Networking & Multi Disciplinary Practice.. Connect Share and Grow

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Introduction

- Networking Guidelines were introduced in the year 2005 and were proactively revised by the Institute twice in 2011 and 2021 respectively
- The expected momentum could not be gained
- Main Reasons attributed are:
  - Non-Recognition of the Alliance/ Network
  - Restrictions on account of Independence of Auditors
  - Inability to handle Internal Frictions with growing constituent firms
  - Lack of understanding the pros & cons of Networking
  - Non-availability of a Unified Platform for collaborating

CONCERNS RELATING TO GROWTH OF INDIAN CA FIRMS

Majority CA firms are SMPs

Large number of firms have confined practice to audit and taxation

Many firms have audits allotted through the ICAI-PDC empanelment process

Attachment with firm name dissuades Merger or network due to fear of loss of identity

Client switches over to larger firm when his business needs increase

Need of the hour is to venture into non-traditional practice areas, specialism and forming large structure by networking

Firms that have developed expertise or specialization and networked have prospered

Objectives

- Wider co-operation amongst the professionals
- Wider professional reach
- Sharing of common name of Network, if desired by Network firms
- Showcase their combined strength for securing professional work.
- Pooling of knowledge, guidance, training, resources and infrastructure.
- Sharing of costs, methodologies, practices, strategy, quality control procedures etc., in domestic and international markets
- Referral practices
- Common branding and marketing efforts
- Wider geographical presence
- Capacity and Capability building

Important Riders

- A Network will only be recognized, if registered with the ICAI.
- Networking Guidelines do not intend to override specific regulations applicable to such entities.
- Initially networking may not create new professional opportunities but eventually, if the model succeeds, the firms will stand to gain substantially.
- No model of network is successful unless networking can result in substantially more earnings to all the firms in the network.
- Wherever appointment letter is taken in the name of Lead firm, other firms, though they may contribute in completing the assignment, but may not be able to claim credit of experience of task.
- Coming together of firms is basically for non-audit services.

Need of the hour

- It is important to enable Indian CA firms to come together and grow stronger so that they can serve the need of the country.
- The Indian CA firms have to be given opportunity for pooling resources, expertise and build a Pan India presence.
- Small and medium practitioners (SMPs) to stay relevant with the times.
- Indian CA Firms to come together as India move to become a $5 trillion economy.
- Indian CA firms should make efforts to have global presence.

ICAI Council Initiative .. 1/3

- Form LLPs so as to overcome the limitation of number of partners
- To merge practicing firms so as to form a larger structure, with a provision to demerge within 5 years, if merger is not meeting the objective;
- To establish multidisciplinary firms, working together with other professionals such as Cost Accountants, Company Secretaries, Advocates, Engineers, Architects and Actuaries
- To form Network with other firm(s)
- To put in efforts to secure recognition of the combined strength and resources of Network Firms.
- To develop Model deed/ template

Latest ICAI Council Initiative .. 2/3

- ICAI has constituted Committee for Aggregation of CA Firms (CACAF) during 2024-25
- Committee for Aggregation of CA Firms (CACAF) has proposed *(yet to implement)* a new model of networking, Approach III named as LLP Firm Network Model, whereby allowing LLP firm where more than 50% of partners are Chartered Accountants and is registered with ICAI to join an existing LLP firm as a partner firm.
- Advantages expected:
  - to tap the synergy of incoming LLP firms as partners,
  - giving lot of scope and flexibility for practicing freely and most
  - prompt recognition by the regulators to the combined strength and
  - massive geographical presence.
  - This may provide as the first stair of the ladder of becoming top Indian CA Firm

Latest ICAI Council Initiative ..3/3

- ICAI expects to finalize the international networking guidelines for Indian Chartered Accountant firms this fiscal to make them bigger and global
- ICAI is working on ways as part of larger efforts to make the country a global accounting and auditing hub
- If two CA firms are merging, they were earlier not allowed to demerge after five years of the merger. The time period has been extended to 10 years
- ICAI is making efforts to ease the norms that restrict CAs from advertising their services or soliciting clients

“The Guidelines for Networking”
ICAI
w.e.f. 9th February, 2021

MODELS OF NETWORKING

APPROACH A
ALLIANCE

APPROACH B1
NETWORK OF FIRMS

APPROACH B2
LEAD FIRMS

Meanings

Alliance Model	Network Model	Network Lead Firm Model
Approach A	**Approach B1**	**Approach B2**
"& Alliance"	"& Affiliates" or "Network"	"& Affiliates" or "Network" to the Lead Firm
Different firms coming together to form an Alliance with a new name of Alliance and continuing to practice independently and can showcase as an Alliance to the world.	Network of firms with a new Network name and practicing in existing model in individual firm name.	Network of firms with a new Network name, with a Lead firm acting on behalf of constituent firms of Network in terms of Internal Agreement.

