

# 3. Guidelines for Networking of Firms



**REVISED GUIDELINES OF NETWORK**

**1. Short Title & Commencement**

- (i) These Guidelines may be called ‘Guidelines for Networking.’
- (ii) These Guidelines shall come into force on the 27<sup>th</sup> day of September, 2011

**2. Definitions.**

- (i) In this guidelines, unless there is anything repugnant in the subject or context, --

**(a) Act – “Act” means The Chartered Accountants Act, 1949.**

**(b) Code of Ethics – “Code of Ethics” means the Code of Ethics issued by the Institute and decisions of the Council in this regard.**

**(c) Council – “Council” means the Council of the Institute.**

*(d) Firm – “Firm” means a sole Practitioner / proprietor, partnership or any such entity of professional accountants as may be permitted by law.*

**(e) Institute – “Institute” means the Institute of Chartered Accountants of India.**

**(f) Member – “Member” means a Member of the Institute as defined in Section 2(x) of The Chartered Accountants Regulations, 1988.**

**(g) Network - A larger structure:**

- (a) That is aimed at co-operation; and
- (b) That is clearly aimed at profit or cost sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand name, or a significant part of professional resources.

*(h) Network Firm – “Network Firm” means a firm or Entity that belongs to a Network.*

**(h) Regulations – “Regulations” means Chartered Accountants Regulations, 1988.**

### 3. Concept:

The Concept of Network is explained in appendix I, which forms an integral part of these guidelines.

### 4. Forms of the Network

The different forms of Network can be as under:-

- 4.1 A network can be constituted as a mutual entity which will act as a facilitator for the constituents of the Network. In such a case the Network itself will not carry out any professional practice.
- 4.2 A network can be constituted as a partnership firm subject to the condition that the total number of partners does not exceed twenty.
- 4.3 A network can be constituted as a Limited Liability Partnership subject to the provision of the Chartered Accountant Act and Rules and such other laws as may be applicable.
- 4.4 A network can be constituted as company subject to the guidelines prescribed by Institute for corporate form of practice and formation of management consultancy services company.
- 4.5 Network Firms shall consist of *sole Practitioner/proprietor, partnership or any such entity of professional accountants as may be permitted by the Act*
- 4.6 A firm is allowed to join only one network.
- 4.7 Firms having common partners shall join only one Network.

### 5. Approval of Name of Network amongst firms registered with Institute:

- 5.1 The Network may have distinct name which should be approved by the Institute. To distinguish a "Network" from a "firm" of Chartered Accountants, the words "& Affiliates" shall be used after the name of the network and the words "& Co." / "& Associates" shall not be used. The prescribed format of application for approval of Name for Network is at Form 'A' (enclosed). The names of the network may be as mentioned in Appendix II.
- 5.2 Provisions of Regulation 190 of the Chartered Accountants Regulations, 1988 shall be applicable to the name of Network. However, even if a name is approved and subsequently it is found that the same is undesirable then, the said name may 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.
- 5.3 The Institute shall approve or reject the name of the Network and intimate the same to the Network at its address mentioned in Form 'A' within a period which shall not be later than 30 days from the date of receipt of the said Form.
- 5.4 Mere approval of the name of the Network shall not entitle the Network to carry on practice in its own name.
6. Registration of Network with entities in India
- 6.1 After the name of a Network is approved as per provision under Guideline 5, the Institute same shall reserve such name for a period of three (3) months from the date of approval.
- 6.2 The Network shall get itself registered with the Institute by applying in Form B within the period of 3 months, failing which the name assigned shall stand cancelled on the expiry of the said period.
- 6.3 Registration of Network with Institute is mandatory.
- 6.4 If different Indian firms are networked with a common Multinational Accounting Firm, they shall be considered as a part of network.
7. Listing of Network with entities outside India
- 7.1 The duly authorized representative(s) of the Indian Member firm (s)/Member constituting the Network with entities outside India shall file a declaration with the Institute in Form 'D' for Listing of such Network within 30 days from the date of entering into the Network arrangement.
- 7.2 Proprietary/individual members, partnership firms as well as members in LLP or any such other entity of members as may be permitted by the Act, shall be permitted to join such network with entities outside India provided that the proprietary/individual members, partnership firms as well as members in LLP or any such other entity of members are allowed to join only one network and firms having common partners shall join only one such network.



