
DELIBERATION ON AQMM FOR BANK AUDIT



SOUTHERN INDIA REGIONAL COUNCIL OF
THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
(SET UP BY AN ACT OF PARLIAMENT)

March 16 2023

WHY AQMM?

- The present environment

WHY AQMM?

- Is a bank audit only about NPA's and LFAR?

PRESENT ENVIRONMENT

KPMG stands by audits of Silicon Valley Bank
and Signature Bank

The two institutions failed days after issuing annual reports certified by the accounting firm

GOING CONCERN

SVB's reliance on customers in the tech industry could also raise questions about whether its financial reports properly reflected that concentration risk, she said. "People will want to know of the auditor, do you have a going concern memo in the audit file? What is the evidence you took for that?"

SQC 1

“In accordance with the applicable framework laid down under Standard on Quality Control (SQC) 1 “Quality control for Firms that Perform Audit and Reviews of Historical Financial Information, and Other Assurance and Related Service Engagements”, our Firm has laid down policies and procedures to evaluate “client/ engagement continuation” on regular basis. The Firm has accordingly re-evaluated the criterion for our continuance as statutory auditors of the Company for the quarter ending June 30, 2022, and regrettably, the necessary conditions could not be met,” MSKA said in its

— resignation letter.

WHY AQMM?

- Capacity building measure
- Self-evaluate current levels of maturity
- Competencies are good or lacking
- Globally, the work being done by auditors is being looked at very closely.

USA

AUDIT PROFESSIONALS	Availability	1. Staffing Leverage 2. Partner Workload 3. Manager and Staff Workload 4. Technical Accounting and Auditing Resources 5. Persons with Specialized Skill and Knowledge
	Competence	6. Experience of Audit Personnel 7. Industry Expertise of Audit Personnel 8. Turnover of Audit Personnel 9. Amount of Audit Work Centralized at Service Centers 10. Training Hours per Audit Professional
	Focus	11. Audit Hours and Risk Areas 12. Allocation of Audit Hours to Phases of the Audit
AUDIT PROCESS	Tone at the Top and Leadership	13. Results of Independent Survey of Firm Personnel
	Incentives	14. Quality Ratings and Compensation 15. Audit Fees, Effort, and Client Risk
	Independence	16. Compliance with Independence Requirements
	Infrastructure	17. Investment in Infrastructure Supporting Quality Auditing
	Monitoring and Remediation	18. Audit Firms' Internal Quality Review Results 19. PCAOB Inspection Results 20. Technical Competency Testing

USA

AUDIT RESULTS	Financial Statements	21. Frequency and Impact of Financial Statement Restatements for Errors 22. Fraud and other Financial Reporting Misconduct 23. Inferring Audit Quality from Measures of Financial Reporting Quality
	Internal Control	24. Timely Reporting of Internal Control Weaknesses
	Going Concern	25. Timely Reporting of Going Concern Issues
	Communications between Auditors and Audit Committee	26. Results of Independent Surveys of Audit Committee Members
	Enforcement and Litigation	27. Trends in PCAOB and SEC Enforcement Proceedings 28. Trends in Private Litigation

PRESENT SCENARIO

- Peer Review Board
 - FRRB
 - NFRA
-

PRESENT SCENARIO

- All Firms have audit files
- Quality is there but can be improved?

THE QUESTION IS?

- Can we defend the audit?

BANK

process to identify and analyze the risk of material misstatements in its financial statements and the failure to design and maintain effective monitoring activities relating to (i) providing sufficient management oversight over the internal control evaluation process to support the Group's internal control objectives; (ii) involving appropriate and sufficient management resources to support the risk assessment and monitoring objectives; and (iii) assessing and communicating the severity of deficiencies in a timely manner to those parties responsible for taking corrective action. These material weaknesses contributed to an additional material weakness, as management did not design and maintain effective controls over the classification and presentation of the consolidated statement of cash flows. This material weakness resulted in the revisions contained in our previously issued consolidated financial statements for the three years ended December 31, 2021 as disclosed in the 2021 Annual Report.

