

### **Acknowledgement**

This publication contains the “Guidelines of Network Amongst the Firms Registered with the Member Body of SAFA” and “Report of the Study Group on Capacity Building Measures of C.A. Firms as approved by the Council of the Institute of Chartered Accountants of India (ICAI). The ICAP gratefully acknowledges the permission given for the use of the material by SAFA and ICAI.

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## **Foreword**

I am pleased to present the ninth booklet under the Members' Information and Education Series (MIES-9) on the subject of **“Networking of CA Firms– An Overview”**.

The booklet contains “Guidelines of Network Amongst the Firms registered with the Member Body of the South Asian Federation of Accountants (SAFA)” and “Report of the Study Group on Capacity Building Measures of C.A. Firms” as approved by the Institute of Chartered Accountants of India (ICAI).

The objective of this publication is to inform the members about the significance of networking and the factors looming the efficient delivery of professional services, reasons connected to these barriers and the capacity building measures implemented or being considered to be implemented by the Institute to overcome these limitations.

It also aims to assess the significance of networking in order to formulate relevant regulations in respect of the implementation of the concept of networking of firms in most advantageous manner.

**“Progress is impossible without change, and those who cannot change their minds cannot change anything” George Bernard Shaw**

The Pakistani Chartered Accountants because of their world-class education, training, skill and competency to ensure excellence have the potential to be a major player in the world service sector. But a number of barriers and short-comings plague the growth of small CA firms into medium and large sized firms. One can appreciate various historical, regulatory, corporate as well as socio-legal reasons for the same. We have no other option. We will overcome these barriers by developing capacity, core competencies and promoting strategic alliances amongst the CA firms.

The accountancy profession of the globalized world is synonymous with the creeds to provide single window one-stop services at the multi-location reach with the cost-saving and time effective aspects. To achieve this objective, merger, networking, multi disciplinary firms, and brand building are measures to strengthen the capacity of the CA firms. I may also reiterate that networking will ensure strategic alliances amongst the CA firms to utilize expertise, experience and efficiency at clients' doorstep and successful networking will lead the firms to merge and prosper and change the face of the profession.

At the end, I would like to thank Mr. Shoaib Ahmed, Senior Manager, Professional Standards Compliance and Evaluation for his efforts in compiling the booklet and the editorial team at ICAP for their assistance and support in publishing it.

**Nasim Hyder**  
*President*

February 28, 2007

## Introduction

In today's world everything is networked. At office we use computer networking, we look at networks to find information and we create networks to help each other.

In the profession of accountancy networks have existed in one form or the other. Major audit firms have had these networks and many more are forming networks. Reasons are obvious. The present day economy is opening up and its prime characteristics are liberalization, privatization and globalization. Because of these changes, the challenges faced today by the profession, especially firms that are smaller in size and do not have alliances of any sorts will find it hard to sustain at reasonable level, if they do not adopt networking. Today we see that many firms have changed their character either through merger or amalgamations or have created networks. PWC, KPMG, E&Y, Deloitte and many more are working together so that knowledge base of their members is relevant and they can provide services to the society at large in an efficient and effective manner.

## Facts about the Profession

### a) Composition of Audit Firms

At present out of 4038 members, there are only 617 members in practice in the country. Table 1 below shows the breakup of our membership.

**Table 1**

Total No. of Members : 4038	
FCAs : 1707	ACAs : 2331
Members in Practice : 617 (15.27%)	

**Table 2**

<b>Practicing Firms with Listed Clients</b>					
	<b>Total No. of Firms</b>	<b>No. of Firms have listed client</b>	<b>% age</b>	<b>No. of Listed Clients</b>	<b>% age</b>
Practices as Sole Proprietor	291	29	9.97%	43	7%
Practices with 2 partners	79	21	26.58%	55	9%
Practices with 3 to 5 Partners	23	23	100%	183	30%
Practices with 6 to 10 Partners	12	12	100%	36	6%
Practices with 10 or more Partners	5	5	100%	288	48%
<b>Total</b>	<b>410</b>	<b>90</b>	-	<b>605*</b>	<b>100%</b>

*\* Please note that for statistical purposes, we considered only major sectors of the listed entities and ignored few sectors with no impact overall.*

In our country, the sole proprietary firms/ firms having less than 5 partners constitute more than 77 per cent of the total members in practice while firms with 6 to 10 partners and more than 10 constitute almost 11 per cent and 12 per cent of the members in practice respectively.

The sole proprietorship firms not only suffer from a lot of limitations but also lose potential opportunities due to lack of networking. While in sole proprietorship firms, generally 80% of the time spent on work contributes to only 20% of the revenues, in case of partnerships, 20% of the time spent may account for 80% of the revenues. As the number of clients increase, managing them and catering to their ever-increasing demands becomes almost impossible, leading to unsatisfactory client services, which, in turn, may gradually lead to decrease in the number of clients?

If we look at breakup of different firms that are engaged in assurance work of listed companies given in Table 2 above, we find that 48% of the work is done by large firms. It is also important to note that only 10% of the total numbers of sole proprietary firms are engaged in assurance work of the listed companies having audit of 7% of listed companies and 28% of the firms with two partners have 9% of listed companies.

Further analysis of listed companies' data reveals that there are specific sectors that are being audited by small and medium size practices. These sectors have several issues in terms of preparation of accounts and need to present better accounts. In addition they are exposed to audit services that are themselves restricted.

**Table 3**

<b>Practicing Firms with Listed Clients (Sector Analysis)</b>					
<b>Sector</b>	<b>Sole Proprietor</b>	<b>2 to 3 Partners</b>	<b>4 to 10 Partners</b>	<b>10 or above Partners</b>	<b>Total Clients</b>
Automobile	0	*7	2	*12	21
Cable, Engineering and Power Generation	1	6	7	10	24
Cement, Chemical and Fertilizer	5	4	*5	*27	41
NBFC, Insurance, Modaraba and Mutual Fund	4	13	48	61	126
Commercial Banks	0	0	*5	*14	19
Food & Personal Care, Sugar & Allied and Vanaspati	4	11	16	22	53
Oil & Gas Marketing and Refineries	0	1	*1	*13	15
Textile and Synthetic & Ryon	8	*48	*100	16	172
Tech & Communication and Transport	0	1	1	*14	16
Miscellaneous	2	13	21	17	53

*\* For the purpose of this analysis joint audits are considered in the category of bigger firms.*

Critical sector analysis of the firms (Table 3 above) engaged in assurance services also reveals that presence of the SMPs is almost negligible in audit of major sectors which includes commercial banking, oil & gas exploration, oil & gas marketing, refinery, non-banking finance companies and telecommunication. Textile sector considered to be the single most active sector where participation of the SMPs is considered to be effective, taking into account number of companies listed in this sector. It is pertinent to note that out of 172 companies listed in the textile sector only two companies got minimum eligible marks in 2005 for the first time in the history of the 'Best Presented Accounts Award'.

