

Seminar on AQMM

By – CA Raksha Dongare

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Disclaimer

- Presentations are intended to be dissuasive and not conclusive.
- A presentation is not a replacement for a formal opinion on a point of law which may require to be addressed.
- The information and views contained in this presentation are to be viewed with caution and should be appropriately considered.

Today's Agenda

Peer Review Brief

AQMM :Applicability

Transition from AQMM 1.0 to AQMM 2.0

Key Sections & its Scoring Model

Peer Review Process

- Importance: SEBI Mandate, C & AG empanelment (substantial Points for peer reviewed firms)
- Concept: An examination of assurance engagements to ensure compliance of technical, professional and ethical standards to check Quality control framework.
- Coverage: Applicable for all assurance engagements signed by the Practice Unit during the period under review.
- Criteria : Council Mandate, Voluntary
- Application in Form 1
- A review Schedule: 20 working days starting from the day of application submitted to PRB

AQMM Applicability

The AQMM has been made mandatory w. e. f. April 1, 2023, to the firms auditing the following entities:

- (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.

AQMM 1.0 vs AQMM 2.0

Area	AQMM 1.0	AQMM 2.0
Revenue from Assurance Services	GST & Forensic audits form part of revenue calculation	GST & Forensic Audits deleted from revenue calculation along with score basis changed with more slabs
Vision & Mission Statement	Presence & Implementation (4 Points)	Only Presence (2 Points)
Practice Manuals/ Checklists	Multiple Criteria	A specific Annexure as AQI
Effort Monitoring	Yes/ No Scoring	6 slabs scoring
Regulatory Framework	Positive scoring for no issues	Negative marking for advisories Received / debarment/ DC Actions
Client Sensitization	Generic	Specific SA 260 & 701
UDIN Timelines	Not Present	New scoring Criteria

AQMM 1.0 vs AQMM 2.0

Area	AQMM 1.0	AQMM 2.0
HR Policies	Limited policies	Enhanced areas
Staff ratio	Yes/ No Scoring	Ratio based scoring
Training requirements	Hour based , based on levels	A separate scoring
Employee Turnover	Yes/ No scoring	Split scoring based on monitoring and action
Compensation and Statutory Compliance	Positive scoring	Negative scoring for each non compliance
Performance Appraisal	8 Points for scoring	Reduced scoring and increased expectations
Use of Experts and Qualifications	Fixed Points	Percentage based scoring for additional certifications
Digital Competency	Included in multiple sections	A separate section of 80 points
section Weightage	Increase in weightage of PM and reduction in HR weightage	

Key Sections & Score Model

Key Sections	Maximum score	% of Weightage	Minimum %	Minimum score required
Section 1 Practice management – Assurance	370	61.67%	30	111
Section 2 Human Resource Management	150	25%	30	45
Section 3 Digital Competency	80	13.33%	30	24
Total	600	100		

Maturity Level Criteria

Score Range	Level of Firm
30 % to 50%	Level 1
51% to 70%	Level 2
71 % to 85%	Level 3
Above 85%	Level 4

So , Level 1 indicates the nascent performance of the firm, with a lot of scope for improvement. As against Level 4 which indicates significant adoption of standards and procedures and should work towards optimization.

AQMM : Meaning & Objective

AQMM is a self evaluation model for practicing firms covering audit team, leadership team, HR, IT , Admin and MIS functions of the firm.

