

Proposed Guidance Note: APES GN 30 Outsourced Services

Prepared and issued by
Accounting Professional & Ethical Standards Board Limited

EXPOSURE DRAFT
ISSUED:

01/12
January 2012

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Commenting on this Exposure Draft

Comments on this Exposure Draft should be forwarded so as to arrive by **30 March 2012**.

Comments should be addressed to:

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A copy of all submissions will be placed on public record on the APESB website:

www.apesb.org.au.

Obtaining a copy of this Exposure Draft

This Exposure Draft is available on the APESB website: www.apesb.org.au. Alternatively, any individual or organisation may obtain one printed copy of this Exposure Draft without charge until **30 March 2012** by contacting:

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Reasons for issuing Exposure Draft 01/12

Accounting Professional & Ethical Standards Board Limited (APESB) proposes to issue the Guidance Note APES GN 30 *Outsourced Services* to give guidance to Members in Public Practice who are involved in providing or utilising Outsourced Services.

Key requirements and guidance in ED 01/12

The proposed APES GN 30 includes guidance in respect of:

- Fundamental responsibilities of Members in Public Practice;
- Management of risks associated with Outsourced Services;
- Terms of the Outsourcing Agreement;
- Performance of the Outsourcing Agreement;
- Documentation; and
- Professional fees.

Proposed operative date

It is intended that this Guidance Note will be operative from **the date it is issued**.

Request for comments

Comments are invited on this Exposure Draft of APES GN 30 *Outsourced Services* by **30 March 2012**. APESB would prefer that respondents express a clear overall opinion on whether the proposed Guidance Note, as a whole, is supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on any matter. APESB regards both critical and supportive comments as essential to a balanced view of the proposed Guidance Note.

APES GN 30 Outsourced Services

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Conformity with International Pronouncements

Appendix 1: Examples of Outsourced Services that are within the scope of APES GN 30

1. Scope and application

- 1.1 Accounting Professional & Ethical Standards Board Limited (APESB) issues professional guidance note APES GN 30 *Outsourced Services* (the Guidance Note).
- 1.2 APES GN 30 provides guidance for Members in Public Practice when providing or utilising Outsourced Services. APES GN 30 should be read in conjunction with other professional duties of Members, and any legal obligations that may apply.
- 1.3 Members in Public Practice in Australia should follow the guidance in APES GN 30 when they provide or utilise Outsourced Services.
- 1.4 Members in Public Practice working outside of Australia should follow the guidance in APES GN 30 to the extent to which they are not prevented from so doing by specific requirements of local laws and/or regulations in the country in which they are working.
- 1.5 The Guidance Note is not intended to detract from any responsibilities which may be imposed by law or regulation.
- 1.6 All references to Professional Standards and Guidance Notes are references to those provisions as amended from time to time.
- 1.7 Members in Public Practice should be familiar with relevant Professional Standards and guidance notes when providing Professional Services.
- 1.8 In applying the guidance outlined in APES GN 30, Members in Public Practice should be guided not merely by the words but also by the spirit of the Guidance Note and the Code.
- 1.9 This Guidance Note is directed towards Members in Public Practice. However, Members in Business should apply this Guidance Note to the extent practicable when they provide or utilise Outsourced Services.

2. Definitions

For the purpose of this Guidance Note:

Acceptable Level means a level at which a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that compliance with the fundamental principles is not compromised.

Client means an individual, firm, entity or organisation to whom or to which Professional Services are provided by a Member in Public Practice in respect of Engagements of either a recurring or demand nature.

Code means APES 110 *Code of Ethics for Professional Accountants*.

Engagement means an agreement, whether written or otherwise, between a Member in Public Practice and a Client relating to the provision of Professional Services by a Member in Public Practice. However, consultations with a prospective Client prior to such agreement are not part of an Engagement.

Outsourced Services

Firm means (a) A sole practitioner, partnership, corporation or other entity of professional accountants;
(b) An entity that controls such parties, through ownership, management or other means;
(c) An entity controlled by such parties, through ownership, management or other means; or
(d) An Auditor-General's office or department.

