

Amendments for May 2020 Exams (Part I)

Professional Ethics

Guidelines for Networking

Definitions	Network	<p>A larger structure:</p> <p>(a) That is aimed at co-operation; and</p> <p>(b) That is clearly aimed at profit or cost sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand name, or a significant part of professional resources.</p>
	Network Firm	means a firm or Entity that belongs to a Network.
Concept of Network	<ol style="list-style-type: none"> 1. To enhance their ability to provide professional services, firms frequently form larger structures with other firms and entities. Whether these larger structures create a network depends on the particular facts and circumstances and does not depend on whether the firms and entities are legally separate and distinct. For example, a larger structure may be aimed only at facilitating the referral of work, which in itself does not meet the criteria necessary to constitute a network. Alternatively, a larger structure might be such that it is aimed at co-operation and the firms share a common brand name, a common system of quality control, or significant professional resources and consequently is deemed to be a network. 2. The judgment as to whether the larger structure is a network shall be made in light of whether a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that the entities are associated in such a way that a network exists. This judgment shall be applied consistently throughout the network. 3. Where the larger structure is aimed at co-operation and it is clearly aimed at profit or cost sharing among the entities within the structure, it is deemed to be a network. However, the sharing of immaterial costs does not in itself create a network. In addition, if the sharing of costs is limited only to those costs related to the development of audit methodologies, manuals, or training courses, this would not in itself create a network. Further, an association between a firm and an otherwise unrelated entity to jointly provide a service or develop a product does not in itself create a network. 4. Where the larger structure is aimed at cooperation and the entities within the structure share common ownership, control or management, it is deemed to be a network. This could be achieved by contract or other means. 5. Where the larger structure is aimed at co-operation and the entities within the structure share common quality control policies and procedures, it is deemed to be a network. For this purpose, common quality control policies and procedures are those designed, implemented and monitored across the larger structure. 6. Where the larger structure is aimed at co-operation and the entities within the structure share a common business strategy, it is deemed to be a network. Sharing a common business strategy involves an agreement by the entities to achieve common strategic objectives. An entity is not deemed to be a network firm merely because it co-operates with another entity solely to respond jointly to a request for a proposal for the provision. 	

	<p>7. Where the larger structure is aimed at co-operation and the entities within the structure share the use of a common brand name, it is deemed to be a network. A common brand name includes common initials or a common name. A firm is deemed to be using a common brand name if it includes, for example, the common brand name as part of, or along with, its firm name, when a partner of the firm signs an audit report.</p> <p>8. Even though a firm does not belong to a network and does not use a common brand name as part of its firm name, it may give the appearance that it belongs to a network if it makes reference in its stationery or promotional materials to being a member of an association of firms.</p> <p>Accordingly, if care is not taken in how a firm describes such memberships, a perception may be created that the firm belongs to a network.</p> <p>9. Where the larger structure is aimed at co-operation and the entities within the structure share a significant part of professional resources, it is deemed to be a network.</p> <p>Professional resources include:</p> <ul style="list-style-type: none"> • Common systems that enable firms to exchange information such as client data, billing and time records; • Partners and staff; • Technical departments that consult on technical or industry specific issues, transactions or events for assurance engagements; • Audit methodology or audit manuals; and • Training courses and facilities. <p>10. The determination of whether the professional resources shared are significant, and therefore the firms are network firms, shall be made based on the relevant facts and circumstances. Where the shared resources are limited to common audit methodology or audit manuals, with no exchange of personnel or client or market information, it is unlikely that the shared resources would be significant. The same applies to a common training endeavor. Where, however, the shared resources involve the exchange of people or information, such as where staff are drawn from a shared pool, or a common technical department is created within the larger structure to provide participating firms with technical advice that the firms are required to follow, a reasonable and informed third party is more likely to conclude that the shared resources are significant.</p>
Forms of the Network	<p>The different forms of Network can be as under:</p> <ol style="list-style-type: none"> 1. A network can be constituted as a mutual entity which will act as a facilitator for the constituents of the Network. In such a case the Network itself will not carry out any professional practice. 2. A network can be constituted as a partnership firm subject to the condition that the total number of partners does not exceed 20. 3. A network can be constituted as a Limited Liability Partnership subject to the provision of the Chartered Accountant Act and Rules and such other laws as may be applicable. 4. A network can be constituted as company subject to the guidelines prescribed by Institute for corporate form of practice and formation of management consultancy services company. 5. Network Firms shall consist of sole Practitioner/proprietor, partnership or any such entity of professional accountants as may be permitted by the Act 6. A firm is allowed to join only one network. 7. Firms having common partners shall join only one Network.

