm should obtain written confirmation of compliance with its policies and procedures on independence from all firm personnel required to be independent in terms of the requirements of the Code.

(iii) Does the Firm maintain and use Engagement withdrawal/rejection policy, templates, etc.

For an audit firm, it may be important to maintain and use the policy regarding various client engagement or withdrawal from engagement as it may provide an indication about the profile of the companies for which an audit firm provides audit services. It also provides clarity about the parameters on which an audit firm accepting a new client or rejecting the old one.

By choosing ethical clients, the audit firm would succeed significantly in maintaining a high audit quality status.

(iv) Availability and use of standard checklists in performance of an audit for compliance with accounting and auditing standards

Checklists are the most important part while performing the assurance engagement. The audit firm or the assurance partner may maintain the same based on the industry or nature of the business for which the assurance services are being rendered, as applicable/ relevant. The checklist helps in the performance of an Audit which checks for Compliance with Accounting and Auditing Standards. Checklists are the most important part while performing the assurance engagement.

(v) Availability and use of standard formats for audit documentation

As per the Standard on Auditing (SA) 230 "Audit Documentation" lays down the basic principle of audit documentation. Audit documentation refers to the record of the procedures performed, relevant audit evidence obtained, and conclusions reached by the auditor. As timely audit documentation is important for assurance engagement it is also important to have a standard format for those documents. An audit firm should maintain and use a set of standard formats for the documentation of the ongoing audit that must include the following :

- (a) Business understanding – An audit firm should follow the standard format for documenting the nature and understanding of the business. A good understanding of the business and its environment helps the auditor to identify the risks being faced by an organization. The firm should have a standard audit documentation format which helps capture the legal, economic, financial, political, social, supply chain, customers, competitors, structural aspect of the entity to get a 360-degree view of the organization.

Most importantly this documentation should be done in a timely manner.

- (b) Audit sampling – The application of audit procedures to less than 100% of items within a population of audit relevance such that all sampling units have a chance of selection in order to provide the auditor with a reasonable basis on which to draw conclusions about the entire population.
- (c) Materiality Determined – The materiality concept applies in both quantitative and qualitative measures. It is determined based on what

Implementation Guide for Audit Quality Maturity Model – Version 1.0

could potentially impact the decisions of users. Materiality threshold themselves may change because of misstatements which impact the very base they are based upon- say revenue.

Materiality helps to pick and set aside the misstatements that can impact the economic decisions of the users of the financial statements. Does the auditor's job end with the identification and extrapolation of potential misstatement in the financial statements? The answer is No. Errors could throw up control issues and it should be deliberated with management and those charged with governance whether the error is due to a defect in design or due to lack of operative effectiveness.

A standard format should be used for documentation of materiality and it should be updated during the audit. The Summary of audit adjustments should also carry the materiality thresholds.

- (d) Substantive analytical procedures – Substantive analytical procedures provide appropriate audit evidence but need to be complemented with the sufficiency of audit evidence. The overall analytical procedures can be performed at the planning meeting stage and reasons for deviations may be recorded. These should be tested through substantive procedures which test the analytical arguments. Hence the term 'substantive analytical' procedure. A set of standard formats for analyzing the data gathered may be made available within the firm and to every engagement partner of the firm.
- (e) Control Evaluation –. Section 143(3)(i) of the Companies Act, 2013 mandates auditor's reporting on the adequacy and operating effectiveness on internal financial controls in respect of the financial statements of all companies, other than certain exempt companies. The firm should have standard formats for documenting the walkthrough of a class of transactions and its related controls. The documentation format should document the 'what could go wrongs' identified by a firm and the controls that the firm has in place for mitigating those risks of 'what could go wrongs'.

The control should be documented as a 'preventive'/ 'detective' control/ IT general/ IT application-level control and whether it is a manual or an automated one. If the design of the control meets the passing mark the auditor should test the control for its operative effectiveness. The documentation of the control evaluation should also

document the findings and conclusion for determining the strategy of substantive testing.

- (vi) Are the Quality control-related documents 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 and remediation action taken?**

The firm needs to keep its quality control-related standard document formats updated, at least annually or whenever there is a change in regulation or statute. The said formats should be easily made available to all members of the firm either through email or better still by being hosted on an easily accessible folder for standard formats. The firm should take remediation action in case it falters on the usage of the audit quality manual or use of an audit tool.

The scores in relation to the questions in this topic will be distributed equally between availability and implementation. Scores for availability and implementation should be awarded only if the material relevant to the topic is fully available and implemented. No score should be awarded if either the availability or implementation is partial.

1.4 Service Delivery – Effort monitoring

How to score your firm?

Competency Basis	Score Criteria	Score Basis	Max Scores	
1.4	Service Delivery - Effort monitoring			
i.	Does the firm carry out a Capacity planning for each engagement?	Scoring based on Presence or Not. Yes/No Answers	For Yes – 4 Points For No – 0 Point	4
ii.	Is a process of Budgeting & Planning of efforts required maintained (hours/days/ weeks)?	Scoring based on Presence or Not. Yes/No Answers	For Yes – 4 Points For No – 0 Point	4
iii.	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	Up to 10% – 0 Point More than 10% and up to 30% – 4 Points More than 30% and up to 50% – 8 Points More than 50% and up to 70% – 12 Points More than 70% and up to 90% – 16 Points More than 90% – 20 Points	20

Practice Management - Operation

Competency Basis		Score Criteria	Score Basis	Max Scores
iv.	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.)?	Scoring based on Presence or Not. Yes/No Answers	For Yes – 8 Points For No – 0 Point	8
Total				36

(i) Capacity Planning

Capacity planning is a process to allocate proper audit staff by the engagement partners based on nature, time and extent of audit procedures estimated as required for the audit. It is very important to create a budget for time, cost and resources and recording any deviation from the same in the files for conducting a good quality audit. Any under or over estimation in planning the capacity will result in inefficiency in the audit process. Hence, it is advised to do proper capacity planning to facilitate high-quality audit reports.

(ii) Process of Budgeting & Planning of efforts

Determination of nature, timing and extent of audit procedures is very likely to depend on the nature of the audit risks. The firm may create a budget for the estimation of the time required to successfully conduct the audit. Personnel tend to perform well when they have timelines assigned to the task they are undertaking. So, there may be a system in place for creating such budgets in terms of hours/days/weeks for a firm to score a point to qualify as a good quality audit firm. The budget could typically capture the hours that would be spent by various levels of employees and by the partner based on the risk-based audit strategy expected for the engagement. The charge-out rates as per the firm guidelines should be captured. Again, these rates should be easily accessible to the firm personnel so that errors and wishful thinking are avoided.

The firm should have an MIS system in place which would collate the track record of each engagement.

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

Firms must have a system in place to ensure that the timesheets are submitted weekly or fortnightly so that client chargeable hours can be captured on a timely basis and billings done to the client based on the work completed. Timely submission of timesheets could be built into the performance appraisal of the firm's employees and partners to ensure healthy MIS reporting.

Reporting to the manager or engagement partner must be done by audit team members if material deviations from the budget are found. Timely interactions with management should be held in such cases to identify areas where the firm can improve its planning and performance or where the client can improve. All significant deviations from budgeted time, cost, or staff requirements should be fully described in files. These findings significantly help the firm become more efficient with their resources' time and effort.

Scores allocated to this requirement signifies the importance of having this system of control in place within the organization, and the firm which applies this technique in more than 90% of its engagements get a score of 20 points.

(iv) Deployment of technology to monitor the efforts spent

Does the firm deploy technology for monitoring efforts spent - Utilisation of tools to track each activity (like Project management - Say timesheets, task management, etc.)? DCMM Version 2.0 may be referred to arrive at the technical maturity of the firm.

Firms should implement a system of recording automated dates and timesheets to ensure proper assessment and keep track of the work done by the audit staff. It just not helps in monitoring audit as it progresses but acts as a personnel appraisal tool too. A firm should promote the regular filing of timesheets by the audit staff and employees as well for better internal control checks.

This score is awarded if the engagement partner and engagement manager use technology for monitoring the staff efforts.

1.5 Quality Control for engagements

How to score your firm?

Competency Basis	Score Criteria	Score Basis	Max Scores
1.5	Quality Control for engagements		
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?	Scoring based on Presence or Not. Yes/No Answers For Yes – 8 Points For No – 0 Point	8
ii.	Total engagements having concluded to be satisfactory as per quality review vs No. of engagements quality reviewed.	Scoring based on % of quality review with overall engagements of the same nature. Up to 10% – 0 Point More than 10% and up to 30% – 4 Points More than 30% and up to 50% – 8 Points More than 50% and up to 70% – 12 Points More than 70% and up to 90% – 16 Points More than 90% – 20 Points	20
iii.	No. of engagements without findings by ICAI, Committees of ICAI and regulators	Scoring based on % of engagement meeting quality review standards with overall engagements 10% to 30% – 4 Points More than 30% and up to	20

Implementation Guide for Audit Quality Maturity Model – Version 1.0

Competency Basis		Score Criteria	Score Basis	Max Scores
	that require significant improvements.	of the same nature. The percentage of engagements meeting quality review standards would be based on findings vis-à-vis the selection and not findings vis-à-vis the total number of engagements. The point-based system would be based on significant findings alone and recommendatory findings would serve as a roadmap for improvement.	50% – 8 Points More than 50% and up to 70% – 12 Points More than 70% and up to 90% – 16 Points More than 90% – 20 Points	
iv.	Documentation of the firm in accordance with SQC 1.	Scoring based on Presence or Not (Yes/No Answers) 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	For the presence of documentation in the critical areas of Ethical requirements, Acceptance and continuance of client relationships and specific engagements, and Engagement performance – 6 Points For the presence of documentation in the areas of Leadership	12

Practice Management - Operation

Competency Basis		Score Criteria	Score Basis	Max Scores
			responsibilities for quality within the firm, Human resources, and Monitoring – 6 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?	Scoring based on Presence or Not. Yes/No Answers	For Yes – 8 Points For No – 0 Point	8
vi.	Is appropriate time spent on understanding the business, risk assessment and planning an engagement? Have risks been mitigated through performance of audit procedures?	Scoring based on Presence or Not. Yes/No Answers	For Yes – 12 Points For No – 0 Point	12
	Total			80

The audit firm should establish a system of quality control designed to provide it with reasonable assurance that the firm and its personnel comply with professional standards and regulatory and legal requirements and that reports which have been issued by the firm or engagement partner(s) are appropriate in the circumstances. Standard on Quality Control (SQC) 1 Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements applies to all firms.

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

Implementation Guide for Audit Quality Maturity Model – Version 1.0

Quality Review aims to assess the quality of all the audits of the financial statements of listed entities. Quality Review is directed towards the evaluation of audit quality and adherence to various statutory and other regulatory requirements. The time spent report of the firm personnel should allocate the time spent on the engagement to the engagement chargeable code so that the cost of the engagement can be tracked properly and completely and matched with the revenue from the engagement.