Material Business Activity means an activity of an entity that has the potential, if not delivered, to materially impact upon the quality, timeliness or scale of business operations of a Member in Public Practice or a Client.

Member means a Member of a Professional Body that has adopted this Guidance Note as applicable to their Membership as defined by that Professional Body.

Member in Business means a Member employed or engaged in an executive or non-executive capacity in such areas as commerce, industry, service, the public sector, education, the not for profit sector, regulatory bodies or Professional Bodies, or a Member contracted by such entities.

Member in Public Practice means a Member, irrespective of functional classification (e.g. 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 and means a practice entity as defined by the applicable professional body.

Outsourcing means the transfer of responsibility for conducting processes to an Outsourced Service Provider and includes the remote hosting of business systems by an Outsourced Service Provider. Outsourcing can be from a Client to a Member in Public Practice or from a Member to an external service provider.

Outsourcing Agreement means the document (i.e. letter, agreement or any other appropriate means) in which the terms and conditions of an Outsourced Service are set out.

Outsourced Service means a service involved in Outsourcing a Material Business Activity to an Outsourced Service Provider.

Outsourced Service Provider means an entity including a person that is providing services in accordance with an Outsourcing Agreement. The Outsourced Service Provider may not be located in the same country as the Member in Public Practice or the Client and may not even be a Member.

Professional Bodies means the Institute of Chartered Accountants in Australia, CPA Australia and the Institute of Public Accountants.

Professional Services means services requiring accountancy or related skills performed by a Member including accounting, auditing, taxation, management consulting and financial management services.

Professional Standards means all standards issued by Accounting Professional & Ethical Standards Board Limited and all professional and ethical requirements of the applicable professional body.

Terms of Engagement means the terms and conditions that are agreed between the Client and the Member in Public Practice for the Engagement.

3. Fundamental Responsibilities of Members in Public Practice

Members providing or utilising Outsourced Services

- 3.1 A Member in Public Practice who provides or utilises Outsourced Services should comply with Section 100 *Introduction and Fundamental Principles* of the Code and relevant law.

Members providing Outsourced Services

- 3.2 The provision of Outsourced Services may create threats to compliance with the fundamental principles of the Code as well as compliance with applicable laws and regulations, for example, the *Privacy Act*. Consequently, it is necessary for a Member in Public Practice providing an Outsourced Service to identify, evaluate and address any threats to the fundamental principles, applicable laws and regulations. If the threats are significant, then the Member should apply appropriate safeguards to eliminate the threats or reduce them to an Acceptable Level. If appropriate safeguards are not available to reduce the threats to an Acceptable Level, then the Member should decline or discontinue providing the Outsourced Service to the Client.

Members utilising Outsourced Services

- 3.3 The use of an Outsourced Service Provider may create threats to compliance with the fundamental principles of the Code as well as compliance with applicable laws and regulations, for example, the *Privacy Act*. Consequently, it is necessary for a Member in Public Practice to identify, evaluate and address any threats to the fundamental principles, applicable laws and regulations. If the threats are significant, then the Member should apply appropriate safeguards to eliminate the threats or reduce them to an Acceptable Level. If appropriate safeguards are not available to reduce the threats to an Acceptable Level, then the Member should decline or discontinue the use of the Outsourced Service Provider.

Public interest

- 3.4 In accordance with Section 100 *Introduction and Fundamental Principles* of the Code, a Member in Public Practice should observe and comply with the Member's public interest obligations when the Member provides or utilises Outsourced Services.

Professional competence and due care

Members providing Outsourced Services

- 3.5 A Member in Public Practice providing Outsourced Services should maintain professional competence and take due care in the performance of the Member's work in accordance with Section 130 *Professional Competence and Due Care* of the Code.
- 3.6 A Member in Public Practice providing Outsourced Services should take reasonable steps to ensure that the skills and competence of personnel delivering the Outsourced Service are kept up to date with appropriate training and professional development, that their skills are periodically reviewed to maintain the quality of the service delivery and that their work is adequately supervised.