Approval of Name of Network amongst firms registered with Institute	<ul style="list-style-type: none"> The Network may have distinct name which should be approved by the Institute. To distinguish a "Network" from a "firm" of Chartered Accountants, the words "& Affiliates" shall be used after the name of the network and the words "& Co." / "& Associates" shall not be used. The prescribed format of application for approval of Name for Network is at Form 'A'. Provisions of Regulation 190 of the Chartered Accountants Regulations, 1988 shall be applicable to the name of Network. However, even if a name is approved and subsequently it is found that the same is undesirable then, the said name may be withdrawn at any time by the Institute. The Institute shall reject any undesirable name and the provisions in respect of names of companies as prescribed in the Companies Act, 1956 (Now Companies Act, 2013) shall be applicable in spirit. The Institute shall approve or reject the name of the Network and intimate the same to the Network at its address mentioned in Form 'A' within a period which shall not be later than 30 days from the date of receipt of the said Form. Mere approval of the name of the Network shall not entitle the Network to carry on practice in its own name.
Registration of Network with entities in India	<ul style="list-style-type: none"> After the name of a Network is approved as per provision under these Guidelines, the Institute shall reserve such name for a period of three (3) months from the date of approval. The Network shall get itself registered with the Institute by applying in Form B within the period of 3 months, failing which the name assigned shall stand cancelled on the expiry of the said period. Registration of Network with Institute is mandatory. If different Indian firms are networked with a common Multinational Accounting Firm, they shall be considered as a part of network.
Listing of Network with entities outside India	<ul style="list-style-type: none"> The duly authorized representative(s) of the Indian Member firm (s)/Member constituting the Network with entities outside India shall file a declaration with the Institute in Form 'D' for Listing of such Network within 30 days from the date of entering into the Network arrangement. Proprietary/individual members, partnership firms as well as members in LLP or any such other entity of members as may be permitted by the Act, shall be permitted to join such network with entities outside India provided that the proprietary/individual members, partnership firms as well as members in LLP or any such other entity of members are allowed to join only one network and firms having common partners shall join only one such network.
Change in constitution of registered Network	<p>In case of change in the constitution of registered Network on account of any entry into or exit from the Network, the network shall communicate the same to the Institute by filing Form 'C' within a period of thirty (30) days from the date of change in the constitution.</p>
Ethical Compliance	<p>Once the relationship of network arises, it will be necessary for such a network to comply with all applicable ethical requirements prescribed by the Institute from time to time in general and the following requirements in particular: -</p> <ol style="list-style-type: none"> If one firm of the network is the statutory auditor of an entity then the associate [including the networked firm(s)] or the said firm directly/indirectly shall not accept the internal audit or book-keeping or such other professional assignments which are prohibited for the statutory auditor firm.

		<p>2. The guidelines of ceiling on Non-audit fees is applicable in relation to a Network as follows:</p> <ul style="list-style-type: none"> • For a Network firm who is doing statutory audit (including its associate concern and/or firm(s) having common partnership), it shall be the same as mentioned in the said notification; and • For other firms of the same Network collectively, it shall be 3 times of the fee payable for carrying out the statutory audit of the same undertaking/company. <p>3. In those cases where rotation of firms is prescribed by any regulatory authority, no member firm of the network can accept appointment as an auditor in place of any member firm of the network which is retiring.</p> <p>4. The Network may advertise the Network to the extent permitted by the Advertisement Guidelines issued by Institute. The firms constituting the network are permitted to use the words "Network Firms" on their professional stationery.</p> <p>5. The constituent member firms of a Network and the Network shall comply with all the Ethical Standards prescribed by the Council from time to time.</p>
Consent of Client	of	The effect of registration of network with Institute will be deemed to be a public notice of the network and therefore consent of client will be deemed to be obtained.
Framework of Internal Byelaws Network	of	<p>To streamline the networking, a network shall formulate operational bye-laws. Bye-laws may contain the following clauses on which the affiliates of the network may enter into a written agreement among themselves:</p> <ol style="list-style-type: none"> (1) 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. (2) Administration of the network (3) Contribution of membership fees to meet the cost of the administration of the network. (4) Identifying a partner of any of the member firms of the network to be responsible for the assignment (engagement partner) (5) Dispute settlement procedures through arbitration and conciliation (6) Development of training materials for members of the network (7) Issue of News-letters for staff and clients (8) Development of softwares for different types of assignments (9) Development and maintenance of data bases relevant for different types of assignments (10) Library (11) Appointment of a technical director to whom references can be made (12) Determining the methodology for drawing resources from each member firm (13) Determining compensation to member firms for resources to be drawn from them (14) Peer review of the member firms These clauses are illustrative.

**Download notes & other contents from Knowledge Portal of
www.altclasses.in**