

The Guidelines for Networking of Indian CA firms, 2021

CA ATUL C. BHEDA MUMBAI

Bcom, FCA, LLB(gen), DISA(ICA)



Pointers For Discussion

- Current trends in Practice
- New Types of Networkings
- Silent Features of Alliance/ Network
- Characteristics of Different Models
- Modalities of working and framework of internal byelaws of Different Models

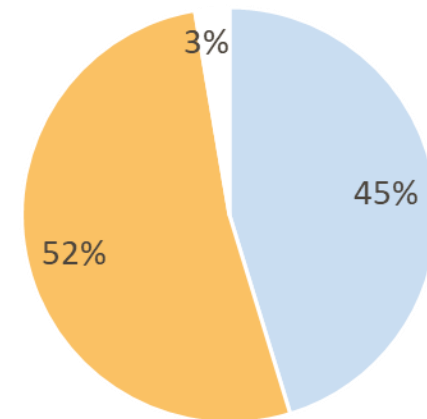


Current trends in Practice

Quick Facts About Our Profession

Year	Proprietorship	Partnerships	Total
2020	64,423	25,339	89,762*
2019	52,374	22,783	75,157
2018	49,392	21,831	71,223
2017	45,956	20,960	66,916
2016	43,080	18,870	62,950
2015	41,808	18,749	60,557
2014	40,768	17,649	58,417
2013	38,263	16,072	54,335
2012	35,127	14,556	49,683
2011	33,093	13,853	46,946
2010	32,235	13,536	45,771
2009	31,871	13,179	45,050
2008	32,001	13,209	45,210
2007	32,165	13,439	45,604
2006	31,950	13,753	45,703

No. of partners	Firms
2	13,217
3-10	11,741
11-20	332
21-50	40
More than 50	9



■ Full time COP ■ No COP ■ Part time COP

*Firm count data as on April 1, 2020



Current trends in Practice

- Practice in individual name
- Practice as a sole proprietary firm
- Practice as a partnership / Limited Liability Partnership firm
- Merger of two or more firms
- Network firms



Current trends in Practice...

- Majority CA firms are small sized firms.
- A large number of firms have confined practice to audit and taxation.
- Many firms have audits allotted through the ICAI-PDC empanelment process.
- Members have attachment with their firm name and do not want to go for Merger or Network due to fear of loss of identity.



Current trends in Practice...

- When client grows bigger, they tend to switch over to a larger firm
- Firms that have ventured into newer areas of practice have found success.
- Firms that have developed expertise or specialisation have prospered.
- Firms that have a larger structure have by and large scaled up.




Networking Journey

- ICAI issued Network Guidelines for the first time in the year 2005
- The same was revised by the Council in the year 2011.
- These guidelines did not fetch expected level of results and only close to 100 networks could get registered with ICAI



Impediments for Network

- Network amongst Indian CA firms is not recognized by appointing authorities
- Confusion as to under which legislation, a Network should be registered
- Network cannot take up assignment in its own name
- Fear of being over-shadowed by Network, thereby loss of identity by individual firms.



New Types of Networkings



New Types of Networkings

- Alliance
- Networking
- Lead Firm

(This is for networking amongst domestic CA firms only)



Alliance

- 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.



Networking

- Different firms coming together to form a Network with a new Network name and practicing in the name of firms belonging to Network subject to internal integration agreement. They can showcase their combined strength.



Lead Firm

- Different firms coming together to form a Network . By way of an internal agreement amongst the firms, one of the firms will be chosen as the Lead firm. This Lead firm will bid for professional work on the basis of the combined strength and resources of the Network firms



Silent Features of Alliance/ Network



Silent Features of Alliance/ Network

- Firms might need to have detailed knowledge of other firms to make up their mind as to with which firm they will go for Alliance/ Networking. Therefore, data of firms will be made available in the Self Service Portal for the members to view and take informed decision.
- Any firm of Chartered Accountants can become a part of any one Alliance or any one Network. If it intends to become part of one Alliance, it cannot become part of a Network, and vice versa



Silent Features of Alliance/ Network....

- Alliance/ Network will be permitted as joint ventures for specific assignments.
- 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.
- Every agreement, bye-law, MOUs, must be filed with ICAI



Silent Features 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.