**8. Change in constitution of registered Network:**

In case of change in the constitution of registered Network on account of any entry into or exit from the Network, the network shall communicate the same to the Institute by filing Form 'C' within a period of thirty (30) days from the date of change in the constitution.

**9. Ethical Compliance:**

Once the relationship of network arises, 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: -

- 9.1 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 shall not accept the internal audit or book-keeping or such other professional assignments which are prohibited for the statutory auditor firm.
- 9.2 The guidelines of ceiling on Non-audit fees is applicable in relation to a Network as follows: -
  - i) For a Network firm who is doing statutory audit (including its associate concern and/or firm(s) having common partnership), it shall be the same as mentioned in the said notification; and
  - ii) For other firms of the same Network collectively, it shall be 3 times of the fee payable for carrying out the statutory audit of the same undertaking/company.
- 9.3 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.
- 9.4 The Network may advertise the Network to the extent permitted by the Advertisement Guidelines issued by Institute. The firms constituting the network are permitted to use the words "Network Firms" on their professional stationery.
- 9.5 The constituent member firms of a Network and the Network shall comply with all the Ethical Standards prescribed by the Council from time to time.



## 10. Consent of Client:

The effect of registration of network with Institute will be deemed to be a public notice of the network and therefore consent of client will be deemed to be obtained.

## 11. Framework of Internal Byelaws of Network:

To streamline the networking, a network shall formulate operational bye-laws. Bye-laws 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
- (ix) Development and maintenance of data bases relevant for different types of assignments
- (x) Library
- (xi) Appointment of a technical director to whom references can be made
- (xii) Determining the methodology for drawing resources from each member firm
- (xiii) Determining compensation to member firms for resources to be drawn from them
- (xiv) Peer review of the member firms

These clauses are illustrative.

**12. Repeal and Saving:**

**The erstwhile “Rules/Guidelines of Network” issued by the Institute stands repealed from the date of commencement of these Guidelines.**

**Provided that notwithstanding such repeal, anything done or any action taken or purported to have been done or taken in respect of the erstwhile Rules/Guidelines prior to the date of applicability of these Guidelines shall be deemed to have been done or taken under the corresponding provisions of these Guidelines.**



## **Appendix-I**

### **(Referred to in para 3 of the Guidelines of Network and forms an integrated part of the Guidelines)**

#### **Concept**

1.1 To enhance their ability to provide professional services, firms frequently form larger structures with other firms and entities. Whether these larger structures create a network depends on the particular facts and circumstances and does not depend on whether the firms and entities are legally separate and distinct. For example, a larger structure may be aimed only at facilitating the referral of work, which in itself does not meet the criteria necessary to constitute a network. Alternatively, a larger structure might be such that it is aimed at co-operation and the firms share a common brand name, a common system of quality control, or significant professional resources and consequently is deemed to be a network.

1.2 The judgment as to whether the larger structure is a network shall be made in light of whether a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that the entities are associated in such a way that a network exists. This judgment shall be applied consistently throughout the network.

1.3 Where the larger structure is aimed at co-operation and it is clearly aimed at profit or cost sharing among the entities within the structure, it is deemed to be a network. However, the sharing of immaterial costs does not in itself create a network. In addition, if the sharing of costs is limited only to those costs related to the development of audit methodologies, manuals, or training courses, this would not in itself create a network. Further, an association between a firm and an otherwise unrelated entity to jointly provide a service or develop a product does not in itself create a network.

1.4 Where the larger structure is aimed at cooperation and the entities within the structure share common ownership, control or management, it is deemed to be a network. This could be achieved by contract or other means.

1.5 Where the larger structure is aimed at co-operation and the entities within the structure share common quality control policies and procedures, it is deemed to be a network. For this purpose, common quality control policies and procedures are those designed, implemented and monitored across the larger structure.



1.6 Where the larger structure is aimed at co-operation and the entities within the structure share a common business strategy, it is deemed to be a network. Sharing a common business strategy involves an agreement by the entities to achieve common strategic objectives. An entity is not deemed to be a network firm merely because it co-operates with another entity solely to respond jointly to a request for a proposal for the provision.