Engagement quality control reviewer could be a partner, other people in the firm, suitably qualified external person, or a team made up of such individuals, with sufficient and appropriate experience and authority to objectively evaluate, before the report is issued, the significant judgments the engagement team made and the conclusions they reached in formulating the report. However, in case the review is done by a team of individuals, such a team should be headed by a member of ICAI.

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

This question relates to quality review during internal inspections and external agencies inspection and not quality review by EQCR. Based on the conclusions drawn from the quality review, preliminary or final reports shall be issued by the reviewer, either in internal or external agencies inspection. A satisfactory report shall indicate that the audit has been conducted in the manner that ensures the quality of service rendered. However, the reviewer may qualify the report if he is of the opinion that the audit is not being conducted in the manner that ensures the quality of services rendered.

A sample of Audit Engagements across audits of listed entities, banks, insurance companies, multistate cooperative banks, should be quality reviewed as per the Auditing Standard 220 – Quality Control for an Audit of financial Statements. Out of this population of 'qualifying engagements', a higher percentage of engagements quality reviewed will attract more scores. **However, the engagements not only need to be quality reviewed but they need to achieve a 'satisfactory' rating.**

'Satisfactory' report is intended to refer to a quality review report with no significant deficiencies identified in the audit and a rating of 4 or 5 out of a scale of 5. There could be a letter issued to the firm highlighting various areas of improvement but if overall the reviewer states 'satisfactory' then the engagement would qualify for the tally.

Engagement Documentation is very crucial for a good quality audit.

What is not documented is not considered done. The firm should establish policies and procedures for engagement teams to complete the assembly of final engagement files on a timely basis after the engagement reports have been finalized. Law or regulation may prescribe the time limits by which the assembly of final engagement files for specific types of engagement should be completed. Where no such time limits are prescribed in law or regulation, the firm establishes time limits appropriate to the nature of the engagements that reflect the need to complete the assembly of final engagement files on a timely basis. In the case of an audit, for example, such a time limit is ordinarily not more than 60 days after the date of the auditor's report.

The firm should establish policies and procedures designed to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation.

The firm should establish policies and procedures for the retention of engagement documentation for a period sufficient to meet the needs of the firm or as required by law or regulation.

The scoring shall be based on the percentage of engagements quality reviewed versus the total number of engagements of the same nature and have concluded to be 'satisfactory'. The firm will earn 20 points if more than 90% of the 'qualifying engagements' that are quality reviewed as 'satisfactory'.

(iii) Number of engagements without findings by ICAI, Committees of ICAI and regulators that require significant improvements

This parameter provides scoring to the firm when there are several engagements without findings that require significant improvements on the part of the firm. A firm gets 20 points if the threshold of more than 90% engagements qualifies without significant improvement advisory being issued by ICAI, its committees or any regulator.

(iv) Documentation of the firm in accordance with SQC 1

The documentation system of quality control of the firm should be in accordance with the SQC 1. The nature of the policies and procedures developed by individual firms to comply with SQC 1 will depend on various factors such as the size and operating characteristics of the firm, and

whether it is part of a network. For the presence of documentation in the critical areas of Ethical requirements, Acceptance and continuance of client relationships and specific engagements, and Engagement performance the firm gets 6 points. For the presence of documentation in the areas of Leadership responsibilities for quality within the firm, Human resources, and monitoring the firm gets 6 points.

Ethical Requirements

The firm should establish policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements. The fundamental principle of professional ethics includes Integrity, Objectivity, Professional competence and due care, Confidentiality and Professional behavior. The Code of Ethics includes a conceptual approach to independence for assurance engagements, including aspects such as threats to independence, accepted safeguards and the public interest.

Acceptance and Continuance of Client Relationship and specific Engagements

The firm should establish policies and procedures for the acceptance and continuance of client relationships and specific engagements, designed to provide it with reasonable assurance that it will undertake or continue relationships and engagements only where it:

- (a) Has considered the integrity of the client and does not have information that would lead it to conclude that the client lacks integrity;
- (b) Is competent to perform the engagement and has the capabilities, time and resources to do so; and
- (c) Can comply with the ethical requirements.

The firm should obtain such information as it considers necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement and when considering acceptance of a new engagement with an existing client. Where issues have been identified, and the firm decides to accept or continue the client relationship or a specific engagement, it should document how the issues were resolved.

With regard to the integrity of a client, matters that the firm considers include,

for example:

- The identity and business reputation of the client's principal owners, key management, related parties and those charged with its governance.
- The nature of the client's operations, including its business practices.
- Information concerning the attitude of the client's principal owners, key management and those charged with its governance towards such matters as an aggressive interpretation of accounting standards and the internal control environment.
- Whether the client is aggressively concerned with maintaining the firm's fees as low as possible.
- Indications of an inappropriate limitation in the scope of work.
- Indications that the client might be involved in money laundering or other criminal activities.
- The reasons for the proposed appointment of the firm and non-reappointment of the previous firm.
- The extent of knowledge a firm will have regarding the integrity of a client will generally grow within the context of an ongoing relationship with that client.

Information on such matters that the firm obtains may come from, for example:

- Communications with existing or previous providers of professional accountancy services to the client in accordance with the Code, and discussions with other third parties.
- Inquiry of other firm personnel or third parties such as bankers, legal counsel and industry peers.
- Background searches of relevant databases.

In considering whether the firm has the capabilities, competence, time and resources to undertake a new engagement from a new or an existing client, the firm reviews the specific requirements of the engagement and existing partner and staff profiles at all relevant levels. Matters the firm considers include whether:

- Firm personnel have knowledge of relevant industries or subject

matters;

- Firm personnel have experience with relevant regulatory or reporting requirements, or the ability to gain the necessary skills and knowledge effectively;
- The firm has sufficient personnel with the necessary capabilities and competence;
- Experts are available if needed;
- Individuals meeting the criteria and eligibility requirements to perform engagement quality control review are available, where applicable; and
- The firm would be able to complete the engagement within the reporting deadline.

The firm also considers whether accepting an engagement from a new or an existing client may give rise to an actual or perceived conflict of interest. Where a potential conflict is identified, the firm considers whether it is appropriate to accept the engagement.

Where the firm obtains the information that would have caused it to decline an engagement if that information had been available earlier, policies and procedures on the continuance of the engagement and the client relationship should include consideration of:

- (a) The professional and legal responsibilities that apply to the circumstances, including whether there is a requirement for the firm to report to the person or persons who made the appointment or, in some cases, to regulatory authorities; and
- (b) The possibility of withdrawing from the engagement or both the engagement and the client relationship.

The documentation should include significant issues, consultations, conclusions and the basis for the conclusions.

Engagement performance

The firm should establish policies and procedures designed to provide it with reasonable assurance that engagements are performed in accordance with professional standards and regulatory and legal and SQC 1 requirements, and that the firm or the engagement partner issues reports that are

appropriate in the circumstances. A firm seeks to establish consistency in the quality of engagement performance through its policies and procedures. This is often accomplished through written or electronic manuals, software tools or other forms of standardized documentation, and industry or subject matter-specific guidance materials.

Matters addressed include the following:

- How engagement teams are briefed on the engagement to obtain an understanding of the objectives of their work.
- Processes for complying with applicable engagement standards.
- Processes of engagement supervision, staff training and coaching.
- Methods of reviewing the work performed, the significant judgments made and the form of the report being issued.
- Appropriate documentation of the work performed and of the timing and extent of the review.
- Processes to keep all policies and procedures current.

The firm should establish policies and procedures designed to provide it with reasonable assurance that:

- (a) Appropriate consultation takes place on difficult or contentious matters;
- (b) Sufficient resources are available to enable appropriate consultation to take place;
- (c) The nature and scope of such consultations are documented; and
- (d) Conclusions resulting from consultations are documented and implemented.

The firm should establish policies and procedures for dealing with and resolving differences of opinion within the engagement team, with those consulted and, where applicable, between the engagement partner and the engagement quality control reviewer. Conclusions reached should be documented and implemented.

Leadership responsibilities for quality within the firm

The firm should establish policies and procedures designed to promote an

Implementation Guide for Audit Quality Maturity Model – Version 1.0

internal culture based on the recognition that quality is essential in performing engagements. Such policies and procedures should require the firm's chief executive officer (or equivalent) or, if appropriate, the firm's managing partners (or equivalent), to assume ultimate responsibility for the firm's system of quality control.

The leadership of the firm influences its internal culture. The promotion of a quality-oriented internal culture depends on clear, consistent and frequent actions and messages from all levels of the firm's management emphasizing the firm's quality control policies and procedures, and the requirement to:

- (a) Perform work that complies with professional standards and regulatory and legal requirements; and
- (b) Issue reports that are appropriate in the circumstances.

Any person or persons assigned operational responsibility for the firm's quality control system by the firm's chief executive officer or managing board of partners should have sufficient and appropriate experience and ability, and the necessary authority, to assume that responsibility.

Human Resources

The firm should establish policies and procedures designed to provide it with reasonable assurance that it has sufficient personnel with the capabilities, competence, and commitment to ethical principles necessary to perform its engagements in accordance with professional standards and regulatory and legal requirements and to enable the firm or engagement partners to issue reports that are appropriate in the circumstances.

The firm should also assign appropriate staff with the necessary capabilities, competence and time to perform engagements in accordance with professional standards and regulatory and legal requirements, and to enable the firm or engagement partners to issue reports that are appropriate in the circumstances.

Monitoring

The firm should establish policies and procedures designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate, operating effectively and complied with in practice. Such policies and procedures should include an ongoing consideration and evaluation of the firm's system of quality control, including a periodic inspection of a selection of completed engagements.

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

For providing an effective assurance service the engagement firm should have quality reference resources available to perform the engagement task. These resources should preferably be available on a centralized server or cloud so that the firm's personnel may access them from a client site.

Soft copies of archives questions and answers

It may include the relevant documents and the issues which arose during the audit and were resolved, and the methods used for conducting the assurance engagements. Firms can have these resources in the form of Questions and Answers so that it would get easier to understand the queries raised and how they were resolved.

Firm Thought Leadership

The firm should mine its knowledge and experience in the form of sector-specific publications or write their impact assessment about the new accounting and auditing and assurance standards. The experienced partners of the firm may be able to significantly contribute to the industry through this thought leadership and help increase their client base, which may in return help the firm to enter markets and sectors and have an even deeper insight into the nature of various businesses or industry. Credentials always help in an audit pitch. These insights immensely help the firm personnel during the audit work – be it the impact of a new standard issued but not yet effective or in understanding a business or entity and doing a risk assessment.

Dedicated/ Shared Technical desk

These days assurance services are being provided with the help of technology and computers. For conducting effective accounting and assurance services every firm requires physical resources like a technical desk. However, this depends on the firm that they have a dedicated technical desk for the engagement team or using the shared technical desk.

- (vi) **Is appropriate time spent on understanding the business, risk assessment and planning an engagement? How have risks been mitigated through the performance of audit procedures?**

Implementation Guide for Audit Quality Maturity Model – Version 1.0

For ensuring the effectiveness of the quality audit one must spend requisite time on the understanding of the business, the types of controls and risk associated and plan an audit engagement to complete it within a time frame. The engagement team should undertake an understanding of the entity and its environment, including the entity's internal control.

