

Discussion Paper

Issues Impacting the Accounting Industry from Outsourcing

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Discussion Paper on Issues impacting the Accounting Industry from Outsourcing.

Executive Summary

- Outsourcing continues to grow as a solution to the skills shortage facing the profession in Australia.
- “Outsourcing” for the purposes of this paper can be defined as “contracting with a party over which control is not fully exercised to have that party perform a business activity which if not delivered would materially impact upon the quality, timeliness or scale of service delivered by a member”.
- The Code has at its core fundamental principles concerning integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. The use of an outsource service provider has the potential to impact primarily upon professional competence, due care and confidentiality. The application of the concepts within APES 320 to professional services delivered by members to clients and stakeholders where an outsource service provider is involved in delivery of such services will assist in the maintenance of the reputation of the profession.
- Primary responsibility for client care and the application of the relevant aspects of the Code lies with members. Members should ensure that appropriate safeguards exist and that appropriate review and monitoring mechanisms are in place to ensure that the use of an outsource service provider does not impact the delivery of services by members in a material way.
- Members should ensure that data is secure and client confidentiality is maintained when using an outsource service provider for delivery of services by members.
- Members do not disclose the specific staff involved in the delivery of services and therefore it is inappropriate to prescribe within a proposed standard that members disclose the use of an outsource service provider other than where required by law. However, as per AICPA ethical ruling 391 this is conditional upon entering a confidentiality agreement with a third party service provider. If such an agreement is not in place then the member must disclose to the client the use of the third party service provider.
- Appropriate engagement terms should exist between a member and an outsource service provider so that the delineation of responsibilities is clear and the role of each party is documented.

A pronouncement should be made setting out the key principles that a member should consider when selecting an outsource service provider.

Background and Context

The shortage of accountants has been well documented and is an issue being addressed by the accounting professional bodies through a number of channels. One such solution is the outsourcing of accounting work to providers with the necessary resources and skills to undertake such work. These providers can be based either in or outside Australia.

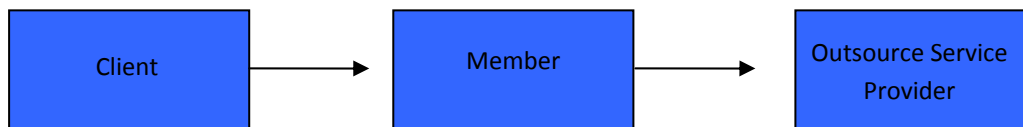
Examples of service providers include some that specialise in the accounting and audit needs of Self Managed Superannuation Funds (“SMSF”) and accounting and bookkeeping service providers such as:

- Bookkeepers
- Remote workers
- Work at home solutions provided by persons that have left the workforce on maternity or paternity leave or semi retirement.

A selection of service providers is set out in Appendix 1.

The concept of outsourcing reflects the use of a separate entity to provide services under a contract. The diagram below would reflect this relationship for an accounting practice.

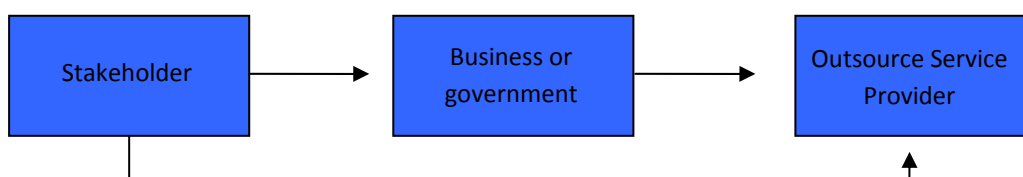
Typical Relationship - Accounting Practice



Whenever an accountant is engaged by a client the requirements of APES 110 *Code of Ethics for Professional Accountants* (“the Code”) represent the means of doing business for an accountant. Expectations of integrity, confidentiality, objectivity, professional competence and due care, and professionalism form a part of the contract created when a professional accountant accepts an engagement with a client.

There would be an expectation that professional work performed by an accountant, his or her staff and his or her contractors would meet the expectations of the client in these vital areas.

Typical Relationship – Business and Government



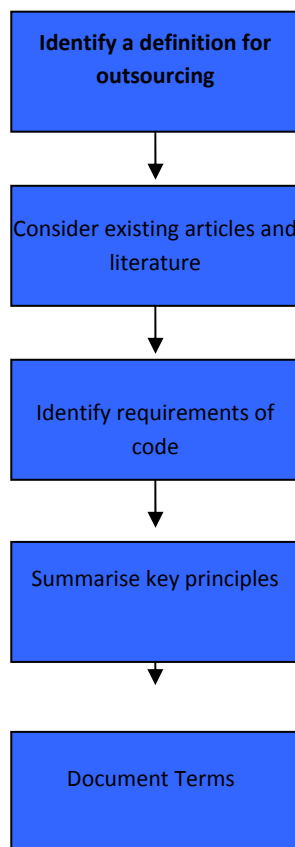
Contact points

In a business outsourcing arrangement, external stakeholders (eg suppliers and customers) may directly access the outsourced service. This reflects to some extent the difference in the types of services outsourced by members in practice and those outsourced by members in business and government.

This paper addresses this shift in the provision of services against some specific questions raised by the APESB and also considers some more general matters.

Framework of Discussion Paper

The process adopted in formulating this paper is similar to that a member would use as is therefore the order in which the paper is presented.



Definition

Numerous definitions of outsourcing can be found in the media.

Outsourcing is defined as an agreement entered into by a party with another party to perform, on an ongoing basis, a business activity which currently is, or could be, undertaken by the first party itself. The party remains responsible for complying with all legal requirements relating to the outsourced business activity.

Against such a definition there must be applied a criteria of scale. Whilst all accounting practices would engage in outsourcing to a minor degree (for example the use of a bookkeeper to process payroll) it would be impractical to impose guidelines for a minor use of outsourcing but important to impose guidelines where a material level of outsourcing is occurring. The impact of an outsourcing arrangement will of course be greater where failure by the outsourcer to deliver on the service levels required under any agreement would impact the quality, timeliness and integrity of services rendered by a member.

It may therefore be prudent to provide a definition of a “material outsourcing arrangement”. In this regard it is suggested that an outsourcing arrangement would be material where it has the potential in the event of disruption to have a significant impact on the delivery of client services by a member. In this way the usage of temporary contractors or part time work at home service providers which are of little significance within the overall staffing capacity of a practice may not fall under the terms of a material arrangement. Equally an arrangement which causes greater than 10% of the fee income of a practice to be dependent upon an outsourcing arrangement could be considered material.

Within the literature discussing the concepts of outsourcing, terms such as “insourcing” and “offshoring” feature regularly. Insourcing is a reference to the provision of staff from outside of the practice to work within the business remotely. An example could be a staff member located in one part of Australia accessing the computer system of a firm located in another part of Australia. Equally insourcing could occur by a staff member or contractor outside of Australia accessing data held on the computer system of a practice inside Australia and performing professional work on that data. The definition proposed below incorporates insourcing and outsourcing.

Offshoring is the practice of outsourcing business activities to a service provider outside Australia. Accordingly, offshoring is a subset of the definition of “outsourcing”. It could be expected that any standards required to be met by a member engaged in outsourcing would apply equally where offshoring is occurring. The separation of the offshoring provider from the member arising from distance means that the level of direct scrutiny over the activities of the offshoring service provider would be less and the need for specific guidelines would be greater where the usage is material.

The types of services that could be outsourced by accounting professionals are:

Outsourcing by Accounting Practices:

Preparation of financial statements

Specialist taxation advice outsourced by general practitioners to specialists

Taxation return preparation

Bookkeeping services contracted to qualified bookkeepers

Data entry

Administration (debt collection, accounts payable and similar non fee earning functions)

Outsourcing by members in commerce and industry:

Preparation of financial statements and income tax returns – outsourced to members in practice

Taxation advice

Payroll processing

Information technology management including facilities management

Record keeping services

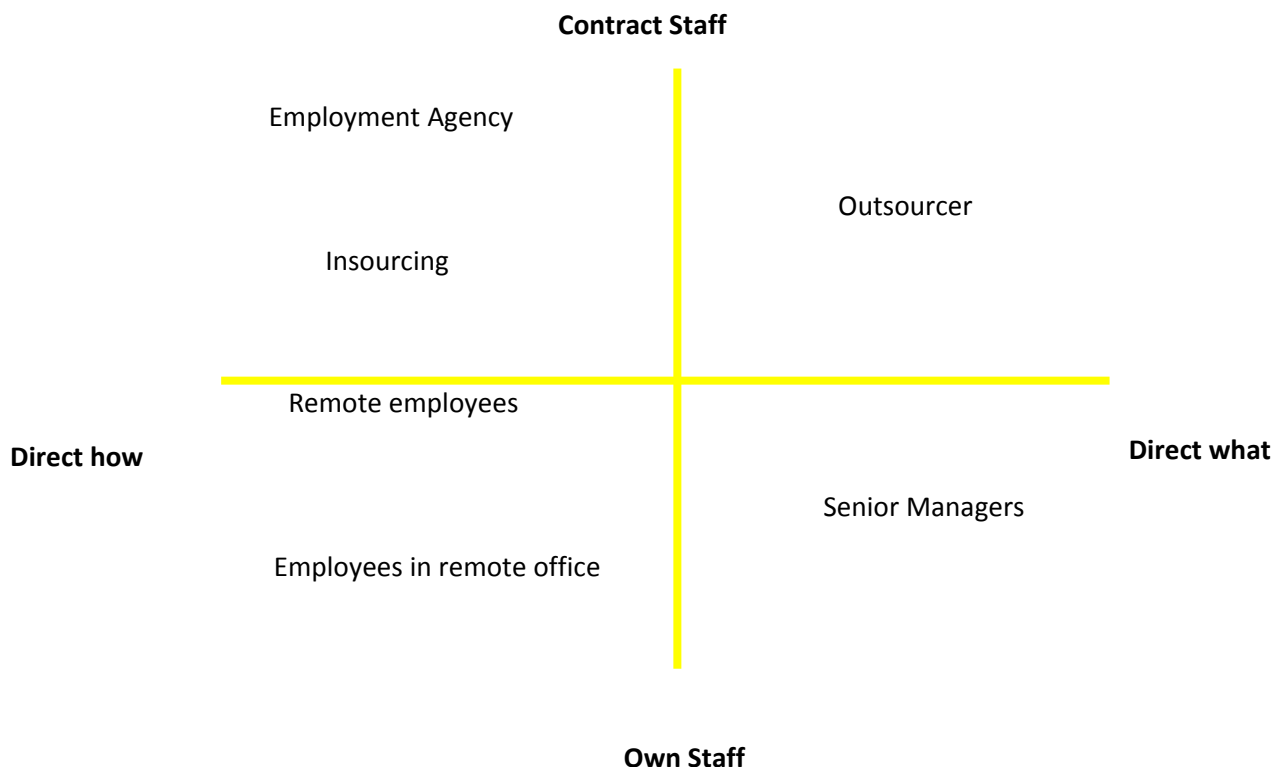
Data entry

Human resource management

Management consulting services

Members must recognise that a feature of an outsourcing arrangement is that they remain ultimately responsible for the outsourced business activities.

The grid below presents this concept in a graphical form.



The definition that is therefore proposed for the accounting profession is “Contracting with a party over which control is not fully exercised to have that party perform a business activity which if not delivered would materially impact upon the quality, timeliness or scale of service delivered by a member”.

Literature Review and Media Search

A selection of relevant articles from Australian publications and literature drawn from a review of relevant national and international standards and guidance notes in respect of the outsourcing of accounting services is attached. By its nature, this review can only include those documents able to be sourced within the public domain. Equally, it cannot be exhaustive but the attached material is considered representative of current thinking in relation to the outsourcing of accounting services. Some specific comments from the review are set out below.

Common themes discussed are quality control, confidentiality, disclosure and responsibility of the various parties to stakeholders. Importantly, the comments of ICAA and CPA in Attachment 5 that outsourcing is driven by skills shortages and shifts in career aspirations and/or workforce dynamics show that consideration of these issues to achieve an appropriate framework for the profession to use outsourcing to address these challenges is the appropriate approach.

APRA

The financial services industry published a discussion paper on outsourcing on 23 March 2006. This is attached as Attachment 1.

Public Practice

A typical article detected in this review is drawn from *In the Black*, a publication of CPA Australia (refer Attachment 2).

AICPA Code - USA

In the USA, the AICPA has published a standard in relation to the outsourcing of accounting services (refer Attachment 3).

Australian Taxation Office Position

With many members involved in the provision of taxation returns and some members preparing (or supervising the preparation of) BAS returns, the views of the ATO in relation to the outsourcing of services within its jurisdiction are important.

The ATO published the document attached as Attachment 4 during November 2007. It is concerned with the outsourcing of matters within the domain of the ATO, namely income tax and BAS returns. As the ATO does not have a governance role in relation to accounting services, they rightly express no opinion in that regard and the attachment is included to reflect the views of a stake holder in the accounting services outsourcing industry. In so far as this paper is concerned it reflects a regulatory restriction within the broad definition of accounting services but does not restrict outsourcing per se.

The Institute of Chartered Accountants in Australia and CPA Australia (professional bodies) prepared a submission to the Australian Taxation office (ATO) on outsourcing. Below is an extract from that paper.

“There is growing interest in outsourcing and off-shoring, both from within the accounting profession and also from large corporate taxpayers with “in-house” tax groups.

There is nothing sinister about this trend in terms of tax compliance. The primary drivers are:

Cost pressures,

Labour shortages, and

A generation of young Australian financial professionals who, in considering their employment options, are increasingly unwilling to engage in tax compliance tasks (the so-called Generation Y factor).

Coupled with these is a growing realisation amongst tax professionals within the Australian business community of the ability of offshore service providers to deliver services to a standard, which is comparable to that of an Australian workforce. We refer here particularly to the well-educated workforce in India and in those Asian countries, which have invested in quality educational systems.

As noted on page 6 of the Discussion Paper, the trend of “off-shore” outsourcing is not confined to the large accounting firms. Off-shoring arrangements are now on offer to most of the accounting firms, via suppliers of commonly used accounting software.”

In recent times, partly in reflection of the changing business environment for the tax profession, a bill has been introduced to amend the law in relation to the registration of tax agents and related matters. Attachment 6 contains the explanatory memorandum and related proposed legislation so far as it impacts the registration of tax agents.

In particular reference is drawn to the 1.13 and 1.14 in the Explanatory Memorandum and the proposed rules for corporate registration in Attachment 6.

USCPA – Confidentiality

Attachment 7 sets out current USCPA thinking on confidentiality of client data and records within the context of outsourcing.

It would be expected that appropriate service level agreements covering the quality and timeliness of service and the confidentiality of private data would form part of the terms of engagement of any outsource service provider engaged by members employed within the business or government sectors. Attachment 7 is a Management Accounting Guideline published by the Society of Management Accountants of Canada, the American Institute of Certified Public Accountants and the Chartered Institute of Management Accountants (UK) that provides guidance for such users.

Outsourcing Guidelines

Proper risk management assessment is discussed in HP 240-2004 Guidelines for Managing Risk in Outsourcing utilising AS/NZS 4360:2004 (Outsourcing Guidelines).

Attachment 8 is an outsourcing standard from the International Association of Outsourcing Professionals.

Applicability of the Code and threats to Members Ability to Conform with the Code

APES 110

The Code of Ethics for Professional Accountants is set out in APES 110. The fundamental principles of the Code are:

- a) integrity;
- b) objectivity;
- c) professional competence and due care;
- d) confidentiality; and
- e) professional behaviour.

Clearly these fundamental principles are at the core of the expectations of the clients of a firm.

They are also relevant to the conduct of an accountant employed in a business or government enterprise but the expectations of the public when dealing with a business are different to the exercise of professional skill by a practitioner. Accordingly, this paper is tailored predominantly towards the obligations of members in professional practice although some commentary in relation to the obligation of members in commerce and government are also included. For this purpose a member in public practice within this paper is defined to include an auditor general's office or department.

APES 320

APES 320 Quality Control for Firms requires the establishment of appropriate policies and procedures for the control of the quality of the work of a firm and also requires the proper assignment of staff to engagements based on the knowledge, skill and experience required for the engagement and possessed by the staff. The underlying theme of such statements is that a professional level of work should issue from the office of an accountant. Notwithstanding skills shortages and demands on the time of accounting professionals, client expectations of the level of professionalism, accuracy and quality of work would not diminish. Accordingly an appropriate extension of these standards and this framework to the use of contract labour is logical.