1.7 Where the larger structure is aimed at co-operation and the entities within the structure share the use of a common brand name, it is deemed to be a network. A common brand name includes common initials or a common name. A firm is deemed to be using a common brand name if it includes, for example, the common brand name as part of, or along with, its firm name, when a partner of the firm signs an audit report.

1.8 Even though a firm does not belong to a network and does not use a common brand name as part of its firm name, it may give the appearance that it belongs to a network if it makes reference in its stationery or promotional materials to being a member of an association of firms. Accordingly, if care is not taken in how a firm describes such memberships, a perception may be created that the firm belongs to a network.

1.9 Where the larger structure is aimed at co-operation and the entities within the structure share a significant part of professional resources, it is deemed to be a network. Professional resources include:

- Common systems that enable firms to exchange information such as client data, billing and time records;
- Partners and staff;
- Technical departments that consult on technical or industry specific issues, transactions or events for assurance engagements;
- Audit methodology or audit manuals; and
- Training courses and facilities.

1.10 The determination of whether the professional resources shared are significant, and therefore the firms are network firms, shall be made based on the relevant facts and circumstances. Where the shared resources are limited to common audit methodology or audit manuals, with no exchange of personnel or client or market information, it is unlikely that the shared resources would be significant. The same applies to a common training endeavor. Where, however, the shared resources involve the exchange of people or information, such as where staff are drawn from a shared pool, or a common technical department is created within the larger structure to provide participating firms with technical advice that the firms are required to follow, a reasonable and informed third party is more likely to conclude that the shared resources are significant.

**Appendix-II**

**(Referred to in para 5.1 of the Guidelines of Network and forms an integrated part of the Guidelines)**

**Illustrative examples of names of Network: -**

- a) **If the Network is a Mutual Entity or Partnership Firm:  
AB & Affiliates**
- b) **If the Network is a LLP:  
AB Affiliates LLP**
- c) **If the Network is a Limited Company:  
AB Affiliates P. Ltd/Limited**



## Form `A`

## APPLICATION FOR APPROVAL OF NAME FOR NETWORK OF FIRMS

**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA**  
 [See the relevant Rule of Guidelines of Network amongst the firms  
 registered with The Institute of Chartered 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/<br>Member Name | Firm Regn. No./<br>M.No. |
|   | 1. _____                  | _____                    |
|   | 2. _____                  | _____                    |
|   | 3. _____                  | _____                    |
|   | 4. _____                  | _____                    |

3. Address of the Office of the Network

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_ Pin \_\_\_\_\_

E-mail (if any) \_\_\_\_\_  
 Phone No. \_\_\_\_\_

4. We hereby declare that the above firm(s)/Member(s) proposed/have entered into an understanding to form a network in accordance with Guidelines of Network amongst the firms registered with The Institute of Chartered 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 : .....

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

Date : .....

**Instruction: A copy of the authorisation to be filed with the Institute by the partner signing the declaration on behalf the firm.**



Form 'B'

**APPLICATION FOR REGISTRATION OF NETWORK AMONGST FIRMS  
WITH INSTITUTE – INDIAN AFFILIATION**

**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA**  
[See relevant Rule of Guidelines of Network amongst the firms  
registered with The Institute of Chartered Accountants of India]

**PARTICULARS OF NETWORK**

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

<b>Names and addresses of Firm(s)/Member(s)</b>	<b>Firm Registration No./M.No.</b>
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4. **Date and approval number of network name given by Institute**
5. (a) **Date of formation of Network**
6. **We undertake to comply with the guidelines/directions laid down by the Council regarding Network from time to time.**

**We hereby confirm that all the Network firms have entered into an understanding to work as a network in accordance with the Guidelines of Network amongst the firms registered with the Institute and further affirm and confirm that the partner signing the application has been duly authorized by the other partners of the respective firms.**

**Place : .....**  
**and**  
**Date: .....**

**Name(s) with membership No(s).**

**signature(s) of duly authorized**

**Partner(s)/Proprietor(s) of the  
firms/Member constituting Network**



Chapter IX (Appointment as Statutory auditor) of Council General Guidelines No.1-CA(7)/02/2008, dated 8<sup>th</sup> August,2008

9.0 A member of the Institute in practice shall not accept the appointment as statutory auditor of Public Sector Undertaking(s)/ Government Company(ies)/Listed Company(ies) and other Public Company(ies) having turnover of Rs. 50 crores or more in a year where he accepts any other work(s) or assignment(s) or service(s) in regard to the same Undertaking(s)/ Company(ies) on a remuneration which in total exceeds the fee payable for carrying out the statutory audit of the same Undertaking/ company.

