

GUIDELINES ON NETWORKS AND NETWORK FIRMS

2023



The Institute of Chartered Accountants of Nepal

Introduction:

When a firm forms a larger structure with the co-operation of other firms or entities with an aim to enhance their ability to provide Professional services to the intended parties, this formation of a larger structure becomes a Network firm. Formation of a larger structure in itself does not make a network firm. Creation of a larger structure to function as a network firm depends on the particular fact and circumstances. It does not depend on the fact whether the involved firms or entities are legally separate and distinct.

Objectives:

Main objectives of the formation of the Network firm are to enhance:

- their ability to provide professional services to the intended parties;
- their standard of performing professional services in accordance with the requirements of IFRS/NFRS, ISAs, ISEs, ISQCs, ISREs and other pronouncements made by the IFAC and the Accounting Professional Regulatory bodies of the local jurisdiction;
- their reputation and thereby enlarging their professional activities; and
- their earnings

Facts and circumstances:

Requirements to identify whether a larger structure so created in fact is a network firm has to be first determined by the associate firm itself by considering the following fact and circumstances:

- by exercising professional judgement to identify whether a network indeed is created;
- by considering that a reasonable and informed third party would be likely to conclude that involved firms are associated in a such a way that a network firm exists; and
- apply this judgment consistently throughout such a large structure.

Facts and circumstances to identify whether a firm is a Network firm are but not limited to the followings:

Whether the larger structure:

- is aimed at creating cooperation within the network firms and entities; and also
- clearly aimed at sharing profit or loss among the entities within the structure;

Further to above the entities within the structure;

- share common ownership, control or management;
- share common quality control policies and procedures;
- share common business strategy;
- share the use of a common brand name; and
- share a significant part of professional resources.

Professional Resources include:

Sharing of the professional resources is a very significant element to identify whether a firm is indeed a network firm. Sharing of professional resources includes but not limited to, the following:

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

Some examples in brief could explain clearly that which element of sharing of resources enables sharing of resources as “**significant element of sharing of resources:**

- Shared resources might be limited to common audit methodology or audit manuals with no exchange of personnel or client or market information. In this situation it is unlikely that the shared resources would be significant. the same applies to common training endeavor;
- The shared resources might involve the exchange of personnel or information for example where personnel are drawn from a shared pool of the larger structure of the network firm; or
- Where a technical pool of experts is created within the larger structure of firm to provide participating firms with technical advice that participating firms are required to follow in discharging their professional responsibilities. In such circumstances a reasonable and informed third party is more likely to conclude that the shared resources are significant.

Conditions and circumstances enabling the formation of network firm:

Conditions and circumstances indicated hereunder throw more insights to distinguish and determine the real status of the formation of larger structure to be identified as a network firm:

- The larger structure might be aimed only at facilitating referral of work which in itself does not meet the criteria necessary to constitute a network;
- The sharing of immaterial costs for example sharing of costs related to development of audit methodologies, manuals or training courses etc. does not in itself create a network;
- The association between a firm or an otherwise unrelated entity jointly to provide a service or develop a product does not in itself create a network;
- A cooperation merely with another entity with a sole aim to respond jointly to the request or an offer for a professional service does not in itself create a network;
- Merely using a common brand name does not create a network unless it includes common initials or common name: for example, the common brand name as part of, or along with, its firm name when a partner of a firm signs an audit report;

- Firms and entities *shall take due care* to prevent the perception that might be created that a firm belongs to a network firm even if that firm does not belong to a network firm and does not use the common brand name as part of the firm name for example: by using brand name on stationery or sign board or presenting as a network by virtue thought other means such as only taking the membership or other materials which do not fulfill the above criteria of becoming network firm.

Requirement of Independence

A network firm shall be independent of the audit clients of the other firms within the network.

