

Exposure Draft

Proposed New Model of Networking- LLP Firm Network Model

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Issued by
Committee for Aggregation of CA Firms
The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)

Exposure Draft on proposed New Model of Networking- LLP Firm Network Model for public comments

Committee for Aggregation of CA Firms (CACAF) has been constituted during 2024-25 to make concerted efforts in reviewing and revising various guidelines pertaining to CA firms, one of which is the Guidelines for Networking of Indian CA Firms 2021.

Networking Guidelines were introduced in the year 2005 and were proactively revised by the Institute twice in 2011 and 2021 respectively, yet the expected momentum could not be gained. The challenges paving way to this conservative approach of the CA firms can be categorically attributed to 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, among others.

A new network model seems requisite to meet the challenges stated above to the extent possible. **Accordingly, the Committee for Aggregation of CA Firms (CACAF) proposes a new model of networking, Approach III named as LLP Firm Network Model.** This model is expected to tap the synergy of incoming LLP firms as partners, giving lot of scope and flexibility for practicing freely and most prominently provide recognition by the regulators to the combined strength and massive geographical presence. This should indeed provide as the first stair of the ladder of becoming top Indian CA Firm.

It is envisaged that this Network Model should be worthy of facilitating greater coordination among the constituent firms to deliver consistent quality in audit seamlessly across all locations on PAN India basis. It would also enable the CA firms to tap the synergies of the combined strength and resources.

The comments on the aforesaid Exposure Draft may be sent at <https://forms.gle/FLYviiZZut2iw7ZEA> or at cacaf@icai.in latest by 6th June 2024. Comments are most helpful if they contain a clear rationale and, where applicable, provide specific suggestions.

You can also scan the QR Code for giving your comments.



EXPOSURE DRAFT ON PROPOSED NEW MODEL OF NETWORKING LLP FIRM NETWORK MODEL

Presently, as per the **Guidelines for Networking of Indian CA Firms 2021**, the Institute provides three models of networking:

Approach I – 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.

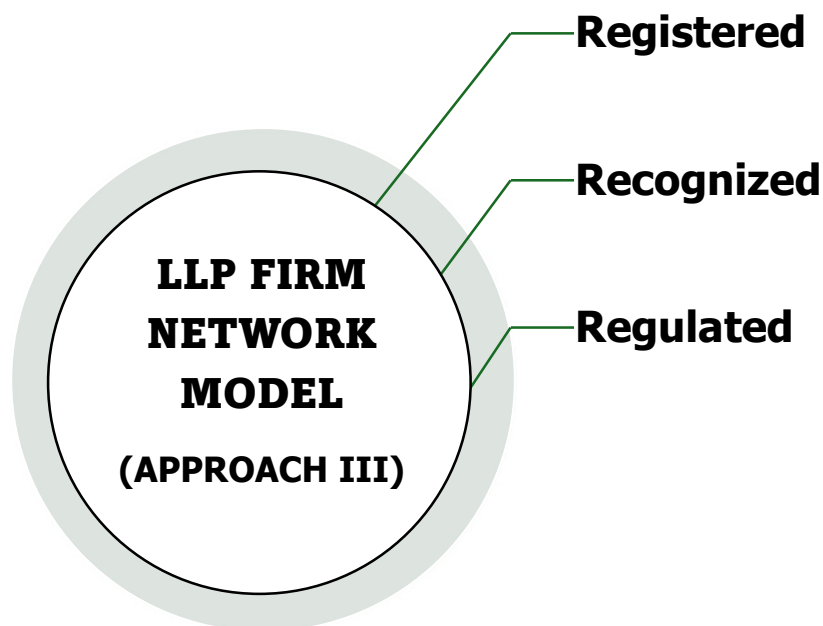
Approach II – Different firms coming together to form a Network with a new Network name and practicing in the name of firms belonging to Network. This Model is subdivided into following two options:

B1-Network of firms in existing model by practising in individual firm name.

B2-Network of firms with a **Lead firm** acting on behalf of constituent firms of Network.

