

AGENDA PAPER

Item Number: 3
Date of Meeting: 6 March 2020
Subject: Update on Outsourcing

Action required For discussion For noting For information

Purpose

To provide the Board with an update on different models of outsourcing used, the associated benefits and risks of each model, the manner in which data is accessed and stored and the application of APES GN 30 *Outsourced Services* (APES GN 30) to those models.

Background

During the 2017 annual review of APES GN 30, the Institute of Public Accountants raised the matter of whether APES GN 30 is effective in its current form and whether it is being applied properly by Members in Public Practice. They wondered if there is a need to transform the guidance note into a standard.

In response, the Board approved a [project plan](#) to determine Members' views in respect of the use and effectiveness of APES GN 30 and whether there is a need to elevate the guidance note to a standard at its November 2017 meeting.

Technical staff presented the results of a desktop review to the Board at the Board Meeting in March 2018. The Board also considered the range of stakeholders that Technical Staff should consult with.

At the December 2018 Board meeting, Technical Staff provided an update on the [project status](#) and presented options for the finalisation of the project. The Board requested that Technical Staff undertake further consultation, in particular, with the consumer in mind, including organisations such as G100 and Choice.

During the 2019 year, APESB restructured all of its pronouncements to align with the restructured APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) issued in November 2018.

At the August 2019 Board meeting, the Board approved the issue of an Exposure Draft for APES GN 30, with a request for specific comments on whether there should be a mandatory

requirement to inform clients of the nature of any services outsourced and, if applicable, the jurisdiction in which the outsourced service is being performed.

At the [November 2019 Board meeting](#), the Board:

- approved the issue of the revised APES GN 30, which includes new guidance that members in public practice should determine the client's specific requirements and whether there is any prohibition on the use of Outsourced Services (para 3.7);
- discussed the guidance in APES GN 30 on disclosures to the client of the geographical location of the outsourced service provider and the nature and extent of the outsource services. The Board determined to consider this as part of the next review of APES 305 *Terms of Engagement* (APES 305); and
- requested Technical Staff to provide an update at a future meeting on outsourcing, models used, the associated risks of each model, including the manner in which data is accessed and stored.

The revised APES GN 30 was issued on 19 February 2020.

Matters for Consideration

Models of Outsourcing

Outsourcing is where an entity or firm engages a party, on a continuing basis, to perform a business activity that is being, has been, or could be performed by that entity or firm. An Outsourced Service involves outsourcing a material business activity to an outsourced service provider. The analysis in this Agenda Paper has been based on Outsourced Services.

Agenda Item 3 (a) provides a summary of outsourced service models, the applicability of APES GN 30, the key risks (focussed on information and data) and benefits, and how data is stored and accessed. This highlights that Outsourced Services vary in nature, which impacts the risks associated with the transfer of confidential client information and includes services as noted in the following examples:

- Within Australia – an Australian accounting firm engages an Australian external provider to undertake services for its clients and the work is physically conducted in Australia; or
- By an Australian entity where the work is done offshore – an Australian accounting firm engages an Australian external provider. However, that provider has an entity offshore that conducts the work; or
- Offshore – where:
 - An employee of an overseas entity remotely logs in to an Australia accounting firm and provides processing services; or
 - An overseas service provider undertakes processing services offshore and maintains responsibility for quality and security.

A service undertaken offshore does not in itself mean it is outsourced. For example, a Service Delivery Centre (SDC) operated by a firm within a network, which provides the services to other firms in the network, may be considered an outsourced service depending on the circumstances and nature of the engagement (see Example 7 in APES GN 30).

The [Basis for Conclusions for APES GN 30 \(March 2013\)](#) acknowledges that an offshore team or network firm will likely be subject to common or similar quality control and risk management

procedures. However, the key issue is disclosure to the client of the arrangement and risks associated with the transfer of confidential client information.

Technical Staff are of the view that APES GN 30 applies to each of the outsourcing models identified and the guidance note (in conjunction with relevant laws and regulations) appropriately covers the key risks identified.

However, this analysis highlights the importance of disclosure to the client of the geographical location of the outsourced service provider and the nature and extent of the outsource services (para 3.9 of APES GN 30) to enable the client to understand the nature of, and risks involved in, an outsourced service.

The Board supported this view and agreed at the November 2019 Board meeting to include whether a mandatory requirement to disclose the nature and extent of the use of outsourced services should be included in a member's engagement letter, in the next review of APES 305. This has been included in the Issues Register (refer Agenda Item 2).

Recommendation

The Board note the update on the different models of outsourcing used, the associated benefits and risks of each model, the manner in which data is accessed and stored and the application of APES GN 30 to those models.

Materials presented

Agenda Item 3(a) Summary of Outsourced Service Models

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