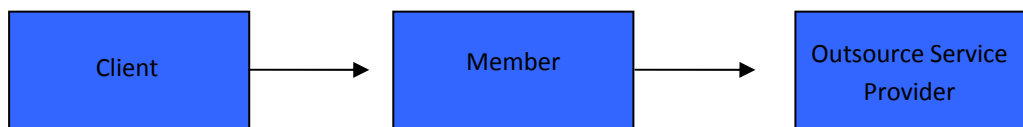
APES 320 is directed at quality control in Firms. Firm is defined as a professional services provider and therefore such definition would preclude a business or government enterprise notwithstanding that such enterprise may employ members. The full definition of Firm as set out in APES 205 – *Conformity with Accounting Standards* is:

"Firm means

- a) a sole practitioner, partnership, corporation or other entity of professional accountants;*
- b) an entity that controls such parties;*

- c) *an entity controlled by such parties; or*
- d) *an auditor general's office or department."*

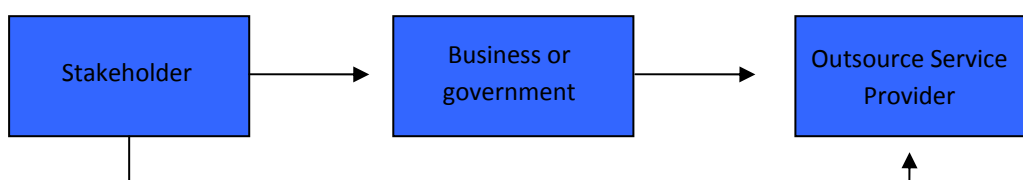
Within that framework a typical arrangement would be as below.



Accordingly the applicability of the Accounting Professional and Ethical Standards Board pronouncements directed at members in public practice would be restricted to a member or an association of members or an entity involving such members and the auditor generals department. Within APES 205 the term "member in public practice" is defined as meaning "a member" irrespective of functional classification (eg audit, tax or consulting) in a firm that provides professional services. The term is also used to refer to a firm of members in public practice that means a practice entity as defined by the professional bodies.

Commercial Outsourcing

Members working outside of practice (for example the accountant or financial controller of a business enterprise or government department) may also choose to outsource part of the accounting function. This could be the processing of payroll, the processing of accounts payable, new client on boarding activities or any other function of the accounts department that has the requisite scale and systemisation to typically fit within the business model of an outsource service provider. Where this occurs, the expectations of the stakeholders in the delivery of the services of the business entity may differ from expectations of the clients of a professional practice. Clients of a professional practice may be expecting a service involving the exercise of professional judgement and skill from an accounting professional. Customers of a business entity may simply expect that debtors are properly reconciled or in the case of suppliers that the accounts payable process proceeds smoothly enabling prompt and accurate payments to occur. Stakeholders in the payroll process would expect accurate management of leave balances, taxation deductions, superannuation contributions and the proper and timely payment of salary entitlements. Some of these functions would require a lower level of judgement than is exhibited in the professional work of an accounting practice. There may even be contact between the customers or suppliers of the organisation and the outsourcer as illustrated below.



Contact points

At the other end of the spectrum, setting of business strategy, consolidation or reorganisation of divisions or business units and similar activities can be outsourced by accountants in business and

government to consultants (for example management consultants) which themselves have very clear service level agreements and professional obligations to the stakeholder corporation or government business enterprise rather than to the customers, suppliers or other stakeholders of other such entity.

Whilst members have ethical obligations, most of this paper is directed at the obligations imposed upon a firm by the Code.

Fundamental to the maintenance of the standards of the profession is the obligation on members to adhere to the Code. It is therefore appropriate to identify any threats to members' ability to conform to the requirements of the Code. Consideration of the key principles below will allow members to mitigate the risk of non-conformance with the Code.

Key Principles

Due Diligence and Documented Agreement

A review of the literature shows some common themes that can be applied by members – due diligence and documentation.

One broad requirement of members would be that they conduct appropriate due diligence before engaging an outsource service provider to ensure that the service provider is suitable for their needs. With client relationships remaining the responsibility of the member and it being clear that outsourcing is delegation without loss of ultimate accountability to the client/stakeholders, members should satisfy themselves that the provider will meet their needs through a process of due diligence.

Having performed appropriate due diligence, documentation of the terms of the engagement with the outsource service provider is necessary. Given the risk of misunderstanding of the terms of engagement and the need for definition of responsibilities, a Service Level Agreement or other formal terms and conditions should exist between the member and the outsource service provider.

Against these two primary requirements the following supplementary commentary is offered.

Quality Control

With public expectations of the accountancy profession unchanged by the means by which the service is delivered, it would be expected that users of accounting services would expect the same quality control to apply in relation to the services provided by a public accountant using internal staff and services provided by a public accountant using one of the range of outsource solutions described above.

APES 320 sets out the quality control requirements for the members of the bodies that are governed by the standards issued by APESB. In particular paragraph 36 of APES 320 requires members to “establish policies and procedures designed to provide ... reasonable assurance that it has sufficient personnel with the capabilities, competence and commitment to ethical principles necessary to perform its engagements”. Matters such as professional education, continuing professional development and coaching by more experienced staff would be equally relevant to an outsource services provider as they are to a practice dealing with the public. Where the outsource service provider can identify appropriate quality control that is consistent with the level of services and complexity of engagement referred to it by the accounting practice, it would be expected that the level of quality control would be commensurate with the provision of the same services to the public. This would apply to the professional work conducted by the outsourcing provider and also the ethical positioning of that service provider.

Members would be expected to determine by enquiry or otherwise that appropriate quality control exists for the level of services rendered by the outsource service provider within this framework.

Where work has been returned by an outsource service provider, the need to review files for evidence of an understanding of the client’s business and for technical accuracy would be necessary.

A member's staff charged with responsibility for such review should have sufficient and appropriate experience and ability to review the type of work returned.

Skills and competence

Members due diligence would need to ensure that any service provider they engage would have sufficient personnel with the capabilities, competence and commitment to relevant ethical principles necessary to perform its engagements.

Contingency arrangements

Where the scale of services provided is so large that failure by the service provider to deliver the outsourced services would have potential for significant failure in delivery of services by a member or an enterprise in which the member is employed, then appropriate contingency or disaster recovery options should exist. These may be within the business of the service provider or accessed through other means identified by the member. Testing of the disaster recovery strategies should also occur periodically.

Privacy and Data Security

Confidentiality of client data has long been a requirement of members in a firm and the use of an outsource service provider does not alter that requirement. It is possible that in reviewing the data security procedures of an outsource service provider, members may find that the security arrangements are stronger than those in place within some firms. Members should obtain sufficient comfort that data is protected and that the legal obligations contained within the Privacy Act are met. The AICPA material set out in Attachment 7 suggests that an appropriate course of action could be that members enter into a contractual agreement with the outsource service provider requiring maintenance of the confidentiality of information. The member should use reasonable care in determining that the service provider has appropriate procedures in place to prevent the unauthorised release of confidential information to others.

The USCPA recommends that in circumstances where no such agreement is in place, client consent should be obtained prior to the member disclosing confidential client information.

In the same way that members are not required to disclose specific staff employed on an engagement, it would therefore be unreasonable to prescribe that members disclose the use of an outsource service provider except in circumstances required by law or where no contractual terms regarding the safeguarding of client data exist. As members are required to meet client expectations of confidentiality, an appropriate agreement should exist requiring any third party service provider to also maintain the confidentiality of client data. Where such an agreement is in place it would be reasonable that disclosure of the use of the outsource service provider not be mandatory. However, consistent with AICPA ethical ruling 391 if there is not in place a confidentiality agreement with a third party service provider, the member must disclose to the client the use of the third party service provider.

Terms of Engagement

Management of commercial risks must remain the responsibility of the member. Standard terms requiring members to continue to adhere to the Code notwithstanding the use of an outsource service provider but without limiting the members need to establish appropriate commercial terms

suitable to that member (which it is acknowledged would be within a diverse range) would be appropriate.

Engagement Letter between Members and Their Clients

APES 305 Terms of Engagement issued in December 2007 covers the need for members to have documented by way of letter, agreement or other means the terms of engagement between the member and the client in relation to the provision of professional services. Within this context, professional services means accounting, auditing, taxation, management consulting and financial management services performed by a professional accountant using accountancy related skills. The purpose of the engagement document required to be prepared is to ensure that the member avoid misunderstandings in respect to the engagement. APES 305 requires that matters such as the objectives of the engagement, the scope of the engagement, the expected outputs and timing and the responsibilities of the member, the client and any third party are documented.

Matters such as how the task is being performed and who is performing it within the office of the member or any related organisation do not form part of APES 305. Outsourced accountancy services could form part of such an engagement and the parts so formed could be a small reconciliation function provided by a third party or a significant component of the engagement. The expectation of clients is unchanged when they engage the accountant and it would be rare for the client to require precise details of the “how and why” of the work being done.

Key Principles when Selecting a Provider

Certain additional criteria may be helpful to members when selecting an outsource service provider, members should keep in mind a number of guiding principles, these are set out below.

Timeliness of service

One of the advantages often sought by accountants in practice looking to engage an outsource accounting service is the improvement in the speed of delivery of services to clients. If an accounting practice is under resourced, bottlenecks can occur which can drive down the turnaround time on work submitted by clients. Using an outsource service provider should reduce bottlenecks and improve service times. Members should check with their outsource provider what delivery times are included with any service level agreement.

Accuracy

Clients expect the work of a member to be accurate. Whilst a range of materiality measures would exist to restrict accuracy to within an appropriate materiality level for the nature of the engagement, there is an implied expectation by clients that the greater skill of the accountant will be applied to achieving accuracy in the professional work returned by the member to the client. In the case of SME business owners, it is common that the knowledge of the accountant is greater than that of the client in relation to accounting and taxation matters. Accordingly, a client is often not in a position to check the work of the member nor should the client be expected to check the work of an accounting professional. Members should ensure that the work of outsourcing service providers is of the required level of accuracy for the type of engagement involved.

Initial checking of work by a practice could be expected to occur at the inception of the outsourcing agreement and when a confidence level is reached the level of detailed review may decline.

Review of the professional work of the outsourcing service provider by the accountant should occur in relation to each completed engagement to ensure the communication has been clear between the member and the provider.

Communication

In a typical outsourcing arrangement the client will communicate with the member and the member will communicate with the outsourcing service provider. It is unusual for the outsourcing service provider to deal directly or communicate directly with the client of the member. Accordingly, communication between the member and the outsourcing service provider must be unambiguous. Members should ensure that the communication skills of the provider and its staff meet the needs of the member.

Staff of the outsourcing service provider that have lived or worked in Australia may have better conversational English and a better understanding of the nuances of the Australian business culture. Staff educated in other countries where English is the main language would have an advantage over those that have English as a second language.

As work is being submitted by the member to an unrelated party, it is important the member has knowledge of the process on the work submitted and a principle that members could use as a guide is to assess how the outsourcing service provider communicates progress reports in relation to the matters currently being undertaken. Members would find that choosing a provider that has regular updates or online tracking tools may better serve their needs if regular communication of progress is important. This would be particularly true if the service provider is operating in a time zone substantially different to that of Australia.

Review of Files and Error correction

Reflective of the nature of a service typically two steps removed from the client is the need for review of files by members. Members should ensure that the Service Level Agreement with the outsource service provider contains terms that deal with responsibility for the correction of errors and define responsibilities within the quality control process to be shared between the member and the provider.

Many of the guidelines above reflect the overall requirement to establish policies and procedures that provide a member with reasonable assurance that engagements are performed in accordance with professional standards. Whilst part of APES 320 this statement is equally a component of the client's expectations when requesting professional services.

Training

As is required of members, on going training of staff in a manner not dissimilar to the CPE requirements imposed upon members of the staff of the outsource service provider should be in evidence and contained within the Service Level Agreement. It is an expectation of professional outsource service providers that this level of training would occur and should form part of their operational procedures and any agreement of members.

Ongoing monitoring

Where a member has engaged outsourcing service provider and it meets the criteria prescribed by the APESB, a further criteria should exist which requires annual monitoring of the maintenance by

the service provider against the initial criteria for selection. In choosing an outsourcing provider, a member would have had regard to the quality control procedures and related matters above and should also confirm annually that such procedures continue to be in place. Confirmation could occur by the member obtaining from the outsourcing provider, confirmation of such matters in a positive form or in the alternative the imposition upon outsourcing service providers to advise in the negative if there has been a material breach in this regard. These requirements require the notification by a service provider of a breach in privacy guidelines and operate on a presumption that in the absence of a notification, no such breach has occurred. On balance this approach would reduce the level of reporting between the outsourcing service provider and the member and the level of positive steps required to be taken by the member to check on the status of the outsourcing service provider on an annual basis.

Comparison of the Requirements for Quality Control

A review of APES 320 shows that many of the requirements of a firm would equally apply to an outsource service provider. Below is a table comparing the primary issues in APES 320 with the expectations of a firm and the expectations the firm should have of the service provider.

APES 320 requirement	Required behaviour of Firm	Required behaviour of Outsourcer
Paragraph 7 – System of quality control.	Quality control policies and procedures shall be documented and communicated with the firms personnel.	Quality control policies and procedures should be documented and monitored by outsourcer. Assurances to be obtained by firm from outsourcer.
Paragraph 9 – Leadership responsibilities.	Promote internal culture based on the recognition that quality is essential. Would extend to any services provided by outsourcer.	Establish policies and procedures to promote an internal culture that quality is essential in relation to the functions performed by the outsourcer.
Paragraph 14 – Establish policies and procedures to comply with relevant ethical requirements.	Integrity, objectivity, professional competence, due care, confidentiality and professional behaviour to be established as fundamental principles under which the firm operates.	Professional competence, due care and confidentiality would be the primary concerns of firms using an outsourcer.
Paragraph 18 – Independence.	Required of practices. Specific policies required for assurance practices only.	Not required of outsourcer.
Paragraph 28 – Establish policies and procedures for the acceptance and continuation of client relationships.	Applicable to practice only.	Not applicable to outsourcer.
Paragraph 36 – Establish policies and procedures to ensure that sufficient personnel with appropriate capabilities and competence are available for engagements.	Recruitment performance and evaluation capabilities, promotion compensation and similar matters to reflect the required level of skill and ongoing continuing professional development applicable to the engagements undertaken by the firm.	Sufficient education, capabilities, competence and internal resources to enable the sections of engagements outsourced to be undertaken.
Assignment of teams	Applicable primarily to practice	Not applicable to outsourcer.

Paragraph 42	only.	
Paragraph 46 – Establish policies and procedures to ensure that regulatory and legal requirements applicable to an engagement and any reports issued in connection with the engagement are appropriate.	Practices required to have individual staff members, engagement supervision, training and coaching procedures, methods of reviewing work set and documented to ensure appropriate reports are issued to clients.	Outsourcer would not be issuing reports and would have scope of engagement restricted to those terms contained within any service level agreement.
Paragraph 51 – Establish procedures to enable appropriate consultation on difficult or contentious matters and sufficient resources to enable consultation to occur.	Practices to ensure that nature and scope of consultations are documented and that there are sufficient resources and the appropriate level of consultation on difficult or contentious matters.	Most outsourcing engagements would be of a more routine and systematic nature. Applicable to outsourcer where scope of engagement goes beyond routine systematic processes.
Paragraph 73A – Completion of final engagement files.	Firm to hold appropriate engagement files after the engagement reports have been finalised.	Outsourcer would provide files in most circumstances to firm for review with responsibility for safe custody lying with firm.
Paragraph 74 – Establish policies and procedures to ensure that the system of quality control is relevant, adequate and operating effectively and complied within the firm.	Appropriate monitoring internally of procedures and standards for the system of quality control including periodic inspection.	Not required of outsourcer however commercial responsibilities dictate appropriate maintenance.
Paragraph 89 – Establish policies and procedures to provide reasonable assurance that complaints and allegations that requirements of professionals standards are not met are dealt with appropriately.	Clearly defined channels for personnel to raise concerns should be established.	Not applicable to outsourcer.
Paragraph 94 – The firm should have appropriate documentation in place to provide evidence of the operation of each element of a	Subject to the size of the firm and the degree of authority between offices and personnel, appropriate documentation should be maintained by the	Not applicable to outsourcer other than in relation to those areas where firm’s expectation of the system of quality control aligns with their own and is

system of quality control.	practice demonstrating that tests have been performed to ensure that each element of the system of good quality of control is in place.	required by the firm to satisfy itself that the elements of work outsourced meet the same quality control requirements being tested with the firm.
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Against the above, members should ensure that appropriate procedures exist within the practice to ensure that members review of work performed by the third party provider is adequate for the type of engagement. In broad terms, member should ensure there standards of quality control apply equally across internally prepared work and the work that is outsourced.

Disclosure

The final step would be to determine how this should be communicated by members to their clients. Some comments on disclosure by members to clients are set out in the USCPA code (see Attachment 7). In the same way that the specific staff engaged on an assignment are generally not disclosed to clients (and certainly no obligation to disclose exists) no disclosure to clients of the use of an outsourcing provider is recommended.

