

GUIDELINES ON NETWORKS AND NETWORK FIRMS
Issued by
THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NEPAL

Approved by Council:
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1. Objective

These guidelines on networks and network firms are prepared with an objective to facilitate for better understanding of the network or network firms. However, in case of any ambiguity it is suggested that for the comprehensive understanding the provisions of Code of Ethics pronounced by ICAN shall be referred to and the meaning and substance of the Code of Ethics pronounced by ICAN shall supersede the provisions of these guidelines.

The independence and judgment of professional accountants in public practice have to be consciously and consistently applied in creating understanding and in providing professional services to the public.

2. Networks or network firms

To enhance the ability to provide professional services firms frequently form larger structure with other firms and entities that in itself does not make a network firm. Networking depends on particular facts and circumstances and does not depend on whether the firms and entities are legally separate or distinct: For example:

- Where a larger structure of entities is aimed only at facilitating referral works does not in itself meet the criteria necessary to constitute network;
- Whereas when a larger structure of entities is aimed at cooperation and the firms share a common brand name, common system of quality control or significant professional resources and consequently is deemed to be network or network firm;
- Networks or network firm can be constituted with larger structure of firm or entities within national or outside national boundary with an aim to share profit or cost and resources of international or national firms;
- Judgment whether the larger structure is a network shall be made in the light of whether a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances that the entities are associated in such a way that a network exists. This judgment shall be applied consistently throughout the network.

3. Basic elements

Basic elements required constituting network or networking firms could be enlisted as follows:

- To form larger structure is aimed at cooperation, sharing of significant professional resources and clearly aimed at profit or cost sharing among entities within the structure. However, sharing of immaterial cost does not in itself create a network. In addition, if the sharing is limited only to those costs related to development of audit methodologies, manuals, or training courses, this would not in itself create a network. Further an association of a firm or otherwise unrelated entity to jointly provide a service or develop a product does not in itself create a network;
- To share a common brand name, common system of quality control, and professional resources that include:
 - Common system that enables firms to exchange information such as client data, billing on time records,
 - Partners and staff,
 - Technical department that consults on technical or industry specific issues, transactions or events for assurance engagements,

- Audit methodology or audit manuals or training courses and facilities,
- Entities within structure share common ownership, control, management; or;
- When larger structure aimed at cooperation and shares uses of common brand name, include common initials, common name, if it includes common brand name when a partner of a firm signs an audit report; or
- To provide services under networking that must be under a contract, or agreement or other means; Network firms when share common business strategy to achieve common strategic objectives.

However, an entity is not deemed to be a network firm merely because it cooperates with another entity solely to respond jointly to a request for a proposal for a provision of a professional service;

Sharing of significant Professional resources

Determination of the term sharing of significant professional resources shall be based on the relevant facts and circumstances. For example:

Where the shared resources involve the exchange of people or information, such as where staff are drawn from a shared pool, or a common technical department created within the larger structure to provide participating firms with technical advice that the firms are required to follow, and a reasonable and informed third party is likely to conclude that the shared resources are significant.

But where shared resources are limited to common audit methodology or audit manuals, with no exchange of personnel or client or market information, it is unlikely that the shared resources would be significant.

In short the sharing of significant professional resources is “where the resources of the larger structure are shared for providing professional services to the mutual benefits of the networking firms and also perceived by a reasonable and informed third party as a networking”.

4. Registration of the networks or network firms

Professional accountants in public practice (firms or individual) holding valid Certificate of Practice (COP) from the Institute of Chartered Accountants of Nepal (ICAN) if engages to form a networks or network firms shall have to get such arrangement of networking duly registered after paying the stipulate fees with the ICAN. The networks or network firms shall have to submit application in this regard in the prescribed form along with the authenticated documents relating to the signed contract or agreement, and/ or renewal documents duly authenticating the validity of the agreement or contract and its renewal and other documents as prescribed by the ICAN for approval and continuation of such networks or network firms.
(In form- A)

5. Payment of withholding tax, income taxes and other taxes

At the end of each financial year the networks or the network firms registered with ICAN shall have to submit the details of the fees or remuneration, if any received or earned, evidence of having paid the withholding income tax or tax to the local tax authorities and also the details of payments made to the counterpart networks or network firms in the domestic or foreign countries,

6. Use of name or brand name of the national or international networks or network firm on the stationery of the local network or network firms

After getting the registration or renewal of the contract or agreement with ICAN, the local networks or network firms shall be allowed to use the brand name or name of the international network or networking firm (but not the logo of any kind) in the approved manner on the stationery or letter head for submitting any report on assurance or non-assurance engagements performed in accordance with the terms and conditions of the said executed contract or agreement with the international networks or network firms.

The local networks or network firms shall not use the brand name of name or logo of the international networks or network firms on visiting cards or any promotional materials meant for publicity or advertisement.

Even though a firm does not belong to a network and does not use common brand name as part of its name, it may give the appearance that it belongs to a network if it makes references in its stationery or promotional materials to being a member of an association of firms. If care is not taken in how a firm describes such membership, a perception may be created that the firm belongs to a network. In such circumstances if the said local networks and network firms fail complying the procedures of registration and regulatory requirement stated above the said local networks and network firms shall be liable for disciplinary action

The local network or networking firm shall not in any manner display, publish or advertise the name of the international network or networking firm to solicit or present before the client or influence the potential clients as the representative of the international network or networking firm. Any violation of these conditions or terms of contract or agreement with the international network or networking firm shall be construed as illegal activity and ICAN can take disciplinary action against the local networks or network firms for such violation or the registration or renewal of the network or networking firm.