ICAI Registration

Alliance Model	Network Model	Network Lead Firm Model
Approach A	**Approach B1**	**Approach B2**
Alliance will be registered with ICAI. ICAI will allot unique Alliance Registration Number (ARN). Copy of Internal Agreement to ICAI.	Network will be registered with ICAI. ICAI will allot unique Network Registration Number (NRN). Copy of Internal Agreement to ICAI.	Network will be registered with ICAI. ICAI will allot unique Network Registration Number (NRN). Copy of Internal Agreement to ICAI.

Characteristics

	Alliance Model	Network Model	Network Lead Firm Model
	Approach A	**Approach B1**	**Approach B2**
Individual Practice	Allowed	Allowed	Allowed
Association with another Alliance or Network	Not Allowed	Not Allowed	Not Allowed
Audit & Non-audit work; Stat./Non-Stat. audit 'simultaneously by Member Firms'	Not Allowed	Not Allowed	Not Allowed
Rotation of audit 'amongst constituent firms'	Not Allowed	Not Allowed	Not Allowed

Characteristics

	Alliance Model	Network Model	Network Lead Firm Model
	Approach A	**Approach B1**	**Approach B2**
Sharing of Fee/Profit	Allowed	Allowed	Allowed
'Multiple Lead Firms' in a Network on the basis of Expertise	NA	NA	Allowed
Signing of Reports / Certificates	A partner of firm that gets appointment	A partner of firm that gets appointment	A partner of lead firm
Application of Code of Ethics	Yes	Yes	Yes

Characteristics

	Alliance Model	Network Model	Network Lead Firm Model
	Approach A	**Approach B1**	**Approach B2**
Accountability	the firms that have jointly executed the assignment will be accountable	the firms that have jointly executed the assignment will be accountable	the firms that have jointly executed the assignment will be accountable
Reconstitution	Firms are free to join and exit Alliance	Firms are bound by Network's internal integration agreement.	Firms are bound by Network's internal integration agreement.

Characteristics

	Alliance Model	Network Model	Network Lead Firm Model
	Approach A	**Approach B1**	**Approach B2**
Exit / Closure	Easy; If one or more firms quit the Alliance, remaining firms can do the work they have secured by virtue of Alliance.	Easy; If one or more firms quit the Alliance, remaining firms can do the work they have secured by virtue of Network.	Easy; If one or more firms quit the Alliance, remaining firms can do the work they have secured by virtue of Network.
	NA	NA	If Lead firm quits, then it will have to share the fees with other constituent firms.

Characteristics

	Alliance Model	Network Model	Network Lead Firm Model
	Approach A	**Approach B1**	**Approach B2**
Empanelment	All firms belonging to Alliance can apply separately as individual firms.	All firms belonging to Network can apply separately as individual firms.	Only the Lead firm can apply for empanelment and not the other member-firms.
Signing of Reports / Certificates	A partner of firm that gets appointment	A partner of firm that gets appointment	A partner of lead firm

Registration with ICAI - Forms

	Alliance Model	Network Model	Network Lead Firm Model
	Approach A	**Approach B1**	**Approach B2**
Application For Approval Of Name	Form A	Form A	Form AA
Application For Registration	Form B	Form B	Form BB
Declaration For Change In Constitution	Form C	Form C	Form CC

ICAI Registration – Naming Provisions [Regulation 190(2)(ii)]

- Name approval will be subject to availability of proposed name for which application is required to be filed in Form A/AA
- Name of Network should resemble name of member-firms or a combination of their acronym.
- Network should not bear the name of god/goddess/deity or which has no relationship with name of member-firms
- Descriptive name will <u>not be allowed</u>
- Names which `smack of ' publicity will <u>not be allowed</u>
- ICAI shall approve or reject the name of a Network within a period which shall not be later than 30 days from the date of receipt of the said Form A.

ICAI Registration of a Network – Other guidelines

- Name approved, it shall be reserved for a period of three (3) months from the date of approval.
- A Network shall come into existence only if it is registered with the ICAI and for which an application in the prescribed Form B/BB shall be duly filed.
- Every agreement, bye-law, MOUs, by whatever name called, must be filed with ICAI, without which registration will not be given.
- The ICAI shall register or reject the application within 30 days of filing the application or submission of information as desired by the ICAI
- A Network Registration Number (NRN) and a certificate of registration to this effect will be issued by the ICAI
- Unregistered Networks are not permitted to derive undue advantage over registered networks. However, all restrictions imposed by Network Guidelines on registered Networks will be applicable on unregistered networks.