Engagement Letter between Business, Government and Service Provider

It is important that the members in government and business ensure that the expectations from the service provider are properly documented in an engagement letter between the outsource service provider and the business or government enterprise. Where the materiality of the service is of sufficient size that failure by the service provider would substantially impact upon the ability of the government or business enterprise to continue to provide services or otherwise meet stakeholder needs in a significant way, the agreement with the outsource provider should contain appropriate risk mitigation procedures, disaster recovery terms and criteria for the testing of these on a regular basis. Reference is made to Attachment 1 which sets out some such criteria used within the financial services industry.

Conclusion

Given the growing importance of outsourcing as a solution to the labour shortages facing the accounting profession, it is recommended that a pronouncement be made in relation to the use of outsourcing by members. The proposed announcement should incorporate the key risks that outsourcing involves for users of an third party service provider and mandate the key principles that a member should consider when selecting a service provider. The principles set out above would form the basis of the discussion and the recommendations in such a pronouncement in relation to members use and selection of a provider.

Appendix 1 – Selection of Current Service Providers to Members in Practice

Name	Web address
Odyssey Resources Pty Limited	www.odyssey-resources.com
Ridge Business Management	www.ridgebm.com
Back Office Shared Services Pty Limited	www.boz.com.au
MYOB Australia Pty Limited	www.myob-ar.com
SuperGuardian Pty Limited	www.superguardian.com.au
Cavendish Superannuation Pty Ltd	www.cavendishsuper.com.au
Dixon Advisory and Superannuation Services Pty Ltd	www.dixon.com.au
Super Concepts Pty Limited	www.superconcepts.com.au

Appendix 2 – Attachments from Media Search and Literature Review

Attachment 1 – APRA discussion paper on Outsourcing



Discussion Paper

Outsourcing

23 March 2006

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Preamble

This discussion paper presents a harmonised approach to the prudential supervision of risks arising from outsourcing arrangements by APRA-regulated institutions. For the purposes of this discussion paper, 'regulated institution' refers to an authorised deposit-taking institution (ADI), a general insurer or a life company. Attached to the paper are draft prudential standards on outsourcing by ADIs, general insurers and life companies, together with a draft prudential practice guide covering all three industries. The draft standards and guide are also available at www.apra.gov.au.

The draft prudential standards represent a principles-based approach to prudential regulation detailing APRA's minimum requirements for managing risks arising from outsourcing but leaving the way open for regulated institutions to develop their outsourcing policy that complies with the principles.

The draft prudential practice guide aims to assist regulated institutions in complying with APRA's requirements and, more generally, to outline prudent practices in relation to outsourcing. Subject to the requirements in the prudential standards, regulated institutions have the flexibility to configure their approach to outsourcing in the way most suited to achieving their business objectives. The guide is not legally enforceable.

For ADIs, the draft prudential standard and guide substantially replicates *Prudential Standard APS 231 Outsourcing* (APS 231) and the associated (but not binding) *Guidance Note AGN 231.1 Managing Outsourcing*

Arrangements (AGN 231.1), with key enhancements relating to 'offshoring' and intra-group outsourcing arrangements. For general insurers, APRA's proposed approach represents an enhancement to the current requirements for outsourcing in the enforceable *Guidance Note GGN 220.5 Operational Risk*, which forms part of *Prudential Standard GPS 220 Risk Management for General Insurers* (GPS 220). The general insurance industry has been consulted on the development of a prudential standard on outsourcing in response to two earlier discussion papers released in November 2003¹ and May 2005². The draft prudential standards and the introduction of the prudential practice guide reflect the outcome of those consultations. For life companies, this approach will introduce a formal regulatory requirement for outsourcing in the life insurance industry which reflects the criteria applied by APRA in assessing outsourcing by life insurers through its supervisory processes.

APRA proposes to finalise and issue the new prudential standards in the second quarter of 2006. The prudential practice guide will be finalised at the same time.

Written submissions on these proposals should be forwarded via email by 26 May 2006 to apraoutsourcing@apra.gov.au

Mr Greg Brunner
General Manager
Policy Research and Statistics
Australian Prudential Regulation Authority

¹ APRA policy discussion paper titled *Prudential Supervision of General Insurance Stage 2 Reforms* released on 23 November 2003.

² APRA policy discussion paper titled *Prudential Supervision of General Insurance Stage 2 Reforms: Risk and Financial Management* released on 3 May 2005 with draft *Prudential Standard GPS 221 Outsourcing* attached.

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Introduction

The existing ADI prudential requirements for outsourcing arrangements contained in APS 231 and AGN 231.1 are generally working well. APRA's supervisory experience, however, has identified emerging practices that suggest these requirements need to be reviewed and updated. Consequently, APRA has undertaken this review as part of a cross-industry approach to the supervision of risks arising from outsourcing arrangements. These risks are common across industries regulated by APRA and are best addressed through prudential standards that are harmonised across the industries.

It is acknowledged that this approach will introduce a formal regulatory requirement for outsourcing in the life insurance industry for the first time. To date, APRA has expected life companies to have formal agreements for their outsourcing arrangements and has assessed the arrangements largely based on the requirements set out for the ADI industry. Therefore, the cross-industry approach should have little practical impact on life companies as APRA and the life insurance industry have been working together to ensure that an appropriate approach to outsourcing has been taken in the life insurance industry. The difference the new approach will bring to the life insurance industry is that the principles that APRA has been using to assess existing outsourcing arrangements will become legally enforceable principles via the new prudential standard.

APRA has consulted extensively with the general insurance industry about the proposed prudential standard for that industry. This round of consultation is intended to obtain views from all three regulated industries at the same time since the new standards will be applied in identical form to all regulated institutions.

The introduction of the first harmonised prudential practice guide, *Prudential Practice Guide PPG 231 Outsourcing*, is a significant development in the way that APRA disseminates guidance on prudent practice. Prudential practice guides are not legislative instruments. Not all the practices outlined in the guide will be relevant for every regulated institution and some aspects may vary depending upon the size, complexity and risk profile of the institution.

A harmonised approach to outsourcing will have a number of benefits for regulated institutions:

- a more consistent framework compared with the current separate approaches to supervising outsourcing arrangements;
- conglomerates that have regulated institutions in more than one industry will find it easier to meet APRA's requirements; and
- conformity with international regulatory principles including those promulgated by the Joint Forum, which comprises the Basel Committee on Banking Supervision, the International Organization of Securities Commissions and the International Association of Insurance Supervisors.

Proposed commencement and transitional arrangements

The new prudential standards are intended to be released in the second quarter of 2006. The new requirements will apply from 1 October 2006.

An outline of the new prudential standards and prudential practice guide

The proposed new prudential standards establish a framework in which a regulated institution is to manage its outsourcing arrangements.

Definition of outsourcing

Outsourcing is defined as an agreement entered into by a regulated institution and another party to perform, on a continuing basis, a business activity which currently is, or could be, undertaken by the regulated institution itself. The regulated institution remains responsible for complying with all prudential requirements relating to the outsourced business activity. This principle is the foundation for the proposed new prudential standards, and regulated institutions must recognise that they remain ultimately responsible for the outsourced business activities.

Materiality

The proposed new prudential standards apply only to the outsourcing of material business activities. A business activity is material if it has the potential, if disrupted, to have a significant impact on a regulated institution's business operations or its ability to manage risks effectively, having regard to a range of factors.

Outsourcing policy

A regulated institution is expected to have a risk management framework. This is a prudential requirement for general insurers and ADIs under current standards.³ Life companies are not required to have a risk management framework under the *Life Insurance Act 1995* but APRA expects all prudently managed life companies to apply modern risk management practices, a key concept of which is a comprehensive risk management framework. A regulated institution is required to address the risks arising from outsourcing in an outsourcing policy that is part of the institution's overall risk management framework.

Assessment of outsourcing options

APS 231 sets out minimum criteria for the risk management framework for outsourcing. In the case of outsourcing to third parties, the proposed new prudential standards expand on these requirements to include:

- a due diligence review of the chosen service provider;
- addressing the renewal process for outsourcing arrangements; and
- the development of contingency plans if the outsourced process needs to be brought back in-house.

APRA has discretion to apply the standard in a flexible manner if the outsourcing is to another regulated institution within the group and APRA has been applying that flexible approach in its on-going supervision. The proposed new prudential standards extend that flexibility to all related bodies corporate, not just other regulated entities. Separate requirements apply if a regulated institution is assessing outsourcing to a third party or to a related body corporate, although the institution must consider the relevance of the requirements that relate to third party arrangements. This approach acknowledges the reality that outsourcing to related bodies corporate does not require the same level of formality as when dealing with third parties. This approach is a significant departure from the *Draft Prudential Standard – General Insurance Risk and Financial Management GPS 221 Outsourcing* (GPS 221) that was published for consultation in May 2005 and is in direct response to submissions from general insurers.

³ ADIs are required to have risk management systems in accordance with APS 310 and general insurers are required to have a risk management strategy in accordance with GPS 220 (the requirement for a risk management framework is being introduced in the new *Prudential Standard GPS 220 Risk Management*).

The outsourcing agreement

The proposed new prudential standards expand on the minimum requirements for material outsourcing agreements in APS 231 in four areas:

- the scope of the arrangement and services to be provided;
- subcontracting;
- insurance; and
- offshoring arrangements (including through subcontracting).

APRA considers that these expanded requirements are fundamental to establishing a sound arrangement with a service provider.

As with the assessment of outsourcing options, APRA does not expect the same level of formality where the outsourcing arrangement is with a related body corporate. Nonetheless, the agreement between the parties should cover:

- the scope of the arrangement and services to be supplied;
- the pricing and fee structure;
- service levels and performance requirements; and
- audit and monitoring procedures.

APRA access to service providers is also required to be included in outsourcing agreements as per the requirements in APS 231.

Notification requirements

A regulated institution must notify APRA as soon as possible after entering into any outsourcing agreements where the activity is to be conducted in Australia. This is the same requirement as in APS 231. The proposed new prudential standards are different from the draft GPS 221 released in May 2005 as the amount of documentation required to be provided pursuant to that notification has been scaled back to that required under APS 231.

Offshoring

'Offshoring' is the practice of outsourcing business activities to a service provider located outside Australia. Offshoring may occur via a contract with a provider outside Australia, or with an Australian service provider where material elements of the service are provided from abroad.

APRA does not wish to discourage or prohibit prudently structured offshoring arrangements of material business activities. However, APRA is proposing that regulated institutions consult with it prior to entering into a material offshoring contract. This position represents a change from the draft GPS 221 released in May 2005 which proposed prior APRA approval of offshoring arrangements. The requirement to consult is not a quasi-approval mechanism. Offshoring poses a unique set of risks and, in the consultation process, APRA will wish to review the Board's assessment and understanding of these risks and the processes and controls to be introduced to mitigate them. This may involve measures relating to choice of law, security and confidentiality of information and access to information.

In addition, APRA is in the unique position of reviewing emerging trends in offshoring arrangements across the regulated financial sector, allowing it to provide feedback to regulated institutions which are contemplating offshoring.

Consistent with the requirements for domestic outsourcing arrangements, the regulated institution must ensure that it has adequate business continuity management arrangements in the event that the service provider in an offshoring arrangement is unable to fulfil its obligations. This may include the identification of an alternate service provider or a return to in-house service provision.

Monitoring

A regulated institution must devote sufficient resources to managing and monitoring the outsourcing relationship. The proposed new prudential standards set out minimum requirements for this monitoring. In comparison with APS 231, the requirement to elevate issues to the senior management or the Board has been removed, consistent with removing all references to the internal communications to the Board and senior management due to the proposed new governance prudential standards (see below).

Audit arrangements

The proposed new governance standards require regulated institutions to have an internal audit function, but allow outsourcing of this function with APRA approval. The proposed new outsourcing standards clearly define the internal audit function as a material business activity. The new outsourcing standards also require the internal audit function to cover outsourcing arrangements. Internal audit is not discussed in APS 231.

Board and management responsibility

The section on Board and management responsibility in APS 231 and the draft GPS 221 published in May 2005 has not been included in the proposed new outsourcing standards. The proposed new governance standards contain the broad principles relating to Board and management responsibility and there is no need to repeat these in relation to outsourcing arrangements. However, the specific responsibilities of the Board and management in relation to assessment of outsourcing options and outsourcing to related bodies corporate are identified in the new outsourcing standards.

Prudential practice guide

The intent of the prudential practice guide is dealt with in the introduction. The matters dealt with in the guide are:

- materiality;
- resources for managing outsourcing arrangements;
- Business Continuity Management in relation to outsourcing arrangements;
- considerations in developing an outsourcing policy;
- content of contractual agreements ;
- the additional risks of offshoring; and
- outsourcing to related bodies corporate.

Attachment 2 - *In the Black* article on outsourcing

Ethical Dilemma: YOU MIGHT THINK OUTSOURCING

TAX RETURN PREPARATION IS NO BIG DEAL. YOUR CLIENTS, HOWEVER, MIGHT NOT BE SO CHUFFED AT THE IDEA.

(Out)source of concern

Dilemma: I outsource tax returns during my busy period. A colleague believes I should be telling my clients this. Is this true?

Answer: If you are outsourcing professional services such as the preparation of income tax returns, it is important to consider not only the ethical and quality-control issues, but also any associated privacy and data-security issues. This response will focus on the primary ethical issues of disclosure of the use of a third-party service provider to the client, and supervision of the third-party service provider.

Unless otherwise advised, clients will not expect their tax return preparation to be outsourced. Clients will, however, expect members of CPA Australia to comply with the principle of integrity. This imposes an obligation on all members to be straightforward and honest in professional and business relationships. (APES 110: Code of Ethics for Professional Accountants, paragraph 110.1).

Also, APES 110 paragraph 140.1 requires that members not disclose confidential information without proper and specific authority from the client. Before outsourcing tax return preparation and therefore disclosing confidential client information to a third-party service provider, members need to inform their clients. Although there is no requirement that this disclosure be made in writing, it is recommended as best practice. AICPA provides the following sample clause from an engagement letter:

"In the interest of enhancing our availability to meet your professional service needs while maintaining service quality and timeliness, we may use a third-party provider to assist us in the preparation of your tax returns. This provider has established procedures and controls designed to protect client confidentiality and maintain data security. As the paid preparer of your tax returns, our firm remains responsible for exercising reasonable care in preparing your tax return, and your tax return will be subjected to our firm's normal quality control procedures. If you have any questions or concerns about this arrangement, please contact our office."

If the client does not consent to their tax return preparation being outsourced, the member should provide the professional services in-house. Or alternatively, the member should decline the engagement. It is also important when resolving issues that have been identified (relating to accepting a client engagement) to consider section 28 of APES 320. This section requires documentation of how issues were resolved before accepting the engagement.

In addition, whether tax preparation is outsourced or performed in-house, the member remains responsible for ensuring the accuracy of the returns based on the information provided by the client (paragraph 11 APS 6: Statement of Taxation Services).

Each return should be reviewed for accuracy and completeness as part



Unless otherwise advised, clients will not expect their tax returns to be outsourced



of normal quality control practices before being provided to the client for lodgement. When outsourcing services to third-party providers, effective quality control must be maintained over these services, and they must comply with APES 320: Quality Control for Firms.

Effective quality control requires ongoing monitoring and supervision of all services provided by external parties. In addition, the member must adequately plan and supervise the professional services provided by the third-party service provider and comply with all technical (including tax agent registration) standards applicable to those professional services. ■

Dilemma resolved by Tiina-Liisa Sexton, CPA Australia's ethics adviser

Attachment 3 – extract from AICPA ethical ruling covering outsourcing

Extracts from US AICPA Code of Professional Conduct (the “AICPA Code”).

While Rule 301 – *Confidential Client Information*, of the AICPA Code prohibits the release of confidential client information without the specific consent of the client, Ethics Ruling No. 1, “Computer Processing of Clients’ Return,” under rule 301 indicates that no violation of the confidential relationship between the member and client occurs when client information is sent to a third-party service provider, provided the member takes all necessary precautions to be sure that the use of the outside service provider does not result in the release of confidential information.

The Code also requires that a member providing professional services must ensure that the work has been adequately planned and supervised, that sufficient relevant data has been obtained to support the work, and that the service provider complied with all applicable technical and ethical standards. Although not specifically stated in the Code, the member is responsible for the work of any third-party service provider.

The Code, however, does not require disclosure to the client when a third-party service provider is used - whether domestically or overseas.