Hence, there is a need for "Capacity Building". Networking, which is an important tool for capacity building, either at national or international level. As part of this, restructuring of firms through merger and networking is the essential need of the current scenario.

## **b) Succession planning**

Since large proportions of firms in Pakistan are sole proprietorship, obviously there is minimal succession planning. Examination of current age of practicing members in Pakistan reveals the startling facts. Table 4 and 5 shows age wise break up of members in practice as sole proprietor and age wise break up of members in practice as partner respectively.

**Table 4**

<b>Age Breakup of Members in Practice as Sole Proprietor</b>		
<b>Age Range</b>	<b>Members</b>	<b>Percentage</b>
Less than 35Years	39	13.30%
35 - 50 Years	106	36%
51 - 60 Years	61	20.82%
More than 60 Years	87	29.69%
<b>Total</b>	<b>293</b>	<b>100%</b>

**Table 5**

<b>Age Breakup of Members in Practice as Partner</b>		
<b>Age Range</b>	<b>Members</b>	<b>Percentage</b>
Less than 35 Years	50	15.43%
35 - 50 Years	99	30.55%
51 - 60 Years	82	25.30%
More than 60 Years	93	28.70%
<b>Total</b>	<b>324</b>	<b>100%</b>

Table 4 and 5 above show that almost 50 percent of the total practicing members falls under the age bracket of 50 years or more. In comparison to this, only 15 percent of the practicing members fall under the age bracket of less than 35 years. So, the question arises what we have concluded from the above comparison, and the answers are:

1. Reluctance by the new members to join the profession as a practicing member.
2. Ageing population.

If both the situations prolong further, it will deteriorate the quality and efficiency of the profession and therefore the problem needs to be addressed and understood.

### **c) Problems/ Challenges Faced by SMPs**

In particular the following challenges are faced by the Small and Medium Practices in Pakistan:

- New 'International Standards on Quality Control' inter-alia demand extensive training and proper documentation. Unfortunately SMPs lack resources to continually supplement training thus, resulting in inadequate documentation. The fact of the case is that middle level management is almost non-existent in SMPs.
- This stems the need to commit resources required to manage change at ownership, structural and operational level.
- SMPs provide traditional services when the need is to specialize and collaborate to grow out of the static growth levels in traditional markets.
- SMPs have to compete against non-accounting firms in traditional markets.
- SMPs need to resource and develop IT knowledge and specialize in applications.
- SMPs need to acquire increasing knowledge and developing relevant skills.
- Client base - With most business enterprises planning to increase their revenues by expansion activities rather than by cost cutting, the need to respond to growth of clients, match their needs and retain a growing client base for future success.
- Most of the SMPs are without international affiliations therefore, it is perceived that they will not be able to take advantage of the concept of 'Business Process Outsourcing' due to lack of publicity in International Market.
- SMPs compete for staff with other large firms in terms of ongoing training, opportunities, etc. for high quality staff. In addition audit of listed companies comprises relatively small portion for SMPs, thus resulting in a lack of exposure to the students. Further, due to non availability of qualified and experienced staff, SMPs face difficulty in coping up with the requirements of 'Quality Control Review Program' of the Institute.

### **Suggested Solutions**

The suggested solutions for the above problems are enhancing capacity of SMPs through conducting workshops, seminars and other training programmes, publishing the Members' Information and Education Series (MIES) on topics particularly relevant to the SMPs, helping firms to comply with the International Standard on Quality Control (ISQC-1) by conducting roundtable, workshops, etc. But these steps are transient in nature and there is a question arises that is there any permanent solution to the problem and the answer could lie in 'Networking of Firms'.

## What is Networking?

The word 'networking', is frequently used in daily conversation and has different meanings for different people according to their profession and service. In our profession it means a professional alliance amongst two or more firms of chartered accountants, with a common alliance title where the constituent firms will continue to work as separate entity at different locations but with its combined strength.

It is important to understand that Networking is something beyond a short term stint of working together. For net working to succeed it must...

- be about building long term relationships and trust and not about quick sales or a one way street;
- entails sacrifice and one should be prepared not to claim too much personal space;
- have a clear high level strategy that identifies your goals and directions;
- identifying key individuals who you should have on your hit list to help you achieve your goals;
- building and maintaining strong, mutually beneficial relationships especially around opportunity spotting;
- provide help and support to those in your network, especially when they need it most;

However, it must be remembered that networking is very much a means to an end, not an end in itself. The most important thing to remember about networking is that it is a two-way traffic. Networking creates clusters within an organization. Each individual knows certain number of people, others in the same network will know others and so on. That creates larger overall circle of people known by the networks and can bring in more knowledge and work. One must be receptive to other peoples approach and even if one can't help them one can always refer it to someone who can within the same network.

The IFAC Code of Ethics has defined the term 'Network firm':-

***“An entity under common control, ownership or management with the firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as being part of the firm nationally or internationally”.***

The Indian Networking Rules has defined the term 'Network of firms':-

***“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, and location for execution of Professional services of one or more type”.***

### Explanation

An affiliation 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) 1 or more of firms holding out that it's so affiliated or networked.

An entity shall not be treated as 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.

## What is not Networking?

- Only using your network when you have a problem or need information.
- Focusing on short term gains at the expense of longer relationship development.
- A one way street – you need to be polite at networking events and listen to what people have to say.

## Benefits of Networking

Networking has many benefits for a firm like:

- It can be a vehicle for promoting oneself and business i.e. a cost effective marketing tool.
- It enhances awareness of task environment, keeping one up-to-date with changes.
- It provides with new opportunities to expand horizons of individual and business.
- It enhances team-working, camaraderie and opportunities for mutual sharing.
- It enables to gain support and resources in a group, which is particularly important for small businesses.