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Members utilising Outsourced Services

- 3.7 A Member in Public Practice utilising Outsourced Services should evaluate the Member's ability to comply with Section 130 *Professional Competence and Due Care* of the Code.
- 3.8 A Member in Public Practice who is considering utilising Outsourced Services should take reasonable steps to determine that the Outsourced Service Provider has the required professional competence, skills, capacity, policies and procedures to conduct the Outsourced Services. Prior to sharing confidential information with an Outsourced Service Provider, the Member should evaluate the Outsourced Service Provider's controls to safeguard such information, including whether the Outsourced Service Provider has appropriate systems and procedures in place to prevent unauthorised access to it.
- 3.9 A Member in Public Practice who utilises an Outsourced Service Provider retains the primary responsibility to deliver the Professional Service in accordance with the Terms of Engagement with the Client and in compliance with the ethical requirements of the Code and applicable Professional Standards.
- 3.10 Where a Member in Public Practice utilises Outsourced Services, the Member should disclose to the Client the nature and extent to which Outsourced Services are used in the delivery of the Professional Service and obtain written consent from the Client to use those Outsourced Services. This does not include the Member's internal functions (e.g. record storage or software application hosting) which do not involve an active role in the Professional Service.

4. Management of risks associated with Outsourced Services

Members providing Outsourced Services

- 4.1 A Member in Public Practice providing an Outsourced Service should develop and document an Outsourcing policy framework that sets out the Member's approach to providing Outsourced Services. This should include the approach to managing business, operational and other risks associated with the performance of the Outsourcing Agreement.

Members utilising Outsourced Services

- 4.2 A Member in Public Practice utilising Outsourced Services should develop and document an Outsourcing policy framework together with policies and procedures and ensure that all relevant personnel of the Member's Firm comply with such policies and procedures. The framework should set out the Member's approach to utilising Outsourced Services and include the Member's approach to managing business, operational and other risks associated with the performance of the Outsourcing Agreement.
- 4.3 A Member in Public Practice who is considering using an Outsourced Service Provider should conduct appropriate due diligence prior to entering into an Outsourcing Agreement. The Member should assess the following as appropriate:
- a) the operating policies and procedures of the Outsourced Service Provider;
 - b) whether the Outsourced Service Provider has sufficient staff with the necessary professional competencies and skills;
 - c) the adequacy of contingency and business continuity plans of the Outsourced Service Provider;

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- d) whether the information security measures adhere to applicable legal and regulatory obligations;
 - e) whether the Outsourced Service Provider has appropriate quality control requirements in place in respect of the Outsourced Service that will enable the Member to comply with the Member's professional obligations in respect of APES 320 *Quality Control for Firms* and other applicable Professional Standards;
 - f) whether the Member has sufficient understanding of file review and error correction processes of the Outsource Service Provider;
 - g) the communication skills of the Outsourced Service Provider and its personnel;
 - h) whether the Outsourced Service Provider will perform the duties and responsibilities of the Outsourcing Agreement in a timely manner;
 - i) how the Member is going to address the changes to the risk profile of the Material Business Activity that is the subject of the Outsourced Services;
 - j) why the proposed Outsourced Service Provider has the ability to conduct the Outsourced Services on an ongoing basis; and
 - k) the required monitoring procedures to be adopted to ensure that the Outsourced Service Provider is performing effectively and the method by which potential inadequate performance is to be addressed.
- 4.4 A Member in Public Practice who utilises Outsourced Services should develop, document and periodically review contingency plans to enable the Outsourced Services to be provided by an alternative Outsourced Service Provider or to be brought in-house if required.
- 4.5 Outsourced Services may result in the day-to-day managerial responsibility for certain activities moving to an Outsourced Service Provider. However, a Member in Public Practice who utilises such a service retains the responsibility to monitor the work that is performed by the Outsourced Service Provider and to perform sufficient reviews to ensure that the Professional Service provided complies with the Code and Professional Standards applicable to the Engagement.

