SQM 1: Are You Building a System or a Document?

The standard is coming. Most firms will implement it. Fewer will understand what implementing it actually means.

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The Notification Is Coming

SQM 1, India's new quality management standard for audit firms, is expected to be notified by the Central Government around mid-August 2026, with a proposed effective date of 1 April 2027. Both dates remain provisional until the formal notification is issued.

When notification arrives, most audit firms will do what they have always done with new standards: they will implement it. Policies will be drafted. Templates will be populated. A quality management manual will be produced. The required elements will be documented.

And most firms will have missed the point entirely.

The Distinction That Determines Everything

SQM 1 is not SQC 1 with more sections. It is a different kind of standard — one that changes the fundamental question that quality management must answer.

SQC 1 ASKED

Does the firm have the required policies and procedures? Compliance demonstrated by establishing and maintaining the required elements.

SQM 1 ASKS

Does the firm's system actually reduce the quality risks specific to this firm, and how does the firm know? Quality requires a managed, evidenced, firm-specific system.

That second question cannot be answered by a policy manual. It requires a system that identifies this firm's specific quality risks, designs responses proportionate to those risks, monitors whether those responses are working, and evaluates the system's effectiveness annually against evidence from monitoring.

The firms that will be well-positioned when inspections begin are the ones answering the second question now. The firms that will struggle are the ones that will answer the first question — thoroughly, professionally, and on time — and believe they have done what the standard requires.

> ***"SQM 1 does not ask whether the firm has a policy. It asks whether the firm's system actually reduces the quality risks specific to this firm, and how the firm knows."***

What the International Experience Shows

ISQM 1 became effective in December 2022. The data is in. The pattern is consistent.

The International Data

ISQM 1, the international equivalent, became effective in December 2022. Several years of implementation experience is now documented in inspection findings from the UK's FRC, Australia's ASIC, and the IFIAR's annual survey.

The pattern is consistent. Firms implemented the standard. They designed systems, documented policies, assigned responsibilities. And then inspections found that monitoring was shallow, root cause analysis was absent, and annual evaluations were based on whether policies existed rather than whether the system was working.

IFIAR 2025 Annual Survey — 52 jurisdictions, 6 global audit networks

Audits with at least one inspection finding:
47% (2014) → **26%** (2022) → **35%** (2025)

> ***"Implementation did not automatically produce quality improvement. In many cases, it produced quality documentation. That is the trap Indian firms must avoid."***

Three Questions Every Managing Partner Should Ask Now

Before the notification, before the deadline, before the implementation pressure begins, three questions will reveal whether a firm is building a system or a document.

Can we explain why our quality risks are different from every other firm's?

SQM 1 requires a firm-specific risk assessment — one that reflects this firm's client portfolio, service mix, personnel profile, and operating environment. A risk assessment that could apply unchanged to any firm has met the form of the standard without its substance.

Does our monitoring tell us whether quality objectives are being achieved?

Cold file reviews that check whether confirmations were sent and procedures were signed off are compliance checks. Quality monitoring asks whether judgements were sound, whether scepticism was applied, whether conclusions are defensible.

When we find a deficiency, do we ask why it occurred?

Root cause analysis is the most consistently underdeveloped element in international ISQM 1 implementation. General update training addresses none of the three real questions: what went wrong, what allowed it, and what culture created conditions for it.

The Cultural Shift That the Standard Requires

SQM 1's deepest requirement is not procedural. It is cultural.

From Compliance to Quality

SQM 1 asks firms to move from the question "Have we complied with the quality standard?" to the question "Are we producing high-quality audits, and how do we know?"

The second question requires data, honest self-assessment, and the willingness to act on what monitoring reveals. It requires a Managing Partner who treats quality management as a practice management tool — using monitoring findings to inform resourcing decisions, training investments, and client acceptance choices — not as a year-end filing obligation.

In smaller practices, this cultural shift is often harder to achieve than in larger firms, not because the standard is more demanding at smaller scale, but because quality management responsibilities frequently sit with one or two partners who also carry full client loads. The standard is proportionate to firm size and complexity. The cultural commitment it requires is not.

> ***"The firms that build quality management culture now — before the notification, before the deadline, before the inspection — will face their first quality management reviews from a position of genuine readiness. The firms that build a document will face those reviews with a gap between what is described and what is real. That gap is precisely what inspections are designed to find."***

The Question That Matters

Before the standard is effective, before the notification lands, before the implementation clock begins, one question should be asked honestly:

> Does our firm manage audit quality, or does it document it?

The international experience is unambiguous about what each answer looks like in practice, and what inspection subsequently finds when the answer is the latter.

The notification will start the compliance clock. Whether it starts a quality management journey is a decision each firm must make for itself — and the firms that make it now, before the clock starts, will be the ones that the clock does not catch out.

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