



**RULES OF NETWORK AND MERGER – DEMERGER
AMONGST THE FIRMS REGISTERED WITH
THE INSTITUTE OF COST ACCOUNTANTS OF INDIA**

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

RULES OF NETWORK AND MERGER - DEMERGER AMONGST THE FIRMS REGISTERED WITH THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

The Council at its 228th Meeting held from 4th December, 2005 at Kolkata has decided that the Rules of Network amongst the firms registered with ICAI, Rules of Merger & Demerger formulated and finalised on the basis of recommendations of the Membership Department shall come into force w.e.f 1st January, 2006.

In the matter relating to network of firms registered with ICAI and entities outside India, the Council decided that in addition to the compliance with the Rules of Network amongst the firms registered with ICAI, the entities outside India willing to form network with Indian ICAI firms would give a declaration in form 'DN' (enclosed).

RULES OF NETWORK

1. These Rules are called Rules for Network amongst the firms Registered with The Institute of Cost Accountants of India.

2. **Definition.**

(i) Network -

"Network amongst two or more firms means an arrangement to facilitate the better functioning of the affiliate member firms in the interest of the profession and not for acquisition of any gain. Such Network shall include the formal Network to use the collective resources such as turnover, infrastructures, manpower, location for execution of Professional services of one or more type.

[Explanation -

1. An affiliation as referred to above shall also include:

(i) having an association with an accounting entity within or outside India such that it results directly or indirectly in a common professional economic or beneficial interest.
(ii) one or more of the entities holding out that it is so affiliated or networked.

2. An entity shall not be treated as an affiliate of another merely for the reason that they

(a) share professional knowledge and data base;
(b) refer certain professional assignments or authorize the other to represent certain specific matters.

3. If different Indian firms are networked with a common Multi-National Accounting Firm (MAF) then irrespective of the presence/absence of any 'affiliate' relationship between the Indian firms inter-set they shall be considered as part of a network.]

- (ii) **Formal Network** - Formal network means a network amongst two or more firms registered with The Institute of Cost Accountants of India (ICAI), where the object of network is to use the collective resources of the affiliates for execution of professional services of one or more types at one and/or at multinational points. The resources would include financial, technical and other logistic support required to execute the professional assignments. In such type of network, the common resources may be pooled and exhibited together before the service user as those belonging to one particular set of professionals.
- (iii) **Referral Practice** - Referral Practice means a practice to refer professional work by a firm to one of its associate/affiliate either situated at a different place or rendering professional services not provided by it, to the user of the services. The pre-dominant objective of such a network is not to pool in their collective resources and exhibit them as those belonging to one particular set of professionals.
- (iv) **Act** - Act means The Cost and Works Accountants Act, 1959.
- (v) **Regulations** - Regulations means Cost and Works Accountants Regulations, 1959.
- (vi) **Code of Ethics** - Code or Ethics means the Code of Ethics issued by the Institute and decisions of the Council in this regard.
- (vii) **Institute** - Institute means the Institute of Cost Accountants of India.
- (viii) **Council** - Council means the Central Council of the Institute.
- (ix) **Member** - Member means a Member in Practice. Member in Practice means a Member in Practice as defined in the Cost & Works Accountants Act, 1959.

3. Name of Network:

- (i) The Network may have distinct name which should be approved by the Institute. To distinguish a "Network" from a firm of Cost Accountants, the words "& Affiliates" should be used after the name of the network and the words "& Co." / "& Associates" should not be used. The prescribed format of application for approval of Name for Network is at form 'AN' (enclosed).
- (ii) Standards prescribed in Regulations of the Cost & Works Accountants Regulations, 1959 shall be applicable to the name of network. However, even if a name is provided and subsequently it is found that the same is undesirable then, the said name ICAI be withdrawn at any time by the Institute. The Institute shall reject any undesirable name and the provisions in respect of names of companies as prescribed in the Companies Act, 1956 shall be applicable in spirit.
- (iii) The network should neither be permitted to advertise nor to use logo. The firms constituting the network are permitted to use the words "Affiliates/Members of ..." (a network of Indian ICAI firms) on their professional stationery.
- (iv) Network may work without a Name also.

4. Registration:

- (i) A Formal Network is required to be registered with the Institute in a prescribed **Form 'BN'** (enclosed).
- (ii) Referral Practice requires no registration.
- (iii) It is for each firm to decide whether its affairs and relations with another firm results in creation of a Formal Network Network shall evaluate for itself whether or not it is a formal network requiring registration with the Institute.
- (iv) If different Indian firms are networked with a common multinational Accounting Firm (MAF) then irrespective of the presence/absence of any 'affiliate' relationship between the Indian firms inter-se, they shall be considered as part of a network. As such, for these firms the registration with the Institute is not mandatory. It is only if these Indian firms decide to constitute a Formal Network, then the registration with the Institute is mandatory.