It is developed to enable the firms to assess their current level of maturity, identify areas of improvement and to work towards higher level of maturity

Section 1 Practice Management: Assurance

Sr. No.	AQI	Basis	Score basis	Maximum score
1.1	Practice areas of the firm	Revenue from Audit and Assurance Services	0- No Point >0 but ≤ 20 -1 point >20 but ≤ 40 -2 points >40 but ≤ 60 -3 points >60 but ≤ 80 -4 points >80 -5 points	5 Points
		Vision & Mission Statement	Presence , Yes / No	2 points
1.2	Workflow- Practice Manuals	Presence of SQC 1 Manuals with well defined policies and procedures.	For Yes- 2 points for each area	12 points
1.3	Effort Monitoring	Budget vs Actual analysis of time & effort spent	Up to 10%- 0 point >10% but $\leq 30\%$ -4 points >30% but $\leq 50\%$ -8 points >50% but $\leq 70\%$ -12 points >70% but $\leq 90\%$ -16 points > 90 %- 20 points	20 points

Section 1 Practice Management: Assurance

Sr. No.	AQI	Basis	Score basis	Maximum score
1.4	Quality Controls for Engagements	Advisory issued by QRB/ C & AG on partner or firm	No- 0 Point Yes- (-) 5 points for each advisory received	(-) 25 points
		Advisory issued by FRRB/ TAQRB on partner or firm, noncompliance in advisory accepted by partner or firm and Reviewer confirms it.		
		Partner or firm held guilty and referred to Director (Discipline) by FRRB/TAQRB/PRB/QRB/C&AG/ any other governing body other than NFRA	For Yes-(-)10 points per order	(-)50 Points
		Debarment/blacklisting by NFRA &communication received		

Section 1 Practice Management: Assurance

Sr. No.	AQI	Basis	Score basis	Maximum score
1.4	Quality Controls for Engagements	Professional Misconduct or guilty under Schedule II of CA Act, 1949 (generally)	No- 0 Point Yes- (-) 50 points per Order	(-)100 Points
		Presence of Digital or Physical Library	No-0 Point Yes-8 Points	8 Points
1.5	Client Sensitization	Compliance with SA 260 and SA 701 on TCWG	No- 0 Point Yes- 8 Points	8 Points
1.6	Regulatory Compliances	Disclosure to Institute where gross annual fees from an audit client exceeds: 40% of total fees of the firm in case of nonpublic Interest entity 20% of total fees of the firm in case of Public Interest Entity	For yes- 0 Point For No (nondisclosure to ICAI) (-)20 points	(-)20 Points

Section 1 Practice Management: Assurance

Sr. No.	AQI	Basis	Score basis	Maximum score
1.6	Regulatory Compliances	Adherence to ICAI's minimum recommended Fees	100% to 95%- 25 Points <95% but ≥ 80%-20 Points <80%but ≥ 60%- 15 Points <60% but ≥ 40%- 10 Points < 40% but ≥ 20%- 5 Points Less than 20%- 0 Point	25 Points
		UDINs generated within specified time	100% -30 Points <100% but ≥ 80%-25 Points <80%but ≥ 60%- 20 Points <60% but ≥ 40%- 15 Points < 40% but ≥ 20%- 10 Points Less than 20%- 0 Point	30 Points

Section 1 Practice Management: Assurance

Sr. No.	AQI	Basis	Score basis	Maximum score
1.7	Strategic/ Functional	Adequate Experienced Assurance Partners	≥2 years but< 5 years- 2 Points ≥5 years but< 7 years- 4 Points ≥7 years but< 10 years- 6 Points ≥10years- 8Points	8 Points
		Whistle Blower Policy	For No.-0 Points Yes- 4 Points	4 Points

Section 1 Practice Management: Assurance

Sr. No.	AQI	Basis	Score basis	Maximum score
1.8	Infrastructure-Physical	Number of Branches	Up to 3- 3 Points 4 to 7- 6 Points 8 to 15- 9 Points More than 15- 12 Points	12 Points
1.9	Practice Credentials	Peer Review done earlier	2 Points for each Peer Review done earlier	6 Points
1.10	Presence and Implementation of Formats/ Checklists/ Templates	Formats/ Checklists/ templates	For Presence- 50 Points For Implementation- 165 Points Updating and Review of Checklists -15 Points	230 Points