In determining whether the Code was sufficient or needed to be amended, the PEEC considered a number of ethical issues concerning the use of third-party service providers, including whether:

- Ethics Ruling No. 1, “Computer Processing of Clients’ Returns,” under Rule 301 – *Confidential Client Information* should be revised to encompass the use of third-party service providers in providing *any* professional or administrative support services to clients;
- A new ethics ruling under Rule 201 – *General Standards* and Rule 202- *Compliance With Standards* should be issued to specifically state that the member is responsible for all work performed by the third-party service provider and that the use of a third-party service provider does not in any way excuse the member from complying with the requirements set forth under these rules;
- A new ethics ruling under Rule 102- *Integrity and Objectivity* should be issued to require that, prior to disclosing confidential client information to a third party service provider, a member should inform the client that he or she plans to use a third-party service provider in providing professional services to the client;
- Any additional provisions should be required when the third-party service provider is operating outside of the United States.

Against the background above, the AICPA Code contains an ethical ruling of the use of a third party service provider assisting members in providing professional services. An extract of that ethics ruling is set out below.

Question – A member in public practice uses an entity that the member, individually or collectively with his or her firm or with members of his or her firm, does not control (as defined by accounting principles generally accepted in the United States) or an individual not employed by the member (a “third-party service provider”) to assist the member in providing professional services (for example, bookkeeping, tax return preparation, consulting, or attest services

including related clerical and data entry functions) to clients. Does rule 102 require the member to disclose the use of the third-party service provider to the client?

Answer – Yes. The concept of integrity set forth in Rule 102 – Integrity and Objectivity [ET section 102.01] and Article III – Integrity [ET section 54] requires a member to be honest and candid. Clients might not have an expectation that a member would use a third-party service provider to assist the member in providing the professional services. Accordingly, prior to disclosing confidential client information to a third-party service provider, a member should inform the client that he or she plans to use a third-party service provider. This disclosure does not relieve the member from his or her obligations under ethic ruling No. 1 [ET section 391.001-.002] under Rule 301 – Confidential Client Information [ET section 301.01]. If the client objects to the member’s use of a third-party service provider, the member should provide the professional services without using the third-party service provider or the member should decline the engagement.

A member is not required to inform the client when he or she uses a third-party service provider to provide administrative support services (for example, record stage or software application hosting services) to the member.

See ethics ruling No. 12 under Rules 201 – General Standards and 202 – Compliance With Standards (ET section 291.023-.024) and ethics ruling No. 1 under Rule 301 – Confidential Client Information [ET section 391.001-.002] for additional responsibilities of the member when using a third-party service provider.

Below is the text of ethics ruling No. 12 from the AICPA Code.

Applicability of General and Technical Standards When Using a Third-Party Service Provider.

Question – What responsibility does a member in public practice have for complying with the general and technical standards under rules 201 [ET Section 201 – General Standards] and 202 [ET Section 202 – Compliance With Standards] when using an entity that the member, individually or collectively with his or her firm or with member of his or her firm, does not control (as defined by accounting principles generally accepted in the United States), or an individual not employed by the member (a “third-party service provider”) to assist the member in providing professional services (for example, bookkeeping, tax return preparation, consulting, or attest service, including related clerical and data entry functions) to clients?

Answer – Using a third-party service provider to assist the member in providing professional services to clients does not in any way relieve the member from his or her responsibilities to comply with the requirements of rules 201 and 202. Accordingly, the member remains responsible for the adequate oversight of all services performed by the third-party services provider and for ensuring that all professional services are performed with professional competence and due professional care. In addition, the member must adequately plan and supervise the professional services (as required by applicable professional standards) provided by the third-party service provider, obtain sufficient relevant data to support the work product and comply with all technical standards applicable to the professional services.

See ethics ruling No. 112 under Rule 102 – Integrity and Objectivity [ET section 191.224-.225] and ethics ruling No. 1 under Rule 301 – Confidential Client Information [ET section 391.001-.002] for additional responsibilities of the member when using a third-party service provider.

Attachment 4 – ATO discussion paper

DISCUSSION
PAPER
FORMAT

CEO, NTLG
MEMBERS
AUDIENCE

21 NOVEMBER 2007
DATE

IN CONFIDENCE
CLASSIFICATION



Australian Government
Australian Taxation Office

Outsourcing and off-shoring

A DISCUSSION PAPER –

Please note that this paper does not represent the formal views of the Tax Office or the Commissioner. It has been created for the purposes of discussion only.



IN CONFIDENCE

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PURPOSE OF PAPER

There has been a growing focus on the globalisation of various services both within the accounting and tax agent environment.

The purpose of this paper is to promote discussion and allow consistent understanding of terminology, market and business drivers and consequences.

This discussion paper provides an overview of:

- the current landscape of both the global and domestic outsourcing market for finance and accounting;
- potential compliance issues with outsourcing tax compliance services as it relates to Part VIIA (Registration of tax agents) of the *Income Tax Assessment Act 1936* (ITAA36); and
- certain scenarios which may constitute potential risks for taxpayers, the Australian tax profession and the Tax Office.

KEY TERMINOLOGY

'Outsourcing' and 'off-shoring' are used interchangeably in public discourse, but there are important technical differences.

- **Outsourcing** is the movement of internal business processes to an external entity contracted to carry out the business processes. Outsourcing may or may not involve some degree of 'off-shoring'.
- **Off-shoring** is the transfer of an organizational function to another country, regardless of whether the work is outsourced or stays within the same corporation. Almost always work is moved due to a lower cost of operations in the new location.¹

Examples

A company moving an internal business unit from one country to another would be off-shoring, but not outsourcing.

A company subcontracting a business unit to a different company in another country would be both outsourcing and off-shoring.

- **FAO** – Finance & Accounting Outsourcing (i.e. processes in the finance and accounting industry which vary from low-skilled processes such as accounts payable and billing to higher-level analytical and strategic skills such as financial analysis, audit, financial planning, consolidations etc).²

¹ Refer to *Wikipedia* on 'Outsourcing' and 'Offshoring', <http://en.wikipedia.org/wiki/Outsourcing> and <http://en.wikipedia.org/wiki/Offshoring>.

² Fahy, Martin and Fuller, Chris, "Wheels of Change", *Excellence in Leadership*, 2007, (full reference unknown, sourced from author).

BACKGROUND

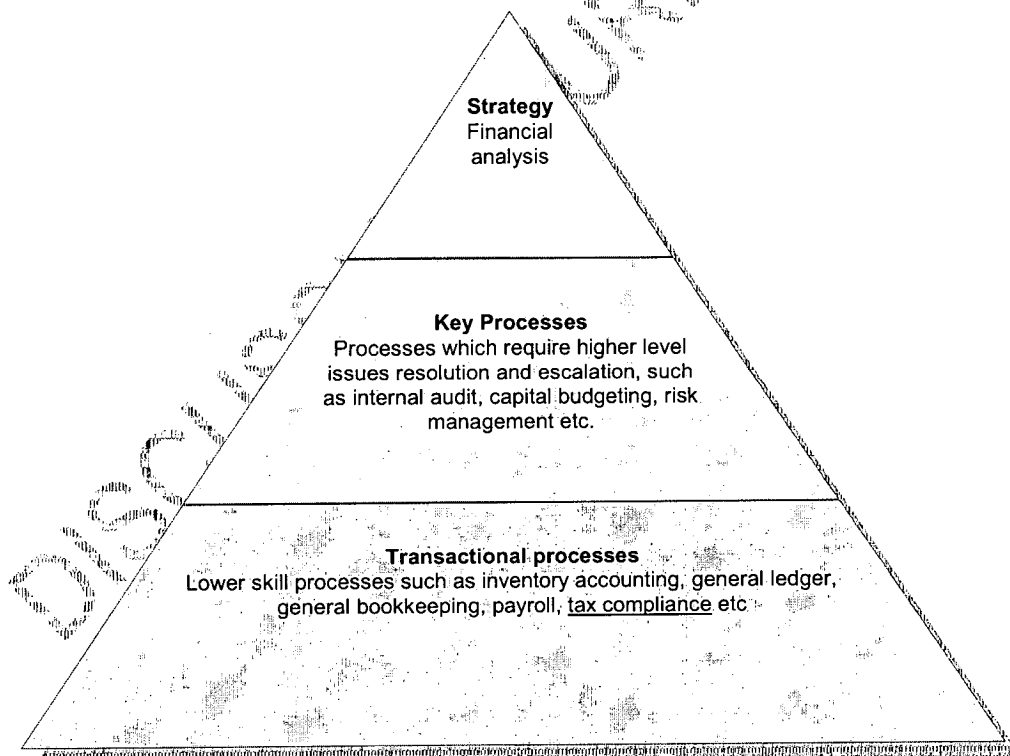
The Australian tax profession has indicated that it would like the Tax Office view and/or guidelines on a variety of scenarios in relation to outsourcing of accounting and tax compliance services (particularly outsourcing overseas).

Furthermore, concerns were raised by the Australian National Audit Office (including warnings from the Auditor-General) of possible risks to the integrity of the Tax Office systems in the context of tax agent services performed abroad.

Finance and accounting outsourcing (particularly off-shore outsourcing) is a fully fledged billion dollar global industry. A number of both the global market leaders and emerging contenders have noted that their services include *tax management*, or *tax compliance services*. There is an apparent level of secrecy around global finance and accounting outsourcing deals, thought mainly to be due to concerns for community confidence/acceptance of off-shore outsourcing as well the desire to try and maintain a competitive advantage.³

WHAT TYPES OF PROCESSES ARE BEING OUTSOURCED GLOBALLY?

Essentially, the three categories of finance and accounting processes have been characterised as follows.⁴



³ At page 16, FAO Today Staff, "The Lucky 13", *FAO Today*, May/June 2007.

⁴ At page 4, "*Finance & Accounting Outsourcing (FAO) – Annual Report*", Everest Research Institute, December 2006.

Currently, over 85% of the global finance and accounting off-shore outsourcing workforce is distributed across labour-intensive transactional processes. However, outsourcing in the finance and accounting industry has evolved from outsourcing *basic tasks* to *key processes* integral to a company's business, and is now currently progressing towards both *end-to-end processes* and *knowledge-intensive key processes*.⁵

KEY DRIVERS FOR OFF-SHORE OUTSOURCING OF FINANCE AND ACCOUNTING SERVICES

- Reported shortage of accountants and decreasing numbers of students entering into accountancy-based education courses;
- High domestic salary expectations/rates;
- Operational cost savings;
- Avoidance of capital expenditure on process-based improvements and technology upgrades;
- Access to service provider's intellectual property capital, best practices etc;
- Measurement of performance management and services;
- Increased controls and accountability (due to processes being core expertise of FAO organisation with centralised management);
- Enables tax professionals to focus on growth, front end support to clients and higher end work (i.e. financial planning);
- Potential to expand business without increasing staff / space / infrastructure investment;
- No human resources issues like recruitment / health insurance / staff discipline / attendance / overtime etc.;
- Timely delivery of services; and
- In many cases, services are provided around the clock (24 hours), significantly improving turnaround times and management of workload peaks.

OFF-SHORE OUTSOURCING HUBS

Countries with large accounting graduate pools, lower salary expectations, English language skills and satisfactory infrastructure are the destinations of choice for finance and accounting off-shore outsourcing. Currently, the main off-shore outsourcing hubs are:

- India
- Mexico
- Vietnam
- Eastern Europe
- China
- Africa

⁵ Fahy, Martin and Fuller, Chris, "Wheels of Change", *Excellence in Leadership*, 2007, (full reference unknown, sourced from author).

THE LANDSCAPE OF OFF-SHORE OUTSOURCING OF AUSTRALIAN TAX AGENT SERVICES

Outsourcing of income tax return preparation and BAS services is not a new phenomenon in Australia. The beginnings of outsourcing started in the 1990s with some tax agents contracting external Australian companies to 'key-in' their clients' tax returns.

The tax profession then began to witness the rise of BAS service providers, an industry change brought about by increasing workloads with registered tax agents for heavy transaction-based work.

As a consequence of the new tax system section 251LA of the ITAA36 was enacted to define 'recognised professional associations' (RPAs) for the purposes of section 251L(6), which allows either members of an RPA or bookkeepers working under the direction of registered tax agents to provide BAS services on behalf of taxpayers.⁶

The largest accounting and consulting firms in Australia pioneered 'off-shore' outsourcing of tax preparation and other accounting services. The tendency has been for large companies to make use of low cost processing centres based in Singapore, Malaysia and Macau for finance and administrative processes, particularly payroll tax. These centres hold and manage the companies' data banks of payroll tax information (which includes the Australian employees' tax file numbers and personal information).⁷

It has become evident that in the last five years, many smaller firms within Australia have followed suit with a number of Australian tax agents seeking to gain a competitive advantage from off-shore outsourcing.

A SAMPLE OF REAL SCENARIOS IDENTIFIED TO DATE

The Tax Office is aware of numerous off-shore outsourcing arrangements being entered into by Australian tax agents.

To date, examples of the types of outsourcing scenarios occurring are as follows.

Scenario 1

Arrangement

A tax agent establishes an Australian company which engages a 'partner' company based and incorporated in India which is staffed by local accountants. Some of the local accountants have Australian accountancy qualifications; some have qualifications from other jurisdictions. The partnership is NOT a registered tax agent.

⁶ Clauses 2.3 and 2.4 of Chapter 2, Explanatory Memoranda to *A New Tax System (Tax Administration) Act (No. 2) 2000*.

⁷ Hidalgo, Steve; Mason, Stef and van Beesten, Marijke, "The Global Market for Tax Outsourcing", *International Tax Review*, (date unknown).

The tax agent promotes the provision of tax outsourcing services (including preparation of returns) to other Australian tax agents and chartered accountants the basis of paying a regular fixed fee for a fixed number of 'consultation hours'.

Process

The Indian accountants access a secure server maintained by the Australian company in order to access client information which the client tax agent has previously uploaded and prepare returns.

The various Australian tax agents' clients are not made aware that their personal tax information is being accessed and prepared by overseas accountants.

Once the returns are completed, the Indian accountants upload the returns onto the secure server. The completed returns are then reviewed by tax agents within the Australian company and lodged through ELS.

Scenario 2**Arrangement**

An Australian company employs individual Australian-qualified accountants in various off-shore hubs including India, Malaysia, and Singapore. The Australian company promotes its outsourcing services to Australian tax agents on the basis that 45% of the Australian tax agent's fee for tax services obtained from the client be paid to the outsourcing entity. The Australian company is NOT a registered tax agent.

Process

The Australian tax agent downloads and completes a client checklist and instructions for every job sent. The tax agent then scans in any documentation required for completing the tax services and uploads the files to a secure server. The overseas-based accountants log onto the server to access the information and prepare the returns.

Once the job has been completed, the overseas-based accountant sends an email to the Australian tax agent notifying them that their job has been completed and is ready for uploading into the tax agent's practice software before lodging through ELS.

Scenario 3**Arrangement**

A number of Indian-based and incorporated companies are attempting to solicit partnership arrangements or mergers with Australian registered tax agents.

Below is an example of a solicitation letter forwarded to various tax agents.

To,
The Director
XXX Accountants
Australia

Dear Sir,

Sub: A Win-Win Business Proposal

We refer to our proposal for collaboration in the area of business accounting to provide back office support (please refer below). We hope you are reviewing the same. In this connection, we would like to highlight some of the benefits which can help you to take decisions faster.

- 1) With Smart outsourcing, you will make more money and expand your business without increasing staff / space / infrastructure investment.
- 2) Reduce operation cost, which in turn will improve margins.
- 3) No HR issues like recruitment / health insurance / staff discipline / attendance / overtime, etc.
- 4) Delivery in time with quality resulting in better customer satisfaction.

Further to this, we also have one more interesting business opportunity if you are looking for growth and expansion of your business.

We can join you as a partner or we can have merger to expand our business. You can concentrate on growth and front end support to the customers. We will handle back office activities which will be out sourced to India. We understand that your serious concern would be of security of data and quality of work. You can count on us as we are already providing back office support to 200 CPAs in UK and they are highly satisfied with our quality of work and security of data.

This will be a win-win situation for both of our organization in terms of growth and rewards. We look forward to have your positive reply to take our business relationship further

Best Regards

XXX
(Business Executive)

Process

Not yet determined.

Scenario 4**Arrangement**

A number of Indian-based and incorporated companies are attempting to solicit contracts with Australian tax agents for outsourcing of tax services, including tax return preparation.

Below is an example of a solicitation letter forwarded to various Australian tax agents.

Dear Sir

Our Proposal:

Our client - XXX is one of the leading BPO Chartered Accountancy Firm in India having Corporate headquarters in UK. XXX is currently providing back office accounting & taxation services to over 200 Chartered Accountancy Firms in UK & have been preparing Accounts & Audits for Top 20 Firms in Africa. They now have the infrastructure to provide their services globally

XXX has a staff of 300 accountants with 35 Chartered Accountants. XXX works on their client's account files based on the specified accounting standards, using internationally acclaimed softwares like IRIS, SAGE, CCH, VT, Digita, Viztopia, MYOB, TAS, Quickbooks, etc. and are also capable to work on any business accounting software.

