

# NETWORKING

## FOR THE CHARTERED ACCOUNTANTS IN PRACTICE

Presented by:  
CA. SUBHASH CHANDRA SARAF  
M.COM, FCA, DISA(ICAI)

23<sup>RD</sup> April, 2023  
EIRC of ICAI, KOLKATA



— **SARAF**  
& **CHANDRA** LLP  
— Chartered Accountants

# CAPACITY BUILDING THROUGH NETWORKING

## 3 MODELS

- Alliance
- Network Model
- Network Model with Lead firm concept

## 3 Appendices to each Model explaining:

- CONCEPT
- Modalities of working
- Naming provisions

## 3 Forms for each Model:

- For Name approval
- For Registration
- For Change in Constitution

# COMPARATIVE ANALYSIS

BASIS	ALLIANCE	NETWORKING	LEAD FIRM NETWORKING
1. Name (suffix)	"& Alliance"	"& Affiliates " or "Network"	" & Affiliates" or "Network"
2. Applicability of Regulation 190	Yes	Yes	Yes
3. Registration	Compulsory	Compulsory	Compulsory
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

# COMPARATIVE ANALYSIS

BASIS	ALLIANCE	NETWORKING	LEAD FIRM NETWORKING
7. Unique Registration Number	ARN	NRN	NRN
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
10. Restrictions in practice as individual firms	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

# COMPARATIVE ANALYSIS

BASIS	ALLIANCE	NETWORKING	LEAD FIRM NETWORKING
13. Internal/ Statutory Conflict	Not Allowed	Not Allowed	Not Allowed
14. Rotation inside network	Not Allowed	Not Allowed	Not Allowed
15. Referral of work	Allowed	Allowed	Allowed
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
19. Quality Control documentation and compliance	Not Compulsory	Compulsory	Compulsory

# COMPARATIVE ANALYSIS

BASIS	ALLIANCE	NETWORKING	LEAD FIRM NETWORKING
20. Code of Ethics	Fully applicable	Fully applicable	Fully applicable
21. Advertisement Guidelines, Website Guidelines	Applicable	Applicable	Applicable
22. SCQ-1	Applicable	Applicable	Applicable
23. Combined Financials Statements	Allowed	Allowed	Allowed
24. Consent of clients	Not needed	Not needed	Not needed
25. Accountability of firms in case of delinquency	All firms jointly	All firms jointly	All firms jointly

# COMPARATIVE ANALYSIS

BASIS	ALLIANCE	NETWORKING	LEAD FIRM NETWORKING
26. Signing of reports and certificates	Partner of firm that gets appointed	Partner of firm that gets appointed	Partner of the Lead firm
27. Bank account	Yes	Yes	Yes
28. PAN/GST No.	Yes	Yes	Yes
29. Reconstitution	Free	Subject to Internal Agreement/ Bye Laws	Subject to Internal Agreement/ Bye Laws
30. Form Filing	Name Approval, Registration, Reconstitution	Name Approval, Registration, Reconstitution	Name Approval, Registration, Reconstitution
31. Exit/Closure	Easy	Easy	Easy



# SPECIAL ISSUES RELATING TO LEAD FIRM CONCEPT

The Lead Firm can obtain and execute work in its own name and distribute tasks among Constituent Firms, subject to any objection from client.

The Lead Firm has to share the fees with other firms, if it quits the network.

Lead Firm will get Credit of Experience, though an agreement listing the respective tasks performed may be carried out.

If work procurement in the name of Network is allowed in future, concept of Lead Firm will die.

## OTHER IMPORTANT POINTS

Registration will only be given when every Agreement, Bye Laws, MOUs have been filed with ICAI.

Deeds/MOUs, Forms can be signed by managing/designated partner of each of the member firms.

Legal status of Alliance/Network can be that of AOP.

If needed the Alliance/Network can take up non attest assignments in its own name.

For specific assignments Joint ventures can be formed.

Alliance/Network can have a website of its own.

