

ICAI Allows Audit Firms with Limited Liability

Move To Plug Entry Of Foreign Firms Via Multiple Partnerships

Decision On Big Four Separately

The Institute of Chartered Accountants of India (ICAI) has allowed audit firms to convert into limited liability partnership (LLP) firms in a move that could set a trend for consolidation in the space dotted with several small entities.

At the same time, the regulator for chartered accountants has decided to ensure that one name is restricted for use by one entity, ICAI president G Ramaswamy told TOI over phone. So, a firm will have to stick to a name like XYZ instead of setting up several firms with names such as XYZ India, XYZ Delhi and XYZ Mumbai.

The move is likely to impact Price Waterhouse, which at present operates in India through half-a-dozen firms. Price Waterhouse had registered several entities as a firm can at best have 20 partners. The auditor was expected to convert into an LLP and consolidate its operations under one entity. Other large global audit firms are not permitted to operate in India and they have alliances with local entities for audit purposes. For long, ICAI has been trying to plug loopholes to check their operations in India. The institute has argued that foreign firms should not be allowed in the country as developed countries did not provide reciprocal benefits to Indian entities.

An LLP gives business the benefits of limited liability while allowing its members the flexibility for organizing their internal structure as a partnership. While the LLP Act was cleared by Parliament three years ago, the first such firm was registered in 2009. But audit firms had been kept out as ICAI had to amend the rules.

During a meeting of ICAI Council last week, the proposal to allow firms to convert into an LLP was approved and the rules would be notified over the next few days.

Though the move will help partners in the LLP firms get away with limited liability in case of civil damages, institute sources said it would not have a significant impact as most complaints were criminal cases.

Ramaswamy said that existing firms would be allowed to convert and their seniority would also be maintained. New firms would have to check the availability of names from the registrar of LLP's and register with ICAI too. We will work with the registrar to ensure that the name register is in order, he said. He, however, did not comment on the issue of international firms operating in India. Another ICAI functionary told TOI that the treatment of the Big Four auditors was being dealt with separately. That debate is going on and hopefully, we will be able to settle it soon, said the source. In the non-audit space, there has been a proliferation of LLP firms as several entities chose to move to the new structure also due to the tax benefits on offer. The loophole has now been plugged. Till July 11, there were 5,501 LLP's, with more than half registered in the western region.