The auditor shall obtain an understanding of the following:

- (a) Relevant industry, regulatory, and other external factors including the applicable financial reporting framework.
- (b) The nature of the entity, including:
 - (i) its operations;
 - (ii) its ownership and governance structures;
 - (iii) the types of investments that the entity is making and plans to make, including investments in special-purpose entities; and
 - (iv) the way that the entity is structured and how it is financed;to enable the auditor to understand the classes of transactions, account balances, and disclosures to be expected in the financial statements.
- (c) The entity's selection and application of accounting policies, including the reasons for changes thereto.
- (d) The auditor shall evaluate whether the entity's accounting policies are appropriate for its business and consistent with the applicable financial reporting framework and accounting policies used in the relevant industry.
- (e) The entity's objectives and strategies, and those related business risks that may result in risks of material misstatement.
- (f) The measurement and review of the entity's financial performance.

The auditor shall obtain an understanding of whether the entity has a process for:

- (a) Identifying business risks relevant to financial reporting objectives;
- (b) Estimating the significance of the risks;
- (c) Assessing the likelihood of their occurrence; and

(d) Deciding about actions to address those risks

If the entity has established such a process (referred to hereafter as the 'entity's risk assessment process'), the auditor shall obtain an understanding of it, and the results thereof.

Risk assessment procedures include identification and assessment of the risk of material misstatement whether due to fraud or error. The audit approach that should be followed by an auditor is a risk-based audit strategy. The auditor needs to exercise significant judgment while analyzing the risks an organization faces and while aggregating and disaggregating risks for a group audit. **What is even more important than identifying the risks is mapping them to an appropriate response.** Auditors and Audit committees should be in dialogue over this matter.

If control risk or fraud risk is perceived to be high then the substantive audit procedures may need to be extended to bring audit risk to an acceptable level. Planning an engagement helps an auditor to focus on the critical areas of the audit and perform the required task.

Hence, it is important for an engagement partner/team to devote enough time so that quality of audit can be maintained while executing the engagement without any hurdles. The firms should establish guidance on expectation on engagement partner hours based on size of the engagement and the risk assessed. The quality reviewer should review the time spent by the partner on the engagement and assess whether it is appropriate and as per the minimum thresholds laid down by the firm's policy manual.

The firm scores if appropriate time is spent as per the guidance and at the right stage on understanding the business, risk assessment and planning an engagement.

1.6 Benchmarking of service delivery

How to score your firm?

Competency Basis		Score Criteria	Score Basis	Max Scores
i.	Does the firm follow/ implement Standard delivery methodology – the adoption of audit manuals, adherence to	Scoring based on Presence or Not. Yes/No Answers	For Yes – 4 Points For No – 0 Point	4

Implementation Guide for Audit Quality Maturity Model – Version 1.0

Competency Basis		Score Criteria	Score Basis	Max Scores
	practice standards and tools?			
ii	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 More than 5% to 15%: (-1) Point More than 15% to 30%: (-2) Points More than 30% to 50%: (-3) Points More than 50%: (-4) Points	0
iii	Number of client disputes (other than fees disputes) and how they are addressed.	Negative Scoring based on % of clients	Less than 5% – 0 Point More than 5% to 15%: (-1) Point More than 15% to 30%: (-2) Points More than 30% to 50%: (-3) Points More than 50%: (-4) Points	0
iv	Is the timing of audit interactions with management planned in	Scoring based on Presence or Not. Yes/No Answers	For Yes – 12 Points For No – 0	12

Practice Management - Operation

Competency Basis		Score Criteria	Score Basis	Max Scores
	such a way that integrates with the auditor's requirements so that audit timelines can be met? [Review frequency of back-log, engagement agreed upon and not commenced, WIP, etc. (Excl. of client-side delays)].		Point	
	Total			16

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

It is very much necessary that the audit manuals and other practice standards, tools just not remain on the papers. The partners and senior audit staff should make sure that there is compliance with these methodologies within the organization. Service delivery should be conducted in a way that promotes audit quality and the reputation of the firm. This can be achieved only by implementing a standardized reporting structure and the firm should make its employees understand how this mechanism contributes to enhancing the audit quality and is responsive to the auditor's role in the industry.

An effective monitoring mechanism should exist in the firm to keep in check the implementation of these delivery methodologies, else the whole idea of making the audit manual in the first place will fail.

(ii) The number of statutory audit engagements re-worked (filing errors, information insufficiency, wrong interpretation of provisions, etc.)

Any work done to correct the defects is known as rework. A rework is often the result of failure to meet one of the acceptance criteria of laws and regulations or clients. Reworking increases the cost of non-conformance i.e., the total cost to the organization of failure to deliver a good quality service. Being experts in the accountancy profession it is our duty and responsibility to provide flawless reports. As the concept of benchmarking has points for

Implementation Guide for Audit Quality Maturity Model – Version 1.0

efficiency, it has negative marking for errors, information insufficiency, wrong interpretation etc. while delivering the services. This section attracts negative scoring and is a forward-looking mechanism for the firm. Rework and restatement should be distinguished. A restatement may be required because of a change in accounting policy or because of the introduction of a new accounting standard. Rework is normally because of an error or omission in the previously issued financial statements. Further audit firms performing remediation actions based on results of inspections will not be considered as rework.

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

Only disagreements that result in legal disputes between the auditor and the client are required to be scored under this clause after assessing the merits of the arguments of the client.

This clause attracts negative marking which can go up to a negative 4 points.

(iv) 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?

The timing of audit interactions with management should be planned in such a way that it integrates with the auditor's requirements so that audit timelines can be met. The firm should review the frequency of backlog, engagement agreed upon and not commenced, WIP, etc. (Excl. of client-side delays).

Professional standards require certain interactions which are very essential for carrying out good quality audit services. This includes engagement letters, independence letters among others, with management, those charged with governance, and various other stakeholders, Planning meeting, risk assessment dialogue, control testing, substantive analytical procedures and issuing audit reports and material deficiencies in internal controls to management and those charged with governance. The timely and effective flow of dialogue between the audit firm and the client is very necessary to complete the audit engagement on time. Communications directly affect the audit timelines and there must be proper planning for doing the same.

Every engagement should be properly monitored and reviewed for any backlogs. A firm should monitor whether there is timely identification of potential issues, that may act as a threat to the timely execution of audit procedures.

1.7 Client Sensitisation

How to score your firm?

Competency Basis	Score Criteria	Score Basis	Max Scores	
1.7	Client Sensitisation			
i.	Awareness meetings and Knowledge dissemination meetings/ articles/document sharing with clients including: <ol style="list-style-type: none"> 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. 	Scoring based on Presence or Not. Yes/No Answers	For Yes – 8 Points For No – 0 Point	8
ii.	Monitoring planned	Scoring based on	For Yes – 8	8

Implementation Guide for Audit Quality Maturity Model – Version 1.0

Competency Basis		Score Criteria	Score Basis	Max Scores
	hours vs actual hours across engagement; the focus is on the existence of a monitoring mechanism.	Presence or Not. Yes/No Answers	Points For No – 0 Point	
	Total			16

(i) Awareness meetings and Knowledge dissemination meetings/ articles/document sharing with clients

An audit firm should have a quality of responsiveness for those clients to whom various services have been provided. It is very much required for a client to be aware of the aspects which relate to the audit engagement or any other assurance services including: -

- (a) Updating those charged with governance on audit issues formally in writing for the process of communication to be effective;
- (b) Updating the client on changes in accounting, legal, audit aspects, etc with client-specific impact; *and*
- (c) Follow through of previous audit observations and update to management and those charged with Governance.

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

An audit firm may monitor the percentage of time (hours) spent vs budgeted hours during various audit phases to assess the timeliness of audit engagement. There would be stages of an audit that may take more time due to the complexity involved. These could be the time spent by experienced team members on risk assessment, planning meetings, key audit judgments and conclusions. The monitoring will add to the experience of budgeting better next time. This is a forward-looking AQL.

The focus should be on the monitoring mechanism which is important to ensure the effectiveness of the system of quality control. The nature and extent of monitoring procedures may vary given the nature and complexity of a firm's operations.

1.8 Technology Adoption

How to score your firm?

Competency Basis	Score Criteria	Score Basis	Max Scores
1.8	Technology Adoption		
(i)	Technology adoption at		
	Office –		
	• Internal communication – chats	Scoring based on Presence or Not. Yes/No Answers	For Yes – 4 Points For No – 0 Point
	• Has the firm automated its office with automated Attendance System and Leave management?	Scoring based on Presence or Not. Yes/No Answers	For Yes – 4 Points For No – 0 Point
	• Project or activity management/ Timesheet management	Scoring based on Presence or Not. Yes/No Answers	For Yes – 4 Points For No – 0 Point
	• Digital storage of records (scan, etc.)	Scoring based on Presence or Not. Yes/No Answers	For Yes – 4 Points For No – 0 Point
	• Centralised server/ Cloud	Scoring based on Presence or Not. Yes/No Answers	For Yes – 4 Points For No – 0 Point
	• Digital Library (Own or ICAI)	Scoring based on Presence or Not. Yes/No Answers	For Yes – 4 Points For No – 0 Point
	• Client interaction (Alerts, updates,	Scoring based on Presence or Not. Yes/No	For Yes – 4 Points

Implementation Guide for Audit Quality Maturity Model – Version 1.0

Competency Basis		Score Criteria	Score Basis	Max Scores
	availability of information in website, etc.)	Answers	For No – 0 Point	
	• Video conferencing facilities adopted	Scoring based on Presence or Not. Yes/No Answers	For Yes – 4 Points For No – 0 Point	4
	• Does the firm use only licensed operating system, software etc.?	Scoring based on Presence or Not. Yes/No Answers	For Yes – 4 Points For No – 0 Point	4
	• Own E-mail domains, E-mail usage policies, etc.	Scoring based on Presence or Not. Yes/No Answers	For Yes – 4 Points For No – 0 Point	4
	• Use of anti-virus and malware protection tools	Scoring based on Presence or Not. Yes/No Answers	For Yes – 4 Points For No – 0 Point	4
	• Data security, etc.	Scoring based on Presence or Not. Yes/No Answers	For Yes – 4 Points For No – 0 Point	4
	• Cyber security measures	Scoring based on Presence or Not. Yes/No Answers	For Yes – 4 Points For No – 0 Point	4
ii.	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.	Scoring based on Presence or Not. Yes/No Answers	For Yes – 12 Points For No – 0 Point	12
	Total			64

(i) Technology adoption at offices

The one thing that all successful firms have in common is technology. Technology in today's scenario has become the backbone of every industry, be it manufacturing or service industry. Not just for survival but an organization uses technology to have a competitive advantage over its peers.

Following is the list of checklists, that organization may be maintained as these practices at the office will lead to smooth and enhanced functioning of the organization. Scoring is based on the presence of items mentioned in the checklist in a binary Yes/ No pattern. For each Yes firm gets 4 points and 0 points for No.

(i) Internal communication – chats

The firm may implement an intranet-based Internal Communication tool. This tool will strengthen the internal communication tool between co-workers and act as a daily team-building exercise. With increased professional contact, the employees would be able to help each other in real-time and can be especially helpful during remote working.