Only firms/LLPs are permitted to enter in Alliance/ Network

## OTHER IMPORTANT POINTS



**With Passage of time, ICAI intends to move towards allowing Foreign Firms to Join Indian networks.**

**“Independence” issues to be kept in mind. If one Firm of a Network is Central Statutory Auditor of an entity, another Firm of the same network can't perform Internal/ Concurrent/ Branch Audit of the same entity.**

**Rotation of Audit amongst constituent firms will not be permitted.**

**If no firm of a network is Central Statutory Auditor, different Firms of the same network can perform Branch Audit or Concurrent Audit of different branches of the entity.**

# CAPACITY BUILDING THROUGH OTHER MODES

- **MERGER**
- **MULTI DISCIPLINARY PARTNERSHIPS**
- **CORPORATE FORM OF PRACTICE**

# CAPACITY BUILDING THROUGH MERGER

# MERGER

- Merger should ideally follow networking
- Merger agreement in Form 'E' is to be filed with the Institute within 30 days from the date of the agreement
- Merger agreement shall contain some guidelines like de-merger provisions
- Separate Partnership Deed should be executed
- Form 18 should also be filed with the Institute
- The Institute will freeze the names of the merging firms and shall not allot the same names to any other firm

# MERGER

- Constitution Certificate shall state the original date of establishment, the date of its merger (and the date of the de-merger if any).
- For the purpose of computing the seniority of the merged firm, total period will be reckoned from the original date of establishment of the eldest firm
- CAG criteria - in case of Merger, the partners of the merging firms will be assigned points after one year of merger and points for partner's association to be given after 5 years from the date of merger

# FORMAT OF MERGER AGREEMENT

Form 'E'

## FORMAT OF MERGER AGREEMENT

### THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

[See Rule 3 of Rules of Merger & Demerger amongst the firms registered with The Institute of Chartered Accountants of India]

We, (1)..... (2) ..... (3) ..... partners of (1) M/s. A & Co. (2) M/s. B & Co. & (3) ..... execute this Merger Agreement on this \_\_\_\_ day of \_\_\_\_\_, at \_\_\_\_\_:

1. M/s A & Co., a Partnership/Proprietorship firm of Chartered Accountants having its registered Head Office at \_\_\_\_\_, duly registered with the Institute of Chartered Accountants of India vide Firm No. \_\_\_\_\_ in \_\_\_\_\_ region (which expression shall include its successors, heirs and assigns).

The date of establishment, name of the partners, their membership nos, are as follows:-

- (i) Date of establishment
- (ii) Name of the Partners                  Membership No.

2. M/s B & Co., a Partnership/Proprietorship firm of Chartered Accountants having its registered Head Office at \_\_\_\_\_, duly registered with the Institute of Chartered Accountants of India vide Firm No. \_\_\_\_\_ in \_\_\_\_\_ region (which expression shall include its successors, heirs and assigns).

The date of establishment, name of the partners, their membership nos, are as follows :-

- (i) Date of establishment
- (ii) Name of the Partners                  Membership No.

3. ....

**Now, therefore, in consideration of mutual promise herein made and the consideration hereunder expressed, the parties hereto mutually covenant and agree as follows:**

1. That the name of the merged firm will be \_\_\_\_\_ and the date of establishment of the merged firm is the date of establishment of the oldest/older firm i.e. \_\_\_\_\_.

2. That this merger will come into force w.e.f. \_\_\_\_\_ 20XX, whereafter, the merging firm i.e. M/s A & Co., and M/s B & Co. cease to exist and a separate partnership deed has been executed on \_\_\_\_\_ amongst the partners of the merged firm.

3. That the following persons are the partners of the merged firm:

1. Mr. \_\_\_\_\_ Membership No. \_\_\_\_\_
2. Mr. \_\_\_\_\_ Membership No. \_\_\_\_\_
3. Mr. \_\_\_\_\_ Membership No. \_\_\_\_\_
4. Mr. \_\_\_\_\_ Membership No. \_\_\_\_\_
5. Mr. \_\_\_\_\_ Membership No. \_\_\_\_\_
6. Mr. \_\_\_\_\_ Membership No. \_\_\_\_\_

7. Mr. \_\_\_\_\_ Membership No. \_\_\_\_\_
8. Mr. \_\_\_\_\_ Membership No. \_\_\_\_\_

We, all the partners of the merged firm ..... understand that this merger has the following consequences in pursuance to the decision of the Council of the Institute: -

1. That the name of the erstwhile merging firms will be frozen by the Institute.
2. And in case 75% or more of the continuing partners of one or more erstwhile merging firm(s) are willing to demerge, they may demerge after giving due notice and will be entitled to the following benefits :

(i) They shall be entitled to the total seniority acquired i.e. their earlier pre-merger seniority and the years during which they were in merged firm.

(ii) They are entitled to their old firm's name.

