

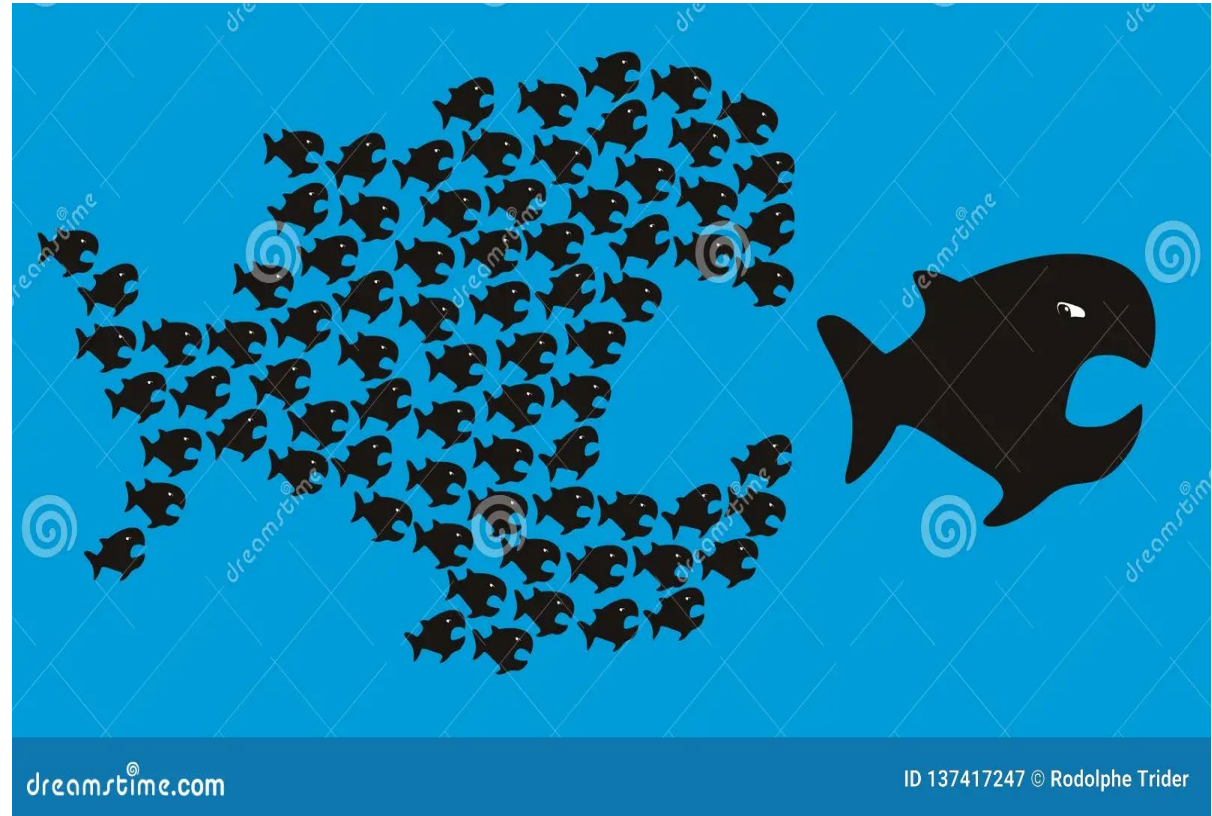


Networking & Branding of Indian CA Firms

CA. Sreenivasan P.R.

Ernakulam, Dec 05th 2023

Power of Teamwork



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CA Firms Analysis

Particulars	Numbers	%age
Proprietary firms	63019	70.65%
Partnerships having 2 to 5 partners	23968	26.87%
Partnerships having 6 to 10 partners	1784	2.00%
Partnerships having 11 to 15 partners	303	0.34%
Partnerships having more than 15 partners	126	0.14%
Total	89200	100.00%