## Different kinds of Networking

Networking can be undertaken in any of the following forms:

- Referral network.
- Association of domestic firms.
- Affiliation to an international network.
- Special purpose vehicles.
- Informal associations.
- Consolidations and ultimate merger of firms.

## Way Forward

The Institute may take the following steps to compete and subsist in this competitive environment:-

1. **Facilitation** - Offer facilitator role in development of networking by identifying individual members/firms with expertise in specific areas such as forensic audit, valuation, systems audit, accounting in specific industry such as power, infrastructure, etc. by encouraging communication with and amongst such members to develop a network.
2. **Database** - Creating a database of such networked members that is accessible to the public at large.
3. **Advertising** - It is in the public interest and in the interest of all members of the Institute that members and firms are allowed to advertise or otherwise promote services available and the basis of fees charged. Members should be able to receive publicity, identifying them as members of the Institute, in areas which reflect their competence and knowledge, in matters which are within the scope of activities of members of the Institute, and in matters of civic or public interest. Advertising and publicity should contribute to public respect for the profession and thus to the professional standing of all members. It is the responsibility of the member or firm to ensure that any promotional material produced by or under the control of the member or firm is factual, and that any commentary is not misleading.
4. **SMP Training** - Institute should continue to conduct training workshops for the partners/ managers and students of the SMPs for their capacity building. To go one step ahead it is recommended that such trainings may be conducted in collaboration with big firms to disseminate the information and competency.  
  
SMP Partners and Managers may be invited to attend training sessions being held by bigger firms.
5. **Assurance License** - Institute should review its policy to grant assurance work license especially in case of audit of public limited companies in public interest. The idea behind this recommendation is that firms not having core competency in the audit should not be allowed to conduct audit of Public Limited Companies to safeguard public interest at large. This practice is already followed in many countries.

The current practice of firm based reviews may be carried out with further improvement in the review process and procedure for issuing practicing license. Concept of License categorization may also be

introduced whereby, individual who do not have requisite experience of assurance work in public interest companies should only be allowed to audit companies not having public interest.

The requirement to have post qualification experience of at least two years in an audit firm may also be introduced before issuing a practicing certificate to an individual. Further, at the time of renewal of practicing license, it should be ensured that the individual has undergone a review process.

- 6. To Amend Relevant Laws** - Suitable amendments be made in the existing laws and regulations of the Institute. Criteria followed by SBP and SECP relating to inclusion of firm in their panel of auditors are required to be amended on priority basis, so that network can be recognized.
- 7. Dispute Resolution Forum** - There is no dispute resolution forum available to practicing members. We foresee that as the concept of networking will flourish, need would arise for the forum to resolve the disputes arising amongst members. Being the sole regulator of the profession, it is the responsibility of the Institute to provide such a forum. Presently some of the large firms have ICAP President as arbitrator in their Partnership Deeds.
- 8. Identifying New Business Areas** - Institute may help SMPs in identifying new business areas like, encouraging SMPs to look for works like internal audit, joint audits with larger firms especially in case of audit of commercial banks and NBFC's etc.
- 9. Development of MIES** - Institute should continue to develop 'MIES' on current hot topics and the themes especially relevant for SMPs.
- 10. Data Sharing** - Some data is available with larger firms and that can be shared by them with the Institute. Institute then disseminate the information to the SMPs for their benefit.

**REPORT OF THE STUDY GROUP ON CAPACITY  
BUILDING MEASURES OF C.A. FIRMS AS APPROVED BY  
THE ICA INDIA COUNCIL**

# CHAPTER 1

## INTRODUCTION

*"The Indian Chartered Accountancy Profession will be the valued Trustees of World Class Financial competencies, Good Governance and Competitiveness."*

- Mission Statement of ICAI

### 1.1.0 Accountancy Profession - Indian Scenario

- 1.1.1 The Chartered Accountants Act, 1949 has been enacted by the Parliament for the regulation of the profession of Chartered Accountants. For the purpose of carrying out the objects of the Act, Chartered Accountants Regulations, 1988 have been enacted.
- 1.1.2 The Institute has issued Code of Ethics, which is mandatory for the members. The Code recognizes that the objectives of the accountancy profession are to work to the highest Standard of professionalism, to attain the highest level of performance and generally to meet the public interest requirements.
- 1.1.3 The Indian chartered accountants, because of his world-class education, training, skill, competency to ensure excellence and good command in English-language can play a major role in world development process. The imperative need of the profession is the capacity building of the C. A. firms through merger, demerger, acquisition, networking and corporatization of multidisciplinary services. A time has come to promote the brand image of the profession in the world service market.

The accountancy profession of globalized world is synonymous with the following creeds: -

- To acquire core competency through Merger, Demerger & Networking.
  - Networking of professional firms to strengthen the capability and widen the locational reach.
  - Corporatization of the service to ensure 'single window' service to the clients.
  - Multi disciplinary service.
  - Limited liability professional entity to minimize the risk of adventure in world service market.
- 1.1.4 Every profession operates in a dynamic environment, characterized by economic compulsions. In India, the sole proprietary firms/small firms have been the most common form of organization of C. A. firms. The Study Group is conscious about the historical, regulatory, corporate as well as socio-psychological reasons. To appreciate the scenario of the profession in India, the following data is self-explanatory:-

(As consolidated by EDP Section on 16.6.2004 on the basis of available data).

No. of Total Members            117080  
No. of FCAs                        53435  
No. of ACAs                        63645

Sr. No.	Particulars	Numbers	%age
I	Proprietary firms	34505	72.68
II	Partnership firms having 2 to 3 members	10114	21.30
III	Partnership firms having 4 to 10 members	2742	5.78
IV	Partnership firms having more than 10 members	118	0.24
		47479	100.00

1.1.5 There is no uniform definition of small, medium and large firms. But it can be safely said, on the basis of the above statistics, that the predominant composition of the Indian CA firms is small in size. The medium firms are also few in number. The large firms constitute a very miniscule percentage of the total number of firms. This traditional model may not be viable and ideal to meet the demand of national and trans national corporate sector.

