Guideline on Merger of Professional Accounting Firms, 2083

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NEPAL

Issued by:

The Institute of Chartered Accountants of Nepal (ICAN)

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Preamble

Pursuant to its mandate to strengthen the professional capacity of accounting and audit firms and to promote the public interest, the Council of ICAN has, at its 370th meeting held on 2083 Ashadh 29, resolved to issue this Guideline on Merger of Professional Accounting Firms.

This Guideline is issued in exercise of the powers conferred upon ICAN under Section 11 (tha) of the Nepal Chartered Accountants Act 2053 and shall be read in conjunction with the Act, regulations thereof and applicable Code of Ethics for Professional Accountants and relevant professional standards issued by ICAN from time to time.

This Guideline shall be binding on all professional accounting firms registered with ICAN and on all members holding Certificates of Practice.

Chapter 1: Preliminary

1. Introduction

The accounting and assurance profession is experiencing significant transformation due to increasing regulatory expectations, technological advancement, globalization of businesses, growing stakeholder expectations, and the increasing complexity of professional standards.

In this evolving environment, small and medium-sized professional firms often face challenges in maintaining adequate technical resources, investing in technology, attracting specialized professionals, implementing robust quality management systems, and expanding service offerings.

Recognizing these challenges and the need to strengthen the professional capacity and sustainability of audit and professional firms in Nepal, The Institute of Chartered Accountants of Nepal (ICAN) hereby issues this Guideline on Merger of Professional Accounting Firms.

This Guideline aims to facilitate voluntary merger arrangements among firms to create stronger, sustainable, professionally competent, and technologically capable firms that can effectively serve the public interest while complying with applicable professional standards, laws, and regulations.

2. Background and Rationale

The professional environment for audit and professional firms is becoming increasingly demanding due to:

- Enhanced regulatory oversight;
- Increased expectations regarding audit quality and independence;
- Adoption of international standards and quality management systems;
- Growing need for multidisciplinary expertise;
- Technological transformation including data analytics and artificial intelligence;
- Increasing client expectations for integrated and specialized services;
- Human resource and succession planning challenges; and
- Challenges arising out of competition from larger national and international firms.

Firm mergers provide opportunities to:

- Enhance audit quality and technical competency;
- Improve operational efficiency;
- Strengthen quality management systems;
- Expand geographic and sectoral presence;
- Improve staff development and retention;
- Enhance sustainability and succession planning; and
- Build institutional capacity within the profession.

Accordingly, ICAN encourages voluntary mergers among firms where such arrangements contribute to strengthening the professional accounting firm and thus support overall growth of accounting profession and serves the public interest.

3. Objectives of the Guideline

The objectives of this Guideline are to:

- Establish a transparent framework for merger procedures and approvals;
- Encourage small and medium-sized firms to consolidate in order to meet increasing regulatory, technological, and market demands; and
- Support overall growth of the accounting profession and strengthen ICAN's regulatory framework governing professional practice.
- Establish a clear, fair, and accessible dispute resolution for merging firms;

Chapter 2: Scope, Definitions and Principles

4. Scope and Applicability

The Guideline applies to voluntary mergers involving two or more professional accounting firms registered with ICAN under the same class in accordance with Section 34(2) of Nepal Chartered Accountants Act 2053.

This Guideline shall not override any provisions contained in Nepal Chartered Accountants Act 2053 regulations thereof and any other prevailing laws.

5. Definitions

For the purpose of this Guideline:

5.1 "**Council**" Means Council of ICAN constituted under the Nepal Chartered Accountants Act 2053.

5.2 "**ICAN**" means The Institute of Chartered Accountants of Nepal.

5.3 "**Firm**" means any professional practice registered with ICAN.

5.4 "**Merger**" means the combination of two or more firms into one continuing or newly formed firm.

5.5 “**Merged Firm**” means the firm resulting from a merger.

5.6 “**Merger Agreement**” means the formal written agreement executed among merging firms outlining terms and conditions of the merger.

5.7 “**Merging Firms**” means the firms entering into a merger agreement to result into a Merged Firm.

5.8 “**Partner**” Means proprietor, partner, or principal of a professional firm.

5.9 “**Quality Management System**” Means the system established in accordance with applicable quality management standards.

5.11 “**Effective Date**” means the date which the merger becomes operative as specified in the Merger Agreement and approved by ICAN.

5.12 “**Predecessor Firm**” means any firm that participated in a merger and ceased to exist as a separate registered entity upon the merger becoming effective and shall also mean the merging firms

5.13 “**Due Diligence Report**” Means the written report prepared by or on behalf of the merging firms summarizing the findings of pre-merger due diligence, covering the areas set out in Section 09.