Audit firms should consider confidentiality risk in respect of the information shared in any communication tool before sharing such information in a chatting tool.

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

In the age of automation, Attendance and Leave management systems can very easily be automated to ensure accurate time records and minimize the time and errors involved in manual data entry. Real-time data also helps in the appropriate and timely computation of payroll and actuarial expenses.

By using various software tools management generate accurate reports and summaries on billable hours, absences, overworking etc. HR can greatly benefit from identifying employees who have not panned any leaves for months and help encourage the employees to take a break from work to avoid burnout. These measures greatly improve the health, happiness and well-being of the employee and lead to higher efficiency at the workplace.

(iii) Project or activity management/ Timesheet management

Implementation Guide for Audit Quality Maturity Model – Version 1.0

The firms should have a timesheet management system where timesheets are filled in time so that the client billings can be made on time, which in turn leads to a fluid working capital that yields more interest. Firms could build this important housekeeping aspect into their appraisal systems, where an employee gets a negative scoring in his or her appraisal if he or she misses more than two timesheets in a year.

The timesheets may specify the hours spent on various areas of work so that a quality reviewer can analyze whether sufficient and appropriate time was spent on high-risk audit areas for instance. The system should also be able to track the total hours for an engagement and this can help form a solid base for computing audit fees for the next engagement with the client.

(iv) Digital storage of records (scan, etc.)

In today's times, it is important to have digital storage of records as storing physical records can eat up a lot of physical space. Having working papers in soft copy and scanning hard copy documents like engagement letters will lead to the optimal size of physical files which can easily be sent to a storage facility. Digital records are easy to access and archiving helps keep them secure.

(v) Centralised server/ Cloud

Keeping the data in one place either in a centralized server or using a cloud-based architecture has several advantages. It is easier to manage both the hardware and the data itself and have closer control on data protection, version control and security. A monolithic set leads to better control of hardware configuration, capacity and performance, etc. The firm would also be able to maximize data integrity, minimize data redundancy, have easier data portability, improve database administration and have several other advantages.

Cloud computing has become a great solution for providing a flexible, on-demand, and dynamically scalable computing infrastructure for many applications. As more and more clients use cloud technology, embracing the change will not only keep SMPs relevant, but also may bring new international clients and business partners and attract young talent.

Administrative and in-house IT support costs will decrease and more so in the case of cloud-based architecture, which requires no initial investment and online services are updated and backed up automatically. It will improve

flexibility as access to information will no longer be dependent on location. Firms will be able to service their clients from any location, and it will also allow for a more flexible working environment – remote working will become much easier.

(vi) Digital Library (Own or ICAI)

Having a digital library individual to the firm or having the membership of a digital library provided by ICAI (as and when made available) can have multifold benefits. All members of the firm would be able to find answers to their queries and help perform research on areas of accounting and auditing that require significant judgement.

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

A firm can add value to its client by sending an alert to its clients about statutory due dates and keeping them abreast with important professional updates. The alerts would be automated or sent manually.

(viii) Video conferencing facilities adopted

The use of video conferencing facilities will help lower the travel costs for the firm, leading to higher margins. It will also allow more frequent meetings when needed to review and monitor important audits. Above all, it will lead to a huge saving of time and allow the firm's resources to service multiple geographies.

(ix) Does the firm use only licensed operating systems, software's etc.?

The use of licensed software is a sustainable practice as the use of unauthorized software can lead to confiscation of data and stoppage of operations.

(x) Own E-mail domains, E-mail usage policies, etc.

Data security is very crucial for clients maintaining client confidentiality and the firm needs to have secure office email servers.

(xi) Use of anti-virus and malware protection tools

The firm should have the requisite firewalls and anti-virus software to protect its data from hackers and malware attacks. This will lead to the smooth

functioning of the firm and prevent loss of confidential data which can lead to defamation and legal issues.

(xii) Data security, etc.

The laptops of the firm should have end-to-end encryption so that even in case of theft or loss of laptops, the data is secure and does not get into the wrong hands. The system and email passwords should be changed at regular intervals and there should be a system monitoring of the same.

(xiii) Cybersecurity measures

Unfortunately, cybersecurity breaches are not rare events, and audit firms are not immune to this risk. Since auditors collect confidential data, it is expected that cybersecurity breaches will impose high costs to audit firms. These costs would reflect reputational damage and potential litigation.

The following are the five critical cybersecurity activities:

- Identify
- Protect
- Detect
- Respond
- Recover

(ii) Awareness and adoption of Technology for service delivery

Technology adoption in service delivery like the use of audit tools and analytical tools attracts 12 points. The DCMM Version 2.0 may be referred to arrive at the technical maturity of the firm.

Business transactions are getting more voluminous and complex and firms need to address the risk of material misstatement and its response to those risks. Audit and assurance services have undergone a lot of transformation in the past few decades as there has been continuous advancement in the traditional way of an audit. Client's businesses are heavily dependent on technology and among other things, technology is expected to facilitate audit fieldwork by automating time-consuming manual and rote tasks. For example, computer systems at accounting firms can now interface with an audit client's systems to transfer and compile data automatically. The audit automation level has enhanced to such an extent that some firms are even using drones to observe physical inventories.

Implementation of Computer Assisted Auditing Tool (CAAT) software can be used for collecting evidence from the client's system. It also helps in conducting the testing, new technology makes it possible for auditors to analyze large amounts of a company's financial data and test 100% of a company's transactions instead of testing only a sample. Sophisticated tools enable auditors to perform advanced analytics to gain deeper insight into the company's operations.

Technological advances might, even more, move auditors toward a more continuous auditing and monitoring model because they will be able to access client data in a timely and more standardized format.

The usage of audit tools, data analytics tools and data visualization tools can enhance the efficiency and effectiveness of the audit process. The use of Robotics Process Automation (RPA) and Data Analytics act as force and speed multipliers for auditors and helps arriving at relevant and reliable reporting.

1.9 Revenue, Budgeting and Pricing

How to score your firm?

Competency Basis	Score Criteria	Score Basis	Max Scores
1.9	Revenue, Budgeting & Pricing		
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%.	Scoring based on Presence or Not. Yes/No Answers For Yes –4 Points For No – 0 Point	4
ii.	Fee considerations and scope of services should not infringe	Scoring based on Presence or Not. Yes/No Answers Yes – 8 Points For No – 0	8

Implementation Guide for Audit Quality Maturity Model – Version 1.0

Competency Basis		Score Criteria	Score Basis	Max Scores
	upon the quality of work and documentation as envisaged in SQC 1 under Leadership is responsible for quality within the firm.		Point	
iii.	Adherence to a minimum scale of fees recommended by ICAI.	Scoring based on Presence or Not. Yes/No Answers	For up to 50% of the engagements- 2 Points For More than 50% of the engagements – 4 Points For None – 0 Point	4
	Total			16

(i) Whether the client wise revenue is in compliance with the Code of Ethics

When the fee is generated from one client represent a large amount of the total fees of that firm, the dependence on that client increases the concern about losing the client and creates a self-interest or intimidation threat.

The revenue earned should be in compliance with the Code of Ethics and fees from one client should not exceed more than 40% of the total revenue unless safeguards as specified in the Code of Ethics are in place. However, once the deferred clauses of part-A of the Code of Ethics are implemented the fees from one client would need to reduce to 15% of total revenue.

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

A firm’s leadership is responsible for the quality within the firm and it is required to recognize that the business strategy of the firm is subject to the overriding requirement to achieve quality in all engagements that the firm

performs. It is important for rewards, incentives and compensation should be aligned with the audit quality objectives of the firm. A firm must ensure that commercial considerations do not override the quality of work performed. Even if a firm reduces fees from the previous auditor's fees, a firm should design its policies and procedures to demonstrate the firm's commitment to audit quality.

The fee working should not be a 'back of the envelope' working but a detailed computation at the minimum, which lists out the key audit areas and maps the time and charge-out rates of the preparers and reviewers of the audit areas. The expense of the auditor's expert should also be factored into the fee consideration. The scope of services should not provide any conflict of interest to the auditor.

(iii) Adherence to minimum scale of fees standards recommended by ICAI

The Committee for Members in Practice of ICAI as a part of its commitment to strengthening the practitioners has initiated the recommendatory scale of fees for the professional assignments being performed by the members of ICAI.

Hence, the fees charged by the firm for all its engagements must adhere to the minimum scale of standard fees recommended by the ICAI.

Section 2

Human Resource Management

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

How to score your firm?

Competency Basis		Score Criteria	Score Basis	Max Scores
2.1.	Resource Planning & Monitoring as per the firm's policy			
i.	Does the firm have a process of Employee/Resource Planning for the engagements based on skill set requirement, experience, etc.?	Scoring based on Presence or Not. Yes/No Answers	For Yes – 4 Points For No – 0 Point	4
ii.	Methods/Tools used by the firm for Resource Allocation (use of spreadsheets, work flow tools, etc.).	Scoring based on Presence or Not. Yes/No Answers	For Yes – 4 Points For No – 0 Point	4
iii.	Is there a method of tracking the employee activity, to identify resource productivity (e.g., timesheet)?	Scoring based on Presence or Not. Yes/No Answers	For Yes – 4 Points For No – 0 Point	4
iv.	Does the firm maintain a minimum Staff to Partner Ratio, Partner to Manager, Manager to Articles, Client to Staff ratio, etc.?	Scoring based on Presence or Not. Yes/No Answers	For Yes – 8 Points For No – 0 Point	8
v.	Does the firm monitor the Utilisation & Realisation rate per employee?	Scoring based on Presence or Not. Yes/No Answers	For Yes – 4 Points For No – 0 Point	4

Competency Basis		Score Criteria	Score Basis	Max Scores
vi.	Does the firm document the resource plan for each engagement and file it for reference during the engagement?	Scoring based on Presence or Not. Yes/No Answers	For Yes – 4 Points For No – 0 Point	4
Total				28

Resource planning and monitoring is a process of determining how the existing capacity should be utilized for optimum results. Resource planning occurs at the various phases of the assurance engagement. A firm is required to have a system to ensure continuous monitoring of the resources. To strengthen the quality performance of a firm should have a policy for resource planning and monitoring.

(i) Does the firm have a process of employee/ resource planning for the engagements based on the skill set requirement, experience etc.

Adequate expertise of the engagement team or partners in various fields is required to ensure the timely completion of the assurance engagement. The engagement team should have the requisite skills like understanding the current audit practices and being up to date with the changes taking place in the audit world. The firm should have a process for selecting the team having the requisite experience and specific knowledge and skills for the engagement performance.

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

An audit firm should have a process that describes the basis (using the firm's tools and technical support) on which employees or resources have been deployed to an assurance engagement.