AUDITOR

The Group's management and we previously concluded that the Group maintained effective internal control over financial reporting as of December 31, 2021. However, the Group's management and we have subsequently determined that material weaknesses in internal control over financial reporting existed and accordingly concluded that internal control over financial reporting was not effective as of such date.

IS IT MANDATORY?

- 01.04.23

AQMM

- Its not a standard, its not a law, its not a Guidance Note

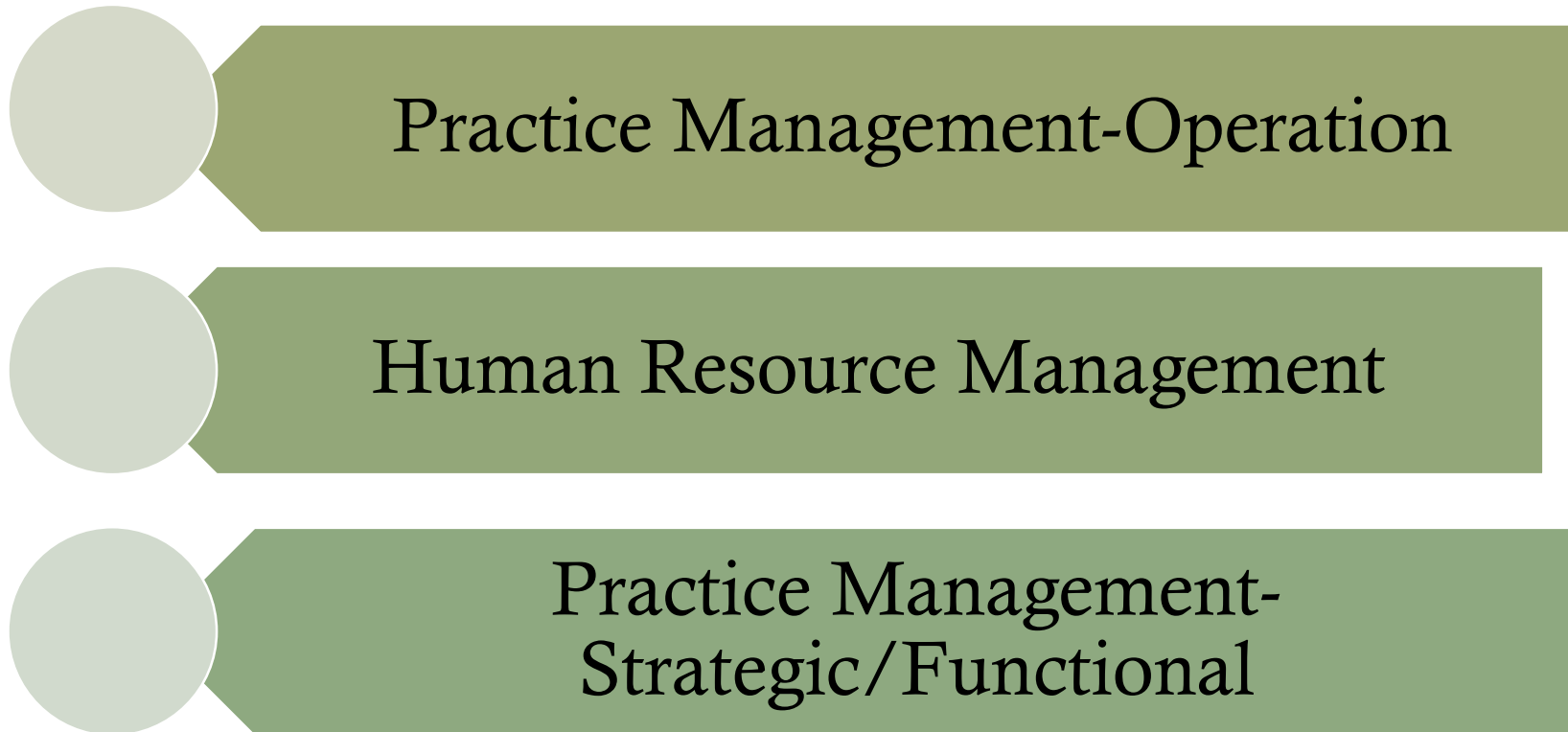
WHY?