Annexure

Sr No	Details of formats/ Checklists/ Templates	Marks for Presence	Marks for Implementation
1	Client acceptance/ continuation and appointment formalities	1	2
2	Engagement Acceptance/Continuation/Withdrawal/Rejection/ Decision Checklist	1	2
3	Independence Confirmations - personnel, firm and non audit Services	1	2
4	Confidentiality Undertakings	1	2
5	Engagement Letter	1	5
6	Planning Scope of Engagement	1	2
7	Budgeting resources and hours including experts time and cost	1	2

Annexure

Sr No	Details of formats/ Checklists/ Templates	Marks for Presence	Marks for Implementation
8	Understanding the Clients Business, its industry & Key People (KYC)	1	2
9	Budgeting resources and hours including experts time and cost	1	2
10	Understanding and walk through of Processes impacting significant Accounts	1	2
11	Identifying Significant Risks, fraud risk and risk of material misstatement and plan to address	1	5
12	Preliminary analytical Procedures	1	2

Annexure

Sr No	Details of formats/ Checklists/ Templates	Marks for Presence	Marks for Implementation
13	Working of materiality, performance materiality and tolerable error.	1	2
14	Budgeting resources and hours including experts time and cost	1	2
15	Understanding and walk through of Processes impacting significant Accounts	1	2
16	Identifying Significant Risks, fraud risk and risk of material misstatement and plan to address	1	5
17	Preliminary analytical Procedures	1	2
18	Sampling basis	1	4
19	Detailed Audit Strategy	1	2
20	Substantive Audit Procedure	1	10

Annexure

Sr No	Details of formats/ Checklists/ Templates	Marks for Presence	Marks for Implementation
21	Going Concern Assumption	1	2
22	Subsequent Event as per SA 560 and its impact on FS	1	2
23	Completeness and compliance of Related Party transactions	1	5
24	Internal Control Over Financial reporting	1	5
25	Journal Entries verification & Authentication	1	2
26	Contingent Liabilities	1	2
27	Use of work of an Expert or Internal Auditor	1	2
28	Secretarial Compliances	1	2
29	Accounting Policies Checklist	1	5
30	Schedule III Checklist	1	5
31	CARO Checklist	1	5

Annexure

Sr No	Details of formats/ Checklists/ Templates	Marks for Presence	Marks for Implementation
32	Checklist of Accounting Standards and IND AS	1	10
33	Checklists for Standards on Auditing	1	10
34	Certification in accordance with ICAI Guidance Note	1	5
35	Engagement Quality Control Review Process	1	4
36	Management Representation Letter	1	5
37	Summary of uncorrected Misstatements/ Summary of unadjusted differences	1	2
38	Analysis of Actual & Budgeted Man hours	1	3
39	Final Analytical Procedures	1	2
40	Closure & Archival of Files	1	2
	Any Other Formats/ Checklists/ Templates (at least 10)	1	20

Section 2 Human Resource Management

Sr. No.	AQI	Basis	Score basis	Maximum score
2.1	Policies & Practices	Presence of clearly defined roles & responsibilities of support Functions: Accounts, Admin & IT	1 Point for each function	3 Points
		Presence of a documented Leave Policy	No- 0 Points Yes- 4 Points (For each AQI)	4 Points
		Issue of Appointment Letters to all employees		
		Conduct of exit interviews for employees leaving the organization		
		Orientation of new joiners including partners		
		Policy/ Procedure for: Client Complaints/ dissatisfaction and its speedy disposal	For presence of policy to register complaint - 1 point For procedure to speedy disposal- 1 Point	2 Points

