

AGENDA PAPER

Item Number: 8
Date of Meeting: 16 August 2019
Subject: Project update on the Review of APES GN 30 *Outsourced Services* and proposed Exposure Draft for APES GN 30

Action required **For discussion** **For noting** **For information**

Purpose

To:

- provide the Board with an update on the progress of the project to review APES GN 30 *Outsourced Services* (APES GN 30); and
- to obtain, subject to the Board's feedback and review comments, the Board's approval to issue an Exposure Draft of revisions to APES GN 30.

Background

During the 2017 annual review of APES GN 30, the Institute of Public Accountants (IPA) 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. IPA queried whether there is a need to transform the guidance note into a standard.

In response, the Board approved at its November 2017 meeting 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.

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.

APESB have also commenced a project to restructure 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. Due to the interconnectedness of the Code and the pronouncements, all APESB pronouncements are being revised by 1 January 2020 to align with the effective date of the restructured Code.

Matters for Consideration

APES GN 30 Project Update

Subsequent to the December 2018 Board meeting, Technical Staff engaged with various stakeholders that represent consumers of Outsourced Services. Technical Staff also provided a questionnaire seeking stakeholder feedback. We received limited responses, which are summarised as follows:

- there was a mixed response in respect of whether the external accountant disclosed the geographical location and nature and extent of the Outsourced Services;
- consent to use Outsourced Services was generally requested by the external accountant via the engagement letter;
- no concerns were raised about the security or confidentiality of information in relation to the Outsourced Service or the competency, skills and capacity of the Outsourced Service provider; and
- no other concerns were raised and one respondent noted *“this is part of the evolution of routine work being outsourced to skilled but lower cost jurisdictions which will increasingly be replaced by automated/robotic processes which will bring the data back to the local environment or to the cloud”*

Based on consultation with stakeholders and the review of the outsourcing industry, Technical Staff have formed the view that APES GN 30 should be retained in its current format as a guidance note. Whilst feedback from stakeholders show there may be a marginal benefit of converting APES GN 30 to a standard, there have been no clear arguments or reasons presented that indicate there is a compelling reason to make the conversion, or that there are significant gaps in the existing guidance note or the practices implemented by Members.

In considering the appropriate action to progress this project, Technical Staff note that the key issues in relation to outsourcing (privacy, data protection, audit quality and compliance with auditing standards) are already addressed by legislative requirements.

Proposed Revisions to APES GN 30 to align with the restructured Code and Issues Register

While Technical Staff are of the view APES GN 30 should be retained as a guidance note, there are still revisions necessary to align the guidance note with the restructured Code. Technical Staff have reviewed APES GN 30 and propose a number of changes in relation to:

- updating of cross-references to the new restructured Code;
- updating or revising paragraphs and definitions to ensure consistency with the restructured Code;
- revisions to address matters noted on APESB’s Issues Register;
- revisions to address matters identified by Technical Staff from review of the guidance note;
- revisions to ensure consistency with other APESB pronouncements;
- amending the definition of Outsourced Services to include a reference to Appendix 1 for relevant examples and considerations of what is an Outsourced Services and/or a Material Business Activity;

- inclusion of paragraphs 3.4 and 3.12 referring Members to their obligations in relation to responding to Non-compliance with Laws and Regulations (NOCLAR) in the Code;
- adding paragraph 3.10 for Members to consider any client specific requirements when considering utilising Outsourced Services; and
- addressing minor editorial matters.

The proposed revisions are marked up in the draft revised APES GN 30 (refer Agenda Item 8(a)). As per Agenda Paper 7 to this Board meeting, Technical Staff propose to issue the Exposure Draft for APES GN 30 in a batch. The details of these revisions and how they affect APES GN 30 are set out in the Explanatory Memorandum to ED 03/19 in Agenda Item 7(c).

The Exposure Draft also includes a request for specific comments for respondents to comment on whether the proposed provisions in these pronouncements require amendment due to the use of digital technology and artificial intelligence.

Recommendation

Subject to the Board's feedback and editorial comments, the Board approve for release the Exposure Draft for APES GN 30.

Materials presented

Agenda Item 8 (a) Proposed Exposure Draft of APES GN 30

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