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

SCOPE

- Firms auditing following entities are covered in AQMM Revised Version 1.0:
 - A listed entity; or
 - Banks other than co-operative banks (except multi-state co-operative banks)
 - Insurance Companies
 - However, firms doing only branch audits are not covered.
-

THE AREAS



1. PRACTICE MANAGEMENT-OPERATION

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

1. PRACTICE MANAGEMENT-OPERATION

- Client sensitization
 - Technology adoption
 - Revenue, Budgeting and Pricing
 - Performance evaluation measures
-

2. HUMAN RESOURCE MANAGEMENT

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

3. PRACTICE MANAGEMENT- STRATEGIC

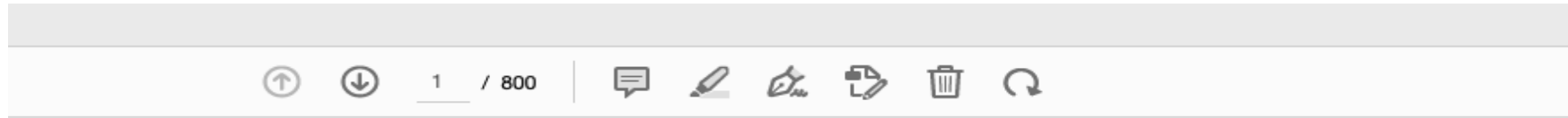
- Practice Management
- Infrastructure-Physical and others
- Practice credentials

PRACTICE MANAGEMENT - OPERATION

PRACTICE AREAS

Area	Metric	Points
Revenue from audit and assurance services	Minimum revenue of 50% of the total revenue from audit and assurance services such as statutory audit, tax audit, internal audit, GST audit, Forensic audit, Sustainability audit, Social audit, etc., is considered specialisation, when consistently witnessed for a period of 3 years.	50-75%- 5% > 75%- 8%
Does the firm have a vision and mission statement? Does it address Forward looking practice statements/Plans?	The presence of a vision/ mission is essential though it does not make it a criterion for scoring.	Yes- 4 points No- 0 points

THE GO-TO DOCUMENT?



**Guidance Note on
Audit of Banks (2022 Edition)**

WORK FLOW- PRACTICE MANUALS

Area	Metric	Points
Presence of Audit manuals containing the firm's methodology that ensures compliance with auditing standards.	Scoring based on Presence or Not. Answers: Yes/N	For Yes – 8 Points For No – 0 Point
Availability of standard formats relevant for audit quality like - <ul style="list-style-type: none">- LOE- Representation letter- Significant working papers- Reports	Scoring based on Presence or Not. Answers: Yes/No	For Yes – 8 Points For No – 0 Point

QUALITY REVIEW MANUALS

Area	Metric	Points
Usage of Client Acceptance/engagement acceptance checklists	Scoring based on Presence or Not. Yes/No Answers	For Yes – 4 Points For No – 0 Point
Evaluation of Independence for all engagements (partners, managers, staff, trainees) based on the extent required. The firm must identify self-interest threat, familiarity threat, intimidation threat, self-review threat, advocacy threat and conflict of interest.	Scoring based on Presence or Not. Yes/No Answers	For Yes – 4 Points For No – 0 Point

QUALITY REVIEW MANUALS

Area	Metric	Points
Does the Firm maintain the engagement withdrawal/rejection policy, templates, etc	Scoring based on Presence or Not. Yes/No Answers	For Yes – 4 Points For No – 0 Point
Availability of standard formats for audit documentation of Business Understanding, Sampling basis, Materiality determination, data analysis, and Control Evaluation	Scoring based on Presence or Not. Yes/No Answers	For Yes – 4 Points For No – 0 Point
Availability of standard checklists in performance of an Audit for Compliance with Accounting and Auditing Standards	Scoring based on Presence or Not. Yes/No Answers	For Yes – 4 Points For No – 0 Point

APPENDIX V

Illustrative Format of Engagement Letter to be sent to the Appointing Authority of the Nationalised Bank by Branch Auditor

{The following letter is for use as a guide and will need to be varied according to individual requirements and circumstances relevant to the engagement.}

The Branch Head

(or the appropriate representative of senior management).