PROPOSED NEW APPROACH III – LLP FIRM NETWORK MODEL

A new model of networking, **Approach III** named as **LLP Firm Network Model**, is proposed with following key features:



KEY FEATURES OF LLP FIRM NETWORK MODEL

A ***new approach 'III' - LLP Firm Network Model*** is proposed for networking among Indian CA Firms wherein-

1. Any full-time practicing Chartered Accountant/(s) (CA), Limited Liability Partnership (LLP) firm where more than 50% of partners are Chartered Accountants registered with Institute of Chartered Accountants of India (ICAI) may form a new LLP firm or join an existing LLP firm as a partner firm.
2. The constitution of a new LLP firm will be governed by the applicable provisions of 'Chartered Accountants Act 1949', 'LLP Act 2008', 'Council guidelines for conversion of CA Firms into LLPs 2011', MCA circulars issued on the subject among others as amended from time to time.
3. As regards joining an existing LLP firm as a partner firm, the ICAI under the mandate laid down by the 'Council guidelines for conversion of CA Firms into LLPs 2011', registers only CA firms with individual partners as LLP firm. Per se allowing a LLP firm to become a partner to another LLP firm is not enabled or covered under the said guidelines.
4. As per the provisions of the LLP Act 2008, a body corporate constituted within, or outside India is eligible to be a partner in the LLP Firm. However, in the Approach III - LLP Firm Network Model, a body corporate which has been incorporated as a Company under Companies Act 2013 in India or under applicable laws outside India has been refrained from being eligible to be a partner to LLP firm, in alignment with the provisions of Section 25 of the Chartered Accountants Act 1949.
5. But this proposed model envisages allowing LLP firm where more than 50% of partners are Chartered Accountants and is registered with Institute of Chartered Accountants of India (ICAI) to join an existing LLP firm as a partner firm.
6. This would require necessary alignment of the 'Council guidelines for conversion of CA Firms into LLPs 2011'.

7. The said LLP registered as a firm with ICAI, will also have to register as LLP Firm Network Model (Approach-III).
8. This would enable the LLP firm to get its registration under the Network Model and recognition as LLP firm network model in the panels submitted to various regulators by the ICAI.
9. Registration as LLP firm with ICAI will be reflected as a registered firm in records with stated firm's strength and registration as a LLP Firm Network Model would be reflected as a registered Network firm tagging the details of all the partner firms with all the combined strength, geographical presence among others.
10. With this registration of the Network, the empanelling Government agencies would be able to attribute points on the basis of combined strength and geographical presence and conflicts arising of Section 144 of the Companies Act 2013 can be tackled to the extent possible by the LLP firm (auditor), Companies (auditee) and the empanelling Government agencies.
11. Firms associated as partners of the LLP are bound by written deed and may also practice as independent firms simultaneously, subject to terms of written deed.
12. The Board of Management shall be constituted by the LLP Firm Network Model, comprising of the authorized Managing Partners from the partner firms and its decision shall prevail over other partner firms for all assurance, non-assurance audit works and for other assignments in India.
13. The Board of Management shall draw its powers and authority in accordance with terms outlined in the written deed agreed upon by all the partners that shall be subject to and in compliance with the provisions of the Chartered Accountants Act 1949, LLP Act 2008, ICAI's Code of Ethics and Council Guidelines among others from time to time.
14. A LLP can become a partner to only one LLP for any professional work at a given time, under this model of networking. The credit attributed for their exclusive association, if any, by the empanelment bodies will be dealt with as per the norms followed by them from time to time.

15. No partner firm/(s) shall apply for empanelment separately as individual firms unless and until is being permitted by the Board of Management constituted by the LLP Network firm.

16. Section 144 of the Companies Act, 2013 pertains to the role and restrictions of statutory auditors in providing services to the company. It states that-

1. *"An auditor appointed under this Act shall provide to the company only such other services as are approved by the Board of Directors or the audit committee, as the case may be, but which shall not include any of the following services (whether such services are rendered directly or indirectly to the company), or its holding company or subsidiary company, namely:—*

(b) accounting and bookkeeping services;

(c) internal audit;

(d) design and implementation of any financial information system;

(e) actuarial services;

(f) investment advisory services;

(g) investment banking services;

(h) rendering of outsourced financial services;

(i) management services; and

(j) any other kind of services as may be prescribed:

Provided that an auditor or audit firm who or which has been performing any non-audit services on or before the commencement of this Act shall comply with the provisions of this section before the closure of the first financial year after the date of such commencement.