XXX has 3350 square metres fully equipped office. They can work directly on client CPA/CA's server and also through Virtual Private Network.

XXX is providing following Sub-contract/ Outsourcing services:

1. Year End Accounts
2. Management Accounts
3. Book-keeping
4. Taxation:
5. VAT
6. Payroll

Unique capabilities of XXX:

- High Quality, error free and consistent work
- Timely delivery schedules
- Understanding client's local accounting standards, procedures and requirements
- High work quality / cost ratio

We look forward to a long term collaboration with high growth potential and ambitious company like yours. We envisage A WIN WIN PROPOSAL of working together as business partners.

A FREE trial of 2 sets of Accounts / 2 tax returns / 2 payroll can be done for you, with no obligation thereafter. This will serve as our proof of capabilities and create confidence in outsourcing your confidential work to us. We can also help you in marketing your services, if desired once we decide to collaborate with each other.

We can provide further information based on your interest. Please feel free to ask questions.

It is our strong desire to collaborate with a fine company like yours. Looking forward.....

Process

The process for provision of outsourced services as offered above, usually involves one the following three systems:

- email-based system – data is transferred through encrypted email;
- Secure server-based system – uploading and downloading of data on the outsourcing provider's server using SSL; or
- Remote access based system – software installed on the client tax agent's system that allows remote access to the outsourcing provider's internal system. The tax agent logs onto the outsourcing provider's system and transfer files directly.

Some Australian tax agents advised that they 'white/blank out' identifying details of clients (e.g. names and addresses) so as to facilitate secure transmission of client data and ensure confidentiality.

Scenario 5

Arrangement

There are a couple of known cases in which unregistered tax agents based in other countries, provide tax agent services to foreign entities with interests in Australia as well as Australian expatriates. The clients engage these providers within their country to prepare and lodge income tax returns and related business on their behalf.

It may be that some of these tax agents wish to be registered tax agents and would be otherwise qualified and entitled to be registered but for the fact that they do not meet the requirement of having an Australian-based place of business.

Scenario considerations

These various outsourcing scenarios illustrate that off-shore outsourcing of Australian tax services may be structured/implemented in a variety of ways. Consequently, the question is raised as to whether any such arrangements are consistent with the requirements of Part VIIA (Registration of tax agents) of the ITAA36.

Where off-shore outsourcing providers are engaged for the provision of most transactional accounting services (such as inventory accounting, general ledger, bookkeeping and payroll), there is a low risk of any inconsistency with the provisions of Part VIIA of the ITAA36. For example, under these provisions, to provide BAS services a person need only be either a member of a recognised professional association or 'work under the direction' (which is broadly construed) of a registered tax agent.

However, when off-shore outsourcing providers are engaged for preparation of returns (and other income taxation business) there are strict regulations in force with respect to who may perform such tax agent services.

Many arrangements which may not be compliant could be brought into line in this respect by either ensuring the relevant off-shore outsourcing provider is registered as a tax agent, or that the overseas individuals providing the services are directly employed by a registered tax agent. However, the main sticking point for most off-shore outsourcing providers is ensuring appropriate '*supervision and control*' over those providing tax agent services.

Of the off-shore outsourcing arrangements which the Tax Office is aware of to date, intelligence suggests that none of the off-shore outsourcing providers have a registered nominee on-site where preparation of income tax returns and related services are carried out.

It should be noted, that there are some cases where the Australian taxpayer directly contracts the tax agent services of an unregistered preparer based overseas. Unfortunately, neither the Tax Office nor the TABs can regulate these sorts of arrangements as the overseas entity is not subject to the laws and regulations of Australia. Public education through media regarding the risks in engaging an overseas-based unregistered tax agent may be appropriate.

OFF-SHORE OUTSOURCING ARRANGEMENTS – COMPLIANCE WITH PART VIIA OF THE ITAA36

Arrangements which involve off-shore outsourcing of preparation of returns (and other income taxation business) must be considered in reference to the provisions of section 251N of the ITAA36.

Section 251N of the ITAA36 prescribes that a registered tax agent must not allow any person to prepare income tax returns or transact taxation business on their behalf unless:

- the person is the registered tax agent's employee; or
- the person is a registered tax agent; or
- if the tax agent is a partnership, the person is a member of the partnership;

and only then under the '*supervision and control*' of the registered tax agent or a registered nominee of the registered tax agent.

WHAT CONSTITUTES AN 'EMPLOYEE' FOR THE PURPOSES OF PART VIIA?

Unfortunately, the ITAA36 does not define '*employee*'. The ordinary meaning of '*employee*' has been the subject of a substantial amount of judicial consideration. Whilst the judiciary have noted a number of indicators which may be indicative of an employment relationship, there is no exhaustive list. No one indicator in itself is determinative in all situations, as each case must turn on its own full set of facts.

Whilst the Tax Office has released various relevant rulings which discuss the characterisation of a working relationship for particular purposes, there is currently no general position or settled view as to what constitutes an employment relationship. There are a couple of '*employee vs. contractor*' calculators on the ATO web-site which have been developed to assist taxpayers in coming to an indicative view for tax purposes.

In context of the subject of off-shore outsourcing and the scenarios outlined above, it is important to note that a company cannot be 'employed', it can only be 'contracted'.

WHAT CONSTITUTES APPROPRIATE 'SUPERVISION AND CONTROL' FOR THE PURPOSES OF PART VIIA?

There is an extremely limited amount of specific precedent available on what constitutes appropriate 'supervision and control' by a tax agent over their employee. In 1988, the Administrative Appeals Tribunal (AAT) laid down some guiding principles in their decision in *Re: S. & T. Income Tax Aid Specialists Pty Ltd and Christopher Forward and Tax Agents' Board, New South Wales, No. N86/255 and N86/256 AAT No. 3364*:

- 1 Supervision and control of employees involves more than simply a final checking and signing of returns prior to lodgment. It requires supervision and control of the process of return preparation and the transaction of other client income tax business.
- 2 Supervision and control obligations on tax agents and nominees should at least include:
 - spot-checking of the original information upon which returns are based (such as receipts);
 - supervision of the work conducted within the tax agent's practice (such as sitting in on interviews and being available to answer queries); and
 - substantial supervision and control while the agent's office is open to transact tax business.

It is important to note that the AAT decision was made in 1988, being prior to the use of the internet, electronic communications and mobile telephones, which are widely (if not predominantly) used in this day and age to conduct business. However, the above guiding principles on appropriate supervision and control have remained the accepted view not only of the State Tax Agents' Boards (TABs) but also the Administrative Appeals Tribunal, with the more recent case of *Scott v Tax Agents' Board of Queensland 2001 ATC 2218* affirming these principles as being considered the minimum requirements.

In light of the considered opinion above, the question arises as whether adequate supervision and control can be exercised when the income tax returns and related transactions are being prepared on another continent? This is the key question at hand which will become the subject of much debate.

POTENTIAL RISKS ARISING FROM OFF-SHORE OUTSOURCING OF TAX AGENT SERVICES

TAX AGENT PORTAL ACCESS

- Some tax agents have given their User ID and password to outsourcing entities and some tax agents have applied for secondary digital certificates for (and received) off-shore outsourcing entities (which were not their employees).
- Usage of the Tax Agent Portal is not actively policed nor does the Tax Office verify that those who receive secondary certificates are in fact employees of the primary registered tax agent. The application process by which tax agents apply for secondary digital

certificates is a self assessment system and the Tax Office has previously relied on the integrity of tax agents to register only their employees as holders of the secondary digital certificates.

- Use of the Tax Agent Portal by off-shore outsourcing entities is of significant concern due to the potential for exploitation of the detailed taxpayer information available for both view and modification. Very serious fraud and identity theft crimes could be committed through using and changing taxpayers' details within the Tax Agent Portal.

PRIVACY/CONFIDENTIALITY

- Whenever confidential financial data, particularly tax file numbers is transmitted electronically there is always a chance that the information could fall into the wrong hands, whether hijacked on the net by a hacker, or fraudulently used by persons on the receiving end. The issue becomes more important where the recipient of the information resides in another national jurisdiction, because Australian privacy laws will not apply in the foreign jurisdiction.
- Tax agents should not disclose any confidential client information to another party without the specific consent of the client (unless compelled by law to do otherwise). Clients should be informed up front (whether through a retainer letter or in a privacy statement) that the tax agent may use third-party service providers, including whether those third party providers are local or overseas.
- In terms of outsourcing of tax compliance work, generally the disclosure of personal information and tax file numbers to a third party provider relates to the primary purpose for which the information was collected (preparation of income tax returns and provision of accounting services) which falls within the respective exemptions of the *National Privacy Principles* (NPPs) found in the *Privacy Amendment (Private Sector) Act 2000*, *Tax File Number Guidelines* and section 8WB of the *Taxation Administration Act 1953* (TAA53).
- Interestingly, outsourcing contracts which the Tax Office has seen to date between Australian tax agents and off-shore outsourcing providers, contain clauses which stipulate that client data remains the property of the outsourcing tax agent and all obligations with respect to Australian Privacy Laws remain with the outsourcing tax agent.

SECURITY/IDENTITY THEFT/FRAUD

- A tax agent is responsible for the actions of their staff and liable for their actions. However, when processes are transferred to an outsourcer, the outsourcing entity and their staff are not directly responsible to the tax agent. This causes legal, security and compliance issues which need to be addressed through the contract between the tax agent and the outsourcing entity.
- Potential identity theft and fraud are specific security issues and it can be argued that fraud is more likely to occur when outsourcers are involved due to a lack of 'nexus' between the parties.
- These issues are further exacerbated when dealing with off-shore outsourcing entities as any necessary recourse is limited to the contract provisions and the jurisdiction governing the contract (which in some circumstances, depending on the relevant contract clause, may be the country in which the outsourcing entity is based).
- An example is the high profile case involving Citibank in April of 2005. Citibank workers in India (employed by an outsourcing services company) were arrested on charges of

defrauding four Citibank account holders living in New York, for the amount of \$350,000. The call centre workers acquired the passwords to customer accounts and transferred the money to their own accounts opened under fictitious names. Citibank did not find out about the problem until the American customers noticed discrepancies with their accounts and notified the bank. Citibank made a complaint to local authorities who arrested the call centre workers on charges of fraud.⁸

DOCUMENT REPATRIATION

- There are a number of potential risks and issues which arise with respect to record-keeping and management of taxpayer data held by off-shore outsourcing providers.
- “A taxpayer’s record keeping obligation is personal to them and cannot be shifted by their tax agent entering into a contractual arrangement with an outsourcing provider. These record keeping obligations include a requirement that the records be readily accessible to the Tax Office. This would mean that a taxpayer should be able to, if requested by the Tax Office, produce records within a reasonable time no matter where in the world the records are kept and by whom.⁹ The consequences of not keeping records and making them available include possible prosecution and vulnerability in any tax dispute with the Tax Office.”¹⁰
- Potential scenarios which may make document repatriation difficult are:
 - i. Off-shore outsourcing provider goes into liquidation;
 - ii. Off-shore outsourcing provider has not paid their web hosting fees, and the web-host blocks access to the online server due to the fee dispute; or
 - iii. Off-shore outsourcing provider exercises a ‘lien’ over client documents in respect of unpaid fees.

LIENS - CAN AN OFF-SHORE OUTSOURCING PROVIDER HOLD A LIEN OVER A CLIENT’S RECORDS FOR UNPAID FEES?

- A lien is a form of security. Under Australian law it is a common law right which permits person ‘A’ to retain the property of person ‘B’ until person ‘B’ satisfies an outstanding debt to person ‘A’. So in the context of the tax profession, a tax agent may be engaged by a client to prepare an income tax return. If the client refuses to pay, the tax agent may (subject to certain criteria and exceptions) be entitled to ‘exercise a lien’ over the documents until payment is made.
- The criteria for determining when a tax agent has the right to exercise a lien over a client’s documents is not straight forward and care should be taken before exercising a lien as an improper exercise of a lien may result in disciplinary action (not to mention a potential law suit instigated by the client). Most recognised professional associations do not encourage members to hold documents in lien over unpaid fees.

There are a number of instances in which third parties have a right to possess the relevant documents despite a lien. The Commissioner of Taxation is one such third party, having the power to serve a notice on the tax agent requesting the accountant to produce any of the client’s documents in their possession. An Australian tax agent is

⁸ Ribeiro, John, “Indian call centre workers charged with Citibank fraud”, 7 April 2005, Computerworld, <http://www.computerworld.com/securitytopics/security/cybercrime/story/0,10801,100900,00.html>

⁹ Refer to section 262A and section 263 of the ITAA 1936.

¹⁰ Dwyer, Peter, “Non-binding Discussion Paper – Electronic record-keeping – outsourcing and use of websites”, 2007, Australian Taxation Office.

subject to the laws and regulations of Australia, and so in most cases will comply for fear of penalty.

- However, accountants in overseas outsourcing centres need have little concern for the Australian Commissioner of Taxation's notices as they are not subject to the Australian jurisdiction. Therefore the possibility exists that an off-shore outsourcing provider may hold a lien over client documents where there are any outstanding payments.
- Potentially, there may not be a high risk of such action being taken, given that it would not encourage repeat or referral business, which it appears many off-shore outsourcing providers rely on, but it remains a risk to the taxpayer, the tax agent and the Commissioner.

POTENTIAL LIMITING OF ENTRY LEVEL EXPERIENCE FOR LOCAL ACCOUNTANTS

- Given that off-shore outsourcing currently is primarily with respect to transactional processing, there is the potential in the long-term for outsourcing to limit the tax preparation experience of entry-level accountants.¹¹
- New and junior accountants in Australian offices which outsource transactional tax compliance work may require new or further training to replace the lost experience in preparing income tax returns. New tax professionals may take longer to understand and appreciate the tax effects of transactions "because they will miss the learning that takes place when someone actually works with and comes to understand the internal logic of the forms."¹²

POTENTIAL FOR EVEN LESS LOCAL ENTRANTS TO THE TAX PROFESSION

- If off-shore outsourcing of transactional compliance work becomes the commercial choice of current tax agents, potential entrants to the tax profession may be put off by a perception that there will be little opportunity for them with the bulk of tax work being outsourced overseas to cheaper labour markets.

SUB-CONTACTING OUT OF OUTSOURCED SERVICES

- Unless sub-contracting is prohibited by agreement through specific clauses in an outsourcing contract (or employment agreement if the services are being provided by overseas employees), there is a risk that during peak periods, an Australian tax agent's work may be sub-contracted out by the primary outsourcing entity to another off-shore outsourcing provider (possibly without the tax agent's knowledge) so as not to lose long-term customer patronage.
- The risk of sub-contracting may be quite high given India's recent employee attrition rates and the fluidity of their outsourcing labour force. This is of particular concern in light of the supervision and control requirements on an Australian tax agent as currently in force.

¹¹ Robertson, Jesse; Stone, Dan; Niederwanger, Liza; Grocki, Matthew; Martin, Erica and Smith, Ed, "Offshore outsourcing of tax-return preparation", *The CPA Journal*, June 2005.

¹² Robertson, Jesse; Stone, Dan; Niederwanger, Liza; Grocki, Matthew; Martin, Erica and Smith, Ed, "Offshore outsourcing of tax-return preparation", *The CPA Journal*, June 2005.

OFF-SHORE OUTSOURCING ARRANGEMENTS – POTENTIAL LEVELS OF RISK







Attached, as **Appendix 1**, is a snapshot diagram of various possible off-shore outsourcing arrangements that placed on a scale of risk. The level of risk is determined in light of:

- whether the arrangement complies with Part VIIA; and
- potential privacy/client data integrity issues.




The 'levels of risk' diagram qualifies each example by stating that the off-shore outsourcing arrangement may be consistent with Part VIIA of the ITAA36 provided appropriate 'supervision and control' evidenced. What is appropriate 'supervision and control' is a matter for the TAs.