[Date]

Subject: Engagement Letter

Dear Sirs,

1. The Objective and Scope of the Audit

APPENDIX VII

Illustrative Format of Written Representation Letter²⁸ to be obtained from the Branch Management

M/s XYZ & Co.,
Chartered Accountants,
Place

Dear Sir(s),

Sub.: Audit for the year ended March 31, 20XX

SERVICE DELIVERY- EFFORT MONITORING

Does the firm carry out a Capacity planning for each engagement?	Scoring based on Presence or Not. Yes/No Answers	Yes-4 points No-0
Is a process of Budgeting & Planning of efforts required maintained (hours/days/weeks) ?	Scoring based on Presence or Not. Yes/No Answers	Yes- 4 points No-0

QUALITY CONTROL

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

QUALITY CONTROL

- Documentation of the firm in accordance with SQC 1
 - Does the firm have Accounting and Auditing Resources in the form of soft copies of archives Q&As, firm thought leadership, a dedicated/ Shared Technical desk
 - Is appropriate time spent on understanding the business, risk assessment and planning an engagement?
-

TECHNOLOGY ADOPTION

Internal communication - chats

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

Project or activity management

Timesheet management,

Digital storage of records (scan, etc.)

Centralised server/ Cloud

Digital Library (Own or ICAI)

TECHNOLOGY ADOPTION

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

Video conferencing facilities adopted,

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

E-mail ids, E-mail usage policies, etc.

Use of anti-virus and malware protection tools,

Data security, etc

Cybersecurity measures

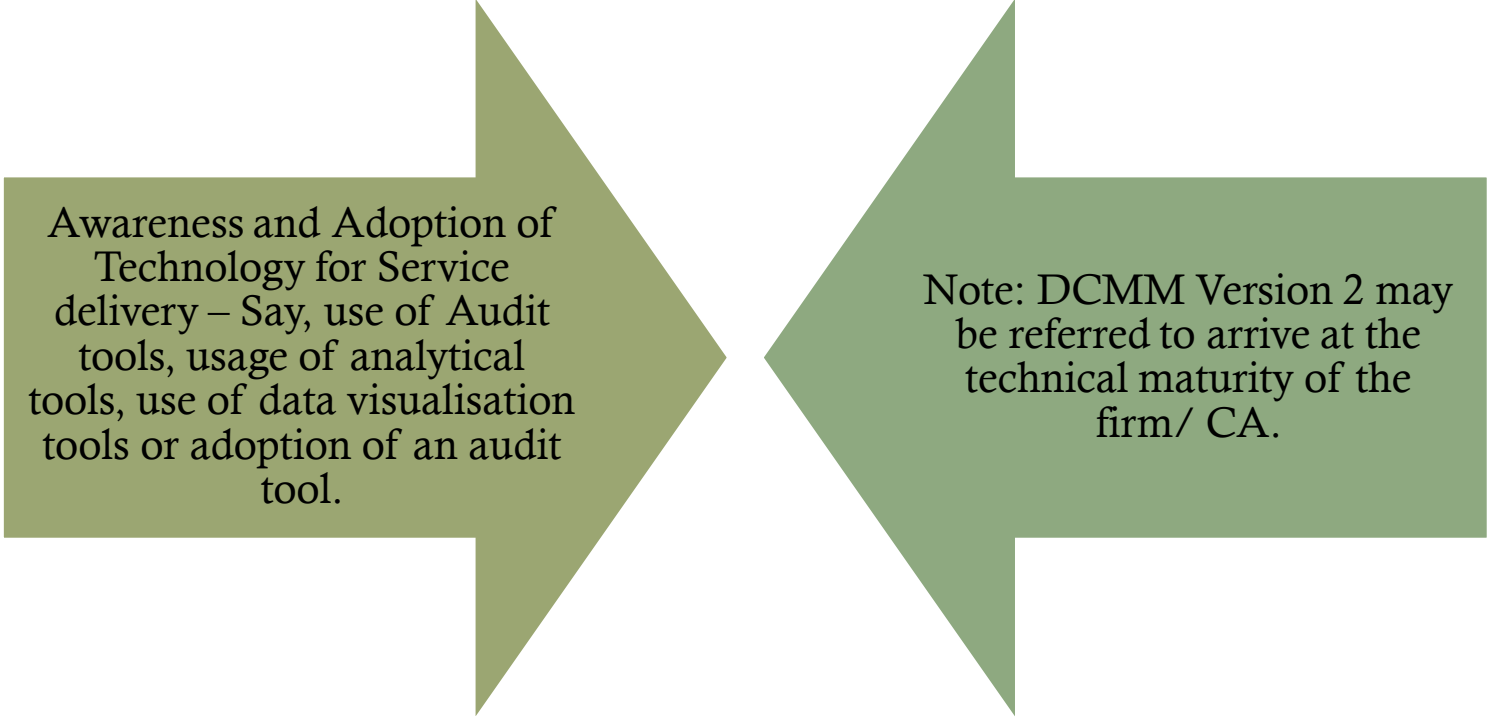
AI/ML?