Section 2 Human Resource Management

Sr. No.	AQI	Basis	Score basis	Maximum score
2.2	Resource planning & monitoring as per firm's policy	Qualified employees to proprietor/ partners Ratio on the last day of each financial year	If ratio is 0- 0 Point >0 but < 3- 3 Points 3 or more- 6 Points	6 Points
		Other Employees to Proprietor/ Partners Ratio	Less than 3- 0 Point ≥ 3 but <5- 3 Points ≥ 5 - 6 Points	6 Points
2.3	Employee Training & Development	Training Policy: For Proprietor or Partner- at least 30 hours For Professionally qualified- at least 30 hours For others including articles – at least 45 hours	For No- 0 Point Yes- 2 points for each category	6 Points
		Implementation of training policy for Proprietor/ Partners	≤ 50 %- 0 Point >50 % but ≤ 75%-1 Point >75%- 2 Points	6 Points for three years

Section 2 Human Resource Management

Sr. No.	AQI	Basis	Score basis	Maximum score
2.3	Employee Training & Development	Implementation of training policy for professionally qualified employees	50 %- 0 Point >50 % but ≤ 75%- 2 Points >75%- 4 Points	12 points for three years
		Implementation of training policy for others	50 %- 0 Point >50 % but ≤ 75%-3 Points >75%- 6 Points	18 Points for three years
		Presence of a policy and role competency mapping used (behavioral and technical) for recruitment, mechanism of appraisal	For presence- 3 Points For having set standards for recruiting- 3 Points For Implementation-4 Points	10 Points

Section 2 Human Resource Management

Sr. No.	AQI	Basis	Score basis	Maximum score
2.4	Resources Turnover & Compensation Management	Measuring & monitoring of employee turnover ratio and its analysis & Measures to reduce high turnover ratio	For measuring- 5 Points For taking measures to minimize ratio- 3 Points For not measuring & monitoring- 0 Points	8 Points
		Compliance with Statutory Requirements (PF, ESI, Gratuity, POSH, Maternity Leaves, others)	For Yes- 0 Point For No- (-)1 for each compliance	(-) 5 Points
		Practice to celebrate occasions like festivals/ New Year/Annual Get together etc.	For Yes- 3 Points No- 0 Point	3 Points
		Presence of an established mechanism to listen to employees' views & suggestions	For Yes -4 Point No-0 Point	4 Points

Section 2 Human Resource Management

Sr. No.	AQI	Basis	Score basis	Maximum score
2.4	Resources Turnover & Compensation Management	Compensation to employees based on knowledge and experience	For Yes- 6 Points No-0 Points	6 Points
2.5	Qualification skill set of employees	Policy to encourage Chartered Accountants to pursue additional courses	For Yes- 4 Points No- 0 Points	4 Points
		Implementation of this policy	Up to 10%- 2 Points >10% but ≤25%- 4 Points >25% but ≤50%- 6 Points More than or equal to 50%- 8 Points	24 Points for all three financial years
2.6	Performance evaluation Measures(KPIs)	Presence of written KPIs for performance evaluation of employees of the firm	For Yes- 4 Points No-0 Point	4 Points
		A specific / determined method to measure KPIs	For Yes- 4 Points No-0 Point	4 Points

Section 2 Human Resource Management

Sr. No.	AQI	Basis	Score basis	Maximum score
2.6	Performance evaluation Measures(KPIs)	Frequency of evaluation and its consistency of measuring KPIs of employees and partners	For Yes- 4 Points No-0 Point	4 Points
		Review of Engagement partners	For Yes- 4 Points No-0 Point	4 Points

Section 3 Digital Competency

Sr. No.	AQI	Basis	Score basis	Maximum score
3.1	Managing Digital identity	A Registered Domain name of the firm	For Yes- 1Point No-0Point	1 Point
		A registered & updated website of the firm	For having a website -1Point For regular updating- 1Point No- 0 Point	2 Points
		A corporate mail ID and its availability to all staff	For having mail ID- 1 Point Availability to all staff- 1 Point For availability to articles- 1point No- 0 Point	3 Points
		Social Media Presence & minimum one update posted per month	Social Media Presence – 1Point Minimum one post- 1 point No-0 Point	2 Points