6. Guiding Principles for Merger

The merger process shall be guided by the following principles:

6.1 Professional Integrity

The merger shall be undertaken with honesty, transparency, and professional integrity.

6.2 Compliance

All merging firms shall comply with applicable laws, regulations, ethical requirements, and professional standards.

6.3 Equality and Fairness

The merger process shall ensure fair treatment of all partners and stakeholders. All partners and staff of merging firms shall be treated equitably and without discrimination regardless of which merging entity they came from, subject only to the terms of the Merger Agreement.

6.4 Confidentiality

Confidentiality of client information and business information shall be maintained throughout the merger process.

Chapter 3: Eligibility, Forms and Pre-Merger Requirements

7. Eligibility Criteria for Merger

A firm shall be eligible for merger where:

1. The firm is registered with ICAN;
2. The Firm's partners have renewed the Certificate of Practice;
3. The firm is compliant with continuing professional education requirements;
4. The firm has complied with regulatory filing obligations;
5. The firm doesn't have any dues to be paid to the Institute; and
6. Partners of merging firms have mutually agreed to merger terms.

ICAN may require additional conditions depending on the nature and circumstances of the merger.

8. Forms of Merger

The merger may take any of the following forms:

8.1 Absorption Merger

One firm absorbs another firm, and the absorbed firm ceases to exist.

8.2 Consolidation Merger

Two or more firms combine to form a newly established firm.

9. Pre-Merger Considerations

Before entering a merger, firms may conduct detailed due diligence including:

9.1 Strategic Compatibility

Assessment of:

- Vision and mission alignment;
- Professional culture;
- Service offerings;
- Long-term strategic objectives;
- Growth expectations.

9.2 Financial Due Diligence

Review of:

- Financial statements;
- Revenue streams;
- Profitability;
- Outstanding liabilities;
- Tax compliance;
- Partner capital accounts.

9.3 Regulatory and Legal Review

Review of:

- Litigation exposure;
- Findings of Quality Assurance Reviews and Monitoring Visits
- Disciplinary matters;
- Registrations;
- Existing contractual obligations.

9.4 Quality and Risk Assessment

Evaluation of:

- Quality management systems;
- Independence policies;
- Client acceptance procedures;
- History of Audit Quality;
- Professional indemnity arrangements.
- Conflict Check of clients of merging entities

9.5 Human Resource Assessment

Review of:

- Staffing structure;
- Competency profile;
- Employee benefits;
- Retention risks;
- Succession planning.

9.6 Technology Assessment

Assessment of:

- Audit tools;
- Data Security;
- IT infrastructure;
- Software compatibility;
- Cybersecurity measures.

The merging firms may decide to waive any or all of the above detailed assessment, having reference to the size of the firms being merged, complexity of systems being used etc. and may adopt simplified approach of assessment based on factors considered relevant by them.

Chapter 4: Merger Procedures and Documentation

10. Merger Procedures

The following procedures shall generally be followed:

Step 1: Preliminary Discussion

Interested firms shall conduct preliminary discussions regarding:

- Strategic rationale;
- Merger objectives;
- Governance structure;
- Financial arrangements;
- Brand identity;
- Operational integration.

Step 2: Signing of Non-Disclosure Agreement

The firms shall execute a confidentiality or non-disclosure agreement prior to exchanging sensitive information.

Step 3: Due Diligence

The firms may mutually cause to perform an internal due diligence/assessment covering the following areas as detailed in section 9 of the Guidelines:

- Strategic Consideration
- Financial Due Diligence
- Regulatory and Legal Review
- Quality and Risk Assessment
- Human Resource Assessment
- Technology Assessment

Step 4: Preparation of Merger Proposal

The firms shall prepare a joint merger proposal including:

- Purpose of merger;
- Proposed Name and Structure;
- Firm registration number to be continued (in case of consolidation merger)
- Governance arrangements;
- Capital contribution;
- Profit sharing;
- Transition arrangements;
- Effective date.

Step 5: Approval by Partners

The merger proposal shall be approved by number of partners holding two thirds of the profit sharing percentage of each firm.

Step 6: Drafting and Execution of Merger Agreement

A formal merger agreement shall be carried out covering:

- Name of merged firm;
- Firm registration number to be continued (in case of consolidation merger)
- Rights and obligations;
- Capital structure of the merged entity;
- Way of managing clients with potential conflict of interest post-merger
- Governance framework of the merged entity;
- Partner admission and retirement mechanism in merged entity;
- Profit sharing arrangement;
- Dispute resolution mechanism;
- Exit provisions in the merged entity
- Person authorized to carry out the merger process on behalf of both the firms.