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

SCORING

- Use of Analytical Tools for the listed entity, Banks other than co-operative banks (except multi-state co-operative banks) and Insurance Companies audit engagements:
 - For Yes – 12 Points
 - For No – 0 Point / NA
-

TECHNOLOGY ADOPTION



Awareness and Adoption of Technology for Service delivery – Say, use of Audit tools, usage of analytical tools, use of data visualisation tools or adoption of an audit tool.

Note: DCMM Version 2 may be referred to arrive at the technical maturity of the firm/ CA.

CBS

- The branch auditor should call for reports, if any, of the CBS environment in use at the branch. Further, the auditor should also consider interaction of various other IT systems with the CBS and review whether the flow of data between various systems is seamless and without any manual intervention.
-

CBS

- The branch auditor should scrutinise automated as well as manually compiled MIS reports on a sample basis to assess their quality (i.e. accuracy and adequacy for designated purpose) and reporting any shortcomings therein in the LFAR.
-

CBS

Illustrative List of Special Purpose / Exception Reports in CBS

The following indicative list of reports will benefit SCAs and SBAs (if shared in advance) while undertaking the audit in a fully computerised environment:

Advances

Sr. No.	Report
i.	Advances snapshot covering all important parameters
ii.	Accounts with overdue in excess of 90 days and are classified as Standard Assets
iii.	List of LCs devolved during the period / year and current status of account, including list of forced debits pertaining to the devolvement, not debited to the operative accounts of the borrower i.e. parked separated either under advances or office accounts.
iv.	List of BGs invoked during the period / year and current status of account, including list of forced debits pertaining to the invocation, not debited to the operative accounts of the borrower i.e. parked separated either under advances or office accounts.
v.	Standalone Non Fund Based Limits granted to customers
vi.	List of SMA / Watch list / Probable NPA/Weak account accounts as on the last date of audit period

CBS

vii.	Backdated updation of stock and book debt statements (Difference between date of updation in CBS and date of actual receipt of the Stock Statement)
viii.	List of accounts wherein the facility is not renewed / reviewed
ix.	List of accounts slipped to NPA during the current period
x.	List of accounts wherein there is an amendment in date of NPA
xi.	List of accounts written off during the period / year
xii.	List of accounts upgraded (along with date of upgrade and the overdues on the date of upgrade)
xiii.	Quick Mortality (NPA within 1 year of Original Sanction Date)
xiv.	List of NPA Accounts with Security Valuation not carried out within the prescribed period