Section 3 Digital Competency

Sr. No.	AQI	Basis	Score basis	Maximum score
3.2	Operational Process Automation	Attendance Mechanism	For Yes- 1Point No-0Point	1 Point
		Availability of HR Tools for interview management & performance management	For Yes- 1Point No-0Point	1 Point
		filling of Timesheets by employees and articles	For Yes- 1Point No-0Point	1 Point
		Verification of timesheets by partners/ HR	For Yes- 1Point No-0Point	1 Point
		Correlation between attendance and timesheets	For Yes- 1Point No-0Point	1 Point
		Digitized workflow tools	For Yes- 1Point No-0Point	1 Point

Section 3 Digital Competency

Sr. No.	AQI	Basis	Score basis	Maximum score
3.3	Centralized File Storage system/ server	Centralized file storage server	For Yes- 2Points No-0Point	2 Points
		Regular uploading on server	For Yes- 2Points No-0Point	2 Points
		Regular Back up of files on server	For Yes- 2 Points No-0Point	2 Points
		Documents of client services stored digitally or electronically (with DSC attached & restrictions in use)	For Yes- 2Points No-0Point	2 Points
3.4	Application for invoicing and receivables management	Availability of application for invoicing & receivables management	For Yes- 1Point No-0Point	1 Point
		Availability of outstanding balance report in system	For Yes- 1Point No-0Point	1 Point

Section 3 Digital Competency

Sr. No.	AQI	Basis	Score basis	Maximum score
3.5	Redundancy & Continuity	Uploading of data on server (periodically or daily)	For Yes- 1 Point No-0Point	1 Point
		Backup of data at multiple locations	For Yes- 1 Point No-0Point	1 Point
		Automation of backup at scheduled intervals	For Yes- 1 Point No-0Point	1 Point
		Availability of multiple connections	For Yes- 1 Point No-0Point	1 Point
3.6	Laptops & Data Security	Securing of laptops through drive encryption	For Yes- 1Point No-0Point	1 Point
		Laptops given to articles/ PDAs for office use	For Yes- 1Point No-0Point	1 Point
		Antivirus presence & regular updates	For Yes- 2 Points No-0Point	2 points

Section 3 Digital Competency

Sr. No.	AQI	Basis	Score basis	Maximum score
3.6	Laptops & Data Security	Digitally secured critical communications	For Yes- 1 Point No-0Point	1 Point
		Need based internet usage & corporate firewalls	For Yes- 1 Point No-0Point	1 Point
		BYOD (bring your own device) Policy Endpoint security to such devices	For presence of policy- 1 Point For endpoint security -1 point No-0Point	2 Points
		Existence and periodic reinforcement of IT policy	For Yes- 1 Point No-0Point	1 Point
		Password Policy & periodic change of e passwords	For Yes- 2 Points No-0Point	2 Points
3.7	Copyright & Licenses	Use of Licensed Software	For Yes- 1Point No-0Point	1 Point
		Maintenance of list of software with expiry dates	For Yes- 1Point No-0Point	1 Point

Section 3 Digital Competency

Sr. No.	AQI	Basis	Score basis	Maximum score
3.8	Digital Media for Communication	Availability of internal employee portal	For Yes- 1 Point No-0Point	1 Point
		Remote access of such portals	For Yes- 2 Point No-0Point	2 Points
		Continuous updating of all audit documentation and tools on such portal Access should through login ID and Password for such portal	For Yes- 1 Point No-0Point Access through Login ID- 1 Point	2 Points
3.9	Protecting personal data and privacy	Secured Access control HR data	For Yes- 1 Point No-0Point	1 Point
		Social Media background checks of employees before recruiting	For Yes- 1Point No-0Point	1 Point
		Employee training on source authenticity	For Yes- 1Point No-0Point	1 Point
		Staff sensitized on client-data confidentiality.	For Yes- 1Point No-0Point	1 Point