5. Terms of the Outsourcing Agreement

Members providing Outsourced Services

- 5.1 Pursuant to APES 305 *Terms of Engagement*, a Member in Public Practice is required to document and communicate the Terms of Engagement.
- 5.2 Where a Member in Public Practice provides Outsourced Services and the Member subcontracts part of the service the Member should disclose details of these arrangements in the Outsourcing Agreement with the Client.
- 5.3 Where a Member in Public Practice provides Outsourced Services the Member should consider including the matters noted in paragraph 5.5 in the Outsourcing Agreement.

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Members utilising Outsourced Services

- 5.4 A Member in Public Practice who utilises an Outsourced Service should agree and document the scope of the services with the Outsourced Service Provider.
- 5.5 A Member in Public Practice who utilises an Outsourced Service should negotiate and execute an Outsourcing Agreement that includes the following depending on the particular circumstances of the Outsourcing arrangement:
- (a) the duration of the Outsourcing Agreement including commencement date, minimum and maximum terms and provisions for termination
 - (b) a description of the type and scope of Outsourced Services to be provided;
 - (c) details of how the Outsourced Service will be performed;
 - (d) details of how changes in service requests will be conducted;
 - (e) representations and warranties;
 - (f) the required service levels and performance requirements including:
 - contract termination and disengagement triggers;
 - contract reward and penalty considerations;
 - business continuity, security and intellectual property break-up and recovery;
 - (g) details of the initial transition process from the Member's operations to the Outsourced Service Provider, including actions and responsibilities of the parties in respect of the transition process;
 - (h) the pricing model including payment terms and how changes that affect the execution of the process during the agreement will affect pricing;
 - (i) the procedure for reimbursement of expenses;
 - (j) ongoing management of confidentiality, privacy and security of information;
 - (k) taxation obligations, including GST considerations;
 - (l) the process for managing the ongoing relationship including qualitative and quantitative measures to monitor and review performance;
 - (m) the nature of the information to be provided by the Member and the Outsourced Service Provider;
 - (n) the terms of any limitation of liability to the effect that any subcontracting by the Outsourced Service Provider of the Outsourced Services should be the responsibility of the Outsourced Service Provider including liability for any failure on the part of any subcontractor;
 - (o) audit and monitoring procedures;
 - (p) a provision that allows the applicable Professional Body access to documentation related to the Outsourcing Services including the right to conduct on-site visits to the Outsourced Service Provider;
 - (q) the terms of file retention by the Outsourced Service Provider that are sufficient to meet the needs of the Member or as required by law or regulation;
 - (r) any use of third party resources;
 - (s) obligations of the parties to the Outsourcing Agreement;
 - (t) details of reports or other anticipated outputs, including:
 - expected timing
 - intended use and distribution of reports;
 - (u) accessibility by the Member to the Outsourced Service Provider's files;
 - (v) format, form and quantity of data, that is readable in printed or electronic form that is to be provided by the Outsourced Service Provider at the end of the Agreement;
 - (w) ownership of documents and records;
 - (x) that the Outsourced Service Provider is responsible for the accuracy and completeness of the information supplied to the Member;
 - (y) well-defined dispute resolution mechanisms including jurisdictional considerations;
 - (z) procedures for changes in business structures and/or ownership structure;
 - (aa) the use of external service providers (if any);
 - (bb) details of liability and indemnity insurance;
 - (cc) the conditions for terminating the Outsourcing Agreement such as:

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- the Outsourcing Agreement no longer makes economic sense;
- poor service, non-performance or non-payment; or
- a change in control or management at either of the parties to the Outsourcing Agreement.

5.6 A Member in Public Practice who utilises Outsourced Services should review the Outsourcing Agreement periodically to ensure it is kept up to date with changing business needs.

Insurance

Members providing Outsourced Services

5.7 A Member in Public Practice who provides Outsourced Services should maintain a policy of professional indemnity insurance with adequate coverage for the Outsourced Services provided.

6. Performance of the Outsourcing Agreement

Members providing or utilising Outsourced Services

Transfer process and knowledge

6.1 A Member in Public Practice providing or utilising Outsourced Services should manage the transition and implementation of the service using appropriate project management skills and discipline. Where the Member does not have the professional expertise to manage the transition of processes and the required implementation support, the Member should seek assistance from a suitably qualified third party.