ICAI Registration of a Network – Change in Constitution

- In case of change in the constitution of a registered Network on account of any entry into or exit from or a discontinuation of the Network, the Network shall communicate the same to the ICAI by filing a prescribed Form C/CC within a period of thirty (30) days from the date of such change

- Revised certificate of registration will be issued by the ICAI in this regard.

- In case, an intimation is received at ICAI beyond 30 days, then the change in constitution or discontinuation, as the case may be, will be reckoned from the date of receipt of intimation at ICAI.

- The Network will cease to exist, in case only **one entity remains** in Network on account of change in constitution of Network

Framework of internal byelaws of a Network

- Appointment of a Managing Committee, from among the managing partners of the member firms of the Network and the terms and conditions under which it should function. The minimum and maximum number of members of the Managing Committee shall also be agreed upon.
- Administration of the Network
- Contribution of membership fees to meet the cost of the administration of the Network.
- Identifying a partner of any of the member firms of the Network to be responsible for the administration of the Network
- Dispute settlement procedures through arbitration and conciliation and assumption of liabilities
- Development of training materials for members of the Network
- Development and maintenance of data bases relevant for different types of assignments
- Library
- Appointment of a technical director to whom references can be made
- Development of software and tools for the use of member firms
- Resource sharing arrangements

Network – Other issues

- In all professional stationery, the member-firms can mention that they are member-firms of so & so Network. The Network can also mention in its professional stationery that so & so firms are part of its Network
- Documents such as deeds, MOUs, forms can be signed by the Managing Partner of each of the member-firms and need not be signed by all partners.
- Only firms and LLPs can become member-firms in Alliance/ Network. Individual practitioners are not permitted to be part of Alliance/Network.
- The legal status of Alliance/ Network can be that of AOP as recognised by tax laws. Alliance/ Network may 'open bank accounts in its own name', obtain PAN and GST registration.
- Alliance/ Network can take up non-attest assignments in its own name, if work is so assigned.
- Alliance/ Network may prepare a common balance sheet and get the same audited.
- Alliance/ Network can have website of its own.
- Globally Networks are not given work, but their combined strength is recognized.
- Entities having majority of common partners shall join only one Network.

GUIDELINES FOR FORMATION OF MULTI-DISCIPLINARY PARTNERSHIP (MDP) by ICAI w.e.f. 8th July, 2021

(Regulation 53B read with Regulation 190 of the Regulations)

Objective

- To guide the chartered accountants in practice for entering into partnership with the members of the professional bodies as prescribed in Regulation 53B of the Regulations.
- In a multidisciplinary partnership, Chartered Accountants will share fees or enter into partnerships with professionals from different disciplines.

Professional Bodies Allowed

- **Company Secretary,** member, The Institute of Company Secretaries of India , established under the Company Secretaries Act, 1980;
- **Cost Accountant,** member, The Institute of Cost and Works Accountants of India established under the Cost and Works Accountants Act, 1959;
- **Advocate,** member, Bar Council of India established under the Advocates Act, 1961 (subject to amendment in Bar Council of India Rules);
- **Engineer,** member, The Institution of Engineers, or Engineering from a University established by law or an institution recognized by law;
- **Architect,** member, The Indian Institute of Architects established under the Architects Act, 1972;
- **Actuary,** member, The Institute of Actuaries of India, established under the Actuaries Act, 2006

Constitution

- MDP CAs in practice can be constituted as a partnership firm as per the Indian Partnership Act, 1932 or as a limited liability partnership firm as per the Limited Liability Partnership Act, 2008.
- Registration of MDP CAs in Practice with the ICAI is mandatory
- It is the duty of MDP CAs in Practice to submit the documentary evidence of membership of respective professional body in case of partners who are not the members of the Institute of Chartered Accountants of India

Application Form

- MDP CAs in Practice, if it is a new firm to be constituted, then for the approval of its trade name or firm name shall apply to the Council in Form 117 as prescribed under Regulation 190 of the Regulations. Conditions for its name and all other conditions as prescribed under that Regulation shall apply.

- MDP CAs in Practice or an existing CA in practice or a CA firm is intending to admit any of the members of the professional bodies as prescribed under Regulation 53B of the Regulations, then it shall submit the details prescribed in Form 18 as prescribed under Regulation 190 of the Regulations.

Name

- MDP CAs in Practice shall have distinct name which shall be approved by the Institute. To distinguish MDP CAs in Practice from other firms of chartered accountants, the suffix "multi-disciplinary partnership firm of chartered accountants in practice" shall be used after the name of MDP CAs in Practice.

