

# Webinar on Networking Guidelines



**Pune Branch of WIRC of  
ICAI**

# **“Revised Guidelines on Networking”**

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# The Institute of Chartered Accountants of India [set up by an Act of Parliament]

## THE GUIDELINES FOR NETWORKING OF INDIAN CA FIRMS, 2021





## Coverage in revised guidelines

- Preamble
- Concerns relating to growth of Indian CA firms
- Why Networking?
- Three models of networking – Options offered to Members

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

- Guidelines for Networking were issued in 2005 and then revised in 2011. 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
- ICAI has noted the bottlenecks in networking and has tried to mitigate the same in revised Guidelines which hopefully will encourage practising Members to go for Networking



# Concerns relating to growth of Indian CA firm

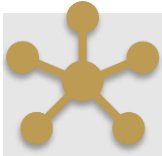


- Majority CA firms are SMPs
- Large number of firms have confined practice to audit and taxation
- Many firms have audits allotted through the ICAI-PDC empanelment process
- Attachment with firm name dissuades Merger or network due to fear of loss of identity
- Client switches over to larger firm when his business needs increase
- Need of the hour is to venture into non-traditional practice areas, specialism and forming large structure by networking



## Why Networking?

- Prime Minister's vision to create 100 big Indian CA firms
- Opportunity of pooling of resources, expertise, combined strength and showcasing pan India presence



# Making of a big firm

Approach I  
Alliance Model

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Approach II  
Network Model





**Proposed models of networking – Options offered to Members**

<b>Approach I</b>	<b>Approach II</b>	
<b>A</b>	<b>B</b>	
Different firms coming together to form an <b>Alliance</b> with a new name of Alliance and continuing to practice independently and can showcase as an Alliance to the world	Different firms coming together to form a Network with a new Network name and practicing in the name of firms belonging to Network. This Model is subdivided into following two options:	
	<b>B1</b>	<b>B2</b>
	<b>Network of firms</b> in existing model by practising in individual firm name	Network of firms with a <b>Lead firm</b> acting on behalf of constituent firms of Network



# Options proposed to be offered to the Members



APPROACH I	APPROACH II	
A Alliance Model	B1 Network Model	B2 Lead Firm in Network Model
Registered Not recognised Partially regulated	Registered To be recognised Regulated	Registered To be recognised Regulated
New Approach	Existing Model	New Approach



## Alliance Model – A



- Firms come together for mutual benefits
- Name will be “ABCD” or “ABCD & Alliance”
- ICAI will register and allot Alliance Registration Number (ARN)
- Constituent firms can carry on practice as independent firms
- Display of Alliance name in professional stationery to be permitted
- Alliance may direct constituent firms to follow best practices
- Firms of one Alliance cannot become Member of another Alliance or a Network



## Alliance Model – A



- All firms in Alliance can apply for empanelment separately as individual firms. Their coming together is basically for non-audit services. For audit practice, they all remain as independent practitioners
- “Independence” issues will have to be kept in mind i.e. 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



# Alliance Model – A



- Referral of professional work and sharing of fees/ cost permitted
- A partner of firm that gets appointment will sign reports
- 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.
- Whatever is taboo for a firm under Code of Ethics, is taboo for the Alliance as well i.e. whatever cannot be done by a firm, cannot be done by Alliance as well
- Firms are free to join and exit Alliance.



## Alliance Model – A



- Reconstitution has to be registered with ICAI
- If one firm leaves Alliance, it will not deprive other firms from completing the work
- Alliance should have its own bye-laws which should not contradict CA Act, CA Regulations, Code of Ethics and Council Guidelines
- Alliance shall have to submit to ICAI copy of internal agreement signed by an authorised partner of all constituent firms



## Network Model – B1



- Firms come together for mutual benefits by pooling resources, showcase their combined strength, and have uniform policies, technology and collaterals, and showcase themselves as one big unit
- Name will be “ABCD” or “ABCD & Affiliates” or “ABCD Network”
- ICAI will register, allot Network Registration No. (NRN)
- Constituent firms are bound by internal integration agreement, and practice as independent firm, subject to internal agreement. Network’s decision prevails upon other firms
- Display of Network name in professional stationery to be permitted