Monitor and manage performance

6.2 A Member in Public Practice providing or utilising Outsourced Services should take reasonable steps to ensure that the Member has sufficient resources to manage and monitor the performance of the Outsourcing Agreement. The type and extent of resources will depend on the Material Business Activity that is Outsourced.

6.3 A Member in Public Practice providing or utilising Outsourced Services should take reasonable steps to establish and document appropriate corporate governance structures and processes to ensure there are mechanisms for the Member and the Client or the Member and the Outsourced Service Provider to manage daily operations as well as address issues that arise during the performance of the Outsourcing Agreement.

6.4 A Member in Public Practice providing or utilising Outsourced Services should take reasonable steps to develop and document appropriate communication protocols between the Member and the Client or the Member and the Outsourced Service Provider, as applicable.

6.5 A Member in Public Practice providing or utilising Outsourced Services should consider using appropriate performance measures (which may be detailed in the Outsourcing Agreement) to monitor the performance of the Member or the Outsourced Service Provider, as applicable. The Member should also consider the Outsourcing policy framework referred to in paragraph 4.1 when developing performance measures.

6.6 A Member in Public Practice providing or utilising Outsourced Services should review the work of the Member's personnel or the Outsourced Service Provider, as applicable, to:

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- ensure that the work has been completed in accordance with the Outsourcing Agreement;
- establish that the objectives of the Engagement have been achieved;
- ensure that the work has been performed in accordance with applicable Professional Standards and legal/regulatory requirements; and
- ensure that the work performed has been appropriately documented and supports the conclusions reached.

The Member should review the work performed prior to submitting the work product to the Member's Client.

- 6.7 A Member in Public Practice who provides or utilises Outsourced Services should develop, document and adhere to policies and procedures to manage information security, including complying with applicable legal obligations that address matters of privacy and confidentiality.

Renew, renegotiate and terminate

- 6.8 A Member in Public Practice who provides or utilises Outsourced Services should use both qualitative and quantitative performance measures when evaluating whether to renew, renegotiate or terminate the Outsourcing Agreement.
- 6.9 Where a Member in Public Practice plans to terminate an Outsourcing Agreement, the Member should start planning the process to bring the activity back in-house or to transfer to another Outsourced Service Provider in a timely manner prior to the actual termination.

Client monies

- 6.10 Where a Member in Public Practice who provides or utilises Outsourced Services holds, disburses or receives Client monies or operates Client bank accounts the Member is required to comply with APES 310 *Dealing with Client Monies*.

7. Documentation

Members providing or utilising Outsourced Services

- 7.1 A Member in Public Practice who provides or utilises Outsourced Services should develop, document and adhere to policies and procedures designed to monitor and manage the delivery of the Outsourced Service.

Members providing Outsourced Services

- 7.2 A Member in Public Practice who provides Outsourced Services is required to have appropriate quality control requirements in place in accordance with APES 320 *Quality Control for Firms*.
- 7.3 A Member in Public Practice who provides Outsourced Services is required to have working papers that appropriately document the work performed, including aspects of the Outsourced Service that has been provided in writing.

8. Professional fees

Members providing Outsourced Services

- 8.1 A Member in Public Practice who provides Outsourced Services should be remunerated for such services by way of Professional Fees computed in accordance with Section 240 *Fees and other Types of Remuneration* of the Code.

Conformity with International Pronouncements

The International Ethics Standard Board for Accountants (IESBA) has not issued a pronouncement equivalent to APES GN 30.

Appendix 1

Examples of Outsourced Services that are within the scope of APES GN 30

Example 1

A Member in Public Practice is a partner in a four partner Firm, which has a staff member taking parental leave for a period of 12 months. The Member's Firm enters into an agreement with the family trust of the staff member to process Small and Medium Enterprises (SME) ledgers and complete draft income tax returns for some of the Firm's Clients. The arrangement covers approximately 35 Clients that the staff member served before taking parental leave. The Firm has approximately 800 SME Clients.