Name of Alliance/ Network

- Name of Alliance/ Network should resemble name of member-firms or a combination of acronym.
- Alliance/ Network should not bear the name of God/ Goddess/ deity or which has no relationship with name of member-firms.
- Descriptive names will not be allowed.
- Names which smack of publicity will not be allowed.
- Names which resemble any of the existing firms or network will not be allowed.
- In case of Brand name, it should be owned only by Indian citizen who is resident in India.



Characteristics of Different Models

Characteristics of Different Models

S.No	Criteria	Alliance Model	Network Model	Lead Firm Model
1	Name	<ul style="list-style-type: none"> When four firms viz. A & Co., B & Co., C & Co. and D & Co. come together to form an Alliance, they may name their Alliance as "ABCD". In case they wish to use suffix, they will use the suffix "& Alliance" to their common name to make it "ABCD & Alliance". In all professional stationery, the member-firms can mention that they are member-firms of so & so Alliance. 	<ul style="list-style-type: none"> When four firms viz. A & Co., B & Co., C & Co. and D & Co. come together to form a Network, they may name their Network as "ABCD". In case they wish to use suffix, they will use the suffix "& Affiliates" or "Network" to their common name to make it "ABCD & Affiliates" or "ABCD Network". In all professional stationery, the member-firms can mention that they are member-firms of so & so Network. 	<ul style="list-style-type: none"> When four firms viz. A & Co., B & Co., C & Co. and D & Co. come together to form a Network, they will suffix "& Affiliates" or "Network" to one of the firms selected by constituent firms as Lead firm e.g. if A & Co. is chosen as Lead firm, then name of Network will be "A & Co. & Affiliates". In all professional stationery, the member-firms can mention that they are member-firms of so & so Network.

Characteristics of Different Models...

S.No	Criteria	Alliance Model	Network Model	Lead Firm Model
2	Registration	<ul style="list-style-type: none"> Alliance will be registered with ICAI. ICAI will allot unique Alliance Registration Number (ARN) 	<ul style="list-style-type: none"> Network will be registered with ICAI. ICAI will allot unique Network Registration Number (NRN) 	<ul style="list-style-type: none"> Network will be registered with ICAI. ICAI will allot unique Network Registration Number (NRN)
3	Empanelment	<ul style="list-style-type: none"> All firms in Alliance can apply for empanelment separately as individual firms. 	<ul style="list-style-type: none"> All firms belonging to Network can apply for empanelment, separately as individual firms. 	<ul style="list-style-type: none"> Lead firm is entitled to apply for empanelment in its own name, but by way of internal agreement, it will be on behalf of entire Network. When Lead firm applies for empanelment, other constituent firms cannot apply.

Characteristics of Different Models...

S.No	Criteria	Alliance Model	Network Model	Lead Firm Model
4	Practice	<ul style="list-style-type: none"> Firms are free to carry on practice as independent firms, despite being constituents of Alliance. Alliance may direct the best practices to be followed by individual constituent firms. 	<ul style="list-style-type: none"> Firms are bound by internal integration agreement, and practice as independent firms, subject to internal agreement. Network's decision prevails upon other firms. 	<ul style="list-style-type: none"> Firms can have an internal agreement recognising one of the firms as the lead firm, depending upon the specialism and expertise required for each assignment. The individual firms can carry on practice as independent firms.
5	Conflict	<ul style="list-style-type: none"> Conflict exists e.g. if one firm does statutory audit of an entity, another firm in Alliance cannot do internal audit. 	<ul style="list-style-type: none"> Conflict exists e.g. if one firm does statutory audit of an entity, another firm in Network cannot do internal audit. 	<ul style="list-style-type: none"> Conflict exists e.g. if one firm does statutory audit of an entity, another firm in Network cannot do internal audit.

Characteristics of Different Models...


S.No	Criteria	Alliance Model	Network Model	Lead Firm Model
6	Characteristics	<ul style="list-style-type: none"> Since all constituents are Indian CA firms, referral of work and sharing of fees! profits is permitted. 	<ul style="list-style-type: none"> Individual firms take up professional work on their own, and a partner of said firm can sign the reports and documents Since all constituents are Indian CA firms, referral of work and sharing of fees! profits is permitted. 	<ul style="list-style-type: none"> Individual firms take up professional work on their own, and a partner of said firm can sign the reports and documents Since all constituents are Indian CA firms, referral of work and sharing of fees! profits is permitted.
7	Accountability	<ul style="list-style-type: none"> In case delinquency occurs in a particular assignment, then the firms that have jointly executed the assignment will be accountable. Therefore, division of work needs to be well documented. 	<ul style="list-style-type: none"> In case delinquency occurs in a particular assignment, then the firms that have jointly executed the assignment will be accountable. Therefore, division of work needs to be well documented. 	<ul style="list-style-type: none"> In case delinquency occurs in a particular assignment, then the firms that have jointly executed the assignment will be accountable. Therefore, division of work needs to be well documented.