Explanation —For the purposes of this sub-section, the term —directly or indirectly// shall include rendering of services by the auditor,—

1. *in case of auditor being an individual, either himself or through his relative or any other person connected or associated with such individual or through any other entity, whatsoever, in which such individual has significant influence or control, or whose name or trademark or brand is used by such individual;*

2. *in case of auditor being a firm, either itself or through any of its partners or through its parent, subsidiary or associate entity or through any other*

entity, whatsoever, in which the firm or any partner of the firm has significant influence or control, or whose name or trademark or brand is used by the firm or any of its partners.”

17. Per se the conflict owing to Section 144 of the Companies Act 2013, regarding independence of the auditors, stands resolved and will not be able to impact the LLP Firm Network Model, to the extent possible.
18. The empanelling Government agencies would be able identify the details of all the partner firms and would be able to attribute points on the basis of combined strength and geographical presence and conflicts arising of Section 144 of the Companies Act 2013 can be tackled to the extent possible by the LLP firm (auditor), Companies (auditee) and the empanelling Government agencies.
19. However, it may so happen that the LLP may become ineligible for assurance work in case any of its incumbent partner firms may have undertaken non-audit works of a given entity in the preceding year and vice-versa.
20. Partner firms come together as LLP Firm Network for mutual benefits by pooling resources, showcase their combined strength, and have uniform policies, technology and collaterals, and showcase themselves as one big unit as per the terms outlined in the written deed.
21. In case delinquency occurs in a particular assignment, then the partner firms that have jointly executed the assignment will be accountable. The Board of Management of the LLP Network firm must ensure clear division of work and responsibility matrix as well as document the same for every assignment undertaken by LLP Network firm.
22. Reconstitution must be registered with ICAI and with others regulatory bodies following the due procedure as per the applicable laws from time to time.
23. However, any change in the partners of a limited liability partnership shall not affect the existence, rights, or liabilities of the limited liability partnership, as per the Section 3(3) of the Limited Liability Partnership (LLP) Act, 2008.
24. It will not deprive the remaining partner firms of the LLP firm Network from continuing the work they have already secured by virtue of LLP Firm Network.

25. The issues pertaining to the seniority of the firms arising from such constitutional changes will be governed by the applicable rules of ICAI and LLP Act 2008, procedures followed by the ROC/Registrar of firms among others.
26. This model is envisaged to tap the synergy of incoming LLP firms as partners or by way of mergers, giving lot of scope and flexibility for practicing freely and most prominently provide recognition by the regulators to the combined strength and massive geographical presence. This should indeed provide as the first stair of the ladder of becoming top Indian CA Firm.
27. To provide ease to the envisaged growing structure of the LLP Firm Network Model, a document repository in line with the 'Digi Locker' be provided to LLP firms opting for this model to place their documents in a secured vault and can access, use and submit the documents hassle free. This facility must be integrated with the SSP. The said tech-infrastructure will encourage the firms to take the leverage of tech-infrastructure provided by ICAI while collaborating and networking.
28. A Grievance Redressal Cell should be established under the aegis of M&SS Directorate to cater to the queries on the emerging issues of the LLP firm Network and to resolve the issues.