5. Ethical Compliance:

Once the relationship of network arises, whether registered or not with the Institute, it will be necessary for such a network to comply with all applicable ethical requirements prescribed by the Institute from time to time in general and the following requirements in particular:

- (a) If one firm of the network is the statutory auditor of an entity then the associate [including the networked firm(s)] or the said firm directly/indirectly should not accept the internal audit or book-keeping or such other professional assignments which are prohibited for the statutory auditor firm.
- (b) In those cases where rotation of firms is prescribed by any regulatory authority, no member firm of the network can accept appointment as an auditor in place of any member firm of the network which is retiring. However, this restriction shall not apply in case of appointment as Statutory Central Auditor of Government agencies/Undertakings such as Public Sector Undertakings (PSUs), Public Sector Banks and Financial Institutions etc.
- (c) The Constituent member firms of a Network & the Network shall comply with all the ethical Standards prescribed by the Council from time to time.

6. Consent of Client:

The network shall obtain consent of the client to engage an affiliate in discharging the professional assignments.

7. Constitution of Network:

- (i) Proprietary/partnership firm(s) as well as individual member(s) are permitted to form a Network.
- (ii) A proprietary/partnership firm as well as individual Member are allowed to join only one Formal network.
- (iii) Firms having common partners shall join only one network.

8. Object of Network:

The Network itself will not carry on any business for acquisition of gain for itself and only act as a facilitator for its members/constituent Member firms to pursue their professional jobs.

9. Responding to Enquiries:

Only one firm/Member can apply on behalf of the network showing the collective strength of all the constituent firms of the network, when responding to any enquiry.

10. Issuing Reports:

Only the firm(s)/ Member(s) forming Network are eligible to issue/sign/attest any certificate/Report/professional document/ assignment.

11. Violation of Act: In case of alleged violation of the provisions of the "Act, Regulations framed thereunder, guidelines/directions laid down by the Council from time to time and Code of Ethics by the Network firm, the proprietary/partnership firm(s)/individual Member constituting the Network would be answerable.

12. Exit from Network: A constituent Member firm/Member of a Network can exit from the network by sending the declaration in Form 'CN' (enclosed) to the Institute and also to each and every constituent of the network. The concurrence/acceptance of the same by other firms forming part of the network firm shall not be required.

13. Framework of Internal Byelaws of Network requiring Registration:

To streamline the networking, a network shall formulate operational byelaws. Byelaws may contain the following clauses on which the affiliates of the network may enter into a written agreement among themselves:

- (i) Appointment of a Managing Committee, from among the managing partners of the member firms of the network and the terms and conditions under which it should function. The minimum and maximum number of members of the Managing Committee shall also be agreed upon.
- (ii) Administration of the network
- (iii) Contribution of membership fees to meet the cost of the administration of the network.
- (iv) Identifying a partner of any of the member firms of the network to be responsible for the assignment (engagement partner)
- (v) Dispute settlement procedures through arbitration and conciliation
- (vi) Development of training materials for members of the network
- (vii) Issue of News-letters for staff and clients
- (viii) Development of softwares for different types of assignments Development and maintenance of data bases relevant for .different types of assignments
- (ix) Library
- (x) Appointment of a technical director to whom references can be made
- (xi) Determining the methodology for drawing resources from each member firm
- (xii) Determining compensation to member firms for resources to be drawn from them
- (xiii) Peer review of the member firms

These clauses are illustrative.

APPLICATION FOR APPROVAL OF NAME FOR NETWORK OF FIRMS

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

[See Rule 3 of Rules of Network amongst the firms registered with the Institute of Cost Accountants of India)

1. Proposed name of Network (in order of preference) if the Network has a distinct name

1. _____
2. _____
3. _____
4. _____

2. Name(s) of the firm(s)/Member(s) forming network	Firm Name/Member Name	Firm Regn.No. M.No.
	1. _____	_____
	2. _____	_____
	3. _____	_____
	4. _____	_____

3. Address of the Office of the Network

_____ Pin _____

E-mail (if any) _____

4. We hereby declare that the above firm(s)/Member(s) proposed/ have entered into an understanding to form a network in accordance with Rules of Network amongst the firms registered with The Institute of Cost Accountants of India and further affirm and confirm that the partner signing the application has been duly authorised by the other partners of the respective firms.