  For Example: *ABC & Co, Chartered Accountants after Conversion to MDP will be named as..*

  ABC & CO,
  Multi-disciplinary Partnership of Chartered Accountants

- The registration number of MDP CAs in Practice shall contain the abbreviation "MDP" to distinguish it from registration number of other firms of chartered accountants.

- The converted CA firms into MDP will contain a second line containing FRN with abbreviation

  For Example: *FRN 123456W after Conversion to MDP will be as follows..*

  FRN: 123456W
  MDPN: MDP000001W

Services to be rendered by MDP CAs in Practice

- MDP CAs in Practice can render all services as prescribed in Section 2(2) of the Chartered Accountants Act, 1949 read with Regulation 190A of the Regulations.

- MDP CAs in Practice can also render services allowed to be performed by `other professionals' who are its partners.

Audit under the Companies Act, 2013

- Section 141(1) of the Companies Act, 2013: A person shall be eligible for appointment as an auditor of a company only if he is a chartered accountant. Provided that a firm whereof majority of partners practising in India are qualified for appointment as aforesaid **may be appointed** by its firm name to be auditor of a company.
- Accordingly, MDP CAs in Practice are eligible for statutory audit under the Companies Act 2013 in case majority of its partners are CAs.
- Section 141(2) of the Companies Act, 2013: Where a firm including a limited liability partnership is appointed as an auditor of a company, only the partners who are chartered accountants shall be authorised to act and sign on behalf of the firm.
- 'Majority criteria' for the purpose of computing eligibility of MDP CAs in Practice shall be calculated both on the basis of the number of partners as well as their aggregate share of profits in MDP CAs in Practice so that the majority criteria is clearly established.
- Also, with regard to computation of ceiling limits as per Section 141(3)(g) of the Companies Act, 2013 read with the Guidelines of the Council of the Institute, practicing chartered accountant partners alone shall be considered.

Share of Profits, Administration, Management & Functional Responsibility

- It is the discretion of MDP CAs in Practice to decide the share of profits of each partner among themselves.
- The functions, powers, authorities, duties, rights, responsibilities, liabilities and disputes among the partners shall be mutually agreed as per the partnership deed.
- Every year the Head Incharge of the MDP will submit the KYC documents on behalf of the non-CA partners
- Non-CA professionals cannot become partner of more than one MDP of CAs
- Head Incharge of MDP of CAs cannot become partner of any other MDP firms registered with other professional body

Reconstituition

Reconstitution of MDP CAs in Practice (Admission, retirement, death):

- In case of any change in partners (admission, retirement, death) or any change in details of partners, MDP CAs in Practice will be required to submit the necessary particulars to the Institute in Form 18 within 30 days of such change
- If all other Non-CAs in a MDP CA Firms leave the firm, then the firm has to add other non-CA professionals (As prescribed under the Act) within 60 days from the date of leaving of all other Non-CAs from the MDP, failing which it will lead to :
  - Automatic closure of MDP
  - Conversion of MDP firm into CA Firm and deletion of the second line (Multi-disciplinary Partnership of Chartered Accountants or MDP of Chartered Accountants)
- The MDP of CA Firms will be allowed to merge with any other MDP CA Firms or demerge as per the prescribed guidelines.

Other Matters

Fees for Professional Services:

The conditions stipulated under Regulation 192 of the Regulations shall apply to MDP CAs in Practice *(fee based on a percentage of profits, or which are contingent upon the findings)*

Other Business or Occupation:

For chartered accountant partners of MDP CAs in Practice, engaged in any other business or occupation or part time employment, the provisions of Regulations 190A *(not to engage in any other business or occupation)* and 191 *(parttime employment for CA in Practice)* of the Regulations shall apply.

Professional Address of the Partners:

For the professional address of the partners of MDP CAs in Practice, the provisions of Regulation 187 of the Regulations shall apply.

Disciplinary proceedings:

shall be taken on any partner who violated provisions of law as per respective Act

ADVANTAGES OF NETWORKING AND MULTI –DISCIPLINARY PARTNERSHIP

- **Access To Better Quality Corporate / Clients based on:**

  Firm branding; In-house strength; Better quality output
- **Better Empanelment Work and formation of Bigger Firms**
- **Enables Specialization:**

  Develop Vertical; Develop Teams; Retain Talent; Higher Fees, Better Brand; Value for service
- **Geographical Expansion:**

  Satellite offices; Business sourcing points & output for personalized services;

  International Clients / International offices; Shift to consulting
- **Cross Selling Advantage:**

  Providing umbrella services; Transaction Advisory; Monetarily enriching with lesser efforts and proven track record; Offering technology solutions
- **Economies of Scale**

THANK YOU