7. Name of Network

- i. The Institute of Chartered Accountants of Nepal (ICAN) shall upon registration of the networks or network firms approve the local networks or network firms to use the words such as “affiliate to (name of the international networks or network firms). In no condition the local networks or network firms shall further add any words excepting “affiliate to the name of international networks or network firms.

- ii. **A Suggestive Application Format `A` for approval of name is enclosed**

8. Compliance with Ethical and Professional Standards

Once the relationship of network arises, it will be necessary for such a networks and network firms to comply with the ethical requirements, professional standards and independence as prescribed in the Code of Ethics pronounced by ICAN. In no case, event or circumstances the independence, ethical requirements, fundamentals of Code of Ethics and compliance of provisions of Nepal or International Financial Reporting Standards, Assurance and Auditing Standards shall be compromised.

9. Consent of Client

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

10. Eligibility for Constituting Networks and network firms

- i. Proprietorship/partnership firm(s) as well as individual member(s) are permitted to form a Network.
- ii. Proprietorship/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.

11. Responding to Enquiries

Only one firm/Member can respond to the enquiries on behalf of the network. On specific inquiries the responding firm/member would respond to the matters of enquiries only, and shall not in any manner express any other matters if not asked for, or shall not exaggerate claims of professional qualification, experience or achievements or reflecting disparaging remarks for others.

12. Issuing Reports

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

13. Violation of Act

The violation of the provisions of the Code of Ethics by the Networks and network firms, or any of its individual members shall be liable for punishment under the disciplinary action.

14. 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 ICAN 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.

15. Framework of Internal Bye-laws of Network

A network, with mutual consent formulate operational byelaws. Byelaws may contain the following clauses on which the affiliates of the network may enter into a written agreement among themselves:

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.

- i. Administration of the network
- ii. Contribution of membership fees to meet the cost of the administration of the network.
- iii. Identifying a partner of any of the member firms of the network to be responsible for the assignment (engagement partner)
- iv. Dispute settlement procedures through arbitration and conciliation
- v. Development of training materials for members of the network
- vi. Issue of News-letters for staff and clients
- vii. Development of software for different types of assignments
- viii. Development and maintenance of data bases relevant for different types of assignments
- ix. Library
- x. Appointment of a technical director to whom references can be made
- xi. Determining the methodology for drawing resources from each member firm
- xii. Determining compensation to member firms for resources to be drawn from them
- xiii. Peer review of the member firms

These clauses are illustrative. **(Form- C)**

16. Listing of Network with entities outside Jurisdiction of ICAN

The firms of ICAN who are willing to join such network, would give a declaration in a prescribed Form within 3 months of entering into networking arrangement. **(A suggestive Form “B” and D” are enclosed.)**

However, a firm registered with ICAN willing to join network of firms outside the jurisdiction of ICAN are allowed to join only one network and firms having common partners shall join only one such network.

17. COE shall supersede

In case any provisions of the above guidelines are found inconsistent or in conflict with provisions of Code of Ethics such inconsistent or conflicting provisions shall be illegal and the provisions of Code of Ethics pronounced by both IFAC and ICAN shall supersede such conflicting or inconsistent provisions of the guidelines.

For better understanding and comprehension, refer the Code of Ethics and its paragraphs 290.13 to 290.24 and also the other provisions related thereto.

APPLICATION FOR APPROVAL OF NAME FOR NETWORK OF FIRMS

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NEPAL

[See Guideline 4 of Guidelines of Network amongst the firms registered with ICAN]

1. Proposed name of Network
(in order of preference) if the Network
has a distinct name

1. _____
2. _____
3. _____
4. _____

2. Name(s) of the Firm Name/ Firm Regn. No./
firm(s)/Member(s) Member Name M. No.
forming network

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 ICAN and further affirm and confirm that the partner signing the application has been duly authorized by the other partners of the respective firms.

Place:

Date:

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

**DECLARATION FOR REGISTRATION OF
NETWORK AMONGST FIRMS REGISTERED WITH ICAN**

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NEPAL

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.
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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 ICAN 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

Suggestive Form "C"

DECLARATION FOR DISSOCIATION FROM A NETWORK

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NEPAL

[See Guideline 14 of Guidelines of Network amongst the firms registered with ICAN]

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.

In pursuance to the Guideline 14 of Guidelines of the Network issued by ICAN, We/I hereby declare our dissociation from the Network w.e.f.

I hereby declare that I have been duly authorized 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

Suggestive Form “D”

**DECLARATION TO BE FILED FOR NETWORK WITH ENTITIES OUTSIDE NEPAL
THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NEPAL**

[See Guideline 16 of Guidelines of Network amongst the firms registered with ICAN]

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 authorized Partner of the Member body firm(s)/ Member joining the Network

Date:

Note:

- (i) Any new network arrangement shall file this declaration within 3 months of entering into the Network arrangement.
- (ii) A copy of the authorization to be filed with ICAN by the Partner signing the declaration on behalf of the firm.
- (iii) The declaration may be filed jointly or separately with ICAN by the firms entering the Network.
- (iv) Proprietorship/partnership firms(s) as well as individual member(s) are permitted to form a Network.
- (v) A proprietorship/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