1.1.6 A number of barriers and shortcomings plague the growth of small firms into medium and large sized firms. These barriers need to be overcome by developing capacity, core competencies, promoting strategic and networking alliances. If the expertise is not available within the firm, a merger, acquisition or networking is a method of acquiring the capacity to meet the emerging challenges. To optimize the synergy and to make the merger, acquisition or networking feasible, the capacity building plan has to consider these ground realities. The growth of C. A. firms should be sustainable and compatible with the concept of socio-economic-legal norms and practices

## **1.2.0 Globalization & The Profession: Emerging opportunities vis-a-vis challenges**

1.2.1 In any professional service, there are three key benefits that clients seek - expertise, experience and efficiency. However, even within the same practice area, the relative priority that a given client places on these elements can vary dramatically. To ensure that enterprises access the best global services while maintaining appropriate ethical and professional standard, the Institute as a regulatory body, has a decisive role to play.

1.2.2 Excellent opportunities are coming up for professionals with the specialized knowledge and skills sought by global organizations. These

will increase the areas of national and international taxation, finance and corporate law. Consultancy and advisory services will continue to grow in importance, expanding from traditional financial and business planning into wider issues of business effectiveness and other leading edge areas such as engineering and corporate transformation.

- 1.2.3 Globalization is resulting into cross border investment and operations. Increasing globalization has an impact on the working of different professionals including accountancy profession. Complexity in laws demands specialization. On the other hand, the emerging demand for 'single window' concept in professional services is imperative. Mergers, acquisitions, networking and sometimes demerger are the natural corollary of the process of globalization.
- 1.2.4 In the globalized world, the demand of the services users includes multi-locational and integrated "one stop-shop" service sector. The user is well justified in demanding the presence of the service provider at multi-locational points. This enables the reduction in the cost and the time required to deliver the services. Most of the Indian firms are small firms & it is not possible for such firms to have multi-locational presence. Nor it is feasible for a small firm to render a wide range of services.
- 1.2.5 The object of this report is to build the capacities of small and medium firms to meet such global challenges.

### **1.3.0 Vision of ICAI: Globalization of the Profession**

1.3.1 The Vision Statement of the Institute states as under: -

- ? Recognize the changes in Economy/Business Environment such as focus on value, dynamic business and organization structures, developments in Information Technology and Telecommunication, new Government policies, globalization of business and competitive pressures.
- ? Recognize the path to success by adapting to the changes, knowledge management and acquiring skills to work with future environment influenced by technological and other changes.
- ? Recognize the opportunities for Chartered Accountants in the emerging areas such as new audit and assurance needs, performance measurement services, change management services, strategy management, general practice specialization and servicing global organizations.
- ? Recognize the Institute's role as a proactive, innovative and flexible organization, in equipping Chartered Accountants with top quality education and values.
- ? Recognize the need to be known as World Class Advisor.

- 1.3.2 Institute in its Vision Document welcomed the 'merger/consolidation of professional firms to create large 'FIRMS' by introducing processes and guidelines'. To ensure such merger/consolidation the vision document prescribes 'Network between practices which create an effective forum to communicate home country or international contacts that would facilitate the forming of strategic alliances'.
- 1.3.3 Network will create an atmosphere to understand the capabilities of each other and to promote an interdependent self-reliant profession. Successful Networks may lead the firms to merge and become bigger to make the Indian firms irrevocably strengthened and capable to meet the challenges with confidence.

#### **1.4.0 Capacity Building Measures: The Need of the Hour**

- 1.4.1 Needless to emphasize that the transformation means the cessation of the existing mind set up which feels secure in proprietary and small firm concept. Challenges have to be met by assessing competition, prospective clients need, demographics and market trends.
- 1.4.2 As trade & business globalized, chartered accountants firms in India will be expected to not only provide quicker solutions to the problems of corporate sector but also solutions that will be globally acceptable. The C.A. firms have to acquire more resources, Intellectual property and expertise to meet the requirements of corporate sector across the globe; Strategic alliance is the need of the hour in the corporate as well as in service sector.
- 1.4.3 To avail the emerging opportunities in the globalized world, the following are the Capacity Building Measures for the Indian CA firms, discussed in this report:-
  - a) Networking
  - b) Mergers & Demergers
  - c) Multi-Disciplinary Firms & Other Measures

#### **1.5.0 Empanelment**

- 1.5.1 The present empanelment norms for the allotment of audits of Nationalized Banks and Public Sector Undertakings have been considered while framing the recommendations for Capacity Building Measures. These empanelments are done by the Reserve Bank of India (RBI) and Comptroller and Auditor General of India (C&AG). Panels are also maintained by Insurance Regulatory Development Authority (IRDA) and various other national and state level government bodies. The spirit of these norms has been incorporated in the Capacity Building Measures.
- 1.5.2 But it is essential to distinguish that the Capacity Building Measures are not confined to the empanelment norms. If mergers are undertaken by the CA firms merely to gain additional weightage or points from the empanelment point of view, then it will not result in creation of genuine big firms capable of delivering services as envisaged in the globalized

scenario. If mergers were to lead to additional points for the purpose of empanelment of C.A. firms then it is feared that a number of mergers would be triggered resulting in creation of entities, which may have a short life. This could deteriorate the quality of the service provided by these entities. Members should not come together just for a head count. Mergers should result in greater capabilities to render better value-based services.

- 1.5.3 In the interest of the long term growth of the profession, it has been felt that the Capacity Building Measures should be independent of the present empanelment norms. Therefore, it has been consciously built in that networking, mergers and other measures will not lead to any direct benefit so far as the empanelment norms are concerned. The objective is that a firm should grow so strong that the empanelment norms should become secondary for it in the long term.

#### **1.6.0 Terms of Reference, Composition & Functioning of the Group on Capacity Building Measures.**

- 1.6.1 The President of the Institute vide his direction dated 3<sup>rd</sup> March, 2004 constituted this Study Group (hereinafter referred as Study Group) to study the following in relation to Chartered Accountants Firms:

- i. Mergers
- ii. De-mergers
- iii. Networking
- iv. Capacity Building
- v. Strengthening of firms in general
- vi. Any other relating issues such as logo, brand name, etc."