Present models

Practice in individual name



Practice as a sole proprietary firm



Practice as a partnership / LLP



Merger of two or more firms



Network firms

Impediments to growth



Small sized firms



Practice confined only to audit and taxation



Audits allotted through ICAI-PDC empanelments



Attachment to own firm's name



Fear of loss of identity

Consequences



When clients grow - they shift to bigger firms



Firms who venture into new avenues succeed



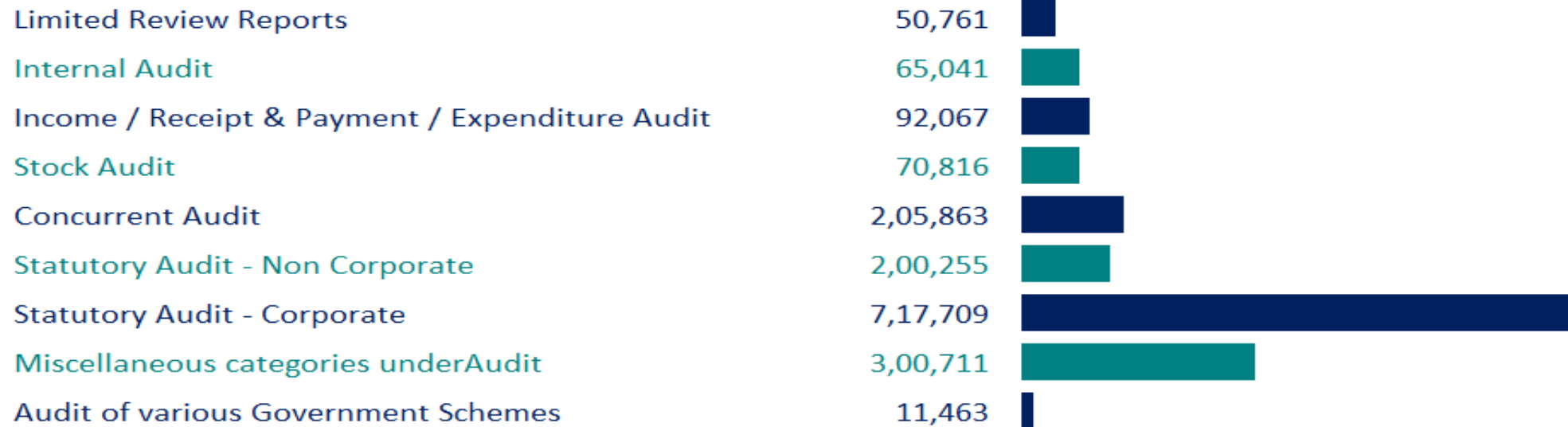
Firms who specialise prosper



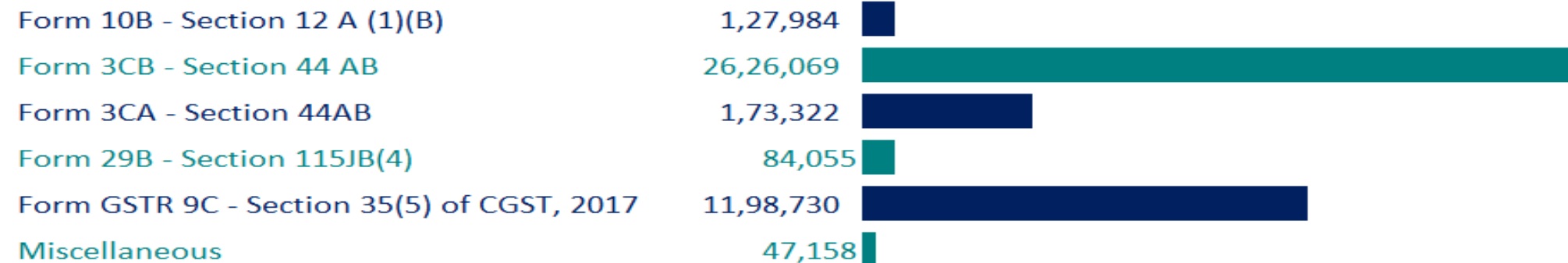
Firms who have networked scale-up

Let's Know the Statistics

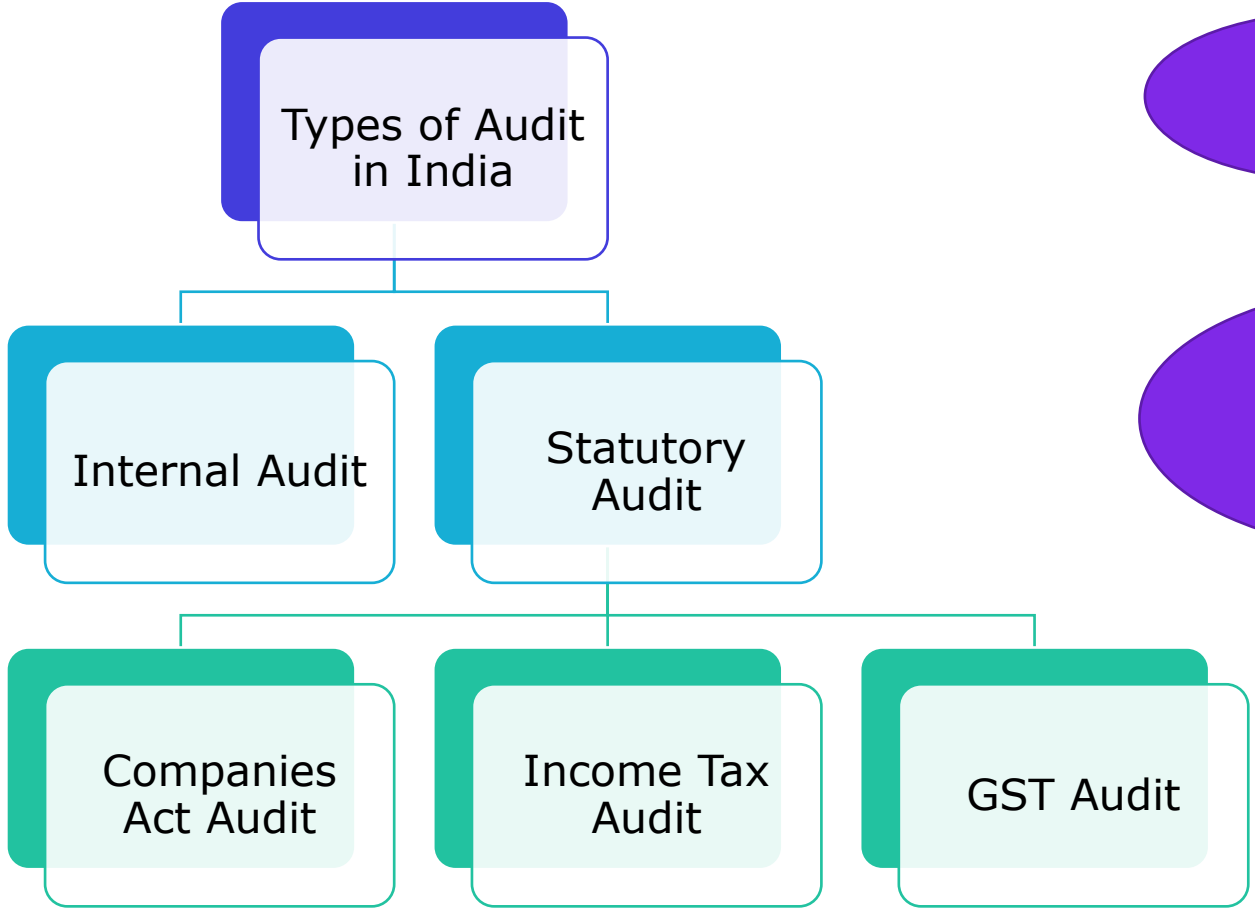
AUDIT & ASSURANCE



GST & TAX AUDIT



Current Focus Areas



Bank Audits

Project Finance

Direct and Indirect Representation

IND AS

System Audits

Opportunities to Explore

Dashboard, Data analytics and MIS Reporting

ESG (Environmental, Social and Governance) Reporting

Virtual CFO

MSME Support Services

International Liaison for Book Keeping and MIS Reporting

State and Country Industrial Policy

Forensic Accounting and Investigation Services

Internal Processes Assessment and Regulatory Compliances Services

FDI and FEMA Compliances including IEC and Customs Compliances



What looks difficult and challenging alone may be exciting to do when people come together.

Why Networking?

To enable firms to come together and grow



To serve the country as we move to a \$5 trillion economy



Export of accounting services



To achieve dream of 100 big Indian firms

Coverage in revised guidelines

- Preamble
- Concerns relating to growth of Indian CA firms
- Three models of networking - Options offered:
 - A - Alliance Model
 - B - Network Model - sub-divided into:
 - B1 - Network of firms without Lead firm concept
 - B2 - Network of firms with Lead firm concept

Preamble

ICAI

- **First issued in 2005** - In last 15 years, close to 100 networks of CA firms have been formed.
- Networking has not been popular despite tangible benefits
- Need to strengthen Indian CA firms and create large Indian CA firms
- To mitigate bottlenecks in networking

Considered by the Council at its 397th meeting held on 9th-11th January, 2021 at Kumarakom, Kerala and thereafter at its 398th meeting held on 9th-10th February, 2021 at New Delhi.