Independence requirements that apply to the network firm shall apply to any entity or firm that meets the definition of network firm. However, it is not necessary for the entity also to meet the definition of a firm for example, a consulting practice or professional Law practice might be a network firm but not a firm. It could be a proprietary, partnership or a company

Independence of Professional Accountants in public Practice or in business (PAIPP or PAIB) is all about the independence of professional judgement in course of discharging professional responsibility. Independence in other word is the judgement concluded in course of professional activities with being pressurized or coerced and also avoiding influences to compromise the concluded judgement so made by the Professional accountants in discharging professional responsibilities. This is the hallmark of the accounting profession that has earned the confidence of the intended users in this accounting profession.

Requirement of disclosure

in the event of sale of a component of its practice and the component firm continues to use all or part of the firm's or network firm's name for a limited time, the relevant parties shall determine how to disclose that they are not network firm when presenting themselves to the outside parties.

Documentation:

The network firm and involved firms in the network larger structure of firm are required to maintain all significant matters from the date of formation of network firm till the continuation of network;

Network firm and its involved firms shall document the measures undertaken to safeguard threats to independence during their continuation of network in a manner that when a reasonable and informed third party is more likely to conclude that that suitable measures were taken to reduce the threat to an acceptable level and the that the independence of the network firm is not compromised.

Registration of the network firm:

Professional Accountants in public practice (firm or individual) holding valid Certificate of Practice (COP) from the Institute of Chartered accountants of Nepal (ICAN) shall have to submit authenticated documentary evidence such as signed contract or agreement with the network firm

together with the stipulated amount of fees for registration and for renewal as the case may be, with ICAN in form: A. The contract or agreement for the networking in between the foreign firm of larger structure and the local firm shall meet all conditions and circumstances required for enabling the formation of network firm stated herein before in the headlines “*Conditions and circumstances enabling the formation of network firm*”.

Name of the network firm:

After the registration of the network firm, the Institute of Chartered Accountants of Nepal (ICAN) approves the local network form to use the words such as: “affiliate to (name of the international network firm. In no condition the local network firm shall further add any words excepting “affiliate to(name of the international network firm).

Use of name or brand name of network firm on the stationery of affiliate firm:

Subsequent to the registration or renewal of the network firm with Institute of Chartered Accountants of Nepal (ICAN), the affiliate firm shall be allowed to use the brand name or the name of the international network firm but not “the logo of any kind” on the stationery, letter head or visiting card without prior approval of ICAN, in course of performing and submitting any report on assurance or non-assurance engagement.

In case of not continuing or having not renewed the network firm with the concerned international network firm and with the Institute of Chartered Accountants of Nepal (ICAN) the affiliate firm ceased to be a network firm. In such condition the affiliate network firm shall not in any manner, creates misrepresentation whereby the intended knowledgeable third party may conclude that the network firm is still continuing. In such circumstances, the affiliate firm shall be held liable disciplinary action for noncompliance with the provisions of Code of Ethics.

Payment of withholding and income taxes: other applicable taxes and repatriation of network firm’s share of profit:

Withholding, income tax and other taxes shall be paid by the affiliate network firm in Nepal in time to concerned tax authorities of Nepal along with the documentary evidence thereof. The affiliate network firm of Nepal after repatriating the share of profit to the network firm shall have to submit the evidence of repatriation through banking channel at least the end of each financial year along with the Income tax return of affiliate network firm.

Requirements of Compliance with Ethical and professional standards:

Once the relation of network firm is established it becomes the obligation of both the international and local affiliate network firm to comply with the requirements of “Fundamental principles of section 100”; the “Conceptual framework of section 120”; independence of Part - 4A relating to “Independence for Audit and Review engagements” which applies when performing audit or review engagements and Part-4B relating to “Independence for Assurance engagements other than audit and review engagements” which applies when performing

assurance engagements that are not audit or review engagements of the International Code of Ethics and other professional standards such as : IFRS, NFRS and ISAs of both IFAC and ICAN.