PROPOSED INSERTIONS IN THE GUIDELINES FOR NETWORKING OF INDIAN CA FIRMS, 2021

S. NO.	CRITERIA	APPROACH III- LLP MODEL
1.	NAME	<p>In this model, Indian CA firms, viz. A & Co. LLP, B & Co. LLP, C & Co. and D & Co., where more than 50% of partners are Chartered Accountants (CAs) and are registered with Institute of Chartered Accountants (ICAI) of India may come together to form a LLP firm or join existing LLP where more than 50% of partners are CAs and are registered with ICAI, as partners as per the applicable provisions of 'Chartered Accountants Act 1949', 'LLP Act 2008', 'Council guidelines for conversion of CA Firms into LLPs 2011', MCA circulars issued on the subject among others as amended from time to time.</p> <p>In case a new LLP Firm is being formed for availing the benefits under the LLP Firm Network Model, the name approval process shall be in line with the Regulation 190 of the Chartered Accountants regulations 1988, Council guidelines for conversion of CA Firms into LLPs 2011, MCA circulars issued on the subject from time-to-time, applicable provisions of the LLP Act 2008 and the practice followed by the ROC from time to time.</p> <p>As regards joining an existing LLP firm as a partner firm, the ICAI under the mandate laid down by the 'Council guidelines for conversion of CA Firms into LLPs 2011', registers only CA firms with individual partners as LLP firm. Per se allowing a LLP firm to become a partner to another LLP firm is not enabled or covered under the said guidelines. This would require necessary alignment of the 'Council guidelines for conversion of CA Firms into LLPs 2011'.</p> <p>As per the provisions of the LLP Act 2008, a body corporate constituted within, or outside India is</p>

S. NO.	CRITERIA	APPROACH III- LLP MODEL
		<p>eligible to be a partner in the LLP Firm. However, in the Approach III - LLP Firm Network Model, a body corporate which has been incorporated as a Company under Companies Act 2013 in India or under applicable laws outside India has been refrained from being eligible to be a partner to LLP firm, in alignment with the provisions of Section 25 of the Chartered Accountants Act 1949.</p> <p>This proposed model envisages allowing LLP firm, where more than 50% of partners are Chartered Accountants and is registered with Institute of Chartered Accountants of India (ICAI) to join an existing LLP firm as a partner firm.</p> <p>In all professional stationery like visiting cards, profile, etc., the partner firms must mention that they are partner firms of so & so LLP firm Network. The LLP firm network must also mention in its professional stationery that so & so LLP firms are part its partners firms.</p>
2.	REGISTRATION	<p>The newly constituted LLP firm or existing LLP firm inducting partners under LLP Firm Network Model (Approach-III) shall be registered with ICAI.</p> <p>The ICAI will allot unique Network Registration Number (NRN).</p> <p>This would enable the LLP firm to get its registration under the Network Model and recognition as LLP firm network model in the panels submitted to various regulators by the ICAI.</p> <p>Registration as a LLP Firm Network Model in ICAI's records would be reflected as a registered Network firm and would tag the details of all the partner firms with all the combined strength, geographical presence among others.</p>

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3.	PRACTICE	<p>The firms associated as partners of the LLP firm are bound by written deed and may also practice as independent firms simultaneously, subject to terms outlined in the written deed.</p> <p>The Board of Management shall be constituted by the LLP Firm Network Model, comprising of the authorized Managing Partners from the partner firms, that shall ensure –</p> <ol style="list-style-type: none"> a. regulatory and legal compliances, b. manage affairs of the firm, c. undertake strategic decisions including but not limited to business strategy, financial management, profit appropriation, cost sharing, hiring of personnel, risk management, infrastructure expansion, etc., d. entire process of registration at the SSP portal of ICAI through online mode, e. all the documents pertaining to the firm/(s)/practice like partnership deed, papers relating to resignation or joining of partners, employment and relieving of qualified assistants, papers and details regarding the approvals given for any constitution or re-constitution of the firm, etc. from time to time which may be called upon by the ICAI Competent Authority in case they are required for any dispute or any enquiry or confirmation required by the ICAI, f. clearly state to the incumbent partner firm about the restrictions of audit or non-audit works likely to arise from Section 144 of the Companies Act 2013 or any issue in code of conduct or ethics or in any Governing law applicable to the LLP firm at the time of joining itself. <p>Further, Board of Management’s decision shall prevail over other partner firms for all assurance, non-</p>