Step 7: Application to ICAN

The merging firms shall submit joint applications as per Annexure 1 to ICAN along with required documents mentioned in Section 11 (Documentation Requirements).

Step 8: Review by ICAN

ICAN shall review:

- Eligibility Criteria;
- Compliance status;
- Completeness of Documentation
- Regulatory implications.

Step 9: Approval and Registration

After reviewing the application and required documents, ICAN shall approve and register the merger within 15 working days.

Any deficiency in application and document submission should be communicated within 7 working days upon receipt of application. Where additional information is requested by ICAN, the timeline shall be paused and shall be re-commenced from the date of receipt of such information.

The update of registration records may take the firm of admission of partner of one of the firm into the existing partnership firm which is the absorbing firm or the firm which is agreed to be continuing in case of consolidation merger.., The updated registration certificates shall include information relating to the erstwhile firms other than the absorbing firm or continuing firm in case of consolidation merger and their registration dates. ICAN shall provide the approval through the decision of Executive Committee as is applicable for registration of new firms.

Step 10: Public Communication and Joint Operation

- The merged firm shall make public announcements of the merger through appropriate medium and start joint operation in agreed date as per merger agreement after receiving approval from ICAN.

Steps 1 to 3 above are recommendatory in nature and the merging firms may adopt simplified approach based on factors considered relevant by them.

11. Documentation Requirements

The following documents shall generally be submitted to ICAN:

1. Application for merger
2. Resolution of Partner's Meeting approving merger;
3. Merger agreement signed by authorized representative of merging firms;
4. Revised partnership deed of the prospective merged firm;
5. Firm registration certificates of merging entities;
6. Certificate of Practice of partners of merging entities;
7. Evidence of tax compliance: copy of PAN registration certificate(s) and most recent tax clearance certificate(s) of each merging firm
8. Declaration of compliance;
9. Any additional information required by ICAN.

12. Freezing of the names of Merging Firms

The names of the merging firm or firms, which will not be continued, will be frozen upon approval of the merger. The freezing of names of firms implies that the names will be protected and won't be allotted to anyone. However, upon the approval of the merger, no professional services shall be imparted in the name of the merging firm.

Chapter 5: Post-Merger Integration and Obligations

13. Rights and Obligations of Merged Firms

The merged firm shall assume all rights, liabilities, professional obligations, appointments, and regulatory responsibilities of each of the predecessor firms from the Effective Date, unless otherwise specifically agreed in the Merger Agreement and approved by ICAN. The merged firm shall notify all relevant regulatory bodies of the change in firm registration within 30 days of the Effective Date.

14. Client Transition and Communication

The merged firm shall ensure:

- Timely communication to clients;
- Make necessary arrangements to ensure continuity of services while ensuring legal compliance;
- Proper engagement transfer procedures;
- Compliance with ethical requirements;
- Proper management of conflict of interest;
- Maintenance of confidentiality.

Where the engagement contract, applicable ethical requirements, or professional standards require client consent, such consent shall be obtained in writing prior to the transfer of the engagement to the merged firm.

The merging firms shall be treated as predecessors of the merged firm. Accordingly, services previously performed by a merging firm shall be deemed to have been performed by the merged firm, particularly for ethical purposes.

Client communication regarding the merger shall be issued within 30 days of the effective date of merger.

15. Integration

Governance Structure of Merged Firms, Quality Management, Financial and Operation Integration, Human Resource Integration, as well as Technology and Data Integration in the merged firm will be as agreed in the merger agreement and decided by all the merging firms.

16. Branding and Firm Name

The merged firm may:

- Continue under the existing name of any merging entity (in case of consolidation merger) and the absorbing entity (in case of absorption merger)
- Adopt a combined name (in case of consolidation merger); or
- Use a new brand identity.

The name shall comply with ICAN requirements and applicable laws. In case firms decide to adopt a combined name, the provision of firm registration procedure regarding the naming of firm will be applicable to that extent.

The firm should update:

- Letterheads;
- Website;
- Marketing materials;
- Statutory registrations;
- Digital platforms.

Chapter 6: Dispute Resolution

17. Dispute Resolution Mechanism

The merger agreement should include mechanisms for resolution of disputes relating to:

- Capital contributions;
- Profit sharing;
- Governance;
- Retirement or admission of partners;
- Valuation;
- Client allocation.

Disputes should preferably be resolved through:

1. Internal negotiation;
2. Mediation;
3. Arbitration;
4. Legal remedies wherever necessary.

Chapter 7: ICAN’s Role, Incentives and Transitional Provisions

18. Role of ICAN

ICAN may:

1. Facilitate awareness and orientation programs;
2. Issue implementation guidance;
3. Review and approve merger applications;
4. Provide advisory support;
5. Maintain merger records;
6. Launch Portal for identifying firms interested in mergers
7. Encourage best practices.