Models of The Networking Firms

Firms may adopt any of the three Models that will be best suited for expansion of practice. It may be noted that different models may be suitable for different practitioners, depending upon their needs and inhibitions. Therefore, the intention is not to force any one particular model upon members, rather members are at liberty to continue with their existing model of practice and need not adopt any of the following models:

The Models of the networking firms may be as described below:

- 1) Alliance Model
- 2) Network Model
- 3) Lead Firm Model

Effective Date :

This revised Guideline will become effective as of 17 July 2023 when Handbook of the Code of Ethics for Professional Accountants including International Independence Standards 2023 will be effective.

For Details, please refer **Annexure 1**.

Annexure 1. Models of the networking firms

S. N	Criteria	Approach A Alliance Model	Approach B1 Network Model	Approach B2 Lead Firm Model
1.	Name	When four firms viz. A & Co., B & Co., C & Co. and D & Co. come together to form an Alliance; they may name their Alliance as “ABCD”. In case they wish to use suffix, they will use the suffix “& Alliance” to their common name to make it “ABCD & Alliance”. In all professional stationery, the member-firms can mention that they are member-firms of so & so Alliance. The Alliance can also mention in its professional stationery that so & so firms are part of its Alliance	When four firms viz. A & Co., B & Co., C & Co. and D & Co. come together to form a Network; they may name their Network as “ABCD”. In case they wish to use suffix, they will use the suffix “& Affiliates” or “Network” to their common name to make it “ABCD & Affiliates” or “ABCD Network”. In all professional stationery, the member-firms can mention that they are member-firms of so & so Network. The Network can also mention in its professional stationery that so & so firms are part of its Network.	When four firms viz. A & Co., B & Co., C & Co. and D & Co. come together to form a Network, they will suffix “& Affiliates” or “Network” to one of the firms selected by constituent firms as Lead firm e.g., if A & Co. is chosen as Lead firm, then name of Network will be “A & Co. & Affiliates” In all professional stationery, the member-firms can mention that they are member-firms of so & so Network. The Network can also mention in its professional stationery that so & so firms are part of its Network. 2
2.	Registration	Alliance will be registered with ICAN. ICAN will allot unique Alliance Registration Number (ARN)	Network will be registered with ICAN. ICAN will allot unique Network Registration Number (NRN)	Network will be registered with ICAN. ICAN will allot unique Network Registration Number (NRN)
3.	Practice	Firms are free to carry on practice as independent firms, despite being constituents of Alliance. Alliance may direct the best practices to be followed by individual constituent firms.	Firms are bound by internal integration agreement, and practice as independent firms, subject to internal agreement. Network’s decision prevails upon other firms. Firms belonging to one Network	Firms can have an internal agreement recognizing one of the firms as the lead firm, depending upon the specialism and expertise required for each assignment. The individual firms can carry on practice as independent firms. The lead

		Firms belonging to one Alliance can't be allowed to become Associates of another Alliance or Network, so that regulatory complexities are avoided.	can't be allowed to become Associates of another Network or Alliance, so that regulatory complexities are avoided	firm and its constituents can't be allowed to become Associates of another Network or Alliance, so that regulatory complexities are avoided.
4	Conflict	Conflict exists e.g. if one firm does statutory audit of an entity, another firm in Alliance cannot do internal audit. If one firm does audit work, another firm in the Alliance cannot perform non-audit services of same client. Rotation of audit amongst constituent firms will not be permitted	Conflict exists e.g. if one firm does statutory audit of an entity, another firm in Network cannot do internal audit. If one firm does audit work, another firm in the Network cannot perform non-audit services of same client. Rotation of audit amongst constituent firms will not be permitted	Conflict exists e.g. if one firm does statutory audit of an entity, another firm in Network cannot do internal audit. If one firm does audit work, another firm in the Network cannot perform non-audit services of same client. Rotation of audit amongst constituent firms will not be permitted
5	Characteristics	Firms come together for mutual benefits. Individual firms take up professional work on their own Since all constituents are Nepalese CA firms, referral of work and sharing of fees/ profits is permitted. They should have own bye-laws, the provisions of which should not run contrary to Nepal CA Act, CA Regulations, ICAN Code of Ethics and Council Guidelines	Firms come together for mutual benefits by pooling resources, showcase their combined strength, and have uniform policies, technology and collaterals, and showcase themselves as one big unit. Quality control is well documented and complied with, which is applicable to network as well as to individual constituent firms. Individual firms take up professional work on their own, and a partner of said firm can sign the reports and documents Since all constituents are Nepalese CA firms, referral of work and sharing of fees/ profits is permitted. Bye-laws / agreement is entered by all firms, the provisions of which should not run contrary to Nepal CA Act, CA	Firms come together for mutual benefits by pooling resources, showcase their combined strength, and have uniform policies, technology and collaterals, and showcase themselves as one big unit Quality control is well documented and complied with, which is applicable to network as well as to individual constituent firms. Individual firms take up professional work on their own, and a partner of said firm can sign the reports and documents Since all constituents are Nepalese CA firms, referral of work and sharing of fees/ profits is permitted. Bye-laws / agreement is entered by all firms, the provisions of which should not run contrary to Nepal CA Act, CA