DISCUSSION PAPER

APPENDIX 1- OUTSOURCING TAX AGENT SERVICES – LEVELS OF RISK

 High	Australian tax agent ↓ contracts overseas-based company (NOT a RTA) ↓ overseas company employees prepare returns		<p>Part VIIA Compliance:</p> <ul style="list-style-type: none"> • s 251L – direct breach (can't prosecute overseas entity) • s 251N – direct breach <p>Other risks:</p> <ul style="list-style-type: none"> • High privacy/confidentiality/security/fraud risk – recourse difficult across international jurisdictions because overseas parties not subject to Australian laws/regulations
 High	Australian tax agent ↓ contracts Australian company (NOT a RTA) ↓ overseas employees prepare returns		<p>Part VIIA Compliance:</p> <ul style="list-style-type: none"> • s 251L – direct breach • s 251N – direct breach <p>Other risks:</p> <ul style="list-style-type: none"> • Some risk re. breach of privacy/confidentiality or fraud – recourse difficult across international jurisdictions because overseas parties not subject to Australian laws/regulations
 Medium	Australian tax agent ↓ forms partnership with overseas individual/firm/company ↓ partnership is RTA (with Australian tax agent as original nominee) ↓ overseas employees of partnership prepare returns		<p>Part VIIA Compliance:</p> <ul style="list-style-type: none"> • s 251L – compliant • s 251N – may not be in breach provided appropriate supervision and control evidenced. <p>Other risks:</p> <ul style="list-style-type: none"> • Some privacy/confidentiality/security/fraud risk – recourse difficult across international jurisdictions because overseas parties not subject to Australian laws/regulations
 Medium	Australian tax agent ↓ overseas employees prepare returns	Australian tax agent ↓ contracts Australian company (RTA) ↓ overseas employees prepare returns	<p>Part VIIA Compliance:</p> <ul style="list-style-type: none"> • s 251L – compliant • s 251N – may not be in breach provided appropriate supervision and control evidenced. <p>Other risks:</p> <ul style="list-style-type: none"> • Some privacy/confidentiality/security/fraud risk – recourse difficult across international jurisdictions because overseas parties not subject to Australian laws/regulations
 Low	Australian tax agent ↓ contracts Australian or overseas entity ↓ (whether RTA or not) employees of entity provide BAS services	Australian tax agent ↓ overseas employees provide BAS services	<p>Part VIIA Compliance:</p> <ul style="list-style-type: none"> • s 251L (6) – compliant. BAS service provider need only be either a member of a recognised professional association or 'work under direction' (which is broadly construed) of a RTA • s 251N – n/a <p>Other risks:</p> <ul style="list-style-type: none"> • Some privacy/confidentiality/security/fraud risk with provision of BAS services by overseas entities – recourse difficult across international jurisdictions because overseas parties not subject to Australian laws/regulations
 Low	Australian tax agent ↓ contracts Australian company (RTA) ↓ employees in Australia prepare returns		<p>Part VIIA Compliance:</p> <ul style="list-style-type: none"> • s 251L – compliant • s 251N – compliant provided appropriate supervision and control evidence. <p>Other risks:</p> <ul style="list-style-type: none"> • Limited privacy/confidentiality/security/fraud risk – opportunity for taxpayer recourse as all parties subject to Australian laws/regulations

Legend:

 Low risk	 Medium risk	 High risk
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RTA – Registered tax agent

s 251L ITAA36 – Unregistered tax agents not to charge fees for tax services

s 251N ITAA36 – Preparation of returns on behalf of tax agents may only be done by their employees or other tax agents; tax agent must maintain supervision and control over those persons preparing tax returns on their behalf.

**Attachment 5 – ICAA and CPA submission to ATO on outsourcing of
income tax returns. (January 2008)**



**The Institute of
Chartered Accountants
in Australia**



31 January 2008

Ms Louise Jameson
Australian Taxation Office

By email: louise.jameson@ato.gov.au
c.c: ken.underwood@ato.gov.au

Dear Louise,

Submission on the Discussion Paper by the Australian Taxation Office on outsourcing and off-shoring

The Institute of Chartered Accountants in Australia and CPA Australia (professional bodies) welcome the opportunity to comment on the Discussion Paper prepared by the Australian Taxation office (ATO) on outsourcing and off-shoring.

We appreciate the efforts that the ATO has put into preparing the Discussion Paper. As noted in the Background section on page 4, there is growing interest in outsourcing and off-shoring, both from within the accounting profession and also from large corporate taxpayers with "in-house" tax groups.

There is nothing sinister about this trend in terms of tax compliance. The primary drivers are:

- cost pressures,
- labour shortages, and
- a generation of young Australian financial professionals who, in considering their employment options, are increasingly unwilling to engage in tax compliance tasks (the so-called Generation Y factor).

Coupled with these is a growing realisation amongst tax professionals within the Australian business community of the ability of offshore service providers to deliver services to a standard, which is comparable to that of an Australian workforce. We refer here particularly to the well-educated workforce in India and in those Asian countries, which have invested in quality educational systems.

As noted on page 6 of the Discussion Paper, the trend of 'off-shore' outsourcing is not confined to the large accounting firms. Off-shoring arrangements are now on offer to most of the accounting firms, via suppliers of commonly used accounting software.

Comments relating to the specific issues being considered by the ATO in the discussion paper are provided in the attachment in tabular. However, further elaboration of some of the key issues is also provided below.

Despite the stated objective of covering both the global and domestic outsourcing market, the Discussion Paper focuses heavily on the global outsourcing and provides little comment on domestic outsourcing arrangements as particularly evidenced by each of the scenarios and the risk profiles contained in Appendix 1.

In particular, the Discussion Paper does not address the issue of outsourcing via the use of service trust arrangement within Australia. This suggests that the risks and impacts associated with outsourcing to overseas entities, as opposed to domestic entities, are different. The professional bodies believe such risks are predominantly the same and are likely to apply to any outsourcing. Therefore, conclusions reached in relation to offshore outsourcing may have a detrimental impact on the ability to outsource domestically particularly in relation to use of service trust arrangements which is a well-recognised practice.

The Discussion Paper does not include in its purpose a review of the proposed *Exposure Draft Tax Laws Amendment (Tax Agent Services) Bill 2007* (Exposure Draft) or an assessment of what would be the 'ideal' regime to allow for outsourcing. Given the consultation process for the Exposure Draft is occurring in parallel with this Discussion Paper, it would be an opportune time to debate the broader topic.

Further, to solely concentrate on an analysis of the existing law may result in the necessity for some tax practices to immediately restructure their arrangements to be in line with the ATO and Tax Agent Board's interpretation of the relevant law. As changes to the existing law are currently being considered, tax practices may find that such restructure was not necessary or may need to restructure again if any changes are implemented.

Therefore, whilst the legislation regulating this area is the subject of consultation, forcing some tax agents to restructure their practices seems unreasonable and would not necessarily add value to the tax compliance services industry overall. It should also be noted that the existing structures have been based on the understanding that there was no breach of the law and practitioners had assumed that the ATO and Tax Agent Boards agreed with this position given that they had taken no action to the contrary for many years despite being aware of structures such as those involving the use of service trusts and other outsourcing arrangements.

Accordingly, we recommend that the purpose and scope of the Discussion Paper be broadened to include these elements so that a robust discussion may be had in relation to this very important issue from both a domestic and global perspective if possible.

Any regime that is put in place in relation to the performance of *tax compliance* services needs to be sufficiently robust to protect the integrity of the tax system in Australia, but flexible enough to enable Tax Agents to structure their practices to:

- (a) meet the needs of their client profile
- (b) recognise the size and maturity of their practice
- (c) meet the commercial demands of a domestic and global environment.

In our view, a strict 'one size fits all' regime is no longer appropriate in the Australia tax industry, and to require an employer/employee relationship is not appropriate.

Recommended framework

The integrity of the outsource solution is truly the key to the integrity of the tax system. Therefore, we recommend that a new framework be introduced in relation to the performance of tax compliance services, which can operate equally for domestic and global outsourcing and be equally relevant to the single practitioner and large global accountancy firms.

This framework would provide for a uniform approach to both domestic and global outsourcing while not dictating the underlying business structures and arrangements that should be adopted. In our view, the regulatory bodies should, focus on the optimum outcome from an integrity and quality perspective and not be concerned with stipulating the business structures and arrangements that a tax agent chooses to adopt. The objectives of integrity and quality of service can be achieved, without requiring a strict employer/employee relationship and to stipulate such a relationship will not necessarily add any value to the tax agent services industry.

We recommend that the relevant stakeholders undertake a proper risk management assessment (Assessment) using a framework such as those outlined in AS/NZS 4360:2004 Risk Management (Risk Management Standard), together with HB 240-2004 Guidelines for Managing Risk in Outsourcing utilising AS/NZS 4360:2004 (Outsourcing Guidelines).

The Assessment can use the risks outlined in the Discussion Paper as a starting point. The purpose of the Assessment would be to provide a basis for understanding and consultation in relation to what risks:

- can be managed appropriately while protecting the integrity of the Australian tax system, and
- are not acceptable and therefore form the basis of legislative requirements.

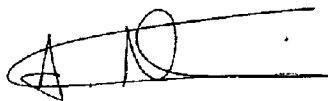
Taking the outcomes from the Assessment, the fundamental principles in relation to the performance of tax compliance services may then be either recommended as amendments to the Exposure Draft or addressed separately. The purpose of the fundamental principles would be to protect the framework and integrity of the Tax Compliance industry.

Based on the Assessment, the ATO, Tax Agents Board and Practitioners (with appropriate consultation with experts), will have identified the threats to the integrity of the performance of tax compliance services that can be appropriately managed by safeguards, and even those where no safeguard would be sufficient to manage the threat.

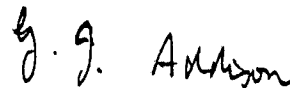
The only remaining building block would then be tax practitioner compliance. The above framework would only be effective if there was an appropriate compliance regime in place to ensure that the threats were being appropriately managed. This compliance regime would however need to be designed so that it did not over-burden tax practitioners with further administrative tasks, and respect the right of tax practitioners to maintain the confidentiality of their commercial structures and practices.

In terms of tax compliance, outsourcing is a very important issue and we look forward to working with the ATO and the Tax Agent Boards to develop appropriate policies and the implementation of those policies. In the meantime, should you have any queries in relation to this submission, please do not hesitate to contact Ali Noroozi on (02) 9290 5623 or Norman Kang on (02) 9 290 5718.

Yours faithfully



Ali Noroozi
Tax Counsel
Institute of Chartered Accountants in Australia



Garry Addison
Senior Tax Counsel
CPA Australia Ltd

Detailed comments

For ease of cross-referencing, this part is presented in tabular form.

Heading	Reference	Comment
Page 1: Authors of the Discussion Paper	Australian Taxation Office	The professional bodies appreciate that the ATO has taken the step of preparing this document. It is not clear what input the Tax Agent Boards have had into this document. The role played by the Boards in registering and re-registering tax agents makes the Boards a key stakeholder. Accordingly, the professional bodies recommend that the Tax Agents Boards and the ATO should co-author any future documents on this topic.
Page 3: Purpose of Paper	<p>The Discussion paper is stated as providing an overview of:</p> <ul style="list-style-type: none"> • The current landscape of both the global and domestic outsourcing market for finance and accounting 	<p>The Discussion Paper focuses heavily on off-shore outsourcing, and provides little comment or opportunity for discussion on domestic outsourcing arrangements.</p> <p>In particular, the Discussion Paper does not address the issue of outsourcing via the use of service trust arrangements within Australia</p>
	<ul style="list-style-type: none"> • Potential compliance issues with outsourcing tax compliance services as it relates to Part VIIA (Registration of tax agents) of the Income Tax Assessment Act 1936 (ITAA36) 	<p>The Discussion Paper is too limited in its scope, particularly in light of the consultation that is currently occurring in relation to the <i>Exposure Draft Tax Laws Amendment (Tax Agent Service) Bill 2007</i>. We recommend that the scope and purpose of the Discussion Paper be widened (if possible) to enable an appropriate framework to be introduced into the Exposure Draft, and related material. Discussions based solely on the existing legislation would be a short-sighted approach.</p>
	<ul style="list-style-type: none"> • <i>Certain scenarios, which may constitute potential risks for taxpayers, the Australian tax profession and the Tax Office.</i> 	<p>While we do not disagree with the identification of the relevant risks in the manner which has occurred the focus on off-shore outsourcing is limited and inappropriate.</p> <p>This focus has the potential of introducing measures that have a negative impact on the domestic market and more importantly, doesn't address the underlying issues.</p> <p>Further, in our view, the Discussion Paper introduces prejudices that are not necessarily justified. For example, there is an underlying assumption that there is a greater risk of losing control over the performance of the services, the quality of the services and the confidentiality of information if aspects of the performance of tax compliance services are moved off-shore.</p> <p>There will be circumstances where there is just as much potential for fraud and inappropriate use of information in Australia, due to lack of appropriate controls by tax agents. Likewise, there will also be circumstances where the contractual relationships and extent of controls will mean that there is a higher level of confidence that the risk of fraud and inappropriate use of information is the same if not much less by using appropriate offshore entities.</p> <p>The Discussion Paper should recognise the risks and then outline the relevant safeguards that may minimise the risk.</p>

<p>Page 6: The landscape of outsourcing of Australian tax agent services</p>	<p>Will the ATO work with or oppose the trend?</p>	<p>The Discussion Paper lacks a clear statement as to whether the ATO sees merit in working with the trend to outsourcing and off-shoring, or sees a need to counter it.</p> <p>Whilst the ATO might not feel comfortable in publicly expressing a stance (preferring instead to advise the Government on the matter), the ATO's position on this fundamental strategic issue is an important one.</p> <p>Outsourcing and off-shoring is a trend that will only continue in many different contexts within the Australian business community. If tax is to be one area where such activity is prevented by regulation of the tax profession, then it raises very real questions for the Australian tax profession, including:</p> <ul style="list-style-type: none"> • the cost \ benefit of continuing to provide tax return preparation services using Australian based personnel whose salaries and on-costs are increasingly difficult to recover from clients; • the competitive advantage of large and mid-tier accounting firms who can invest in the systems and processes necessary to comply with the Australian regulatory environment, as distinct from small firms who currently work through intermediaries to access outsourcing and off-shoring arrangements; and • the need for tax system re-design to dispense with the preparation and lodgement of tax returns by "low-risk" taxpayers (as has occurred in other jurisdictions – eg the United Kingdom where personal tax returns are not required from most employed taxpayers). <p>Opposition to outsourcing and off-shoring by the Australian tax agent community will also create a situation where tax agents are denied the commercial benefits of such activity, whilst at the same time being by-passed by large corporate taxpayers, who are unhindered in outsourcing or off-shoring the tax return preparation tasks currently performed by their in-house tax group.</p>
<p>Pages 6-10: Scenarios</p>	<p>There are five scenarios outlined in the Discussion paper, all of which contain an element of off-shoring</p>	<p>The scenarios outlined in the Discussion Paper are indicative of a portion of the potential outsourcing operations, and should not be seen as indicative of the full breadth of outsourcing arrangements.</p> <p>To focus on these scenarios is, in our view, restrictive and has the potential that conclusions reached could lead to unintended outcomes.</p>
	<p>The tone and nature of the language used in the various scenarios provided should be reviewed. The authors appear to have some bias against the outsourcing and off-shoring arrangements, reflected in the following:</p> <ul style="list-style-type: none"> • Scenario 1 - "The various Australian tax agents' clients are not made aware that their personal 	<p>Even in a domestic context, it is possible that clients may not be aware of every employee who may be working on their tax return.</p>

	information is being accessed and prepared by overseas accountants."	
	<ul style="list-style-type: none"> Scenario 2: Reference to 45% of the fee going to the off-shore entity 	The amount paid for the off-shoring service will depend on the circumstances of each case and the respective bargaining position of the parties. Off-shoring is not, to the best of our knowledge, used as a means of channelling income into offshore entities in a way that somehow benefits the Australian tax agent.
	<ul style="list-style-type: none"> Scenario 3 	The solicitation letter gives the impression that there is some form of a scam. We understand that accounting firms typically undertake extensive due diligence and preparatory work before entering into off-shoring arrangements.
	<ul style="list-style-type: none"> Scenario 4 	Similar to those made in relation to Scenario 3. Also, the reference in the final paragraph to "Some Australian tax agents advised that they 'white/blank out' identifying details of clients..." is confusing. The authors move from describing a proposal letter and into the practicalities of how client sensitive information is protected in practice.
	<ul style="list-style-type: none"> Scenario 5: the authors make reference, that there is a requirement for an Australian based business for tax agent's registration. 	The statement seems unnecessary and incorrect, as Regulation 169 of Income Tax Regulation 1936 assumes that an Australian based business will be registered by the relevant tax agent board, depending on which state their principal place of business is.
Pages 10-11: Scenario considerations	<p>The authors of the Discussion Paper (on page 10 of the Discussion Paper) differentiate between:</p> <ul style="list-style-type: none"> Data collation and transactional accounting services – not considered to breach Part VIIA ITAA 1936; and Tax return preparation – which the authors conclude may breach the requirements of the Act. 	<p>In practice, the distinction between these two activities is very fine. This is due to the impact of accounting systems which (assuming correct initial coding of transactions) generally produce the figures shown on a tax return with little or no review by a tax agent. To give a simple example involving client entertainment, the initial data entry and coding of the expenses relating to:</p> <ul style="list-style-type: none"> client entertainment (non-deductible, no FBT), and employee entertainment (deductible, FBT) <p>will be reflected in the tax related adjustments which appear on the income tax return, and the taxable amounts shown in the FBT return.</p> <p>We understand that most large to medium businesses (and the accounting firms that serve them) "preparation" of the tax return has been largely converted into a process driven by accounting systems, which have as one of their features the ability to produce tax return data. Depending on the scope of the engagement, some spot-checking (or sampling) of source data or documentation may be undertaken by the tax agent.</p> <p>We also understand that nowadays the focus of compliance work may be on key areas of perceived risk (pre-agreed with the client in the engagement and scoping phase of the tax return process), and on major transactions where the tax involved is substantial (e.g. the disposal of a major asset). In addition, the type of client relationships that are being developed involve the provision of regular tax and business advice as part of the consulting side of the business (as distinct from the once a year tax return compliance process).</p> <p>Viewed in this light, the current tax agent regulatory</p>