Provided that in case appointing authority(ies)/regulatory body(ies) specify(ies) more stringent condition(s)/restriction(s), the same shall apply instead of the conditions/restrictions specified under these Guidelines.

9.1 The above restrictions shall apply in respect of fees for other work(s) or service(s) or assignment(s) payable to the statutory auditors and their associate concern(s) put together.

9.2 For the above purpose,

(i) the term “other work(s)” or “service(s)” or “assignment(s)” shall include Management Consultancy and all other professional services permitted by the Council pursuant to Section 2(2)(iv) of the Chartered Accountants Act, 1949 but shall not include:-

(a) audit under any other statute;

(b) certification work required to be done by the statutory auditors; and

(c) any representation before an authority;

(ii) the term “associate concern” means any corporate body or partnership firm which renders the Management Consultancy and all other professional services permitted by the Council wherein the proprietor and/or partner(s) of the statutory auditor firm and/or their “relative(s)” is/are Director/s or partner/s and/or jointly or severally hold “substantial interest” in the said corporate body or partnership;

(iii) the terms “relative” and “substantial interest” shall have the same meaning as are assigned thereto under Appendix (9) to the Chartered Accountants Regulations, 1988.

9.3 In regard to taking up other work(s) or service(s) or assignment(s) of the undertaking/ company referred to above, it shall be open to such associate concern or corporate body to render such work(s) or service(s) or assignment(s) so long as aggregate

*remuneration for such other work(s) or service(s) or assignment(s) payable to the statutory auditor/s together with fees payable to its associate concern(s) or corporate body(ies) do/ does not exceed the aggregate of fee payable for carrying out the statutory audit.*



Form 'C'

**DECLARATION FOR CHANGE IN CONSTITUTION OF REGISTERED NETWORK****THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA**

[See relevant Rule of Guidelines of Network amongst the firms registered with The Institute of Chartered 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.
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4. **Name and address of the firm/member willing to enter/exit into/from the Network**

Name and address of Firm(s)/Member(s)	Firm Registration No./M. No.
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**Date of change in the constitution:**

**We hereby declare that the above firm(s)/Members(s) proposed to have enter/exit into/from the network in accordance with the Guidelines of Network amongst the firms registered with the Institute of Chartered Accountants of India and further affirm and the confirm that the partner signing the application has been duly authorized by the other partners of the respective firms.**

**Place :** .....

**Name(s) with Membership No(s).  
and signature(s) of duly authorized  
Partner(s)/Proprietor(s) of the firms**

**Date :** .....

**Instruction: A copy of the authorisation to be filed with the Institute by the partner signing the declaration on behalf the firm.**



Form `D`

**DECLARATION TO BE FILED FOR NETWORK WITH  
ENTITIES OUTSIDE INDIA**

[See relevant rule of Guidelines of Network amongst the firms registered with The Institute of Chartered Accountants of India]

**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA  
PARTICULARS OF NETWORK WITH ENTITIES OUTSIDE INDIA**

1. **Name of the Network**
2. **Address of the Network**
3. **Date on which the Indian firms have joined the present Network arrangement:**
4. **Name(s) & address(es) of all the firm(s) joined/joining the Network**

<b>Name(s) of Firm(s)</b>	<b>Firm Registration Number(s)</b>
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**Verification**

I/We solemnly declare and affirm that the information provided is true and correct to my/our knowledge and belief.

Place: .....	Name(s) with Membership No(s) and signature(s) of a duly authorised Partner of the Indian firm(s)/ Member joining the Network
Date: .....	

**Note:**

- (i) All existing Network should file this declaration on or before 30<sup>th</sup> June \_\_\_\_\_.
- (ii) Any new network arrangement shall file this declaration within 30 days of entering into the Network arrangement.
- (iii) A copy of the authorisation to be filed with the Institute by the Partner signing the declaration on behalf of the firm.
- (iv) The declaration may be filed jointly or separately with the Institute by the firms entering the Network.

Source- Committee for Capacity Building of CA Firms & Small & Medium practitioners