- 1.6.2 The composition of the Study Group was as follows:

Shri Manoj Fadnis, FCA, Indore - Convenor  
Shri Abhijit Bandyopadhyay, FCA, Kolkata - Member  
Shri Jaydeep Narendra Shah, FCA, Nagpur - Member  
Dr. Alok Ray, Dy. Secretary acted as the Secretary to the Study Group.

#### **1.7.0 Capacity Building Measures - An ongoing process**

- 1.7.1 The initiative of the ICAI to formulate the Capacity Building Measures has to be an ongoing process. The ICAI has formulated Vision for the 21<sup>st</sup> Century. The Vision represents the overall path, which the profession has to follow in the long term. Keeping this Vision in mind, the ICAI has to prescribe the Capacity Building Measures from time to time. The present report has to be considered in this context.
- 1.7.2 In the present day dynamic environment, the laws and the commercial policies are not static and keep on changing from time to time. While the directions of the Capacity Building Measures cannot be changed from time to time but these need to be aligned in accordance with the prevailing environment. It is not possible to lay down the period or the frequency with which these measures should be next revised. It can only be said that the initiatives of the Institute have to be timely.
- 1.7.3 In this background the present report is titled as "Capacity Building Measures, 2004".

## CHAPTER 2

### NETWORKING

#### 2.1.0 Concept

- 2.1.1 Networking has become buzz word for the rapid growth and development. In the modern world where technology is becoming obsolete everyday, the way and manner in which the business is being done is changing at a very fast speed. The concept of one stop shop and the realization that the customer i.e. the client is the king has changed the way the accounting profession is being carried out.
- 2.1.2 Given the fact that the Indian CA profession is dominated by the small firms, the networking will be an important method for these firms to meet the emerging challenges and opportunities. It will enable the firms to deliver services at multi-locational points without having their physical presence. Networking of firms can also be encouraged between different firms situated at the same place. This type of networking will enable each affiliate of the network to develop expertise in a specialized branch of the profession. The firms should be encouraged to work in a focused area of professional services. This will mean that the firm will have to decide in which particular area to practice and more important to decide in which area not to practice. It can then network with another firm which has opposite preference of professional practice.

#### 2.2.0 Definition

- 2.2.1 In this Report, Networking means as under:-

"Networking amongst two or more firms means an entity under common control, ownership or management with the firm or having affiliation with an accounting entity or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as being part of the firm nationally or internationally.

[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 MAF then irrespective of the presence/absence of any 'affiliate' relationship between the Indian firms inter-se, they shall be considered as part of the same network.]

## 2.3.0 Registration of networking

- 2.3.1 Registration of networking amongst firms registered with ICAI is required where the intention is to use the collective strength and resources of the network for undertaking any professional assignment. Such type of networks are hereinafter referred to as Formal Network. The requirement for registration will arise only in case of Formal network as mentioned hereunder.

### Formal network

- This essentially refers to a network between firms registered with the 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 multi-locational 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 are being pooled together and are being exhibited before the service user as those belonging to one particular set of professionals. It therefore becomes necessary that such a network should comply with more stringent set of ICAI regulations.

- Provisions of Clause (1) of Part I of the Second Schedule to the Chartered Accountants Act, 1949 reads as under:

"A Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he -

**Clause (1):** discloses information acquired in the course of his professional engagement to any person other than his client, without the consent of his client or otherwise than as required by any law for the time being in force."

- The Government shall be advised to make suitable changes in the C.A. (Amendment) Bill, 2003 to delegate the powers to the Council to permit disclosure of information in certain cases.
- The network is well advised to obtain consent of the client to engage an affiliate in discharging the professional assignments.

### Referral Practice.

- The referral practice is existing in the profession since a long time. Here a firm refers 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 predominant 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. In this background, the Study Group is of the opinion that such Informal network does not come within the definition of Network as adopted by the Council as mentioned in para 2.2.1 as above. Needless to say that firms constituting such network are always required to comply with the relevant provisions of the Code of Ethics.

- 2.3.2 As per the Explanation 2(b) of the definition mentioned above, mere reference of certain professional assignments or authorizing the other to represent certain specific matters does not result in formation of a network.
- 2.3.3 It is for each firm to decide whether its affairs and relations with another firm results in creation of a network as defined above. Registration of a Network with the Institute, is mandatory, only if it is a Formal network. Each network shall evaluate itself whether or not it is a formal network requiring registration with the Institute.
- 2.3.4 As per clause-3 of the Explanation to the definition of networking, as mentioned above, 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 the same network. As such, for these firms the registration with the Institute is not ipso facto mandatory. It is only if these Indian firms decide to exhibit to the outside world their collective strength and resources, then the registration with the Institute is required.
- 2.3.5 In the matter relating to networking of firms registered with ICAI with entities outside India is concerned, it is felt desirable that the existing status quo may be maintained as the matter has already been decided by the Council, while considering the Report of the Study Group in relation to Section 25 of the CA Act and other related issues under the Convenorship of Shri Jayant Gokhale, FCA.
- 2.3.6 The rules for a Formal Network amongst firms registered with ICAI are as follows: -
- (1) Proprietary/partnership firms as well as individual Members are permitted to form a Network.
  - (2) A proprietary/partnership firm as well as individual Member should be allowed to join only one Formal network.
  - (3) The network would be used for showing the combined strength of proprietary/partnership firms constituting the network. Meaning thereby, they shall pool the resources and declare combined turnover, expertise, manpower & location.
  - (4) Formal Network means a Network with a Name where the constituents firms will work as an entity at different locations and with its combined strength.
  - (5) The network only can respond to tenders/enquiries in Network capacity. Only one firm can apply on behalf of the network showing the collective strength of all the constituent firms of the network.
  - (6) Only the firms forming Network are eligible to issue/sign/attest any certificate/Report/professional document/assignment. However, the rules of the network shall prescribe the detailed modalities in this regard.

- (7) In case of alleged violation of the provisions of the Chartered Accountants 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 firms/individual Member constituting the Network would be answerable.
- (8) The form of declaration to be submitted by a Network is at **Appendix I**.
- (9) The Network may have distinct name which should be approved by ICAI in accordance with the guidelines to be issued. To distinguish a "Network" from a "firm" of Chartered Accountants, the words "& Associates" should be used after the name of the network and the words "& Co." "T& Associates" should not be used.
- (10) The network should neither be permitted to advertise nor to use logo and status quo as regards solicitation and advertisement shall be maintained. The firms constituting the network is permitted to use the words "Affiliates/Members of " (a formal network of Indian CA firms) on their professional stationery.
- (11) A particular firm may dis-associate with network by sending the declaration and the concurrence/acceptance of the same by other firms forming part of the network firm shall not be required.