Characteristics of Different Models...


S.No	Criteria	Alliance Model	Network Model	Lead Firm Model
7	Accountability	<ul style="list-style-type: none"> • A partner of firm that gets appointment will sign reports and certificates. • Alliance shall have to submit to ICAI copy of internal agreement signed by an authorised partner of all constituent firms. 	<ul style="list-style-type: none"> • A partner of firm that gets appointment will sign reports and certificates. • Network shall have to submit to ICAI copy of internal agreement signed by an authorised partner of all constituent firms 	<ul style="list-style-type: none"> • A partner of lead firm will sign reports and certificates, as it is the lead firm which will get the appointment. • Network shall have to submit to ICAI copy of internal agreement signed by an authorised partner of all constituent firms.
8	Reconstitution	<ul style="list-style-type: none"> • Firms are free to join and exit Alliance. • Reconstitution has to be registered with ICAI 	<ul style="list-style-type: none"> • Firms are bound by Network's internal integration agreement. • Reconstitution has to be registered with ICAI 	<ul style="list-style-type: none"> • Firms are bound by Network's internal integration agreement. • Reconstitution has to be registered with ICAI

Characteristics of Different Models...

S.No	Criteria	Alliance Model	Network Model	Lead Firm Model
9	Exit/ Closure	<ul style="list-style-type: none"> • Much more easier to quit the arrangement If one or more firms quit the Alliance, it will not deprive the remaining firms from doing the work they have already secured by virtue of Alliance. 	<ul style="list-style-type: none"> • Easy to quit the arrangement If one or more firms quit the Network, it will not deprive the remaining firms from doing the work they have already secured by virtue of Network. 	<ul style="list-style-type: none"> • Easy to quit the arrangement If one or more firms quit the Network, it will not deprive the remaining firms from doing the work they have already secured by virtue of Network. If Lead firm quits the network, after having secured professional work, then it will have to share the fees with other constituent firms.
10	Relevant Forms	<ul style="list-style-type: none"> • <u>Form A</u> • <u>Form B</u> • <u>Form C</u> 	<ul style="list-style-type: none"> • <u>Form A</u> • <u>Form B</u> • <u>Form C</u> 	<ul style="list-style-type: none"> • <u>Form AA</u> • <u>Form BB</u> • <u>Form CC</u>




Modalities of working and framework of internal byelaws




Modalities of working and framework of internal byelaws of an Alliance

- An Alliance arrangement may include the following
 - Administration of the Alliance
 - Dispute settlement procedures through arbitration and conciliation and assumption of liabilities
 - Resource sharing arrangements
- Alliances may not be given professional assignment in their own name, but their combined strength may be recognised. Potential clients can assign non-attestation work in the name of Alliance.
- While submitting a bid, individual member firms belonging to the Alliance may be assessed in terms of their own strength. All firms belonging to Alliance can apply for empanelment separately as individual firms.
- 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" issued by ICAI is applicable to firms and Alliances.




Modalities of working and framework of internal byelaws of an Alliance

- In a situation where the client or empanelment/ appointment authority awards work based on the combined strength of Alliance, a subsequent change in constitution of the Alliance will not debar rest of the constituent firms from executing the work.
- If the Alliance is unable to discharge the work because one or more firms have left, it can always resign from the assignment.
- Alliances can register themselves as AOPs as recognised under income-tax laws. Alliances may form AOP and open bank account in their own name, obtain PAN and GST registration.
- Income received by AOP can be distributed as per MOU entered into amongst the member-firms of Alliance. IT returns will have to be filed by AOP.
- AOPs can prepare common balance sheet and get it audited.