## Network Model – B1



- Firms of one Network cannot become Member of another Network or Alliance
- All firms belonging to Network can apply for empanelment separately as individual firms. ICAI will put in efforts for recognition of the combined strength and resources
- “Independence” issues will have to be kept in mind i.e. 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





## Network Model – B1



- Quality control is well documented and complied with, which is applicable to network as well as to individual constituent firms.
- Individual firms take up professional work on their own, and a partner of said firm can sign the reports and documents
- Referral of professional work and sharing of fees/ cost permitted
- 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.



## Network Model – B1



- Whatever is taboo for a firm under Code of Ethics, is taboo for the Network as well i.e. whatever cannot be done by a firm, cannot be done by Network as well
- Firms will be bound by Network's internal integration agreement.
- Reconstitution has to be registered with ICAI
- If one firm leaves Network, it will not deprive other firms from completing the work
- Network will have its own bye-laws which should not contradict CA Act, CA Regulations, Code of Ethics and Council Guidelines
- Network must submit to ICAI internal agreement signed by authorised partner of all constituent firms



## Lead Firm in Network Model – B2



- Firms come together for mutual benefits by pooling resources, showcase their combined strength, and have uniform policies, technology and collaterals, and showcase themselves as one big unit
- Constituent firms will choose one of the firms as Lead firm e.g. if 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)
- Constituent firms are bound by internal agreement recognising one of the firms as Lead firm, depending upon specialism and expertise required for each assignment



## Lead Firm in Network Model – B2



- Display of Network name in professional stationery to be permitted
- Firms of one Network cannot become Member of another Network or Alliance
- 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. ICAI will put in efforts to get recognition of the combined strength and resources



## Lead Firm in Network Model – B2



- “Independence” issues will have to be kept in mind i.e. 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
- Quality control is well documented and complied with, which is applicable to network as well as to individual constituent firms



## Lead Firm in Network Model – B2



- Individual firms take up professional work on their own, and a partner of said firm can sign the reports and documents
- Referral of professional work and sharing of fees/ cost permitted
- 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.
- Whatever is taboo for a firm under Code of Ethics, is taboo for the Network as well i.e. whatever cannot be done by a firm, cannot be done by Network as well



## Lead Firm in Network Model – B2



- A partner of lead firm will sign reports and certificates, if the lead firm gets appointment in its name
- Firms will be bound by Network's internal integration agreement.
- Reconstitution has to be registered with ICAI
- If one firm leaves Network, it will not deprive other firms from completing the work. If Lead firm quits the network, after having secured professional work, then it will have to share the fees with other constituent firms. A clause to this effect can be incorporated in the internal agreement



## Lead Firm in Network Model – B2



- Network will have its own bye-laws which should not contradict CA Act, CA Regulations, Code of Ethics and Council Guidelines
- Network shall have to submit to ICAI copy of internal agreement signed by an authorised partner of all constituent firms



# Contents of new Guidelines paper

**Para 1** of the Paper outlines the purpose of revising the Guidelines so as to make it easier for the Indian CA firms to form network and also remove any impediments and bottlenecks that dissuade the firms from growing bigger by joining a network

**Para 2** identifies the concerns of Council on growth of firms

**Para 3** discusses the need for networking

# Contents of new Guidelines paper

**Para 4** offers three models of networking viz.

- “The Guidelines for Alliance”
- “The Guidelines for Networking” (revised)
- “The Guidelines for Networking with Lead Firm concept”

Para 4 also gives a comparative table of features/ characteristics of the three models of Networking

**Para 5** explains the guidance provided by Council to members at its February, 2021 meeting

**All the following three models of networking have been given as separate Annexures to the common Paper:**

Alliance Model,

Network Model, and

Network Model with Lead Firm concept

**Each of these three Models have 3 Appendices each explaining -**

Concept,

Modalities of Working, and

Naming provisions.

**Each of these models have three forms –**  
for name approval,  
for registration, and  
for change in constitution

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Thank You

**CA C. V. Chitale CCM**