#### **2.4.0. Ethical compliances by Network**

- 2.4.1 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. Compliance with such ethical requirement will only enhance the reputation of the profession and thereby of the member firms. In addition to the requirements of Code of Ethics, the following ethical norms will also have to be complied with by all the networks, whether registered or not with the Institute:-
  - (i) If one firm of the network is the statutory auditor of an entity then the associate (including the networked firm) or the said firm directly/indirectly should not accept the internal audit or bookkeeping or such other professional assignments which are prohibited for the statutory auditor firm.
  - (ii) The ceiling on fees in respect of Management Consultancy Services in terms of Notification No. ICA(7)/60/2002 dated 8<sup>th</sup> March, 2002, would apply to all the networked entities considered as a group. However, considering that the Network is a larger entity and to facilitate networking, the Council at its discretion may raise the ceiling in case of Networking.
  - (iii) 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 will not apply in case of appointment as Statutory Central Auditor of Government agencies/Undertakings such as PSUs, Public Sector Banks and Financial Institutions etc.

2.4.2 In addition to that, if the Council proposes any further restriction from time to time, the same would also apply. However, network firms would not be bound by the disabilities of a particular firm like if any disciplinary proceeding is pending against any particular firm/Member forming part of network, it would not affect the network.

## CHAPTER 3

### MERGERS & DEMERGERS OF C.A. FIRMS

#### 3.1.0 Background

3.1.1 Naresh Chandra Committee Report on Corporate Audit and Governance observed as follows:

- ? "ICAI should propose to the Government a regime and a regulatory framework that encourages the consolidation and growth of Indian firms, in view of the international competition they face, especially with regard to non audit services.
- ? The Government should consider amending the Partnership Act to provide for partnership with limited liability, especially for professions which do not allow their members to provide services as a corporate body."

3.1.2 The Partnership Act has not prescribed merger & demerger of partnerships. In the corporate world, merger and demerger have become universal practices for securing survival, growth, expansion and globalization of enterprise and achieving multitude of objectives. Merger is the fusion of two or more existing companies. On the other hand, demerger signifies a movement in the company just opposite to merger. 'Demerger' is also used to describe spinning off of an "undertaking" of a Corporate entity. 'Acquisition' in general sense is acquiring ownership in the property. The concept of 'Merger', 'Demerger' & 'Acquisition' are arising out of the 'Arrangement' under Sections 391-394 of the Companies Act, 1956.

3.1.3 To incorporate the spirit of Corporate World and to imbibe the consolidation creed, probably the Council used the term 'merger' and 'amalgamation' of CA firms.

#### 3.2.0 Merger - Tool for consolidation.

3.2.1 In order to have an orderly and sustainable growth of the CA firms, it is desirable that the coming together of the firms begins with networking and then matures to mergers. Networking will enable the firms to develop working relationships with each other. This is like the pre-marriage courtship period. Once the firms have developed sufficient confidence in each other then they can venture into a marriage which is in the form of mergers. However, it is not to suggest that there cannot be mergers without networking.

3.2.2 The mergers should be effected to develop core competencies and to render professional services of a larger range spread over bigger geographical area. A merged big entity will always be superior to a network arrangement. A network of such bigger entities will lead to formation of bigger firms in near future.

- 3.2.3 The mergers cannot be prescribed keeping the prevalent empanelment norms in mind. As mentioned in detail in the first chapter itself, the mergers cannot be effective if the sole objective is to get higher points in the empanelment process. Such mergers will be only paper mergers meant for headcount in the empanelment process. The ability of firms coming together in this manner to deliver qualitative services to the users is doubtful. The Institute as a regulatory body has to effectively curb all kinds of malpractices.
- 3.2.4 The present suggestions on mergers will therefore not benefit the firms in the short run from the point of view of the empanelment norms. But in the long run, it will always prove beneficial both to the merged entity as well as to the user of the services. The Capacity Building exercise is to enable the growth of the firms in such a manner and to such an extent so that the empanelment with the regulatory bodies does not remain the prime objective.

### **3.3.0 Merger - the modalities.**

- 3.3.1 To effectuate merger, a merger agreement in the prescribed format is to be filed with the Institute within 30 days from the date of the agreement. The re-constitution agreement/ partnership deed will be required to be filed with the Registrar of Firms.
- 3.3.2 Under the Indian Partnership Act, 1932, there are no provisions regarding merger of firms. Therefore, the merger has to be effectuated by entering into a new partnership deed/reconstitution deed. Such a deed will have to be filed with the Registrar of Firms as required under the law. To be treated as a merger for the limited purpose of the administrative matters of the Institute, the merger agreement has to be executed and filed with the Institute.

### **3.4.0 Demerger.**

- 3.4.1 The advantage of a formal merger is the ability to demerge which will be formally recognized by the Institute. One of the impediments for the growth of the firms is that once a merger takes place there is no exit route. The merged entity loses its trade name and also its seniority forever. There is always a lurking fear that the pre-merger cordial relations may not continue after the merger. In the event of such fear coming true then the merging firm will be in a situation of having lost everything that it had before merger. It is this fear that acts as a barrier in the process of merger of firms.
- 3.4.2 The following proposals regarding demergers are with the object of removing the abovementioned impediments:-

