Firm and Network Firms- A Case Study

Thola Auditing Inc. has been operating in Johannesburg for some 10 years. It has grown and started to provide services to national clients. For this reason, working arrangements had to be entered into between Thola and local firms in other towns.

In order to avoid unnecessary independence issues Thola wanted to ensure that this did not result in a larger structure aimed at cooperation which could be judged as a network and all firms affected would then be deemed to be network firms with all the consequences set out on section 290 of the IRBA Code of Conduct.

Over the years the following developed:

(a) All firms found their own clients and profits were not shared across firms
(b) Whenever a partner did work for other firms on audit or providing training, fees were raised to the other offices
(c) All firms used Thola in their names but added geographical or service related details
(d) IFRS training was prepared by the Johannesburg office and frequently partners and staff from other offices were invited to attend
(e) Training in ISAs was given by individual partners who travelled to the other offices to do their presentations
(f) Every second year a partner meeting was held by the Johannesburg office and all partners from the other offices were invited, at their own cost, to participate on a voluntary basis. At this meeting the Johannesburg partners presented their strategy for the years ahead, with comment invited from the partners from the other offices
(g) The firms used partners from the other offices to act as EQCR partners
(h) A team of partners made up from different offices did firm reviews to ensure compliance with ISQC1

You have been asked to evaluate the situation and as a reasonable and informed third party to determine whether the firms were in fact network firms.