Place:

Date:

Name(s) with Membership No(s). and signature(s) of duly authorised Partner(s)/Proprietor(s) of the firms/ Member constituting Network

**DECLARATION FOR REGISTRATION OF FORMAL
NETWORK AMONGST FIRMS REGISTERED WITH ICAI**

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

PARTICULARS OF NETWORK HAVING INDIAN AFFILIATION

1. Name of the Network
2. Address of the Network
3. Names and addresses of firms/Member constituting the Network

Names and addresses of Firm(s)/Member(s)	Firm Registration No./M.No.
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4. (a) Date of formation of Network
(b) Date on which present network arrangement
was entered into
5. We undertake to comply with the guidelines/directions laid down by the
Council regarding Network from time to time.

We hereby declare that:

- (a) the network constituents have entered into an agreement to form this network.
- (b) that the partner(s) signing this declaration has been duly authorized by the other
partners of the firm

Place:

Date:

Name(s) with Membership No(s).
and signature(s) of duly authorised
Partner(s)/Proprietor(s) of the firms/
Member constituting Network

DECLARATION FOR DISSOCIATION FROM A NETWORK

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
[See Rule 12 of Rules of Network amongst the firms registered with
The Institute of Cost Accountants of India]

1. Name of the Network
2. Address of the Network
3. Names and addresses of firms constituting the Network
Names and addresses of Firm(s)/Member(s) Firm Registration No./M. No.
4. Name and address of the firm/member willing to dissociate from the Network
Name and address of Firm Registration No./M. No.

In pursuance to the Rule 12 of Rules of the Network issued by The Institute of Cost Accountants of India, We hereby declare our dissociation from the Network w.e.f.....
.....

I hereby declare that I have been duly authorised by the other partners to issue this declaration.

Place:

Date:

Name(s) with Membership No(s).
and signature(s) of duly authorised
Partner(s)/Proprietor(s) of the firms/
Member dissociating from the Network

DECLARATION TO BE FILED FOR NETWORK WITH ENTITIES OUTSIDE INDIA

NETWORK WITH ENTITIES OUTSIDE
REGISTRATION NO.

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

PARTICULARS OF NETWORK WITH ENTITIES OUTSIDE INDIA

1. Name of the Network
2. Address of the Network
3. Name(s) & address(es) of firm(s)/entity(ies) constituting the Network

(A) Indian firm(s) forming part of Network:

Name(s) of Firm(s)	Firm Registration Number(s)
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(B) Outside entity(ies) forming part of Network:

Name(s) of the entity(ies) .	Registration No. of entity(ies), the name(s) of enactment(s)/ charter(s) under which Registered with the name of country(ies)
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4. (a) Date of formation of Network
- (b) Date on which present network arrangement was entered into

5. Detail of ownership and management structure of outside entity(ies) constitution Network

We, the authorized representative(s) of the entity(ies) outside India, hereby solemnly declare and undertake that:

(1) We are conversant with the provisions of the Cost and Works Accountants Act, 1959, Cost and Works Accountants Regulations, 1959, the Code of Ethics guidelines/directions regarding Network issued by the Council from time to time;

(2) in regard to the activities of the Network in India, we undertake to comply with the aforesaid provisions/guidelines/directions, in general, and in particular clauses (2) to (7) of Part-I of the First Schedule to the Cost and Works Accountants Act, 1959; and

(3) the activities under the Network will not tantamount to rendering services so as to constitute a commercial presence in India or in any way result in Mode 3* or Mode 4* rendering of services as per WTO terminology.

Place:

Date:

Name(s) with Membership No.(if any)(s).
and signature(s) of duly authorised
Representative(s) of the entity(ies)
Outside India constituting Network

We, the authorized representative(s) of Indian Firm(s), solemnly declare as under:-

(1) the information given above is true and correct as per our information and belief; and

(2) non-compliance with the provisions of the Clauses (6) & (7) of Part I of the First Schedule to the Cost and Works Accountants Act, 1959 and the guidelines/directions laid down by the Council thereunder by the outside entity(ies) shall be deemed to be on our behest, unless proved otherwise.

Place:

Date:

Name(s) with Membership No.(if any)(s).
and signature(s) of duly authorised
Representative(s) of the entity(ies)
Outside India constituting Network

* Mode 3: Commercial Presence - Where services are provided through establishment of an office in the other country.

* Mode 4: Movement of Natural Persons - Where the professional accountant travels from one country to another to deliver a service.