Section 3 Digital Competency

Sr. No.	AQI	Basis	Score basis	Maximum score
3.9	Protecting personal data and privacy	Firm's data and asset usage policy	For Yes- 1 Point No-0Point	1 Point
		Defined sensitive vs. non-sensitive data	For Yes- 1Point No-0Point	1 Point
3.10	Information System related Audits/ reviews	Audit Done for IT security General controls	For Yes- 1 Point No-0Point	1 Point
		Done application security and vulnerability audits	For Yes- 1 Point No-0Point	1 Point
		Any external certifications obtained (ISO 27001, ISO 9001 etc.) to meet industry standards of quality, security & operational efficiency	For Yes- 1Point No-0Point	1 Point
3.11	Design of application-level controls	Use of CRM/e-mailing software for client communication (auto shoot of reminders of due dates etc. to clients)	For Yes- 1Point No-0Point	1 Point
3.12	Custody of Digital Assets	Inventory of assets viz Hardware, software, License etc.	For Yes- 1Point No-0Point	1 Point

Section 3 Digital Competency

Sr. No.	AQI	Basis	Score basis	Maximum score
3.12	Custody of Digital Assets	Allocation of Unique ID to Assets	For Yes- 1 Point No-0Point	1 Point
		Custody of Digital Signatures and apporval system	For Yes- 1Point, Approval system- 1 point No-0Point	2 Points
3.13	Availability of qualified resource pool and talent development relating to digital competencies	AMC for IT Support/ Maintenance	For Yes- 1 Point No-0Point	1 Point
		Digital communication training for staff	For Yes- 1 Point No-0Point	1 Point
		Employee Sensitization on cyber bullying, phishing attacks etc.	For Yes- 1Point No-0Point	1 Point

Section 3 Digital Competency

Sr. No.	AQI	Basis	Score basis	Maximum score
3.13	Availability of qualified resource pool and talent development relating to digital competencies	Availability of online or on demand learning portal	For Yes- 1 Point No-0Point	1 Point
		Subscribed to digital learning platforms	For Yes- 1 Point No-0Point	1 Point
		Creative use of technology (e.g. creating stat due date calendars, coding use, macro etc.)	1 to 2 initiatives- 2 Points 3 to 4 initiatives- 3 Points More than 4- 4 points	4 Points
3.14	Level of automation relating to audit processes and nature of audit services being rendered	Practice of reviewing IT Controls before start of audit	For Yes- 1 Point No-0Point	1 Point
		Digital tools for audit planning & Resource allocation (based on number of software)	For 1 to 2 software- 1 Point 3 to 4 software- 2 Points More than 4 – 4 points	4 Points

Section 3 Digital Competency

Sr. No.	AQI	Basis	Score basis	Maximum score
3.14	Level of automation relating to audit processes and nature of audit services being rendered	Use of audit tools for data extraction, sampling etc.	For Yes- 1 Point No-0Point	1 Point
		Training of articles and audit staff for usage of audit tools	For Yes- 1 Point No-0Point	1 Point
		Training Audit Staff in Identifying, Analyzing, and Retaining Digital Evidence	For Yes- 1 Point No-0Point	1 Point
		Audit approach in fully automated client environment	For Yes- 1 Point No-0Point	1 Point
		Use of eCAAT, Power BI, Tableau etc.	For Yes- 1 Point No-0Point	1 Point

Section 3 Digital Competency

Sr. No.	AQI	Basis	Score basis	Maximum score
3.14	Level of automation relating to audit processes and nature of audit services being rendered	Apps used for regular office tasks (eg any utility is developed)	For Yes- 1 Point No-0Point	1 Point
		Use of client Application audit features (in built tools in ERP helps in identify red flags)	For Yes- 1 Point No-0Point	1 Point
3.15	Adaptation of advanced and emerging technologies	Use of mobile Apps/ APIs where all information is available to employees	For Yes-1 Point No-0Point	1 Point

Thankyou!