		<p>environment seems to reflect a superseded tax agent business model – i.e. one based mainly on compliance work where a skilled professional monitors the work of others who prepare (and are very familiar with) the data which goes into the final tax return lodged with the ATO.</p> <p>This changing paradigm is not of course unique to the tax accounting profession. The ATO itself realised the limited value in assessing tax return data many years ago, when it successfully convinced the Federal Government of the day to embrace a self-assessment model, which eliminated the role of tax return assessing officers within the ATO.</p>
<p>Page 11: Compliance with Part VIIA of the ITAA36</p>	<p>“Arrangements which involve off-shore outsourcing of <u>preparation of returns (and other income taxation business)</u> must be considered in reference to the provisions of section 251N of the ITAA36”</p>	<p>As indicated by the comments above, section 251N ITAA 1936 has not moved with the times.</p> <p>The fact that the ATO's Discussion Paper (quite rightly) analyses current outsourcing and off-shoring arrangements in the context of the current law should not mask the fact that the legislation has not kept pace with a changing business world.</p> <p>The professional bodies therefore intend to take this matter up with the Government as part of their representations on the current <i>Exposure Draft: Tax Laws Amendment (Tax Agent Services) Bill 2007</i>. In view of the opportunity that now exists to develop a more robust regulatory environment which caters for modern trends, we submit that it is inappropriate at this time to embark upon a crack-down on those tax agents who have entered into outsourcing and off-shoring arrangements.</p>
<p>Pages 10-12: Relationship of employee and the 'supervision and control' test</p>	<p>The discussion on these pages focuses on the interpretation of section 251N of the ITAA 1936, and in particular on the necessity of the 'employee' relationship and the 'supervision and control' test.</p>	<p>It has been suggested that there must be an employer/employee relationship between the registered tax agent and the people preparing or undertaking the performance of tax services. This relationship is said to arise out of section 251N of the ITAA 1936.</p> <p>If the purpose of the Discussion Paper is to outline the potential compliance issues with outsourcing tax compliance services as it relates to Part VIIA, then a proper and thorough analysis of the relevant provisions is required.</p> <p>It is arguable that the threshold 'employer/employee' test may not exist in relation to registered tax agents that are companies.</p> <p>Section 251N(1) includes the 'employee' test, and prohibits any person 'not being an employee' of the registered tax agent doing certain things. In isolation, this section could be construed to introduce an employee test for all registered tax agents. The 'supervision and control' test would then be an extra layer.</p> <p>The 'supervision and control' test is introduced in section 251N(2A) and (2C). These provisions were amended or inserted by Act no.146 of 2001, which also introduced the evidentiary burden test into the Criminal Code.</p> <p>It is arguable that there was never a requirement for an</p>

		<p>employer/employee relationship for registered tax agents that are corporate entities, and register through nominees of the registered tax agent. This argument would rest on the fact that section 251N(2) is more specific than 251N(1), specifically referring to corporate tax agents. Further, section 251N(2) has never referred to the employee requirements (as far as we can ascertain).</p> <p>The greater concern is that depending on how many of the tax practices in Australia are structured using service trusts, they may be in technical breach of these provisions, without exposing the tax system to any higher risk overall. We would argue that supervision and control is the most important criteria here, and that can be achieved by appropriate contractual relationships and actions outside of the employer/employee relationship. To require all tax agents to adopt a strict employer/employee relationship in this regard has no reasonable basis when the risks can be managed in other ways.</p> <p>We recommend that the Discussion Paper be used as an opportunity to have a robust discussion about what is the optimum outcome for tax practitioners and the Government. The opportunity should be taken to clarify an approach that allows greater flexibility in business structure and arrangements, while protecting the integrity and quality of the tax compliance services industry.</p>
<p>Page 12: What constitutes appropriate 'supervision and control' for the purposes of Part VIIA</p>	<p>The authors of the Discussion Paper acknowledge, but then quickly discard, the impact of modern technology and business practices which have occurred since the 1988 decision in <i>Re: S. & T. Income Tax Aid Specialists Pty Ltd and Christopher Forward and Tax Agents' Board, New South Wales, No N 86/255 and N86/256 AAT No. 3364</i>.</p>	<p>The authors' reliance on the decision in <i>Scott v Tax Agents' Board of Queensland 2001 ATC 2218</i> is out of kilter with the subject under discussion. We also submit that the case does not have the weight attributed to it by the authors of the Discussion Paper. The modus operandi of Mrs. Scott's tax practice, the family based business through which she purported to provide tax agent services, the types of services provided (e.g. working through client receipts relating to rental property expenses) and her inability to liaise effectively with the ATO are a world away from the sophisticated tax outsourcing and off-shoring arrangements which are now entered into by the larger accounting firms and large Australian corporate taxpayers.</p> <p>We understand that, in the context of outsourcing and off-shoring, supervision typically takes the form of some or all of the following factors:</p> <ul style="list-style-type: none"> • the provision of initial training on Australian tax law and procedure • the preparation and updating of tax return preparation manuals • on-going tax update training • tax return preparation checklists which must be completed as part of the preparation process • quality control visits from the Australian-based tax agent or client • access (typically electronic) to relevant publications and reference materials produced by tax publishers, such as CCH • access to relevant internet sites (particularly ATO

		<p>sites), and</p> <ul style="list-style-type: none"> • technical advice from the Australian-based tax agent. <p>We also understand that, in many cases, the level of tax technical support is no different to what might be found in the Australian office of the tax agent. This is as it should be, given that no tax agent wants clients to suffer the sanctions for errors in tax returns (which may be recoverable from the tax agent). More importantly, no tax agent wants to suffer the loss of reputation that can result from dissatisfied clients.</p> <p>We submit that, assuming the future regulatory environment acknowledges and permits outsourcing and off-shoring, a benchmarking exercise (that does not breach commercial confidentiality of the tax agent businesses) would be useful to help determine what an appropriate level of technical support and supervision should exist under such arrangements. This benchmark could then be used to set the standard under the proposed new regime.</p>
<p>Page 12 Adequate supervision and control</p>	<p>The last paragraph of this section states, "the question arises as whether adequate supervision and control can be exercised when the income tax returns and relationship transactions are being prepared on another continent?"</p>	<p>We believe that the same concerns arise in some circumstances if the work was performed domestically under similar arrangements to that outlined in the scenarios.</p> <p>We also believe that appropriate levels of supervision and control can be achieved provided the legislation allows for a sufficient level of flexibility in structuring of the business arrangements, and identified risks are appropriately addressed.</p> <p>There may be a commercial question as to whether it then becomes commercially viable for some parts of the tax compliance services market to use off-shore arrangements, as the controls that may be required to mitigate the identified risks may be substantial and cost prohibitive.</p>
<p>Pages 12-15 Potential risks</p>	<p>There are a number of potential risks outlined as being associated with outsourcing.</p>	<p>We acknowledge the concerns expressed in the Discussion Paper, but submit that these issues can be addressed as part of the new tax agent regulatory framework.</p> <p>Such issues are adequately dealt with in many other contexts to the apparent satisfaction of other regulatory agencies (e.g. outsourcing and off-shoring arrangements in the financial services and insurance sectors). We believe that they can also be dealt with in the tax environment.</p> <p>We agree with most of the risks identified and raised in the Discussion Paper but these are risks that arise both in the global and domestic markets. We do not agree that these are all risks that are peculiar to offshore outsourcing activity, and some to outsourcing activity alone.</p> <p>For example, many of the potential risks are equally applicable in an employee/employer relationship. For example, a disgruntled employee could, without adequate controls in place, use the Tax Agent Portal to perpetrate a fraud against taxpayers.</p>

		<p>The potential risks do not arise simply because of any outsourcing or off-shoring activities. The risk mitigating strategies that are put in place may however differ from domestic and off-shore outsourced entities, depending on a variety of factors.</p> <p>What matters are whether redress can be sought in an Australian legal forum and a sanction brought to bear on the Australian enterprise held responsible for that breach. The real issue is whether there is a desire to create a tax agent regulatory environment, which contains such safeguards.</p>
<p>Page 12 Tax Agent Portal</p>	<p>The discussion on the Tax Agent Portal states:</p> <ul style="list-style-type: none"> • Some tax agents have given their User ID and password to outsourcing entities and some tax agents have applied for secondary digital certificates for (and received) off-shore outsourcing entities (which were not their employees). • Usage of the Tax agent Portal is not actively policed nor does the Tax Office verify that those who receive secondary certificates are in fact employees of the primary registered tax agent. The application process by which tax agents apply for secondary digital certificates is a self-assessment system and the Tax Office has previously relied on the integrity of tax agents to register only their employees as holders of the secondary digital certificates. 	<p>This commentary implies that a primary certificate holder cannot apply for a secondary certificate for anyone other than an employee of the registered tax agent; and to do otherwise is unlawful.</p> <p>We are unable to locate the source of such a restriction either in the legislation or the ATO Tax Agent Portal site itself.</p> <p>The statements appear to be unsubstantiated and should be rewritten to reflect that access to the Tax Agent Portal should only be allowed with appropriate safeguards in place to protect the privacy and sensitivity of the information contained on the Tax Agent Portal.</p>
<p>Page 14: Document repatriation</p>	<p>Lien – Can an off-shore outsourcing provider hold a lien over a client's record for unpaid fees</p>	<p>The Discussion Paper does not seem to acknowledge the technological advances, which have been made in areas relating to:</p> <ul style="list-style-type: none"> • secure document management, • scanning processes which enable original records to remain with their owner (i.e. the taxpayer), • automated data entry (eg for information from financial institutions, a trend which the ATO has recently embraced by its proposal to pre-populate certain fields in tax returns). <p>We understand that few (if any) agents engage in outsourcing or off-shoring arrangements, which take source documents outside the Australian jurisdiction. To do so would go against the cost saving objective of such arrangements.</p>
	<p>Potential limiting of entry level experience for local accountants</p>	<p>We understand that, irrespective of the outsourcing and off-shoring trend, the new generation of finance</p>

		<p>professionals wish to move quickly beyond tax return compliance work and into what they see as the more challenging and interesting work of tax consulting. As noted earlier, this is one of the factors, which motivate tax agents to invest in processes, which minimise the involvement of Australian employees in compliance tasks.</p> <p>Any knowledge gaps that may result have had to be addressed by a greater focus (particularly within large and mid-tier firms) on:</p> <ul style="list-style-type: none"> • tax accounting training, and • the rotation of staff through various tax related tasks (including compliance) to provide a diversity of work experience.
	<p>Potential for even less local entrants to the tax profession</p>	<p>We do not agree with the concerns expressed under this heading.</p> <p>Few school leavers or undergraduates currently know much about the tax profession. Most learn about the diverse range of work performed by a tax professional during on-campus recruitment campaigns. To the extent that outsourcing and off-shoring remove what many young recruits perceive to be the less attractive compliance work performed by tax agents, then many of them may in fact see that as a positive.</p>
	<p>Sub-contracting out of outsourced services</p>	<p>We submit that this issue can be dealt with in the design of a new regulatory environment, through contractual requirements (as suggested by the authors).</p>

Attachment 6 – Proposed changes to registration of tax agents

Chapter 1

New legislative regime for tax agent services

Outline of chapter

- 1.1 This chapter outlines:
- the background to the new legislative regime for tax agent services; and
 - the key elements of the regime.

History and background

1.2 The current regime for regulating tax agents appears in Part VIIA of the *Income Tax Assessment Act 1936* (ITAA 1936) and was originally introduced in 1943. Since then the tax environment has changed and a much larger proportion of taxpayers use tax agents to lodge their returns and help them comply with their tax obligations. In 2006, over 74% of individuals and 95% of businesses used a tax agent to prepare and lodge their tax returns.

- 1.3 The current regime includes:
- a registration process for tax agents and their nominees (but not BAS service providers);
 - provisions that only registered tax agents are entitled to supply certain tax agent services for a fee;
 - separate state Tax Agents' Boards responsible for both the registration and the disciplining of tax agents; and
 - penalties for taxpayers who have a shortfall amount, irrespective of whether they engage tax agents to prepare their returns.

1.4 On 6 April 1998, the then Assistant Treasurer, Senator the Hon Rod Kemp, announced that the Government would introduce a new legislative regime to govern the provision of tax agent services. Broadly, the new legislative regime would:

- establish a new national Tax Agents' Board;
- develop a legislated Code of Practice that would specify the conduct expected of tax agents by the community; and
- create a 'safe harbour' from penalties for those taxpayers who engage a tax agent, provided they exercise reasonable care by furnishing all the relevant taxation information to that tax agent.

1.5 Although the new legislative regime was initially announced to commence on 1 July 1999, introduction of the measure was delayed at the request of the tax profession, to allow practitioners to focus on preparing for the reforms introduced with *A New Tax System* from 1 July 2000.

1.6 In 2002-03, a working group of tax professional associations was reconvened to develop the details of the announced regime and update the proposal for recent developments.

1.7 Confidential consultation on a detailed discussion paper occurred in 2005 and confidential consultation on a draft Bill and Regulations took place with professional bodies representing tax agents and bookkeepers during 2006.

1.8 The draft legislation and explanatory material were exposed for public comment for two months during early 2007.

1.9 The 2006-07 Budget contained an additional \$57.5 million over four years for the implementation of the new national legislative framework.

Key elements of the new regime

The key elements of the new framework are:

The establishment of a national Tax Practitioners Board

1.10 The Board has responsibility for registering tax practitioners, ensuring that tax practitioners maintain appropriate skills and knowledge, investigating complaints against registered practitioners and ensuring that unregistered persons do not hold themselves out to be registered tax practitioners.

A wider definition of tax practitioner

1.11 Under the new arrangements, in addition to tax agents and their nominees, BAS service providers and their nominees will also need to be registered. BAS service providers will be governed in the same way as tax agents, but will provide a limited range of services relating to tax laws relevant to BAS.

1.12 Tax agents, BAS service providers and the nominees of tax agents and BAS service providers are collectively referred to as tax practitioners.

Registration requirements

1.13 Entities that meet the 'fit and proper person' test, as well as minimum education requirements and relevant experience tests, will be able to be registered to provide tax agent services. The minimum educational requirements and relevant experience tests are set at a less demanding level for registering as a BAS service provider than for registering as a tax agent, in recognition of the more limited knowledge requirements for BAS service providers.

1.14 While registration is restricted to individuals, partnerships and companies, there is flexibility for a registered entity to conduct its business through a trust structure. The Board may put some restrictions on structure to ensure adequate resources are in place to provide the services to a competent standard, and to carry out supervisory arrangements.

The introduction of a Code of Professional Conduct

1.15 A Code of Professional Conduct (the Code) governs the ethical and professional standards of registered tax practitioners. The Code is set out in principled form and the Board may issue written guidelines for the interpretation and application of the Code.

A range of sanctions for breaches of the Code

1.16 Under the current arrangements the only administrative sanctions available to the Board for misconduct on the part of tax agents are suspension or cancellation of registration. Under the new arrangements, if the Board finds that a tax practitioner has breached the Code, the Board has a range of options. The Board may caution the tax practitioner, require the practitioner to complete a course of training, subject the practitioner to practising restrictions, require the practitioner to practise under supervision, or suspend or terminate the practitioner's registration.

1.17 The Board will also be entitled to apply to the Federal Court of Australia for civil penalties for certain serious breaches, or seek an injunction to prevent a tax practitioner from engaging in, or compel a practitioner to undertake, certain conduct.

1.18 Such a wide range of sanctions allows the Board to tailor its responses according to the severity of the breaches of the Code.

Role of Recognised Professional Associations

1.19 Organisations which satisfy the requirement of Recognised Professional Associations, including any recognised BAS service provider associations, may assist the Board by providing Board-recognised courses for ongoing professional education and disciplinary purposes.

A safe harbour from penalties

1.20 A taxpayer who uses a tax practitioner will benefit from a 'safe harbour' from administrative penalties for making false or misleading statements, provided the taxpayer has taken reasonable care to comply with their tax obligations by giving the tax practitioner the information necessary to complete their return.