Provided in case, 75% is a fraction, then the same shall be rounded off to the next number.

3. That the date of establishment of the new demerged firm shall be the date of demerger.
4. That to effectuate such demerger, no concurrence/acceptance is required from the other continuing partners of the merged firm. The partners of such demerged firm shall execute a partnership deed. The merged firm as well as the demerged firm shall submit fresh Form 18 as prescribed under the Chartered Accountants Regulations, 1988 to the Institute within the prescribed period.
5. In case of 75% or more of the continuing partners of one of the erstwhile merging firm have demerged after giving due notice to the other partners, then in such case, the merger shall come to an end and if the remaining erstwhile merging firms/partners of the erstwhile merged firm decided to continue, then they should enter into a fresh Merger/Partnership Agreement and shall submit fresh Form 18 as prescribed under the Chartered Accountants Regulations, 1988 to the Institute within the prescribed period.
6. That the demerger in the manner hereinbefore mentioned can be demanded only within a period of 5 years from the date of merger.

IN WITNESS WHEREOF, the Partners of the Merged firm M/s..... hereto set their hands on this agreement in the presence of the witnesses.

WITNESSES :

- 1.
- 2.

(i) \_\_\_\_\_  
(ii) \_\_\_\_\_  
(iii) \_\_\_\_\_  
(iv) \_\_\_\_\_  
(v) \_\_\_\_\_  
(vi) \_\_\_\_\_  
(vii) \_\_\_\_\_  
(viii) \_\_\_\_\_  
Partners of M/s.....



# DE-MERGER

- De-merger can be demanded within a period of 5 years from the date of merger
- 75% or more of the continuing partners of one of the erstwhile firm(s) can de-merge after giving notice in **Form 'F'** to the other partners and to the Institute. No concurrence/acceptance is required from the other continuing partners of the merged firm
- The De-merged Firm shall be entitled to :
  - practice in its old firm name
  - claim total seniority acquired i.e. their earlier pre-merger seniority as well as the years during which they were in merged firm

# DE-MERGER

- The date of establishment of the new de-merged firm shall be the date of de-merger but the original seniority will be retained
- If the remaining erstwhile merging firms/partners of the erstwhile merged firm decided to continue, then they should enter into a fresh Merger/Partnership Agreement

# FORMAT OF MERGER AGREEMENT

Form 'F'

## NOTICE FOR DEMERGER

### THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

[See Rule 4(i) of Rules of Merger and Demerger amongst the firms registered with The Institute of Chartered Accountants of India]

1. We the following persons

Name(s)	Membership No.(s)
_____	_____
_____	_____

being partners of M/s \_\_\_\_\_ which merged with the firm M/s \_\_\_\_\_ as per merger agreement dated \_\_\_\_\_ willing to demerge with effect from \_\_\_\_\_

2. We are the partners of the erstwhile Merging firms, M/s \_\_\_\_\_ merged with M/s. \_\_\_\_\_ & constitute the merged firm \_\_\_\_\_ with effect from \_\_\_\_\_. The Merger Agreement dated \_\_\_\_\_ and Form 18 were filed before the Institute on \_\_\_\_\_

3. We constitute 75% or \_\_\_\_ % of the continuing partners of the erstwhile firm M/s. \_\_\_\_\_

4. This demerger is within a period of 5 years from the date of merger.

5. We desire that our pre-merger name be allotted to us.

Place:  
Date:

\_\_\_\_\_  
\_\_\_\_\_  
Signature of all the Partners of the Erstwhile Firm M/s. \_\_\_\_\_ willing to demerge.

**CAPACITY BUILDING  
THROUGH  
MULTI DISCIPLINARY  
PARTNERSHIPS**

# MULTI DISCIPLINARY PARTNERSHIPS

- **'MDP CAs in Practice'** is an abbreviation of the term 'Multi-disciplinary Partnership Firm of Chartered Accountants in Practice'.
- The provisions of the Chartered Accountants Act, 1949 and the Chartered Accountants Regulations 1988 amended way back and permit the members of the Institute of Chartered Accountants of India to **form multi-disciplinary partnership firms with specified professionals.**
- ICAI council **revised Form 18** to include the details of partners such as Chartered Accountant (CA), Cost & Accountant & Company Secretary holding a certificate of practice, and the partners having professional qualifications other than CA, CMA & CS.
- CA (Amendments) Regulation 2021 & Revised Form 18 is **applicable from 08 July 2021.**