- a) It will be entitled to practice in its old trade name, which existed at the time of merger. Upon the merger of the firms, the Institute will freeze the names of the merging firms and shall not allot the same names to any other firm. In the event of demerger, the same name will then be given to the demerging firm.
  - b) The Constitution Certificate issued by the Institute to the demerged firm shall state the original date of establishment, the date of its merger and the date of the demerger. For the purpose of computing the seniority of the firm, the total period will be reckoned from the original date of establishment. The Institute will recommend to other regulatory bodies to consider the seniority of the demerged firm in the same manner. The recognition of the demerger for the empanelment purposes should be after one year of the demerger. This is to prevent any possible misuse of the facility of merger and demerger by any firm to circumvent the requirement of cooling period in the empanelment process.
- 3.4.3 The merger has to precede the demerger. The merger agreement itself will contain the terms and conditions for demerger. Therefore no concurrence/acceptance will be required from the continuing partners. The merger agreement shall stipulate that in case of 75% or more of the continuing partners of one of the erstwhile firm(s) are willing to demerge then they can do so after giving due notice to the other partners.
- 3.4.4 The condition of 75% or more of the continuing partners is just to safeguard from the whims and fancies of one or few of the partners who may otherwise be in complete minority. Also this requirement is similar to the requirement under the Companies Act, 1956 where a special resolution is required for certain important matters. Thus, effectively it means that the continuing partners of the erstwhile merged firm will have to pass the resolution of demerger by a %th majority.
- 3.4.5 It is necessary to lay down a time period within which the demerger can be demanded by the erstwhile merged firm. Demerger cannot be used as a hanging sword on the merged entity. Therefore to balance out between the two opposite issues i.e. (a) the need to demerge and (b) the probable misuse of this right to demerge, it is prescribed that the demerger in the manner hereinbefore mentioned can be demanded only within a period of 5 years from the date of merger.
- 3.4.6 The clear rules of demerger will facilitate the merger. It is like having clear rules of divorce in case the marriage is not successful.

## CHAPTER 4

### MULTI DISCIPLINARY FIRMS & OTHER MEASURES

#### 4.1.0 Multi-Disciplinary Firms.

4.1.1 Limited Liability Partnership (LLP) is being considered across the globe as a most suitable vehicle for partnership amongst the professionals such as lawyers and accountants. An LLP enters into contract in its own name in the same way as Limited company and its members have the advantage of limited liability similar to the shareholders of a company. The Study Group also noted that in U.K., the Limited Liability Partnership Act, 2000 has been enacted.

4.1.2 The Council had recommended to the Government to include the following proviso to Clause (4) of Part I of the First Schedule to the Chartered Accountants Act, 1949: -

"Provided that nothing herein contained shall be construed as prohibiting a member from entering into partnership with other professionals for rendering professional services as permitted by the Council from time to time, provided a separate firm is formed for this purpose".

4.1.3 In the Chartered Accountants (Amendment) Bill 2003, it is observed that the above recommendation has not been given effect to. However, the Council now decided that to build capacity of the C.A. firms the phrase 'provided a separate firm is formed for this purpose' at the end of proposed proviso be deleted and the Institute should take up the matter vigorously with all concerned and after the amendment, the Council, at its discretion, may decide whether or not a separate firm was required for this purpose.

#### 4.2.0 Practice in Corporate form.

4.2.1 Section 25 of the Chartered Accountants Act, 1949 prohibits practice of the profession of Chartered Accountants by Corporate bodies. The services rendered by Chartered Accountants can be broadly classified into two categories - (a) Attest services and pleadings before Taxation and other Government authorities (b) Management Consultancy Services (MCS).

4.2.2 It will always be desirable that both the above mentioned categories of services are rendered by members in the professional firms as Chartered Accountants. Be that as may, it is also true that many of the members are desirous of forming companies for rendering the MCS. But by becoming working directors in such companies they are compelled to surrender their certificate of practice. Alternatively, they convert their Certificate of Practice into part time practice. Consequently they are debarred from training the CA students. With effect from 1.4.2005, they will not be able to undertake the attest function. Also they cannot hold more than 20% equity along with their relatives in such companies.

4.2.3 To remove the impediments faced by members, who are engaged in MCS in corporate form, it is recommended as under: -

- A) Conditions to be complied by the members desirous of becoming Managing Director/ Whole time Working Directors in companies rendering MCS.
  - i) The company to give an undertaking that it shall render only those Management Consultancy Services which are prescribed by the Council pursuant to powers under section 2 (2)(iv) of the Chartered Accountants Act, 1949.
  - ii) The company to give an undertaking that it shall comply with clause (6) & (7) of Part-I of the First Schedule to the Chartered Accountants Act, 1949 and such other directives as may be issued by the Institute from time to time.
  - iii) The name of the company shall be such as may be approved by the Institute in accordance with the rules to be framed in this regard.
  
- B) Benefits available to members if the conditions mentioned in "A" above are complied with.
  - i) The member can retain full time Certificate of Practice besides being the Managing Director or Whole time Director of such a company,
  - ii) The member will be entitled to train articled/audit students,
  - iii) There will be no restrictions on the quantum of the equity holding of the member, either individually or along with his relatives, in such a company,
  - iv) The members will be entitled to do attest functions.

#### **4.3.0 Brand Image and Logo**

4.3.1 The Institute should prescribe a common logo for all the firms to promote brand image of India CA profession in general. This can be in the form of a sign such as "Opposite tick" or "Ya Esh Saptashu Jagarti" that will represent the Indian CA profession on a global basis.

4.3.2 The individual firms should not be allowed to have a separate logo for themselves.

4.3.3 The individual firms should be encouraged to get certifications from bodies to be prescribed by the Institute, to the effect that they have achieved a certain degree of standardization and/ or quality in the process of delivering their services. The Peer Review system introduced by the Institute is one such method of achieving qualitative standards. This will encourage the members to attain higher degree of qualitative standards which in turn will improve the brand image of such a firm in particular and of the profession in general. However, the firms are not permitted to state such achievement/certification on their professional stationary which includes letter heads, visiting cards, website etc.

## **Practice Development Strategies.**

4.4.1 The Study Group has noted that the Vision document adopted by the Institute contains Practice Development Strategies at Appendix 6.1 of the said document. The Study Group recommends that the member firms should adopt these strategies based on their perceptions, area and place of practice.

### **4.5.0 Common Partners in Multiple Firms**

4.5.1 The Study Group noted that at present there is no system of awarding credit for a common partner for the purpose of empanelment with the C&AG. A member can be a partner in more than one firm. It is desirable that due credit of such a partner should be given in one of the firms in which he is a partner.

4.5.2 The option once exercised by the member should not be allowed to be changed for the next three years. This will prevent any misuse of right of option by the member.

