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Basis for Conclusions: APES GN 30 Outsourced Services

Prepared by the Technical Staff of the Accounting Professional & Ethical Standards Board

BASIS FOR CONCLUSIONS:

APES GN 30 Outsourced Services

This basis for conclusions has been prepared by technical staff of Accounting Professional & Ethical Standards Board Limited (“APESB”). It has been reviewed and approved by the Board of Directors of APESB and is provided for the benefit of stakeholders so they may gain an understanding of the background to the development of APES GN 30 *Outsourced Services* (the Guidance Note).

The basis for conclusions **does not** form part of APES GN 30 and is not a substitute for reading the Guidance Note.

Background

APESB has issued APES GN 30 to provide guidance for Members in Public Practice to manage risks associated with providing or utilising Outsourced Services in the delivery of Professional Services. The trend of Outsourcing Professional Services has grown rapidly over the last decade with benefits such as staff utilisation on core activities, lower costs and access to specialised skills, all resulting in greater efficiencies in the performance of Professional Services. However, with these benefits risks also arise such as confidentiality of Client information, integrity of information transferred between the Member in Public Practice and the Outsourced Service Provider, and control and supervision of the work performed.

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; and
- Documentation.

The Guidance Note also includes two appendices which provide additional guidance for Members in Public Practice. Appendix 1 has examples which assist with the determination of whether a particular Professional Service is an Outsourced Service. Appendix 2 identifies subject matters that Members in Public Practice should consider for inclusion in an Outsourcing Agreement.

APESB issued an exposure draft of the proposed Guidance Note (ED 01/12 APES GN 30 *Outsourced Services*) in January 2012 with a comment deadline of 30 March 2012. APESB received seven submissions from the professional accounting bodies, major accounting firms and other stakeholders. In response to the comments received, APESB made a number of changes to APES GN 30. The following summarises the significant issues raised by respondents, and how APESB addressed them.

Consistency with international developments in Outsourcing

A number of respondents who support the development of internationally consistent pronouncements noted the absence of an international equivalent to APES GN 30. Some respondents questioned the need for guidance in Australia when Outsourcing is not unique to the Australian environment.

APESB considered this issue and noted that the lack of an international pronouncement should not be a deterrent for a National Standards Setter to develop and issue pronouncements that are relevant to Members of the Accounting profession in that jurisdiction.

Structure and drafting style

Respondents to the exposure draft raised concerns with the structure and drafting style of the proposed Guidance Note. The respondents noted that the degree of detail and prescriptive tone of the exposure draft resulted in the proposed Guidance Note reading more like a standard.

APESB considered this issue and agreed with the respondents' comments noting that the primary objective of APES GN 30 is to provide Members in Public Practice with guidance. Accordingly, APESB has made amendments to APES GN 30 to clarify that the Guidance Note only provides best practice guidance and suggestions and does not create any new professional requirements.

Some respondents were also concerned with the prescriptive nature of the subject matters to be included in the Outsourcing Agreement and queried whether each Outsourcing Agreement should contain all of the subject matters proposed in the Exposure Draft. APESB considered this issue and determined that the subject matters recommended for inclusion in an Outsourcing Agreement is provided as guidance for Members in Public Practice and it is not necessary for all of these matters to be included in each Outsourcing Agreement. The Board further determined to move the subject matters to be included in the Outsourcing Agreement from the body of the Guidance Note to Appendix 2. The Board is of the view that this change will provide further clarity to Members in Public Practice that these are matters for consideration when documenting an Outsourcing Agreement.

Scope and application

A number of respondents disagreed with the application of the guidance to the provision of Outsourced Services and suggested that only utilisation of Outsourced Services should be within the scope of the Guidance Note. The respondents were of the view that Outsourcing is a method by which an underlying Professional Service is delivered to a Client and the Professional Service itself is subject to the requirements of other Professional Standards such as APES 305 *Terms of Engagement* and APES 110 *Code of Ethics for Professional Accountants*. On this basis, the respondents argued that the provision of Outsourced Services should not fall within the scope of APES GN 30.