19. Incentives and Facilitation Measures

To encourage mergers and strengthen professional capacity, ICAN may consider:

- Recognition programs for merged firms;
- Reduced administrative fees for merger registration;
- Priority access to training and capacity-building programs;
- Technical support for quality management implementation;
- Issue of a Model Merger Agreement template and Model Due Diligence Checklist at no cost to merging firms;

20. Transitional Provisions

Existing firms intending to merge shall comply with this Guideline from the effective date.

ICAN may issue implementation circulars, forms, and procedural instructions as necessary.

The merger administration fees shall be as prescribed by ICAN from time to time and notified in an official circular. ICAN may prescribe differential fee structures depending on the type of merger and the size of the merging firms and may provide for fee waivers or concessions in appropriate cases to encourage consolidation.

21. Effective Date

This Guideline shall come into force from 17 July 2026 , as notified by ICAN through official circular pursuant to the approval of the Council.

22. Annexures

Annexure I – Illustrative Merger Application Form

1. General Information

Particulars	Details
Proposed Effective Date of Merger	
Type of Merger	Absorption / Consolidation / Strategic Combination/Geographical expansion
Proposed Name of Merged Firm	
Registered Office Address	
Telephone Number	
Email Address	
Website	
Contact Person	

2. Details of Merging Firms

S.N.	Name of Firm	ICAN Registration No.	Date of Establishment	Address	Name of Managing Partner/Proprietor
1					
2					
3					

3. Details of Partners of Merging Firms

S.N.	Name of Partner	Membership No.	Firm Name	Designation	Contact Number	Email
1						
2						
3						

4. Proposed Structure of Merged Firm

4.1 Proposed Constitution

- Partnership / LLP / Other: ____________________

4.2 Proposed Governance Structure

4.3 Proposed Profit Sharing Ratio

4.4 Proposed Branch Offices

5. Human Resource Information

Particulars	Firm 1	Firm 2	Firm 3	Total
Number of Partners				

Particulars	Firm 1	Firm 2	Firm 3	Total
Chartered Accountants				
Professional Staff				
Administrative Staff				
Branch Offices				

6. Service Areas of Merging Firms

Please indicate major service areas currently provided by the firms:

Service Area	Yes/No
Statutory Audit	
Internal Audit	
Tax Advisory	
Risk Advisory	
Management Consultancy	
Corporate Advisory	
Information Systems Audit	
ESG/Sustainability Services	
Other (Specify)	

7. Objectives and Rationale for Merger

Please provide brief explanation regarding the objectives and expected benefits of the merger:

8. Due Diligence and Compliance Status

8.1 Regulatory Compliance

Particulars	Yes/No
All firms are registered with ICAN	
Practice licenses are valid/renewed	
Continuing Professional Education requirements complied with	
Tax filings are up to date	
No material unresolved disciplinary proceedings	
Quality review observations addressed	

8.2 Pending Litigation or Regulatory Matters

Please provide details of any pending litigation, disciplinary matter, investigation, or regulatory issue:

9. Quality Management and Risk Management

Please provide summary of proposed quality management arrangements for the merged firm:

10. Client Transition and Continuity Plan
Please explain arrangements regarding:

- Client communication;
- Engagement continuity;
- Independence and conflict management;
- Record transfer;
- Confidentiality safeguards.

11. Staff Transition Plan
Please provide summary of employee integration and transition arrangements:

12. Technology and Infrastructure Integration
Please provide details regarding:

- IT integration;
- Audit software;
- Cybersecurity measures;
- Data migration;
- Document management systems.

13. Documents Attached
Please tick attached documents:

Documents	Attached
Certified copy of merger agreement	
Partner/Board resolution approving merger	
Revised partnership deed or constitutional document	
Firm registration certificates	
Practice certificates of partners	
Due diligence summary report (optional)	
Declaration of compliance	
Other supporting documents	

14. Declaration
We hereby declare that:

1. The information provided in this application is true and correct to the best of our knowledge.
2. The merger has been approved by all concerned partners/proprietors in accordance with applicable agreements and laws.

3. The merging firms shall comply with Nepal Chartered Accountants Act, Rules, Regulations, Code of Ethics, and applicable professional standards.
4. The merged firm shall maintain appropriate quality management systems and professional independence.
5. ICAN shall be informed immediately of any material change affecting this application.

15. Signatures of Authorized Partners

Name	Firm Name	Designation	Signature	Date

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16. For Official Use by ICAN

Particulars	Details
Application Received Date	
Application Number	
Documents Verified By	
Additional Information Requested	
Recommendation	
Approval Status	
Approval Date	
Remarks	