Modalities of working and framework of internal byelaws of a Network

- A Networking arrangement, may include the following:
 - 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
 - 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



Modalities of working and framework of internal byelaws of a Network

- Globally Networks are not given work, but their combined strength is recognised. Potential clients can assign non-attestation work in the name of Network.
- All firms belonging to Network can apply for empanelment separately as individual firms.
- 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" issued by ICAI is applicable to firms and networks.
- In a situation where the client or empanelment/ appointment authority awards work based on the combined strength of Network, a subsequent change in constitution of the Network will not debar rest of the constituent firms from executing the work.
- Networks can register themselves as AOPs as recognised under income-tax laws. Networks may form AOP and open bank account in their own name, obtain PAN and GST registration.
- Income received by AOP can be distributed as per MOU entered into amongst the member-firms of Network. IT returns will have to be filed by AOP.
- AOPs can prepare common balance sheet and get it audited.




Modalities of working and framework of internal byelaws of a network with Lead Firm

- A Networking arrangement, may include the following:
 - 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
 - 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



Modalities of working and framework of internal byelaws of a network with Lead Firm

- Globally Networks are not given work, but their combined strength is recognised. Potential clients can assign non-attestation work in the name of Network.
- The constituent firms will be at liberty to choose a different constituent firm as the Lead firm to represent the Network, depending upon the specialism and expertise required for a particular assignment.
- By way of an internal agreement amongst the firms, one of the firms will be chosen as the Lead firm. Only the Lead firm can apply for empanelment and not the other member-firms. While submitting a bid, the lead firm belonging to the Network may get credit points for the combined resources of the whole of the Network firms.
- The Network firms may decide amongst themselves through agreement the strategy for execution of the professional work. They may distribute the work on the basis of expertise possessed by each firm or on the basis of geographical location of the firms or on any basis mutually acceptable to them. They will also decide how the fees will be distributed amongst the firms, on the basis of quantum of work, man-days and expenses involved.
- Since it may not be possible to obtain and execute work in the name of Network, the lead firm will secure work and distribute tasks amongst the constituent firms, provided the client has no objection for such an arrangement



Modalities of working and framework of internal byelaws of a network with Lead Firm

- 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. The situation can be met by entering into Agreement listing out respective tasks.
- 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" issued by ICAI is applicable to firms and networks
- Networks can register themselves as AOPs as recognised under income-tax laws. Networks may form AOP and open bank account in their own name, obtain PAN and GST registration.
- Income received by AOP can be distributed as per MOU entered into amongst the member-firms of Network. IT returns will have to be filed by AOP.
- AOPs can prepare common balance sheet and get it audited





Once upon a time a tortoise and a hare had an argument about who was faster.

- They decided to settle the argument with a race. They agreed on a route and started off the race.





The moral of the story is that slow and steady wins the race.



The hare was disappointed at losing the race and he did some Root Cause Analysis (RCA).

He realised that he'd lost the race only because he had been overconfident, careless and lax.



The moral of the story :

**“ Fast and Consistent will always
Beat the Slow and Steady ”**



But the story doesn't end here.

The tortoise did some thinking(RCA) this time, and realised that there's no way he can beat the hare in a race the way it was currently formatted.




The moral of the story ?

“ First identify your core competency
and then change the playing field to
suit your core competency ”




The moral of the story ?

It's good to be Individually Brilliant and to have strong Core Competencies; but unless you're able to Work in a Team and Harness each other's Core Competencies, you'll always Perform below par because there will always be situations at which you'll do poorly and someone else does well.




**There are more lessons to
be learnt from this
story.....**





Note that neither the hare nor the tortoise gave up after Failures.

The hare decided to work Harder and put in More Effort after his Failure.



The tortoise changed his Strategy because he was already Working as Hard as he could.

In life, when faced with Failure, sometimes it is appropriate to Work Harder and put in More Effort.




Sometimes it is appropriate to Change Strategy and Try something different. And sometimes it is appropriate to do both.



The hare and the tortoise also Learnt
another vital Lesson :

“ When we stop Competing against a
rival and instead start Competing
against the Situation, we Perform far
Better “



To sum up, the story of the hare and tortoise teaches us many things; Chief among them are :

- Fast and Consistent will always beat slow and steady.
- Work to your Competencies.
- Pooling resources and working as a team will always beat individual performers.
- Never give up when faced with failure; and finally,
- Compete against the situation NOT against a rival.



ANY QUESTIONS



THANK YOU