# MULTI DISCIPLINARY PARTNERSHIPS

**SPECIFIED PROFESSIONALS:** Regulations 53B prescribes following specified professionals' who can become a partner under MDP provisions:

(a) **Company Secretary, Member,**

- The Institute of Company Secretaries of India, established under the Company Secretaries Act, 1980

(b) **Cost Accountant, Member**

- The Institute of Cost and Works Accountants of India was established under the Cost and Works Accountants Act, 1959

(c) **Advocate, Member**

- Bar Council of India established under the Advocates Act, 1961

(d) **Engineer, Member**

- The Institution of Engineers, or Engineering from a University established by law or an institution recognized by law

(e) **Architect, Member**

- The Indian Institute of Architects established under the Architects Act, 1972

(f) **Actuary, Member**

- The Institute of Actuaries of India, established under The Actuaries Act, 2006

# RECIPROCAL PROVISIONS IN OTHER SPECIFIC PROFESSIONALS ACTS

The ICAI has taken the first step to allow MDP Firm with other specialized professionals. The reciprocal provisions in other specific professional Acts are as tabulated below:

Particulars	Company Secretary	Cost Accountant	Advocate	Engineer	Architect	Actuary
Right to practice	Sec 2(2)	Sec 2	Sec (1)(a)	Clause 48	Sec 2(a)	Sec 2(2)
Allowing provision	Regulation 168(B)	Regulation 111(c)	Not Allowed	-	-	-
Conclusion	Permitted	Permitted	Not Permitted	Permitted	Permitted	Permitted only with member who is not in practice

\*The Institute of Cost & Management Accountants and The Institute of Company Secretary of India has issued advisory to its members, restricting them to join MDP till further notification.

## **OTHER PROFESSIONAL BODIES:**

The Members of any other professional bodies or persons having prescribed qualifications shall not be admitted into partnership as on date.

For example, MBA, Approved valuer, Approved Insolvency Professional or Information Technology Professional shall not be admitted as a partner in MDP Firms.

## **MODE OF FORMATION MDP:**

Firm 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

## **MDP CANNOT BE FORMED AS A COMPANY:**

As per Section 25 of the Chartered Accountants Act, 1949, no company, whether incorporated in India or elsewhere, shall practice as chartered accountants. Hence, MDP cannot be formed as a company.



## **REGISTRATION:**

Registration of MDP with the Institute is mandatory. The registration number of MDP shall contain the abbreviation “MDP” to distinguish it from the registration number of other firms of chartered accountants.

## **NAME OF THE FIRM:**

To distinguish MDP Firm 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 Firm. MDP Firm shall submit the details prescribed in Revised Form 18 as prescribed under Regulation 190 of the Regulations. The application for the approval of its trade name or firm name in Form 117, as prescribed under Regulation 190 is required to be submitted to the Council. MDP CAs in Practice shall have a distinct name which shall be approved by the Institute.

## **VERIFICATION OF PARTNERS MDP**

Firm must submit the documentary evidence in case of partners who are not members of the Institute of Chartered Accountants of India Such documentary evidence needs to be attested by a Chartered Accountant in practice who is not related to the MDP Firm to check the following:

- a) Truth and validity of the certificate of membership of the prescribed professional bodies or the degree of the recognized University in case of engineering graduate.
- b) The members of other professional bodies are having valid membership with the prescribed professional body on the date of entering into a multi-disciplinary partnership firm of chartered accountants in practice.

## **BRANCH OFFICES**

Only Chartered Accountants are permitted to be in charge of the Branch Offices of MDP Firm. However, the Council of ICAI has the power to grant exemption from the aforesaid requirement in suitable cases.

## **FUNCTIONS OF MDP FIRM & PARTNERS:**

The Partner of MDP Firm can perform the following functions: –

- a) A Partner of MDP Firm is permitted to render all the services as prescribed under ICAI Act & Regulations.
- b) The CA Act 1949 read with the Regulations, 1988 does not prohibit a partner of MDP Firm to practice in his name. It is the discretion of MDP Firm to permit its partners to practice in their individual capacity.
- c) A Chartered Accountant partner of MDP Firm can become partners in other firms or engage in other occupations as agreed among the partners as per their partnership deed.
- d) MDP Firm can accept other engagement like Bank Audit, audit of Co-operative society
- e) MDP Firm can undertake Tax Audit assignments.
- f) Empanelment with various Agencies is permissible to MDP Firms
- g) MDP Firm can do Networking, subject to conditions prescribed in Guidelines the Networking issued by Council