			entered by all firms, the provisions of which should not run contrary to Nepal CA Act, CA Regulations, ICAN Code of Ethics and Council Guidelines	Regulations, ICAN Code of Ethics and Council Guidelines
6	Accountability	In case delinquency occurs in a particular assignment, then the firms that have jointly executed the assignment will be accountable. Therefore, division of work needs to be well documented. Whatever is taboo for a firm under Code of Ethics, is taboo for the Alliance as well i.e. whatever cannot be done by a firm, cannot be done by Alliance as well A partner of firm that gets appointment will sign reports and certificates Alliance shall have to submit to ICAN copy of internal agreement signed by an authorized partner of all constituent firms	In case delinquency occurs in a particular assignment, then the firms that have jointly executed the assignment will be accountable. Therefore, division of work needs to be well documented. Whatever is taboo for a firm under Code of Ethics, is taboo for the Network as well i.e. whatever cannot be done by a firm, cannot be done by Network as well. A partner of firm that gets appointment will sign reports and certificates Network shall have to submit to ICAN copy of internal agreement signed by an authorized partner of all constituent firms	In case delinquency occurs in a particular assignment, then the firms that have jointly executed the assignment will be accountable. Therefore, division of work needs to be well documented. Whatever is taboo for a firm under Code of Ethics, is taboo for the Network as well i.e. whatever cannot be done by a firm, cannot be done by Network as well. A partner of lead firm will sign reports and certificates, as it is the lead firm which will get the appointment in its name Network shall have to submit to ICAN copy of internal agreement signed by an authorized partner of all constituent firms
7	Reconstitution	Firms are free to join and exit Alliance. Reconstitution has to be registered with ICAN	Firms are bound by Network's internal integration agreement. Reconstitution has to be registered with ICAN	Firms are bound by Network's internal integration agreement. Reconstitution has to be registered with ICAN
8	Exit/Closure	Much easier to quit the arrangement to quit the arrangement If one or more firms quit the Alliance, it will not deprive the remaining firms from doing the work they have already	Easy to quit the arrangement. If one or more firms quit the Network, it will not deprive the remaining firms from doing the work they have already secured by virtue of Network.	Easy to quit the arrangement. If one or more firms quit the Network, it will not deprive the remaining firms from doing the work they have already secured by virtue of Network. If Lead firm quits the network, after having secured

		secured by virtue of Alliance.		professional work, then it will have to share the fees with other constituent firms. A clause to this effect can be incorporated in the internal agreement
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In case any provision of this guidelines is found inconsistent and conflicting with the provisions of the Code of ethics such inconsistent and conflicting provisions shall be ultra vires and the provisions of Code of Ethics of IFAC and ICAN shall supersede such inconsistent and conflicting provisions of this guidelines.