Whenever a firm is allocating its employees/partners or resources to a particular client, a document may be there containing all the details like:

- No. of partners having expertise in specific areas
- No. of employees having a set of skills or being subject matter experts

Implementation Guide for Audit Quality Maturity Model – Version 1.0

- Years of experience of an individual allocated to a client
 - A chart showing the weekly allocation schedule for each resource and the name of the manager and partner assigned to an engagement.
- (iii) Is there a method for tracking the employee activity, to identify resource productivity (e.g., timesheet)?**

An employee's productivity can be analyzed through his/her work performance and the time utilized for such work. A skilled individual can enhance the quality of an audit hence an audit team to be competent enough to perform the audit effectively. If an audit firm has an experienced audit team particularly in the specific industry, then issues that arose can be resolved more quickly based on the experience.

After allocating resources to a particular audit engagement, it is important to track the hours spent by the engagement team on significant areas of risk. For tracking the employee's activity, a firm can use a timesheet whether written or electronic where an employee must mention the time duration spent on the different areas while doing the audit so that productivity and efficiency can be identified. The data from the timesheets should be used as an input for the percentage completion of the work assigned to the individual and help identify whether the resource is available

This score is awarded if the Human resources department uses technology for monitoring the staff efforts.

- (iv) Does the firm maintain a Minimum Staff to Partner Ratio, Partner to Manager, Manager to Articles, Client to Staff ratio etc.**

An audit firm needs to maintain a minimum ratio for staff to partner, partner to manager, manager to articles, client to staff, etc. The above-mentioned ratios can be different for the different client engagements since it depends on the size of the business of the client. The resource allocation should be according to the client's work requirement. The proportion of the audit to be conducted by every individual should be identified as per their position. Higher and more complex risk areas should be allocated to more senior members of the audit team who possess the requisite CPE hours.

(v) Does the firm monitor the Utilization and realization rate per employee?

The human resource function of the firm needs to monitor the utilization and realization rate per employee. Utilization is defined as the available time of an employee that is devoted to a particular engagement work, expressed as a percentage. An employee's utilization rate is a critical metric for an organization to track. However, the realization rate is calculated by the difference between what time has been invested and what percentage of that time has resulted as productive hours. For example, if an employee records eight hours per day but an output of six hours is achieved, then your realization rate is only 75%.

Utilization of more than 100 percent is an indicator that either an employee is working beyond office hours and maybe is either overburdened due to lack of resources with the firm or the employee is inefficient. The realization rate which is derived from the time charged to a chargeable time code would depict a clearer picture of the efficiency of the resource. Hours may also be spent on training. These metrics help HR draw a profile of the employee.

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

After capacity planning, the firm must document the resource plan for each engagement. For each assurance engagement or service, it is essential to document the process, which is followed, so that the same can be referred to in the future. The same should apply to the documentation of the resource plan. A firm must maintain a document of the resource plan and allocation for every engagement which can also be used for future reference.

2.2 Employee Training and Development

How to score your firm?

Competency Basis	Score Criteria	Score Basis	Max Scores
2.2	Employee Training & Development		
i.	Does the firm have an employee training policy?	Scoring based on Presence or Not. Yes/No Answers	For Yes – 4 Points For No – 0 Point

Implementation Guide for Audit Quality Maturity Model – Version 1.0

Competency Basis		Score Criteria	Score Basis	Max Scores
ii.	Number of Professional Development hours/days spent (Frequency) as a firm – per employee.	Score based on an average number of hours per employee (Note: Measurement is indicative - could be converted to days/hours across the period as deemed fit for the firm - based on size)	60 hours per year for junior-level: 2 Points for general training and 6 points for specialised technical training 30 - 60 hours per year for mid-level: 2 Points for general training and 6 points for specialised technical training More than 30 hours for partners: 2 Points for general training and 6 points for specialised technical training	24
iii.	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 (Like Audit	Scoring based on Presence or Not. Yes/No Answers	Use of Analytical Tools: For Yes – 8 Points For No – 0 Point	8

Human Resource Management

Competency Basis		Score Criteria	Score Basis	Max Scores
	<p>Engagements of Listed entity, Banks other than co-operative banks (except multi-state co-operative banks) and Insurance Companies etc.). Hence, the question should be relevant only for such audit engagements.</p> <p>2. The audit Teams should be aware of Data Analytics Tools and comprehend the results of the tools to adjust the audit strategy.</p> <p>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.</p>			
iv.	Whether the firm has a performance management culture that rewards high performing employees and those who demonstrate high levels of quality and ethics?	Scoring based on Presence or Not. Yes/No Answers	For Yes – 8 Points For No – 0 Point	8
Total				44

(i) Employee Training Policy

A firm should have a culture of promoting continuous professional development among the employees, and for this purpose, there must be a well-defined written document in the form of policy in the firm. Engagement partners are responsible for coaching their teams and identify employee development needs. Employees are responsible for seeking new learning opportunities.

The training policy should lay out the types of training the firm personnel need to seek for their performance appraisal and growth. Classification of learning and growth training and prescribing training modules may relate to the following:

- Technical Skills – IT skills, usage of audit tools and techniques
- Managerial Skills – This involves team building, project management skills personality development, and leadership programs.
- Soft Skills – Business writing, communication skills, presentation skills, negotiation skills and business etiquette skills are some examples
- Professional Certification – technical training certification courses are run at many platforms on Ind AS, IFRS, US GAAP, IPSAS, Direct and Indirect Taxes, Transfer Pricing, Valuation, International Taxation, DISA and CISA certification by ICAI.

The training policy should specify the hours the firm personnel need to obtain through web-based learning (WBL) or classroom instructor-led training. The firm should impart training among the employees in the following forms:

- Formal Training Sessions
- On the job training
- E-learning
- Conferences/seminars/Webinars participation
- Rotation assignments
- Secondments within firm offices
- Training provided by Internal or External experts
- Employee coaching and mentoring
- Training of Articles

As part of the continuous employee learning and development training, arrangements for subscriptions or educational material can also be availed wherever applicable. This provides all employees access to news, articles, and other material that can help them become better at their works and keep them updated with current changes happening in the surroundings.

Scoring shall be based on the presence of a written training policy within the firm which is easily accessible to the firm personnel.

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

Professional Development hours shall be awarded to the profession based on the number of hours devoted by them to attending training through presentation or training class. The CPE calendar detailing the upcoming training should be circulated to all firm personnel so that they may register for the courses. CPE could be obtained through the firm's training or ICAI's webinars and post qualification courses.

ICAI conducts courses to maintain Continuing Professional Education hours and it is expected from the members to maintain at least the minimum CPE hours requirement for keeping the membership and thus, avoid the penalty.

An organization can ideally use these CPE courses and check for its compliances by the members alongside conducting their professional development courses.

CPE is a mandatory requirement, which comes with 3 years reporting requirement, applicable to all members (whether living in India or abroad, whether holding COP or not).

The minimum professional development hours for scoring points are 60 hours for junior level, 30-60 hours for mid-level, and 30 hours at the partner level. So, the shortfall can be covered either by taking extra courses crediting professional development hours or the firm should organize training and conferences within the firm to promote this culture of learning and growth.

Scoring shall be based on the average number of hours per employee segregated into an average for juniors, mid-level and partner level. The firm's MIS would have a crucial role to play.

Soft skill training is recommended due to its inherent advantages and these could be in-house or outsourced. The firm could also subscribe to a course

Implementation Guide for Audit Quality Maturity Model – Version 1.0

on 'business etiquette' on udemy.com, upwork.com, etc. This will not only help the firm save money but also access top talent from across the globe without the cost of the flight ticket.

The minimum hours needed for scoring a maximum of 24 points at the firm level are:

- 60 hours per year for junior-level:
 - 2 Points for general training and
 - 6 Points for specialized technical training
- 30 - 60 hours per year for mid-level:
 - 2 Points for general training and
 - 6 Points for specialized technical training
- More than 30 hours for partners:
 - 2 Points for general training and
 - 6 Points for specialized technical training

(iii) Technical Skillsets of the Employees

Employees are equipped with technological skillsets – Artificial Intelligence (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 incremental factors for differentiation purposes if the firms are scored at the same level.

Scoring shall be based upon the presence of use of Analytical tools for listed entities, Banks other than co-operative banks (except multi-state co-operative banks), and Insurance Companies' audit engagements.

Keywords: Artificial Intelligence (AI), Blockchain, Audit & Data Analytical Tools

- Artificial Intelligence: A system's liability to interpret external data correctly, to learn from such data, and to use those learnings to achieve specific goals and tasks through flexible adaptation.
- Blockchain: It is essentially a digital ledger of transactions that is duplicated and distributed across the entire network of computer systems on the blockchain. It is a system of recording financial transactions that makes it difficult or impossible to cheat, hack or change data and records in the system.
- Audit & Data Analytical Tools: The tools that are designed for the analysis of complete sets of audit data to identify anomalies and trends for further investigation, as well as to provide audit evidence. This process allows analysis of the entire population of data, rather than analysis of sample data and thus enables auditors to provide reasonable assurance.

Large firms prefer developing these technologies in-house with the help of system developers. It is advisable to do a thorough cost-benefit analysis, before doing such developments.

Audit staff should be trained for using such data analytical tools instead of doing the regular audit tasks manually. Proper and adequate awareness among the audit staff is required concerning the use of data analytics and their effect on comprehending the audit strategy. A firm will score points for using the audit tools.

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

This component focuses on having a performance management culture that rewards high-performing employees and those who demonstrate high levels of quality and ethics by proper appreciation, coaching & evaluation.

There can be more than one means to promote a culture of appreciating high-performance employees, some of them are listed below

- The employee of the month awards
- Feedback reports

Implementation Guide for Audit Quality Maturity Model – Version 1.0

- Client appreciation awards
- Monetary appreciation compensations

The team leaders and managers should provide action-oriented feedbacks that help an employee to achieve their goals in a timely fashion.

Scoring shall be based on the presence of a culture of rewarding employees with high quality and ethics.

2.3 Resources Turnover and Compensation Management

How to score your firm?