## **PARTNERSHIP GUIDELINES:**

MDP Firm is required to comply with the provisions of the CA Act, CA Regulations, and Rules framed thereunder. There is no need to obtain the permission of other Professional Bodies. Partnership Deed of MDP Firm can prescribe the followings: –

- a) The extent of Profit-Sharing & Fee Sharing.
- b) Responsibility to supply information at the time of Registration and required time to time.
- c) Whether partners need to consult each other or can work independently.
- d) Appointment of staff of partner's choice

## **MEMBERS' RATIO IN MDP FIRM:**

There is no ratio prescribed under the CA Act for different partners of MDP CAs in practice. However, at least one partner should be a CA holding Certificate of Practice. Only for Statutory Audit, the majority of the partner shall be Chartered Accountants.

## STATUTORY AUDIT

As per 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 authorized to act and sign on behalf of the firm.**

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 practicing in India are qualified** for appointment as aforesaid may be appointed by its firm name to be the auditor of a company.

**MDP CAs in Practice are not eligible for statutory audit under the Companies Act 2013 in case majority of its partners are non-CAs.**

## DISPUTES & RESPONSIBILITY FOR MISCONDUCT

- Disputes among the partners will be settled as agreed upon in the partnership deed.
- Provisions of Partnership Act 1932 or LLP Act 2008, as may be applicable, will apply.
- In case of misconduct of partner, it would be subject to the disciplinary mechanism of the respective professional body.
- MDP Firm and other partners would not be responsible for the misconduct of a partner.

# MDP FIRM – PROS

- **Client's Perspective:** MDP is the best way to address complex client requirements.
- **One Roof Solution:** The client need not run from pillar to post to get a wide range of services as the experts of many disciplines to come together as partners in MDP. All compliance requirements can all be effectively handled under one roof by the MDP.
- **Multifarious professional services:** The multidisciplinary partnership is one of the best mechanisms to provide diversified services to its clients.
- **Brand Name:** All domain experts will be able to offer multi-discipline professional services under a single brand name.
- **Expanded Horizon:** The MDP guidelines will help Indian firms to become Global Players,” A firm needs to expand by mergers or otherwise and focus on growth bringing a wider spectrum of services within the ambit of its functioning, these can be better accomplished through the status of an MDP.

# MDP FIRM – PROS

- **The pool of Talents:** Interaction among team members enhances performance, refines skills, streamlines the process for not only more efficient but higher quality advice.
- **Cost-Effective:** MDPs deliver tangible benefits. Collaboration saves money and time. It's an extremely efficient mechanism.
- **Avert Risk Through Diversification:** MDP provides the checks and balances to avert risk by addressing each aspect of the individual's details with targeted and collaborated expertise.
- **The extensive network of experienced professionals:** MDP get benefits and is supported by an extensive network of experienced professionals in lots of distinct disciplines, in many industries.
- **Empowerment to undertake work of greater magnitude and challenges:** The professionals will be able to offer services not only his domain expertise but in the collaborative approach professionals will be able to offer a bouquet of services to their national and multinational clients and will get a competitive landscape.



**MDP FIRM-  
CHALLENGES &  
PRACTICAL ISSUES**

- Jurisdiction regarding disciplinary action
- Conflict in Interest
- The onus of Work & Liability
- Registration
- Name
- FRN
- Corporate Statutory Audit
- Majority Calculation
- Other Attest Functions
- Verification of non ICAI member partners
- Permissible Constitution
- CAG, MEF Points
- No Non COP holder





**ESSENTIAL  
REQUISITES OF  
CAPACITY BUILDING**

- Institutionalisation – Firm belongs to none - perpetual continuity
- Roles and responsibilities should be clearly set out
- Managing Partner / person who represents the firm to be clearly identified
- Committees of partners to be formed with ultimate powers resting with entire partnership /network
- Rules for admission of new Partner/Firm should be documented
- Retirement of Partners/Firms should be defined
- Profit/Cost Centers should be identified & profit/cost should be shared accordingly
- There should be no ambiguity regarding key areas such as sharing of profits etc.
- HR processes should be put into place
- Stationery of common design should be used
- Periodical Meetings are must
- Creation of immovable properties should be avoided

**THANK YOU**