

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 registered with ICWAI Rules of Merger & Demerger formulated and finalized 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 ICWAI and entities outside India. The Council decided that in addition to the compliance with the Rules of network amongst the firms registered with ICWAI, the entities outside India willing to form network with Indian ICWAI firms would give a declaration in forms 'DN' (enclosed)

RULES OF NETWORK

1. These Rules are called Rules for Network amongst the firms Registered with. The Institute of Cost and Works Accountants of India
2. Definition
 - (I) Network.

“Network amongst two or more firms means an arrangement to facilitate the better function 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 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 of beneficial interest.
- (ii) One or mode of the entities holding out that it so affiliated or networked.

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

- (a) Share professional knowledge and data base.
- (b) Refer certain professional assignment or authorize the other to represent certain specific matters.

3. If different Indian firms are network with a common Multi-National Accounting Firms (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 & Works Accountants of India (ICWAI).where the object of network is to use the collective resources of the affiliates for execution of professional services of one or more type at one and/or at multination points. The resources would include financial technical and other logistic support required to execute the professional assignment. In such type of network, the common resources may be pooled and exhibited together the service user as those belonging to one particular set of professional.
- (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 service 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 resource 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 Regulation, 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 and Works 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 & Work Accountants Act.1959.

4. 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 formal of application for approval of Name for Network is Form 'AN'(enclosed)
- (ii) Standards prescribed in Regulation of the Cost & Works Accountants Regulation 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 ICWAI be withdrawn at any time by the Institute. The Institute shall reject any undesirable name

and the provision 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 ICWAI firms) on their professional stationery .
- (iv) Network may work without a Name also.

5. 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 result in creation of a Formal 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 decided to constitute a Formal Network, then the registration with the Institute is mandatory.

6. 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 associates (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 under 3 Kings 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.

7. Consent Client:

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

8. Constitution of Network:

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

9. 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/constituents Members firms to pursue their professional jobs.

10. 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

11. Issuing Reports:

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

12. Violation of Act: In case of alleged violation of the provisions of the 'Act' Regulations framed there under guidelines/directions laid down by the Council from time to time and Code of Ethics by the Network firm, the proprietary/partnership firms(s)/Individual Member constituting the Network would be answerable.

13. 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 of the network firms shall not be required.

14. 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 numbers 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 client.
- (viii) Development of software for different type 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 members firms.

These clauses are illustrative

APPLICATION FOR APPROVAL OF NAME FOR NETWORKS OF FIRM

Form' An'

THE INSTITUE OF COST ACCOUNTANTS OF INDIA

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

1. Proposed name of Network 1-----
(In order of preference) if the 2-----
Network has a distinct name 3-----
4-----

(2) Name(s) of the Firm(s)/Member(s) Forming network	Firm Name/Member Name	Firm Regn. No
	1-----	-----
	2-----	-----
	3-----	-----
	4-----	-----

3. Address of the Office of the Network

-----Pin-----
E-mail (if any) -----

4. We hereby declare that the firm(s)/Members(s) proposed/have entered into an understanding to firm 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 authorized by the other partners of the respective firms

Place:

Date:

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

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

Form 'BN'

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

PARTICULARS OF NETWORKS HAVING INDIAN AFFILIATION

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

Names and address of
Firms(s) Members (s)

Firm Registration No. /M No

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 networks constituents have entered into an agreement to form this networks
- (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 authorized Partner(s)/Proprietor(s) of the firms/
Member constituting Network

DECLARATION FOR DISSOCIATION FROM NETWORK

Form 'CN'

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 address of firms constituting the Network.

Names and address of
Firms(s) Members (s)

Firm Registration No. /M No

4. Name and address of the firm/member
Dissociate from the Network
Name and address of

Willing to

Firm Registration No/M. No

In pursuance to the Rule 12 of Rule of the Networks issued by. The Institute of Cost and
Works Accountants of India. Well hereby declare our dissociation from. The Network we f

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

Place:

Date:

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

DECLARATION TO BE FILED FOR NETWORK WITH

Form 'DN'

ENTITIES OUTSIDE INDIA

NETWORK WITH ENTITIES OUTSIDE

REGISTRATION NO

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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)

(B) Outside entity (ies) forming part of Network

Name(s) of the

Registration No. of entity (ies)

The name(s) of enactment(s)

Charter(s) under which

Registered with the name of country (ies)

Entity (ies)

4. (a) Date of formation 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 Regulation 1959 the Code of 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-1 of the First Schedule to the Cost and Works Accountants Act, 1959, and
- (3) The activities under the Network will not tantamount to rendering service so as to constitute a commercial presence In India or in any way result in mode 3 or Mode4 rendering of services as per WTO terminology

Place:

Date:

Name(s) with Membership No (if any) (s) and signature, (s)
of duly authorized Representative(s) of the entity(ies)
Outside India Constituting Network

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

- (1) The information given above is true and correct as per our information as belief and
- (2) Non compliance with the provisions of the Clauses (6) & (7) of Part 1 of the First Schedule to the Cost and Work Accountants Act 1959 and the guidelines/directions laid down by the Council there under 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 authorized Representative(s) of the entity(ies)
Outside India Constituting Network

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

Mode 4 Movement of Natural Person Where the professional accountant travels one country to another to deliver a service