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Myths about networking



Creates professional opportunities



Clients will automatically be referred



Work will simply be shared



Geographical advantage will flow



How will networking help

- + Cost sharing
- + Knowledge sharing
- + Common branding / marketing efforts
- + Common SOP (Best practices)
- + Shared IT infrastructure
- + Common quality control procedures

3 MODELS OF NETWORKING

- Alliance.
- Networking.
- Networking with Lead Firm concept.

**Network
Model -
Purpose**

**Mutual Benefits by
pooling resources**

**Showcase their
combined strength**

**Uniform policies,
technology & collaterals**

***Showcase themselves as
ONE Big Unit***

Network Naming Style

Constituent firms will **choose one of the firms** as Lead firm e.g. A & Co. is selected as Lead Firm, then **name of Network will be "A & Co. & Affiliates" or "A & Co. Network"**

ICAI will register and allot **Network Registration Number (NRN)**

Networking – Illustrative Framework



Common administration of the network



Appointment of Managing Committee
among member firms



Developing common training manuals /
SOPs



Appointment of technical director



Development of software & tools for use of
members



Dispute settlement systems

Network – Legal Structure

Can register as
AOP

Recognised under
Income Tax -
Separate PAN

Separate GST
Registration
possible

Can open separate
bank accounts

Income
distribution as per
MOU between
member firms

Separate IT / GST
Returns may be
filed

Common Balance
Sheet / Audit

Lead Firm Model of Networking



- + Constituent firms are **bound by internal agreement**
- + Recognize one of the firms as **Lead firm**, depending upon specialism and expertise required for each assignment.
- + **Network's decision prevails upon other firms**

Alliance Model Approach



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- + Firms come together for **Mutual Benefits**
- + Constituent firms **can carry on** practice as independent firms
- + Alliance **may** direct constituent firms to follow best practices
- + Their coming together is basically for **non-audit services**.
- + For audit practice, they all remain as independent practitioners

Alliance – Easy Exit

Firms are free to join and exit Alliance.



Reconstitution has to be registered with ICAI



If one firm leaves Alliance, it will not deprive other firms from completing the work

Networking - Conflicts

"Independence" issues may arise

If one firm does statutory audit of an entity, another constituent firm cannot do internal audit.

If one firm does audit work, another constituent firm cannot perform non-audit services of same client.

Rotation of audit amongst constituent firms will not be permitted

COMPARATIVE ANALYSIS

	Alliance	Networking	Lead Firm Networking
1. Name (suffix)	"& Alliance"	"& Affiliates " or "Network"	" & Affiliates" or "Network"
2. Registration	Compulsory	Compulsory	Compulsory
3. Unique registration No.	ARN	NRN	NRN
			<i>Cont'd...</i>

COMPARATIVE ANALYSIS (Cont'd...)

	Alliance	Networking	Lead Firm Networking
4. Registration (Centralised / Decentralised)	Centralised	Centralised	Centralised
5. Use of Firm's name in Network stationery	Allowed	Allowed	Allowed
6. Use of Network name in Firm's stationery	Allowed	Allowed	Allowed
			<i>Cont'd...</i>

COMPARATIVE ANALYSIS (Cont'd...)

	Alliance	Networking	Lead Firm Networking
7. Regulation 190 (Approval of name)	Applicable	Applicable	Applicable
8. Membership of multiple networks	Not allowed	Not allowed	Not allowed
9. Firm with majority common partners in different network	Not allowed	Not allowed	Not allowed
			<i>Cont'd...</i>

COMPARATIVE ANALYSIS (Cont'd...)

	Alliance	Network	Lead Firm Networking
10. Restrictions in practice in firm name	NIL	Subject to internal agreement of Network	Subject to internal agreement of Network
11. Empanelment by Individual Firms	Allowed	Allowed	Lead Firm will apply on behalf of entire Network
12. ICAI Efforts for recognising Combined Strength	No effort as Alliance is basically for non audit services	Yes	Yes
			<i>Cont'd...</i>

COMPARATIVE ANALYSIS (Cont'd...)

	Alliance	Network	Lead Firm Networking
13. Internal/ Statutory Audit Conflict	Not Allowed	Not Allowed	Not Allowed
14. Rotation inside network	Not Allowed	Not Allowed	Not Allowed
15. Referral	Allowed	Allowed	Allowed
			<i>Cont'd...</i>

COMPARATIVE ANALYSIS (Cont'd...)