The Firm is Outsourcing this activity to the family trust of the former staff member. The key issue is whether the services constitute a Material Business Activity. The Material Business Activity assessment should be performed from the Firm's and the Clients' perspectives.

This Outsourcing arrangement covers less than 5% of Firm's Clients and thus may not be a Material Business Activity from the Firm's perspective. However, it may be a Material Business Activity from an individual Client's perspective depending on the circumstances of the Client. For example, if a substantial proportion of Professional Services provided to one Client is Outsourced then the Outsourcing arrangement would be a Material Business Activity from that Client's perspective and the arrangement is within the scope of APES GN 30.

Example 2

A Member in Public Practice is a partner in a four partner Firm which has a staff member taking parental leave for a period of 12 months. The Member's Firm enters into an agreement with the family trust of the staff member to process SME ledgers and complete draft income tax returns for some of the Firm's Clients. The arrangement covers approximately 35 Clients that the staff member served before taking parental leave, which amounts to approximately 10% of the Firm's professional fees. The Firm has approximately 800 SME Clients.

The Firm is Outsourcing this activity to the family trust of the former staff member. The key issue is whether the services constitute a Material Business Activity. The Material Business Activity assessment should be performed from the Firm's and the Clients' perspectives.

The Outsourcing activity impacts on 10% of the Firm's revenue base and is therefore considered a Material Business Activity from the Firm's perspective and thus the Professional Service is within the scope of APES GN 30.

It may also be a Material Business Activity from an individual Client's perspective depending on the circumstances of the Client.

Example 3

A Member in Public Practice is a partner in a three partner Firm. The Firm has approximately 1,200 SME Clients and 100 Self Managed Super Fund (SMSF) Clients. The Member enters into a contract with a specialist external SMSF administrator to prepare income tax returns and financial statements for 35 SMSF clients.

The Firm is Outsourcing this activity to the specialist external SMSF administrator. The key issue is whether it is a Material Business Activity. The Material Business Activity assessment should be performed from the Firm's and the Clients' perspectives.

The Outsourcing arrangement covers less than 5% of Clients of the Firm thus may not be a Material Business Activity from the Firm's perspective. However, it may still be considered a

Outsourced Services

Material Business Activity from the Client's perspective depending on the circumstances of the individual Client. If the Outsourced Service being provided to a Client is material from that Client's perspective, then the service is within the scope of APES GN 30.

Example 4

A Member in Public Practice is a partner in a Firm based in Australia. The Member's Firm has entered in to an agreement with a company in India to perform accounting work for the Australian Firm. In the coming year and going forward 80% of the SME accounting work of the Australian firm is to be undertaken by the Indian company.

The Firm is Outsourcing a Material Business Activity to the Indian company. The Indian company is providing an Outsourced Service to the Firm that it is within the scope of APES GN 30.

Example 5

A Member in Public Practice provides accounting services to medium-sized companies and transfers Client data into a general ledger system using cloud computing hosted by an external IT provider.

The Member is using an Outsourced Service Provider in respect of a Material Business Activity. Accordingly, this is an Outsourcing arrangement which is within the scope of APES GN 30.

Example 6

A Member in Public Practice provides accounting services to medium-sized companies operating in various industries. To perform this role for selected companies, the Member obtains company data from their bookkeepers. The Member has recently gained an understanding of cloud computing technology and has recommended to the bookkeepers to transfer the respective Clients on to cloud computing to make the accounting process more efficient.

The Member is merely recommending the benefits of cloud computing technology to the bookkeepers which is different to providing an Outsourced Service in respect of a Material Business Activity. Accordingly, the professional advice provided by the Member to the bookkeepers to use cloud computing is not within the scope of APES GN 30.

Example 7

A Member in Public Practice provides information technology and company secretarial services to medium-sized financing companies and these encompass material activities of the relevant companies.

The Member is providing Outsourced Services in respect of Material Business Activities of the companies and accordingly these Outsourced Services will be within the scope of APES GN 30.