Competency Basis		Score Criteria	Score Basis	Max Scores
2.3.	Resources Turnover & Compensation Management			
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?	Scoring based on Presence or Not. Yes/No Answers	For Yes – 8 Points For No – 0 Point	8
ii.	Does the firm maintain and monitor the employee turnover ratio and identify measures to keep it minimal?	Scoring based on Presence or Not. Yes/No Answers	For Yes – 8 Points For No – 0 Point	8
iii.	Qualified professionals retained by the firm (resources available to a partner).	Scoring can be 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	20

Human Resource Management

Competency Basis		Score Criteria	Score Basis	Max Scores
			Up to 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?	Scoring based on Presence or Not. Yes/No Answers	For Yes – 4 Points For No – 0 Point	4
v.	Statutory contributions wherever applicable, Health Insurance and other benefits, available in the firm for staff members and partners.	Scoring based on Presence or Not. Yes/No Answers	For Yes – 8 Points For No – 0 Point	8
vi.	Does the firm evaluate for which kind of audits does it have a revolving door (between different engagements) for people below partner level?	Scoring based on Presence or Not. Yes/No Answers	For Yes – 4 Points For No – 0 Point	4
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.	Scoring based on Presence or Not. Yes/No Answers	For Yes – 8 Points For No – 0 Point	8

Implementation Guide for Audit Quality Maturity Model – Version 1.0

Competency Basis		Score Criteria	Score Basis	Max Scores
viii.	Access and use of technology, infrastructure, methodology for better enablement of day-to-day work / including favorable remote working policies.	Scoring based on Presence or Not. Yes/No Answers	For Yes – 8 Points For No – 0 Point	8
ix.	Coaching and mentoring program investment, especially for women colleagues to enhance the diversity of audit leaders in the profession.	Scoring based on Presence or Not. Yes/No Answers	For Yes – 8 Points For No – 0 Point	8
x.	Special policies to provide people time to rejuvenate especially after busy audit seasons.	Scoring based on Presence or Not. Yes/No Answers	For Yes – 4 Points For No – 0 Point	4
xi.	Focused policies and support for staff well-being, engagement and communication.	Scoring based on Presence or Not. Yes/No Answers	For Yes – 8 Points For No – 0 Point	8
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.	Scoring based on Presence or Not. Yes/No Answers	For Yes – 8 Points For No – 0 Point	8
xiii.	Standards of recruiting people – Assessment methodology,	Scoring based on Presence or Not. Yes/No Answers	For Yes – 4 Points For No – 0 Point	4

Human Resource Management

Competency Basis		Score Criteria	Score Basis	Max Scores
	evaluation of quality and fitment to the job and culture.			
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?	Scoring based on Presence or Not. Yes/No Answers	For Yes – 4 Points For No – 0 Point	4
	Total			104

Resource Turnover

Many firms today have revolving doors where employees leave within the first six months of their work even before being confirmed. It is time consuming and costly for a firm to frequently replace its talented resources and it has become one of the big issues facing firms these days. To add to that poaching of entire audit team in service verticals by a peer is also a challenge and a professional continuity challenge. In today's time, half the battle is to find and hire top talent and the other half is retaining them. An audit firm should seek out employee retention ideas that can motivate employees to stay with the organization so that the resource turnover ratio can be minimal.

Compensation Management

A resource in consideration of his/her work is provided with the salary, compensation or incentive etc. Compensation management is a process to determine the salary and incentive benefits received by each employee. A firm should have a plan to manage compensation provided to the employees and other resources. An audit firm having compensation policies and procedures that are linked to the audit quality creates behavior that may lead to improvement in audit quality. An employee who is rightly paid for his/her skills would always feel motivated and energetic.

Women- the next billion

The women workforce in firms struggles to make it beyond the mid-career level due to lack of support or bias related to flexible working. Many firms do not believe in remote working but the pandemic has turned this concept on its head. Many women-chartered accountants witness a glass ceiling and must move sideways to go up or sometimes their seat at the table is a high chair.

Firm leadership should mentor women employees and coach them to compete with the best and not be afraid to ask for flexibility. Women should be mentored to rise to a high standard and the quality of work should override all preconceived notions about not being to deliver on a high-pressure assignment.

The firm should also encourage women to participate in the programs organized by the Women Members Empowerment Committee of ICAI.

(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?

An audit team requires the right individuals to perform the audit engagement efficiently and most effectively. A partner or a team leader is responsible for selecting skilled and experienced individuals according to the requirement for the engagement. It is to be noted that a team may include managers, assistant managers, paid assistants, article assistants and any other degree holders whose opinion may be useful for the completion of the work. This clause emphasizes the strength of the team and the necessary members to perform the audit. It may depend on the nature and the size of the work. For example, it is also possible that a team may include more managers rather than articles or have more paid assistants and no articles.

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

A high employee turnover ratio signals that the employees are leaving their job within a less time which leads to hiring new ones and provide training to them. This increases the expenses of the firm.

A firm should maintain this employee turnover ratio at a minimum and monitor it on a timely basis. The methods for keeping the employee turnover ratio can be as follows:

- Pay the deserving employees well
- Allowing remote working
- Promoting flexibility
- Optimize the hiring process

(iii) Qualified professionals retained by the firm (resources available to a partner)

A partner ensuring the efficiency and timely completion of an assurance engagement is required to have an adequate number of professionals to work with him/her. Allocation of a qualified professional to the team manager or partner shall depend on the adequate resources available with the firm. Scoring shall be based upon the number of chartered Accountants available per partner in a firm.

(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?

A healthy relationship between a firm and the employee is very important for its success. Some employees fail to meet the organization's expectations due to indiscipline, absenteeism and slow working. Also, sometimes there is a failure on the part of management concerning timely rewards, incentives and fair treatment towards the capable individual. Hence an organization must keep evaluating its relationship with employees, so that the employee turnover ratio (if any), can be reduced to an acceptable level.

- Continuous interaction
- Keeping the employees informed so they can make the right decision and remain productive
- Encourage employee feedback

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

Retaining an employee in a firm for a longer period is possible only when the firm provides some benefits to the employee apart from their salaries and incentive. Health insurance and pension scheme are some of the benefits which a firm should make available for their staff members and partners or other employees.

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

A “Revolving Door” in the context of the Audit firms means that people joining and leaving the organization quickly. The question arises that whether the firm evaluates the audits which have a revolving door between different engagements for the people below the partner level or not.

(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

An organization can have different types of employees and everyone’s performance level can never be the same. Some of them can be a high performer and other can be lower performers.

Hence, to review the progress of every personnel a firm needs to implement policies and procedures and evaluate the quality of every employee’s performance. A firm is required to identify the criteria based on which overall performance of an individual (including managers and partners) can be evaluated, like:

- Technical Knowledge
- Analytical and judgmental abilities
- Communication skills
- Client Relations
- Leadership skills
- Time management or commitment.

A well-performing individual must be appreciated. Many firms have different criteria to reward high performers. For example:

- Bonus
- Promotion to a higher designation
- Global work opportunities.

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

Better access and use of technology and infrastructure will positively result in high performance of the employees and will provide effective day to day working. These days every organization has their data on a cloud facility which can be easily accessible to all the employees who are authorized for such data access. A system that should be followed by everyone in the firm for enhancing the day-to-day working.

Recently, the Covid-19 situation taught everyone that most of the work is possible to be done remotely and there is less requirement to be in the office regularly. An audit firm must understand that working remotely will reduce everyday expenditure related to employees, whether it is rent, office administration, telecommunication or electricity expense. It also provides workplace flexibility to the employees and keeps them productive without having them physically in the office.

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

One needs to understand that coaching programs and mentoring programs are for enhancing the skills and performance of an employee. Trained employees do not require much supervision as they are aware of how to perform their job. A coaching program is also known as “on the job training”. A manager assigns a certain job to employees, monitors their performance and point out mistakes and provide a suggestion for the improvement. Those managers handholding employee development are also called ‘buddies’ or this work can also be done by the performance appraisal manager.

A firm should also encourage women colleagues for attending the coaching programs or can organize some special coaching only for women so that they can perform audits in better ways and will be able to enhance the diversity in the profession by becoming audit leaders. The firm should put gender diversity on the top of its agenda items as diversity brings varied perspectives to work and helps a firm do its best. The output of the firm is a well-balanced product that appeals to society and the stakeholders.

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

Nowadays, when employees are always overloaded with work it is the responsibility of a firm to have a special kind of policy that provides time to employees to relax for some time after a busy period of audit and assurance engagement. It looks like there is no need for these types of policies but it may motivate employees to work more efficiently. On the other hand, a happy employee is an asset to an organization or firm as he/she will have more focus on work. Offsites may be organized for team building and relaxation.

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

Employees are the key assets of any organization. The health status of an employee directly affects his/her work behavior and performance. A firm must ensure that firm's policies focus on the well-being of the employees and do not discourage them from seeking necessary care for their health.

A firm should use effective communication for employee engagement and create a supportive organizational culture. Borrowing cross-industry intelligence, many corporate organizations provide a crèche facility to their women employees as that helps them work more easily. Many firms provide food and beverages within the office at a subsidized price. These measures create immense goodwill and loyalty in the hearts and minds of the employees.

(xii) An established mechanism to listen to people and their views and suggestions.

Paying attention to the employees is becoming important. Nowadays employers are required to listen to the views of their employees for the growth of the firm as well as of the employees. A firm should allow well-performing employees to suggest new ideas and their opinion for an assurance engagement or any other services provided by the firm.

A firm can have a survey or suggestion box which can allow employees to state the ongoing problems and suggest solutions regarding the same. A credible employee survey and its outcome demonstrate how well people are taken care of and heard and it only takes firm personnel about 10 minutes or less to complete a survey form. Establishing this kind of mechanism may

help employers to understand the things happening around the workplace and ensure employees that they are being heard.

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

Recruiting the right candidate for the job is a very much difficult task. A firm must have a methodology and criteria for identifying the fitment and selection of a candidate should be done upon fulfilling the requisite criteria.

The evaluation techniques and standards for the evaluation of quality and fitment to the job and culture are significant to any organization. A firm must have policies regarding the standards and basis on which the evaluation can be done for fitment to the job at the time of recruiting employees and whether the candidates are adaptable to the organisational environment.

(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?

The firm should link an employee's compensation with his/her knowledge, experience, ethics, skills and competencies. A firm providing remuneration as per the knowledge and skills of employees will motivate the employees to work in the same organization for the long term.

There is always a risk that employees may leave for better opportunities which will lead to the employee turnover ratio being higher. Defined policies and procedures related to compensation based on the knowledge and experience may allow stakeholders to evaluate which audit firms create a helpful environment to the performance of high-quality audits and for retention of strong performers.

Hence a firm should follow an approach to pay their employees or resource as per their eligibility, ethics, knowledge and experience.

2.4 Qualification Skill Set of employees and use of Experts

How to score your firm?

Competency Basis	Score Criteria	Score Basis	Max Scores	
2.4.	Qualification Skill Set of employees and use of Experts			
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.	Scoring based on the % of employees with necessary qualification or skill sets - including partners	Upto 30% – 4 Points More than 30% to 50% – 8 Points Above 50% – 12 Points	12
ii.	Post Qualification Certifications obtained from professional bodies or similar organisations (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?	Where firms are not involved in any Information systems audit/engagements with complex IT systems should not be rated for this competency.	Applicable – 8 Points Not Applicable – 0 Point	8

Competency Basis		Score Criteria	Score Basis	Max Scores
	Whether all partners have complied with CPE requirements of ICAI?			
iii.	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.).	Scoring based on Presence or Not. Yes/No Answers	Upto 30% – 4 Points 30% to 50% – 8 Points Above 50% – 12 Points	12
	Total			32

(i) Number of Professionally qualified members – ACA/FCA

If an 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. The scoring is based on the percentage of qualified chartered accountant personnel compared to total employees and partners.

(ii) Post Qualification Certifications obtained from professional bodies or similar organisations (DISA, IP, etc.). If a qualified resource is not available in the firm, whether the services of an expert are taken? Whether all partners have complied with CPE requirements of ICAI?

DISA and IP are courses that are required in Information System Audits. Firms that are not involved in any Information systems audit/engagements with complex IT systems should not be rated for this competency. Firms having resources who are certified as DISA, CISA or Insolvency professional

Implementation Guide for Audit Quality Maturity Model – Version 1.0

(IP) score on this point. If the firm does not have the qualified resources, then the services of an expert should be taken. All partners should comply with the CPE requirements of ICAI.