CBS

Sr. No.	Report
xv.	List of accounts wherein re-phasing (Change in EMI, Tenor, Moratorium period) is carried out in CBS (excluding re-phasing due to change in the reference rate)
xvi.	Loan / OD against FD with no linkage to FD (i.e. Security)
xvii.	Loan to Minor (Excluding Non individual accounts and excluding Education, Loan/OD against Deposit cases)
xviii.	Loans below the benchmark rate (as applicable in each bank)
xix.	Loans above the maximum lending rate (as applicable in each bank)
xx.	Loans where disbursement is made in Cash (Threshold limit may be prescribed)
xxi.	Credit transactions in CC / OD / Loan Accounts with Value Date (Back Date) without Value Date (Back Date) at Debit Leg
xxii.	Advance accounts where effective interest rate is Zero
xxiii.	CC Accounts with primary security is "Nil"
xxiv.	Multiple TODs / Ad hoc Sanctions for a customer
xxv.	Non delinking of Ad hoc facility sanctioned on expiry
xxvi.	Multiple Customer IDs having common PAN
xxvii.	Red Flagged Accounts since more than 6 months

HUMAN RESOURCES

HUMAN RESOURCES

- Resource Planning and Monitoring
- Employee Training and development
 - Employee training policy
 - No of days spent per employee

EMPLOYEE TRAINING AND DEVELOPMENT

- ??

LFAR

4.	REVIEW/ MONITORING/ SUPERVISION
----	--

- 4.1 The account is frequently overdrawn
 - 4.2 The account is continuously overdrawn
 - 4.3 The account is overdrawn and the branches have not taken sufficient steps to regularise the accounts promptly
 - 4.4 The balance outstanding have exceeded the drawing power
 - 4.5 Balance confirmation and acknowledgment of debt not obtained
 - 4.6 The stock, book–debts statements not received regularly/ promptly
 - 4.7 The FFI/ financial statements/audited statements/FFR 1 & 2/ other operational data, etc., not received regularly/ promptly
 - 4.8 The stock, book–debts statements, etc., not scrutinised and no suitable action is taken
 - 4.9 The FFI/ financial statements/ audited statements/FFR 1 & 2/ other operational data, etc., not received regularly/ promptly/ not scrutinised and no suitable action is taken
 - 4.10 Non–moving stock is not deducted to arrive at the drawing power
-

LFAR

4.11 The age-wise break-up of debtors is not found on record. The borrowers are allowed to draw money on entire outstanding debt, which must rather be for the recent debts as prescribed for particular industries and as per margin prescribed in the sanction letter

4.12 Wide discrepancies observed in the stock statements and stock figures in the annual audited financial statements

4.13 No penal interest has been charged for delay in submission of various statements as per the terms of agreement depending upon the type of loan/ credit availed by the borrower

4.14 Many branches have not adhered to the prescribed frequency of physical verification of securities

given against loans & advances

4.15 Drawing power limits are not revised as per market value of shares for advances against security of shares

4.16 End-use of funds not ensured/ not known funds utilised for purpose other than for which granted

PRACTICE MANAGEMENT

PRACTICE MANAGEMENT

- Does the firm have a balanced mix of experienced and new partners?
 - Is the firm compliant with the ICAI Code of Ethics, Companies Act 2013 and other regulatory requirements in relation to Professional Independence and Conflict of Interest?
 - Is there is a 'whistle blower' policy?
-

PRACTICE CREDENTIALS

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

PRACTICE CREDENTIALS

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

THE SCORECARD

Section reference	Total Possible points
1	280
2	240
3	80
	600

RATING

Marks	Rating	Rating indicator
Up to 25% in each section	1	Indicates that the firm is very nascent -will have to take immediate steps to upgrade its competency or will be left lagging behind
Above 25% to 50% in each section	2	Indicates firm has made some progress -will have to fine-tune further to reach the highest level of competency
Above 50% - 75% in each section	3	Indicates firms that have made substantial progress
> 75%	4	Substantial progress

WHERE ARE WE?

- Level 2?
- Should move towards Level 3
- Level 4 should be achieved in 2-3 years time

CLARIFICATIONS NEEDED

- How frequently should the AQMM be done?
 - Would there be a counter-check?
 - Mention in the Peer Review certificate
-

TEMPLATE



BANK BRANCH AUDITS?

- Limited applicability but it is preferable to make a start now.
- Focus on checklists/manuals/ audit documentation/conclusions

THANK YOU!

Mohan.lavi@gmail.com

+ 91 99000 22040