	Alliance	Network	Lead Firm Networking
16. Sharing of Fees/ Profits	Allowed	Allowed	Allowed
17. Network Bye Laws/ Agreement	Mandatory	Mandatory	Mandatory
18. Submission of Bye Law/ Agreement to ICAI	Mandatory	Mandatory	Mandatory
			<i>Cont'd...</i>

COMPARATIVE ANALYSIS (Cont'd...)

	Alliance	Network	Lead Firm Networking
19. Quality Control documentation and compliance	Not Compulsory	Compulsory	Compulsory
20. Code of Ethics	Fully applicable	Fully applicable	Fully applicable
21. Advertisement Guidelines, Website Guidelines	Applicable	Applicable	Applicable
			<i>Cont'd</i> ...

COMPARATIVE ANALYSIS (Cont'd...)

	Alliance	Network	Lead Firm Networking
22. Combined Financials Statements	Allowed	Allowed	Allowed
23. Consent of clients	Not needed	Not needed	Not needed
24. Bank account	Yes	Yes	Yes
25. PAN/GST No.	Yes	Yes	Yes
			<i>Cont'd...</i>

COMPARATIVE ANALYSIS (Cont'd...)

	Alliance	Network	Lead Firm Networking
26. Reconstitution	Free	Subject to Internal Agreement/ Bye Laws	Subject to Internal Agreement/ Bye Laws
27. Form Filing	Name Approval, Registration, Reconstitution	Name Approval, Registration, Reconstitution	Name Approval, Registration, Reconstitution

Ref: 261 Meeting of Council decided to allow Members in Practice for form Corporate Form of Practice

- Indian Chartered Accountants can **establish a Management Consultancy Company**
- **Can provide a wide spectrum of services**
- Definition of "Management Consultancy and Other Services" shall be as per Code of Ethics of ICAI.

- **Retain full-time COP** being the Managing Director/Whole-time Director
- **No restrictions on the quantum of the equity holding**
- Such member shall be regarded as being in full time practice
- Can continue to do attest function either in individual / proprietor / partner
- **Entitled** to train articled/audit assistants.
- Name of Management Consultancy Company is required to be approved by ICAI
- Please note that MCS shall neither be permitted to advertise nor use logo.

Management Consultancy and other services - **shall not include**

- + Statutory or periodical audit, tax(both direct & indirect)
- + Representation or advice concerning tax matters
- + Acting as liquidator, trustee, executor
- + Acting as administrator, arbitrator or receiver

Corporate Form of Practice

Management Consultancy & Other Services

Financial Management planning and financial policy determination

Capital Structure planning and advice regarding raising finance

Working Capital Management

Preparing Project Reports and feasibility studies

Preparing cash budget, cash flow statements, profitability statements, statement of sources & application of funds etc

Corporate Form of Practice

Management Consultancy & Other Services

Inventory Management, material handling and storage

Market Research and demand studies

Price fixation and other management decision making

Management accounting Systems, cost control and value analysis

Control methods and management information and reporting

Business Policy, corporate planning, organisation development, growth and diversification

System Analysis and design, and computer related services including selection of hardware and development of software in all areas of services which can be otherwise be rendered by CA in practice.

Mergers and Multidisciplinary Firm

**Merger and
Demerger
Guidelines**

**Multidisciplinary
Practicing Firms
(MDP)
guidelines and
approval of MCA**

Merger of firms

The Rules of Merger & Demerger are as notified by ICAI.

Partnership needs to be reconstituted

Registration of a Merger Agreement

Merger Agreement has to be filed with ICAI

Demerger can take place only if 75% or more of the Partners agree

Demerger cannot take place after 5 Years of Merger.

Difference b/w Merger and Network

Network / Alliance

- + Like a live-in relation
- + Internal rules govern
- + Common code of conduct
- + Agreement / MOU

Merger

- + Like a contract of marriage
- + Bound by deed of partnership
- + De-merger within 5 years
- + Name suspended for 5 years

Networking to Mergers – The right path



Coming together begins with networking



Networking helps to develop working relationship



Networking should mature to Mergers



Mergers give orderly and sustainable growth



Sometimes you have to
let go of one dream to
pick up another one.

Kelly Rimmer



Thank You!

CA. Sreenivasan P.R

Email: sreenivasan.p.r@icai.org