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		<p>assurance audit works and for other assignments in India.</p> <p>The Board of Management shall draw its powers and authority in accordance with terms outlined in the written deed agreed upon by all the partners that shall be subject to and in compliance with the provisions of the Chartered Accountants Act 1949, LLP Act 2008, ICAI's Code of Ethics and Council Guidelines among others from time to time.</p> <p>Further, a LLP can become a partner to only one LLP for any professional work at a given time, under this model of networking. The credit attributed for their exclusive association, if any, by the empanelment bodies will be dealt with as per the norms followed by them from time to time.</p>
4.	EMPANELMENT	<p>LLP firm is eligible to participate in all the empanelment processes hosted by various regulators like C&AG, RBI, NABARD, Ministry of Cooperation among others for carrying out assurance, non-assurance and other assignments.</p> <p>LLP Firm Network Model would be reflected as a registered Network firm in the ICAI's records and would tag the details of all the partner firms with all the combined strength, geographical presence among others in the panels submitted to various regulators. Accordingly, the empaneling Government agencies would be able to attribute points on the basis of combined strength and geographical.</p> <p>No partner firm/(s) shall apply for empanelment separately as individual firms unless and until is being permitted by the Board of Management constituted by the LLP Network firm.</p>

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5.	CONFLICT	<p>Per se the conflict owing to Section 144 of the Companies Act 2013, regarding independence of the auditors, will not be able to impact the LLP Firm Network Model, to the extent possible.</p> <p>The empaneling Government agencies would be able to identify the details of all the partner firms and would be able to attribute points on the basis of combined strength and geographical presence and conflicts arising of Section 144 of the Companies Act 2013 can be tackled to the extent possible by the LLP firm (auditor), Companies (auditee) and the empaneling Government agencies.</p> <p>However, it may so happen that the LLP may become ineligible for assurance work in case any of its incumbent partner firms may have undertaken non-audit works of a given entity in the preceding year and vice-versa.</p> <p>The above aspect of opportunity cost is to be dealt with at the level of the Board of Management constituted by the LLP firm while entering the partnership deed.</p> <p>Rotation of audit amongst partner firms will not be permitted.</p>
6.	CHARACTERISTICS	<p>Partner firms come together as LLP Firm Network for mutual benefits by pooling resources, showcase their combined strength, and have uniform policies, technology and collaterals, and showcase themselves as one big unit as per the terms outlined in the written deed.</p> <p>Quality control should be well documented and complied with, which is applicable to the LLP firm Network Model and its partner firms.</p>

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		<p>Written byelaws / agreement is entered by all firms, the provisions of which should not run contrary to CA Act, CA Regulations, ICAI Code of Ethics and Council Guidelines.</p> <p>Since all partner firms are Indian CA firms registered with ICAI, referral of work and sharing of fees/ profits is permitted as per the applicable provisions of Chartered Accountants Act 1949.</p>
7.	ACCOUNTABILITY	<p>In case delinquency occurs in a particular assignment, then the partner firms that have jointly executed the assignment will be accountable.</p> <p>The Board of Management of the LLP Network firm must ensure clear division of work and responsibility matrix as well as document the same for every assignment undertaken by LLP Network firm.</p> <p>Written byelaws / agreement is entered by all firms, the provisions of which should not run contrary to CA Act, CA Regulations, ICAI Code of Ethics and Council Guidelines.</p>
8.	RECONSTITUTION	<p>Partner firms are bound by LLP firm's Network written deed.</p> <p>Reconstitution must be registered with ICAI and with others regulatory bodies following the due procedure as per the applicable laws from time to time.</p> <p>However, any change in the partners of a limited liability partnership shall not affect the existence, rights, or liabilities of the limited liability partnership, as per the Section 3(3) of the Limited Liability Partnership (LLP) Act, 2008.</p> <p>The issues pertaining to the seniority of the firms arising from such constitutional changes will be</p>

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		governed by the applicable rules of ICAI and LLP Act 2008, procedures followed by the ROC/Registrar of firms among others.
9.	EXIT/CLOSURE	<p>The laid down process for exit as a partner from a Limited Liability Partnership (LLP) firm or the closure of the LLP firm as per the applicable rules of ICAI, LLP Act 2008, procedures followed by the ROC/Registrar of firms among others shall be followed.</p> <p>In case of exit of a partner firm, it will not deprive the remaining partner firms of the LLP firm Network from continuing the work they have already secured by virtue of LLP firm Network.</p>