Extracts from registration proposals under Tax Laws Amendment (Tax Agent Services) Bill 2007

Registration requirements

Individuals (including those acting in the capacity of a trustee), partnerships or companies (including those acting in the capacity of a trustee) may apply to the Board for registration as a tax agent or BAS service provider. Individuals may apply to the Board for registration as a nominee of a tax agent or BAS service provider. [Schedule 1, Item 4, subsection 995-1(1) of the ITAA 1997 and Item 13, subsection 995-1(1) of the ITAA 1997 and Item 18, Division 602, subsections 602-55(1) and (2) of Schedule 1 to the TAA 1953]

Except for an application for registration as a nominee, the tax practitioner registration requirements consist of the following three elements:

- the fit and proper person test (which applies to individual applicants and partners/directors of partnership/company applicants);
- prescribed qualification requirements for individual applicants, or sufficient resource requirements for partnership/company applicants; and
- that the entity carries on, or proposes to carry on, a business that provides tax agent services (whether in their own right, or acting in their capacity as a trustee of a trust).

[Schedule 1, Item 15, subsection 995-1(1) to the ITAA 1997, Item 18, Division 602, section 602-30 of Schedule 1 to the TAA 1953]

Applicants for registration as a nominee do not need to satisfy the requirement that they carry on, or propose to carry on, a business that provides tax agent services. [Schedule 1, Item 18, Division 602, section 602-35 of Schedule 1 to the TAA 1953]

Sufficient resource requirements (for companies/partnerships)

In order to be registered, applicants other than individuals must satisfy the Board that they have sufficient resources available in order to provide the service to a competent standard and carry out necessary supervisory arrangements. This is equivalent to the prescribed requirements for individuals. [Schedule 1, Item 18, Division 602, paragraphs 602-30(2)(c) and (3)(d) of Schedule 1 to the TAA 1953]

The sufficient resource requirements ensure that consumers can have confidence in the expertise and professionalism of registered tax agents/BAS service providers and their employees and that all practitioners have the organisational capacity to provide a tax agent service or BAS service competently. This requirement includes having sufficient financial, technological and appropriately qualified human resources. The level of financial, technological and human resources that an applicant must establish will vary according to the nature, scale and complexity of the applicant's business.

The technological resources that are considered adequate will depend on the nature, scale and complexity of the tax practitioner's business, and vary according to the types of systems a registered tax practitioner uses in their business. It is expected that registered tax practitioners will use a range of technological resources from simple manual systems to sophisticated information technology systems. The Board may specify particular requirements if there is a reason to doubt an applicant's ability to provide tax agent services competently due to technological deficiencies.

The requirement that practitioners have adequate financial resources promotes financial risk management to ensure that potential cash shortfalls do not put compliance with the tax practitioner's registration obligations at risk. Registered tax practitioners should have a risk management system in place to deal with the risk that their financial resources will not be adequate to enable them to carry on their business of providing a tax agent service, or to wind up their business in an orderly manner.

The financial requirements are not, however, intended to place an unreasonable burden on practitioners to maintain a particular level of assets, nor is it intended to act as a barrier for entry into the tax agent services industry.

To have appropriately qualified human resources requires a company or partnership to have an adequate number of staff in key management positions overseeing work and staff who satisfy the prescribed tax agent/BAS service provider requirements and the fit and proper person test. It may depend on the qualification of the applicant's responsible officers, whose expertise the business relies on to meet its sufficient resources obligations.

A business is therefore required to have an adequate number of staff (depending on the size and activities of the business) who can provide a tax agent or BAS service competently. There is no set formula for determining the ratio of qualified staff to returns.

Example 2.15

Superfast Tax is a registered company tax agent providing tax agent services for a large number of clients from many premises across the state. To satisfy the appropriately qualified human resources requirement, the company has registered nominees in key management positions responsible for

supervising its employees ensuring that returns are prepared to the required standard. Superfast Tax ensures its staff possesses the required level of skills and knowledge as it provides training in tax technical and technology matters on a regular basis. The company also keeps up to date with the latest software and equipment to assist its staff in providing an accurate and prompt service for its clients.

Registration of nominees

The Board may register an individual who satisfies the prescribed requirements and the fit and proper person test, but who is not carrying on or does not propose to carry on a business, as a nominee of a registered tax agent or BAS service provider. This allows owners of a partnership/corporate tax agent or BAS service provider who are not technically qualified themselves to employ qualified nominees to provide or supervise the provision of tax agent services on their behalf.

The registration of nominees also allows registered tax agents/BAS service providers to employ nominees to provide or supervise the provision of tax agent services on their behalf where the volume of work is excessive, they occupy separate physical premises or some other business reason. [Schedule 1, Item 7, subsection 995-1(1) to the ITAA 1997 and Item 18, Division 602, 602-35 of Schedule 1 to the TAA 1953]

Example 2.17

Jackie is currently employed by an accountant, Michael, who is a registered tax agent. Jackie has attained the prescribed academic and relevant experience requirements and also meets the fit and proper person test. However, as she is an employee, she does not carry on a business providing a tax agent service. It is possible for Michael to request the Board to register Jackie as his nominee. It is not possible for Jackie to register as a tax agent in her own right unless she intends to carry on a business in the future.

Attachment 7 - USCPA Ruling

ET Section 301 - Confidential Client Information

.01 Rule 301—Confidential client information.

A member in public practice shall not disclose any confidential client information without the specific consent of the client.

This rule shall not be construed (1) to relieve a member of his or her professional obligations under rules 202 [ET section 202.01] and 203 [ET section 203.01], (2) to affect in any way the member's obligation to comply with a validly issued and enforceable subpoena or summons, or to prohibit a member's compliance with applicable laws and government regulations, (3) to prohibit review of a member's professional practice under AICPA or state CPA society or Board of Accountancy authorization, or (4) to preclude a member from initiating a complaint with, or responding to any inquiry made by, the professional ethics division or trial board of the Institute or a duly constituted investigative or disciplinary body of a state CPA society or Board of Accountancy.

Members of any of the bodies identified in (4) above and members involved with professional practice reviews identified in (3) above shall not use to their own advantage or disclose any member's confidential client information that comes to their attention in carrying out those activities. This prohibition shall not restrict members' exchange of information in connection with the investigative or disciplinary proceedings described in (4) above or the professional practice reviews described in (3) above.

ET Section 391 - Ethics Rulings on Responsibilities to Clients

Use of a Third-Party Service Provider to Provide Professional Services to Clients or Administrative Support Services to the Member

.001

Question—A member in public practice uses an entity that the member, individually or collectively with his or her firm or with members of his or her firm, does not control (as defined by accounting principles generally accepted in the United States) or an individual not employed by the member (a “third-party service provider”) to assist the member in providing professional services (for example, bookkeeping, tax return preparation, consulting, or attest services, including related clerical and data entry functions) to clients or for providing administrative support services to the member (for example, record storage, software application hosting, or authorized e-file tax transmittal services). Does Rule 301, Confidential Client Information [ET section 301.01], require the member to obtain the client’s consent before disclosing confidential client information to the third-party service provider?

.002

Answer—No. Rule 301 [ET section 301.01] is not intended to prohibit a member in public practice from disclosing confidential client information to a third-party service provider used by the member for purposes of providing professional services to clients or for administrative support purposes. However, before using such a service provider, the member should enter into a contractual agreement with the third-party service provider to maintain the confidentiality of the information and be reasonably assured that the third-party service provider has appropriate procedures in place to prevent the unauthorized release of confidential information to others. The nature and extent of procedures necessary to obtain reasonable assurance depends on the facts and circumstances,

including the extent of publicly available information on the third-party service provider's controls and procedures to safeguard confidential client information.

In the event the member does not enter into a confidentiality agreement with a third-party service provider, specific client consent should be obtained before the member discloses confidential client information to the third-party service provider.

See ethics ruling No. 112 [ET section 191.224–.225] under Rule 102, Integrity and Objectivity [ET section 102.01], and ethics ruling No. 12 [ET section 291.023–.024] under Rule 201, General Standards [ET section 201.01], and Rule 202, Compliance With Standards [ET section 202.01], for additional responsibilities of the member when using a third-party service provider.

**Attachment 8 – International Association of Outsourcing Professionals
Code of Ethical and Business Practice Standards for Outsourcing
Professional s (August 2005).**



The global, standard-setting organization and advocate for the outsourcing profession.

March 1, 2008

Dear IAOP Member:

As the professional association for the outsourcing industry, the International Association of Outsourcing Professionals (IAOP) takes great pride in its leadership role in promoting ethical and business practices standards. Just as importantly, by adopting and adhering to these standards, IAOP's members immediately differentiate themselves as preferred customers, providers, advisors, and professionals with whom to work.

This Code of Ethics and Business Practices was developed by the not-for-profit Outsourcing Standards Board (OSB) in 2005 and has been licensed and adopted for use by IAOP. It represents a comprehensive, yet easy-to-follow guide for ensuring that: outsourcing professionals adhere to generally accepted business standards for ethics and conduct; accurately communicate their and their organization's capabilities to others; take responsibility for the outcomes of their work; work to continuously enhance their own professional skills and abilities; are effective advocates for outsourcing; and encourage identification and resolution of ethical and business practice issues if they occur.

As a member of IAOP, you have agreed to not only follow these standards yourself, but to communicate them to your customers, employers, employees and others. Sharing and advancing these standards is one of the most important things you can do to ensure that your clients and employers truly gain the business benefits intended through outsourcing while contributing to the long-term growth and success of the global community of businesses and people.

Thank you for being part of IAOP and for the work you do everyday to expand and enhance the management practice of outsourcing.

Sincerely,

Michael F. Corbett
Chairman
The International Association of Outsourcing Professionals (IAOP)

**Code of
Ethical and Business Practice Standards
for Outsourcing Professionals
August 2005**

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PROFESSIONAL RESPONSIBILITY

Core Principle

To adhere to the highest standards of ethical business practices in all business dealings, especially those that involve business decisions on entering, maintaining, or discontinuing outsourcing relationships. To conduct oneself in a way that contributes to a positive image for the individuals and organizations that work in the field of outsourcing.

Intent

- Ensure that outsourcing relationships developed, implemented and managed by outsourcing professionals are based on well recognized and sustainable ethical and business practice standards
- To build respect, credibility, and ongoing value for the individuals and organizations that work in the field of outsourcing
- To directly contribute to the success of the organizations we work in and influence, and through them to the success of communities at large
- To encourage, through example, the highest professional standards among all those with whom we work

Guidelines

1. Understand and comply with all ethical and business practice standards of the organizations with which one works
2. Understand and comply with all laws
3. Promote decisions that support the best long-term interests of businesses, their customers, shareholders, and the communities in which they operate

4. Freely share and encourage discussion of this Code of Ethical and Business Practice Standards with others, both within and outside the field of outsourcing
5. Work with fellow professionals to identify and promote changes to this code intended to enhance the field's professionalism

PROFESSIONAL REPRESENTATION

Core Principle

To represent ones skills, knowledge, and experiences with honesty and integrity enabling customers, employers, and other business partners to make fully informed hiring and contracting decisions.

Intent

- To make certain that outsourcing professionals and the organizations they work for and advise accurately represent their skills, knowledge, capabilities, and experiences
- To help ensure fully-informed decisions that lead to better outsourcing outcomes
- To enable professionals and organizations to effectively differentiate themselves based on the skills, knowledge, capabilities, and experiences they have invested in and developed

Guidelines

1. In all written and verbal communications to accurately represent ones skills, experiences, and capabilities in a format that facilitates effective comparisons
2. Engage only in activities for which the individual and the organization they represent have the requisite education and experience; freely sharing those qualifications whenever appropriate
3. When acting as an outsourcing customer or provider to accurately represent all information regarding current and future business operations and strategies, costs, pricing, resources, methods, requirements, risks, and assumptions
4. When acting as an outsourcing customer or provider to accurately represent the extent of executive support for an outsourcing relationship and the intended decision-making and management process
5. To disclose all existing and potential business relationships that may, or may be perceived to, influence or affect an individual or organizational business decision or commitment

6. When providing references to make every possible effort to ensure that they accurately reflect all of one's relevant experiences and accomplishments
7. To not knowingly misrepresent or mislead when sharing information about other professionals or organizations
8. Disclose all material facts known to them that, if not disclosed, may distort the decision making of their clients, prospects, employers, employees, or others.
9. To properly cite and credit the source of all information and ideas used, presented, and shared with others

ACCOUNTABILITY FOR OUTCOMES

Core Principle

To measure and share accomplishments in terms of the business outcomes actually achieved over time, and to do so in a way that can be objectively evaluated by others.

Intent

- To ensure that outsourcing and outsourcing professionals are focused on and evaluated based on actual outcomes achieved
- To enable the field and industry to better demonstrate its economic value in objective, standardized, and measurable terms

Guidelines

1. Establish objective and standardized measures of success for all outsourcing relationships that reflect the full range of business outcomes sought
2. Establish objective and standardized measures of risks for outsourcing relationships
3. Collect and report actual outcomes achieved over time in objective measurable terms
4. Whenever possible, use outcomes-based data as the basis for business recommendations to clients, employers, employees, and businesses and communities at large
5. Build and continuously seek to employ and enhance effective communications, change management, and dispute resolution processes for outsourcing relationships
6. Build and continuously seek to employ and enhance effective risk management and risk-reward sharing mechanisms for outsourcing relationships

INTERNATIONAL ASSOCIATION OF OUTSOURCING PROFESSIONALS

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WWW.OUTSOURCINGPROFESSIONAL.ORG

PROFESSIONAL DEVELOPMENT

Core Principle

To continuously increase the economic value derived through outsourcing by building ones professional skills and knowledge through ongoing education, expanded experience, and a focus on innovation.

Intent

- To promote the fact that it is the skills of the professionals that design, implement and manage outsourcing relationships that ultimately produces economic value for organizations
- To ensure continuous improvement in outsourcing outcomes by developing the skills and knowledge of the field's professionals
- To continuously understand and mitigate current and emerging risks associated with outsourcing
- To minimize total outsourcing costs through a focus on learning and the promotion of best practices on an industry-wide basis

Guidelines

1. Invest on a regular basis (at least 40 hours per year) in training and professional development activities to improve one's skill and knowledge in the outsourcing field
2. Freely share, within recognized guidelines for the protection of proprietary intellectual properties, learnings and experiences with fellow professionals
3. Contribute directly, through training and knowledge sharing activities, to the education and professional development of professionals in the field
4. Proactively seek new ways of doing business that expand the economic value derived through outsourcing
5. Proactively seek relevant professional certifications

OUTSOURCING ADVOCACY

Core Principle

To be an effective, proactive advocate for outsourcing as a management practice and as a profession.

Intent

- To ensure an ever-better educated business and public community on what outsourcing is, why organizations outsource, and its impact on businesses and communities
- To continually improve the overall business and public perception of outsourcing as a management practice, industry, and profession
- To ensure open discussion and debate of the impact of outsourcing on businesses and communities
- To attract top talent and resources to the field and industry of outsourcing

Guidelines

1. Proactively invest professional time and organizational resources in outreach and advocacy for outsourcing as a management practice, industry, and profession
2. Opening engage in dialogue and discussion with those outside the field to both promote outsourcing and better understand and shape business and public opinion
3. Strive to stay on top of the latest trends in outsourcing, which may include new industry or government initiatives, in order to influence the outcome

ISSUE RESOLUTION

Core Principle

For these standards to fully benefit the field and profession, customers, employees, and others need a reliable method for reporting and resolving issues with the standards and how they are being applied.

Intent

- To ensure that these ethical and business practice standards are put into practice
- To provide a way for those both inside and outside the profession to resolve any concerns with the adherence of outsourcing professionals to these standards
- To create a forum for ongoing dialogue and understanding of the evolving nature of outsourcing in the global business community

Guidelines

1. Outsourcing professionals should provide a copy of these ethical and business practice standard to customers, employers, employees, and other business associates early in the development of their relationships
2. IAOP encourages individuals and organizations to report cases where they feel an association member has not performed in a way consistent with these standards. The complaint should be reported in writing to IAOP's Executive Director via mail at IAOP, 2600 South Road, Suite 44-240, Poughkeepsie, NY, 12601 or email at memberservices@outsourcingprofessional.org.
3. The complaint should state the specific issue, when and how it occurred, along with any supporting material.
4. In the interest of fairness and completeness, IAOP provides the member an opportunity to fully review and respond to the issues raised.
5. Both the original complaint and any response from the member are then provided to both parties, kept on file and made available upon request to other members.

About the Outsourcing Standards Board

The Outsourcing Standards Board is a not-for-profit organization developing and promoting the use of industry-wide standards to improve outsourcing as a management practice, profession, and industry. To find out how you and your organization can participate, please contact the board's chairman, Michael F. Corbett, at 845.452.0600 ext. 105 or via email at michael.corbett@outsourcingprofessional.org.