**DECLARATION FOR FORMAL NETWORKING AMONGST FIRMS  
REGISTERED WITH ICAI**

**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA  
PARTICULARS OF NETWORK HAVING INDIAN AFFILIATION**

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

Names and addresses of Firms

Firm Registration Numbers

4. (a) Date of formation of Network
  
- (b) Date on which present network arrangement was entered into

We undertake to comply with the guidelines/directions laid down by the Council regarding Networking from time to time.

Place :

Name(s) with Membership No(s).  
and signature(s) of duly authorized

Date : .....

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

**GUIDELINES OF NETWORK AMONGST THE  
FIRMS REGISTERED WITH THE MEMBER BODY  
OF SOUTH ASIAN FEDERATION OF  
ACCOUNTANTS (SAFA)**

## **GUIDELINES OF NETWORK AMONGST THE FIRMS REGISTERED WITH THE MEMBER BODY OF SOUTH ASIAN FEDERATION OF ACCOUNTANTS (SAFA)**

1. These Guidelines are called Guidelines for Network amongst the firms Registered with The Member Body of SAFA.

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 Member Body Country 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 firms registered with the Member Body are networked with a common Multi National Accounting Firm (MAF) then irrespective of the presence/absence of any ‘affiliate’ relationship between the firms registered with the Member body inter-se, 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 member body, 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 multi-locational 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 predominant 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) **Code of Ethics** – Code of Ethics means the Code of Ethics issued by the Member body.

### 3. **Name of Network:**

- (i) The Network may have distinct name, which should be approved by the Member Body. To distinguish a “Network” from a “firm” of Chartered Accountants, the words “& Affiliates” should be used after the name of the network and the words “& Co.” / “& Associates” should not be used. **A Suggestive Application Format `A` for approval of name is enclosed.**
- (ii) Standards prescribed for approval of name of firm 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 can be withdrawn at any time by the Member body.
- (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 \_\_\_\_ firms of the Member Body) 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 Member Body in a prescribed **Form (A Suggestive Form `B` 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 Member Body.
- (iv) If different firms registered with the Member body are networked with a common Multinational Accounting Firm (MAF) then irrespective of the presence/absence of any `affiliate` relationship between the firms registered with the Member body inter-se, they shall be considered as part of a network. As such, for these firms the registration with the member body is not mandatory. It is only if these Member Body firms decide to constitute a Formal Network, then the registration with the Member body is mandatory.

### 5. **Ethical Compliance\*:**

- (a) Once the relationship of network arises, whether registered or not with the Member Body, it will be necessary for such a network to comply with all applicable ethical requirements prescribed by the Member Body in general and other specific requirements as may be prescribed by the Member body from time to time.

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\* To ensure independence of Statutory auditors, the member body may prescribe appropriate ethical requirements prohibiting the affiliates member firms of a network inter-se from doing internal audit or book-keeping or such other professional assignments which are prohibited for statutory auditor form if any affiliate member firm of the same network is a statutory auditor of the same entity. The member body may also prescribe appropriate ceiling on non-audit fees in relation to statutory audit fees, in case the affiliate member(s) is rendering both the services to the same undertaking/company. If the Code of Ethics of any member body has any restrictions on rotation of auditors, then the member body may also consider appropriate restriction for the affiliate member firm of a network.

**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 Member Body 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 'C'** (enclosed) to the Member Body 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
- (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.

#### 14. **Network with entities outside Jurisdiction:\***

In the matter relating to a network of firms registered with the Member body and entities outside the jurisdiction of Member Body, in addition to the compliance with the Guidelines of Network amongst the firms registered with the Member Body, the firms of the Member Body who are willing to join such network, would give a declaration in a prescribed Form. The same norms are applicable for networking amongst firms registered with one member body of SAFA with firms registered with any other member body of SAFA. **A suggestive Form 'D' is enclosed.**

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\* The member body may prescribe the requirements for network with entities outside its jurisdiction keeping in consideration the general law of the jurisdiction and the applicable Code of Ethics.

**APPLICATION FOR APPROVAL OF NAME FOR NETWORK OF FIRMS**

**NAME OF THE MEMBER BODY**

**[See Guideline 3 of Guidelines of Network amongst the firms registered with the Member Body]**

- |   |  |
|---|--|
| 1. Proposed name of Network<br>(in order of preference) if the Network<br>has a distinct name | 1. _____<br>2. _____<br>3. _____<br>4. _____ |
|---|--|

- |   |                           |                          |
|---|---------------------------|--------------------------|
| 2. Name(s) of the<br>firm(s)/Member(s)<br>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) \_\_\_\_\_

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 Member body 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

Date : .....

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

**DECLARATION FOR REGISTRATION OF FORMAL  
NETWORK AMONGST FIRMS REGISTERED WITH THE MEMBER BODY**

**NAME OF THE MEMBER BODY**

**PARTICULARS OF NETWORK**

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.
---	-----------------------------
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 Member Body 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 : .....

Name(s) with Membership No(s).  
and signature(s) of duly authorized

Date : .....

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

**DECLARATION FOR DISSOCIATION FROM A NETWORK**

**NAME OF THE MEMBER BODY**

**[See Guideline 12 of Guidelines of Network amongst the firms registered with the Member Body]**

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(s)/Member(s)	Firm Registration No./M. No.
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In pursuance to the Guideline 12 of Guidelines of the Network issued by the Member Body, We/I 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 : .....

Name(s) with Membership No(s).  
and signature(s) of duly authorized

Date : .....

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

**DECLARATION TO BE FILED FOR NETWORK WITH  
ENTITIES OUTSIDE MEMBER BODY COUNTRY  
See Guideline 14**

**NAME OF THE MEMBER BODY**

**PARTICULARS OF NETWORK WITH OUTSIDE ENTITIES**

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

Name(s) of Firm(s)                      Firm Registration Number(s)

**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 Member body firm(s)/  
Member joining the Network

Date: .....

**Note:**

- (i) Any new network arrangement shall file this declaration within 30 days of entering into the Network arrangement.
- (ii) A copy of the authorization to be filed with the Member Body by the Partner signing the declaration on behalf of the firm.
- (iii) The declaration may be filed jointly or separately with the Member Body by the firms entering the Network.
- (iv) Proprietary/partnership firms(s) as well as individual member(s) are permitted to form a Network.
- (v) A proprietary/partnership firm as well as individual Member are allowed to join only one Formal Network.
- (vi) Firm having common partners shall join only one network