(iii) Members with Specialisation courses or Certifications

Ranking can be based on newer areas or international qualification – say, Diploma in IFRS or Firm accreditation in Ind AS or IFRS. The post-qualification specialization courses or certifications of ICAI also qualify for scoring.

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

How to score your firm?

Competency Basis	Score Criteria	Score Basis	Max Scores	
2.5	Performance evaluation measures carried out by the firm (KPI's)			
i.	Does the firm have written KPIs for performance evaluation of the firm and partners?	Scoring based on Presence or Not. Yes/No Answers	For Yes – 8 Points For No – 0 Point	8
ii.	Method for measurement and evaluation as mentioned above (i) are determined / specific.	Scoring based on Presence or Not. Yes/No Answers	For Yes – 8 Points For No – 0 Point	8
iii.	There is a decided frequency for the evaluation and is consistently applied.	Scoring based on Presence or Not. Yes/No Answers	For Yes – 8 Points For No – 0 Point	8
iv.	Are engagement partners reviewed based on the review results of the engagements of each partner.	Scoring based on Presence or Not. Yes/No Answers	For Yes – 8 Points For No – 0 Point	8
Total			32	

(i) KPIs for performance evaluation of firms and partners

There are certain objectives as prescribed in the auditing standards of ICAI, that a practicing firm needs to be achieved by delivering quality audit and assurance services. These key objectives articulate the ideal performance results that the firm expects from its staff and partners. For measuring the completion of the objectives, a Key Performance Indicator should be developed by the practicing unit in the form of a well-defined and clearly stated document.

The scoring is based upon the existence of a documented KPI measures- if the firm does have one, it gets 8 points and when it does not have one, it gets 0.

(ii) Method for measurement and evaluation to be specific.

“If you can’t measure it, you can’t improve it” – Peter Drucker.

As mentioned in (i) above, that there is a need to have a KPI document in place for achieving the objectivity of audit and assurance services, but the most crucial thing is to make the method for measurement and evaluation very specific. It should not be vague, and clarity is present in all the Key Performance Indicators. Every firm may have its performance indicator, and it is accepted to be different and unique, but as a matter of good practice firm may adopt (not necessarily all) the following illustrative most commonly used KPI’s in the auditing and accounting profession.

1. Net Partner Score
2. Client Lifespan Value
3. Client Acquisition Cost
4. Human Resource Retention Ratio
5. Customer Churn Rate
6. Monthly Recurring Revenue
7. Average Revenue Per Client
8. Total Billable hours of partners to Fees generated ratio.

1	Net Partner Score	This indicates the level of satisfaction	The net score would depend
---	-------------------	--	----------------------------

Implementation Guide for Audit Quality Maturity Model – Version 1.0

		and loyalty a client derives from consuming the services of a partner of the firm. This can be done by either a formal/informal feedback session from selective clients or way of client response to a survey / questionnaire.	upon the feedback received from clients based on their experience and satisfaction levels.
2	Client Lifespan Value	This indicates the total value that a client brings to the firm over the entire life of their professional relationship. It is an important parameter because, there is always a higher cost initially to service a client in the formative years of the relationship and these costs can be recouped from follow up engagements from the same client on a repeated basis in subsequent years. It always costs less to serve existing professional relationships than to serve newly acquired	The higher the Client Lifespan Value, the better it is for the firm since longer relationships generate more work and the cost of serve also reduces over a period of time, since competencies are built.

Human Resource Management

		ones.	
3	Client Acquisition Cost	Client acquisition cost is the amount of money a firm spends to onboard a new client. This is an aggregate of all costs associated with converting prospects into billable clients. A firm of Chartered Accountants is not allowed to incur marketing, advertising, sales promotion and other related costs of soliciting profession work, however there could be some costs directly linked to onboarding/acquiring a client like, traveling, initial presentations, free advice etc. Such cost could also include some opportunity cost that a firm may incur to acquire a new client.	Lower the cost incurred to the number of new clients added the better it is. At times a firm may strategically target a big client or a particular sector (e.g., Startups) and may incur specific cost like training, building infrastructure, hardware and software upgradations etc. a firm may also decide to have certain % for development cost to build up capabilities, scaling up etc. not directly linked to any client acquisition.
4	Human Resource Retention Ratio	HR (Employee) retention indicates the ability of the firm to prevent employee turnover, or the number of people	Increasing employee retention has a direct impact on firm's performance,

Implementation Guide for Audit Quality Maturity Model – Version 1.0

		<p>leaving the firm during a certain period. In other words, more the number of employees, a firm is able to retain/prevent from leaving, more the stability and consistency in the operations of the firm.</p> <p>Employees leave either due to internal factors, like pay scales, quality of work, work pressures, growth opportunities, leadership etc. or due to external factors like sickness/health, change of geographical location, personal/family issues etc.</p>	<p>success and profitability.</p>
5	Customer Churn Rate	<p>Indicates the number of times existing clients are leaving and replaced by new clients. Customer churn is the percentage of customers that stopped using the services during a particular period. This can be calculated by dividing the number of</p>	<p>Higher the rate indicates a higher number of clients leaving the firm and not using the services of the firm. This could be due to a number of factors, like not satisfied with the quality of service, fee considerations, timely delivery of</p>

Human Resource Management

		customers a firm has lost during a period -- by the number of customers the firm had at the beginning of that time period.	services, meeting of deadline etc.
6	Monthly Recurring Revenue	This indicates the volume of repeated and recurring nature of billing that forms part of the regular monthly billing e.g. Retainership fees etc.	Higher contribution of recurring and repeated nature of billing to total monthly billing represents more stable, reliable and predictable billing pattern
7	Average Revenue Per Client	This indicates the size, nature and quality of the client base as average billing per client is a parameter.	High the average revenue per client indicates a better realization rate and thus profitable. However other factors like time spent on the client, the risk involved in engagement etc. also need to be kept in mind. Higher dependence on a few selected clients is also not a very good indicator, broader the client base the more de-risked client profile a firm

Implementation Guide for Audit Quality Maturity Model – Version 1.0

			<p>has. However, it is important to have a balance of a wider and broader client base and higher average billing per client.</p> <p>A better indicator could also be higher average realizable rate per hour/day.</p>
8	Total Billable hours of partners to Fees generated ratio.	<p>This indicates the ratio of billable hours of a partner to the total revenue generated by him for a particular period. Higher the billable hours of a partner, higher is his ability to increase the revenue generated.</p> <p>Many a times, partners may have to devote time on non-billable work such as administration, client acquisition, customer relationship, training, proposals etc. non-billable work may not bring monetary benefits (like revenue, billing etc.) to a firm but it definitely brings intangible benefits to</p>	<p>Lower the ratio of billable hours divided by Fees generated indicates the efficacy a partner to have a higher per hour/day realization rate.</p>

		the firm.	
--	--	-----------	--

Scoring shall be based upon the presence of such determined and specific KPIs within the firm, 8 points will be awarded if it is present and 0 in case not.

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

The evaluation should have a specific frequency, like annually, semi-annually, quarterly and there must exist a consistency between every evaluation done, changes can be introduced but not without a proper explanation or unreasonably. An evaluation that is done consistently with regular frequency is always considered more precise than sporadically.

Scoring will be based on the presence of such a consistent and regular frequency evaluation, 8 points will be awarded for yes as an answer and 0 in case of absence.

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

In an engagement quality review, the reviewer checks the significant judgements made by the engagement team and the related conclusions reached in forming the overall conclusion on the engagement and in preparing the engagement report.

The engagement is led by the engagement partner and he/she is responsible for taking key decisions related to it. So, if an engagement fails to pass the quality review test, the review of the engagement partner's performance and competency should be done, to remediate any future instance of such cases or to held accountable the one who was responsible for such audit quality.

Need to also review the quality of review conducted by the quality review partner for its depth & robustness.

Scoring shall be based upon the presence of such a review process for the engagement partners as a result of a review of engagement itself. 8 points shall be awarded for the existence of such a system and 0 in case of not.

Partners may be reviewed on a rotation basis based on a selection criterion established by the audit firm. It is possible that a partner may not be

Implementation Guide for Audit Quality Maturity Model – Version 1.0

reviewed in a year though part of the whole population considered for selection.

Section 3

Practice Management – Strategic/Functional

3.1 Practice Management

How to score your firm?

Competency Basis		Score Criteria	Score Basis	Max Scores
3.1	Practice Management			
	Does the firm Manage the following attributes relating to Assurance partners to maintain the same at optimum levels as deemed fit for the respective organisations?			
i.	Does the firm have a balanced mix of experienced and new Assurance partners?	Scoring based on the threshold of average experience of partners	For average partner experience of partners > 5 years – 4 Points For average partner experience of partners > 10 years – 8 Points	8
ii.	Is the firm compliant with the ICAI Code of Ethics, Companies Act 2013 and other regulatory requirements in relation to Professional	Scoring based on Presence or Not. Yes/No Answers	For Yes – 8 Points For No – 0 Point	8

Implementation Guide for Audit Quality Maturity Model – Version 1.0

Competency Basis		Score Criteria	Score Basis	Max Scores
	Independence and Conflict of Interest?			
iii.	Is there is a 'whistle blower' policy?	Scoring based on Presence or Not. Yes/No Answers	For Yes – 4 Points For No – 0 Point	4
	Total			20

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

An experienced Assurance partner is an asset to the firm as he/she can perform their duties more efficiently within a time framework. There is a direct relation between audit quality and experienced partners as an experienced partner have a longer tenure in the organization which increases the client-specific knowledge and hence result in improved audit quality. On the other hand, experienced Assurance partners may become biased in their judgment and decision making resulting in lower audit quality.

A new Assurance partner may bring different working techniques and high motivation to work. A firm having a balanced mix of the same can make unbiased decision making and improve the audit quality.

The scoring is based on having a balanced mix of experienced and new Assurance partners. The firm earns more points for an average age mix greater than 10 years.

(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?

The financial statements audited by the firms must be true and fair so that stakeholders can rely on them and for that purpose, an auditor should be truly independent.

The term 'Professional Independence' refers to the independence of mind that permits to conclude opinion without professional judgment being compromised. A firm should be able to perform its functions without having any conflicts of interest with the client and management. Firms can do a self-assessment of their professional independence for some audit engagements or a group of professionals.

All firm personnel should be in compliance with the ICAI Code of Ethics, Companies Act 2013 and other regulatory requirements in relation to Professional Independence and Conflict of Interest. If there are matters of interpretation that are under dispute, then the answer shall be 'Yes' until the dispute is settled. In such instance, the matter under dispute would have in any case been communicated to the client in the declaration provided by the audit firm under Section 139 of the Companies Act, 2013.

(iii) Is there is a 'whistle blower' policy?

The term 'whistle blower' refers to a person who raises the alarm for a fraud, scam, illegal activities and unethical practices within the firm. A policy may provide rights to the employees to report any inappropriate activity within the firm. Anonymous reporting may also be allowed within the firm and an email id should be provided to the employees to report the matter. Some of the benefits of having a 'whistle blower' policy have been mentioned below:

- It helps to remove corruption
- It helps an Employee to become more attentive about any violation of the code of conduct.
- It helps to report any illegal or unethical practice

The presence of the policy is necessary to identify any unseen threat to the working environment.

3.2 Infrastructure – Physical & Others

How to score your firm?

Competency Basis		Score Criteria	Score Basis	Max Scores
3.2	Infrastructure – Physical & Others	Branches in the same city shall have only one point, branches in Metro and Tier -1 cities shall have additional points, team size per branch shall have additional points.		8
i.	Number of Branches & Associates and network firms and	Scoring based on Nos.	Upto 3 – 2 Points 4 to 7 – 4	

Implementation Guide for Audit Quality Maturity Model – Version 1.0

Competency Basis		Score Criteria	Score Basis	Max Scores
	affiliates.		Points 8 to 15 – 6 Points More than 15 – 8 Points	
ii.	Are branch level activities Centralised/ Decentralised in accounting, Invoicing, and Payroll processing.	Scoring based on whether policies are uniformly followed in the activities of accounting, invoicing, payroll processing across all branches. Complete automation is not a mandate.	Centralised – 8 Points Decentralised – 4 Points	8
iii.	Physical & Logical Security of Information are extended and implemented across locations?	Scoring based on Presence or Not. Yes/No Answers	For Yes – 8 Points For No – 0 Point	8
iv.	Are there adequate DA tools and IT infrastructure available and are they being used for the relevant assignment?	Scoring based on Presence or Not. Yes/No Answers	For Yes – 12 Points For No – 0 Point	12
v.	Is the infrastructure adequate in terms of internet/intranet network bandwidth/ VPN/Wi-Fi etc. for remote working?	Scoring based on Presence or Not. Yes/No Answers.	For Yes – 12 Points For No – 0 Point	12
Total				48

(i) Number of Branches & Associates and network firms and affiliates

This considers the spread of the firm's clientele and the firm's presence across the nation. Scoring shall be based on the number of branches & associates and network firms and affiliates a firm has across the country.

Branches in the same city shall have only one point, branches in Metro and Tier -1 cities shall have additional points, team size per branch shall have

additional points.

(ii) Are branch level activities centralised/decentralised in accounting, Invoicing, and Payroll processing

Scoring based on whether policies are uniformly followed in the activities of accounting, invoicing, payroll processing across all branches. Complete automation is not a mandate. Under centralization, the decisions related to accounting, invoicing and payroll processing are taken by the management of the Head Office and the rest of the branches make sure that they are well implemented and followed.

Where under decentralization every branch has its own set of policies and procedures regarding these activities.

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

There has to be physical and logical security of information extended and implemented across all the locations where the firm has a branch office and a decentralized mode of working exists.

Physical Security

Physical security prohibits the unauthorized access of facilities, IT resources, equipment's to protect them from threats and unwanted damages. Example of some physical securities are as follows:

- CCTV surveillance
- Security guards
- Protective barriers
- Locks
- Access control
- Perimeter intrusion detection
- Deterrent systems
- Fire protection, etc.

The administration department of the firm and the firm personnel should be trained to prevent tailgating by strangers. Tailgaters are people who follow behind authorized personnel when he/ she opens an access door to an office

floor. Employees and security guards should be skeptical of such people who do not carry firm access cards.

Logical Security

This comprises security safeguards for a firm with respect to its information technology like user identification, password access, authenticating, access right, and authority levels. These securities ensure that only a person with desired user access and authority can perform functions on the network or workstations. Authentication measures are most commonly used these days in the cybersecurity space. Periodic review of all access control systems is necessary.

An example of the authentication measure is as follows:

- Token authentication
- Biometric Measures
- PIN Authentication
- Passcode/Passwords
- User Profile Permissions
- Segmentations etc.

Scoring shall be determined by the presence of any or all above-mentioned securities measures at all the locations where a firm has a place of working.

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

Data analytics (DA) tool helps in optimizing as well as automating tasks that are repetitive in nature, and if done with the help of DA tools can save time and effort of the firm. IT infrastructure facilitates the smooth running of operations as well as support to the DA tools and various other automated tools, so they are a major driving force in the successful delivery of quality services.

The firm has to make sure that there is adequate availability and use of DA tools and IT infrastructure for relevant audit assignments. Scoring shall be determined based on such availability, adequacy and use for the firm engagements. The firm's MIS would collate this data.

(v) Is the infrastructure adequate in terms of internet/intranet

network bandwidth/VPN/Wi-Fi etc. for remote working?

Network infrastructure provides network connectivity, communication, operations and management of an enterprise network. The infrastructure has to be adequate in terms of Bandwidth speed running through various modes like LAN/WAN/VPN and Wi-fi for remote working.

Following are some bandwidth estimates as per research done by www.business.org:

Internet speed (download)	Number of connected users/devices	What you can do
5 Mbps	1 or 2	Online browsing, research, email
25 Mbps	3 to 5	Large- file downloading, basic Wi-Fi, business communication
75 Mbps	5 to 10	Video streaming, frequent file sharing, numerous POS transactions
150 Mbps	10 to 15	Frequent cloud computing, video conferencing, data backups
250 Mbps	15 to 20	Server hosting, seamless streaming and conferencing
500 Mbps	20 to 30	Multiple-server hosting, constant cloud-based computing, heavy online backups
1 Gbps (1,000 Mbps)	30+	Extreme-speed operating for enterprise-ready offices with near-zero interruptions

Please note these are just estimates, and if a firm has a more evident source with respect to the adequacy same shall be considered sufficient for fulfilling the scoring criteria. The goal is to provide a seamless flow of transactions and communication within the organisation. Datacards may be provided to employees working remotely from client locations of at least 5 Mbps internet speed.

Scoring shall be based on presence of the adequate infrastructure promoting network connectivity and 12 points shall be awarded for an affirmative

answer.

3.3 Practice Credentials

How to score your firm?

Competency Basis		Score Criteria	Score Basis	Max Scores
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:			
i.	Is the firm ICAI Peer Review certified?	Scoring based on Presence or Not. Yes/No Answers	For Yes – 4 Points For No – 0 Point	4
ii.	Empanelment with RBI / C&AG.	Scoring based on Presence or Not. Yes/No Answers	For Yes – 8 Points For No – 0 Point	8
iii.	Is there an advisory as well as a decision, to not allot work due to unsatisfactory performance by the CAG office?	Scoring based on Presence or Not. Yes/No Answers	For Yes – (-5) Points For No – 0 Point	0
iv.	Have any Government Bodies/ Authorities evaluated the performance of the firm to the extent of debarment/ blacklisting?	Scoring based on Presence or Not. Yes/No Answers	For Yes – (-10) Points For No – 0 Point	0
v.	Any negative assessment in the report of the Quality Review Board?	Scoring based on Presence or Not. Yes/No Answers	For Yes – (-5) Points For No – 0 Point	0

Implementation Guide for Audit Quality Maturity Model – Version 1.0

Competency Basis		Score Criteria	Score Basis	Max Scores
vi.	Has there been a case of professional misconduct on the part of a member of the firm where he has been proved guilty?	Scoring based on Presence or Not. Yes/No Answers	For Yes – (-5) Points For No – 0 Point	0
Total				12

The word “Credentials” means “a qualification, achievement, quality, or aspect of a person's background, especially when used to indicate their suitability for something.” Practice credentials act as a differentiating parameter of a firm or in other words what makes a firm a testimony of quality with respect to services delivered by them.

For negative scoring in this section, it is clarified that a firm will attract negative scoring only once for a particular incident and that too under the first clause of this section to which it is applied.

(i) Is the firm ICAI Peer Review certified?

Any practice unit can seek Suo-Moto peer review from the ICAI peer review board, and after considering the report of the Reviewer, Peer Review Board issues a Peer Review Certificate to the practice unit.

The Peer review certificate is well-accepted proof that the firm does have quality in the services provided by them, and all the standards and ethics involving the code of conduct have been followed.

This audit quality indicator is to encourage firms to get themselves reviewed and have a culture of quality delivery of services within the entity.

(ii) Empanelment with RBI / C&AG

RBI and C&AG are the two most important regulatory bodies as they specify the norms and eligibility criteria of Chartered Accountant Firms to get selected as Statutory Auditor of Banks and Public Sector Undertakings.

Scoring shall be determined based on the CA firm's empanelment with RBI / C&AG.

In case, an audit firm, as part of its strategy has decided not to empanel with these bodies then the score shall be zero and the total score for this question

shall also be zero so that it does not impact the % scored by the audit firm.

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

There are certain norms laid down by C&AG regarding eligibility for a Chartered Accountancy firm to be appointed as statutory auditor. All the empaneled firms/LLPs are awarded points. The point score is based upon the experience of the firm/LLP, the number of Chartered Accountant (CA) partners and their association with the firm/LLP, and the number of CA employees. It is a point-based method where after fulfilling the given criteria points are awarded. In that context, there are 3 cases where there can be a deduction of points as well as debarment from allotment of audits to the firm. These are as follows:

- **Refusal of Audit:** In case, in the immediately preceding year, the firm/LLP had refused the audit assigned to it by this office, for reasons other than being disqualified to act as auditor of the assigned audit under the provisions of any Act/statute or conditions issued by this office etc. In case, the firm refuses the allotted audit for the second time, the firm would not be empaneled from the subsequent year.
- **Professional Misconduct:** The sole-proprietor, partner/s and employee/s who is/are held guilty of professional misconduct during the previous year under the Chartered Accountants Act 1949. Apart from deduction of points, the firm/LLP would not be given any credit for the said Chartered Accountant(s).
- **Unsatisfactory performance:** In case the performance of the firm/LLP was found unsatisfactory and the firm/LLP was issued an advisory by this office to be more careful in the future in the immediately preceding year.

If a firm falls under any of the above categories and a warning for future years has been issued or a decision for non-allotment has been taken by the C&AG, then the firm will attract a negative scoring of 5 points. If there are no such decisions or advisory, no deductions shall be done.

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

The government bodies like NFRA have the power to debar the members/

Implementation Guide for Audit Quality Maturity Model – Version 1.0

firms from practicing, as a member of ICAI between 6 months to 10 years as may be decided, where the matters of professional or other misconduct committed is concerned. The Civil courts with the power entrusted in them from Code or Criminal Procedure, 1908, can give similar decisions but the timeline differs from case to case, if there is debarment for a lifetime, then no point of AQMM arises in the first place.

All such firms which have been debarred/ blacklisted will attract a negative scoring of 10 points from the total AQMM scoring, and no deduction shall happen wherein no such blacklisting is done. If any such order passed is under dispute or under appeal then both the scoring and the total score for this question shall be zero.

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

If a firm has a negative assessment by the quality review board of ICAI, then the firm will attract a negative scoring of 5 points. If any such order passed is under dispute or under appeal then both the scoring and the total score for this question shall be zero.

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

The First and Second schedule of The Chartered Accountants Act 1949, lays down the clauses which amount to professional misconduct. If a member of the firm is found guilty of such misconduct and there has been a decision order passed with respect to the same, then the firm will attract a negative score of 5 points. There shall be no such deductions when no such misconducts exist. If any such order passed is under dispute or under appeal then both the scoring and the total score for this question shall be zero.