APESB considered this and noted that existing Professional Standards address the situation where Members in Public Practice are the primary providers of the Professional Service to a Client and generally do not Outsource the work they need to perform in respect of the Engagement.

In contrast, APES GN 30 is intended to address the situation where a third party is partly involved in the delivery of a Professional Service for which the Member in Public Practice has the primary responsibility. In these circumstances APES GN 30 provides guidance to Members in Public Practice on issues to consider when providing Professional Services where part of the work is Outsourced. Accordingly, the Board was of the view that the provision of Outsourced Services should remain within the scope of APES GN 30.

Interaction of APES GN 30 with Auditing Standards

Respondents noted the requirements for the conduct of group audits contained in ASA 600 *Special Considerations – Audits of a Group Financial Report (Including the Work of Component Auditors)* as well as using other experts in audit Engagements which is addressed by ASA 620 *Using the Work of an Auditor's Expert*. Respondents were of the view that APES GN 30 should specifically exclude these situations as they are addressed by Auditing Standards.

When developing the exposure draft, it was not envisaged that it will capture group audits and the use of other experts in audit Engagements. In accordance with ASA 600, where a group audit is performed, the group auditor is required to obtain an understanding of the component auditor's understanding of and compliance with ethical standards, professional competence and the level of interaction required to obtain sufficient appropriate audit evidence. ASA 600 also requires the group auditor to communicate with management and those charged with governance of the group.

In a group audit situation the component auditors would be engaged by the Client or one of its related entities. Thus this activity will not meet the definition of Outsourcing and these Engagements should be specifically excluded from the scope of APES GN 30. Accordingly, a new paragraph 1.6 was drafted to exclude Engagements subject to ASA 600 from the scope of the Guidance Note (refer Example 9 of Appendix 1).

Further, the definition of Expert in ASA 620 specifically excludes accounting and related skills. Therefore ASA 620 relates to services that the Member cannot carry out by themselves as they do not have the relevant skills. In respect of Outsourced Services there is a Member in Public Practice involved in providing a Professional Service. Accordingly, the services addressed by ASA 620 do not satisfy the definition of Outsourced Services in APES GN 30.

Cross border teams and Network Firms

Respondents have commented on the issue of cross border teams in the larger Firms and the use of Network Firms to deliver Professional Services. Some respondents also stated that services provided by a Network Firm should be excluded from the scope of APES GN 30 on the basis that such Firms are subject to the same quality control and operating procedures as the Member in Public Practice.

While it is acknowledged that a cross border team or a Network Firm will be subject to common or similar quality control and risk management procedures and that these procedures would be similar to or possibly more stringent than the best practice guidance in APES GN 30, the key issue is disclosure to the Client of the use of other parties in the delivery of the Professional Service. That is whether the Client is aware of the use of cross border teams and Network Firms and the risks associated with transfer of confidential Client information to another party during performance of an Engagement (refer Example 7 in Appendix 1).

Definitions

Respondents to the exposure draft noted a lack of clarity with regard to the definitions of the key terms 'Outsourcing', 'Material Business Activity', 'Outsourced Service Provider', 'Outsourcing Agreement' and 'Outsourced Service'.

APESB agreed with the respondents comments and redrafted the definitions in a manner that initially defines the key terms of 'Outsourcing' and 'Material Business Activity'. Thereafter the definitions of 'Outsourced Service Provider', 'Outsourcing Agreement' and 'Outsourced Service' are defined with reference to these two key terms. During this redrafting process APESB also reviewed the definitions in the Australian Prudential Standard CPS 231 *Outsourcing*.

Treatment of existing contracts

Some respondents were concerned about the impact on existing Outsourced Service arrangements and whether such arrangements should be transitioned based on the guidance in APES GN 30.

APESB considered this issue and noted that the Guidance Note is applicable from the date of issue and on a prospective basis. Thus in respect of existing contracts a Member in Public Practice should consider APES GN 30 when the Outsourcing Agreement is reviewed next or at the time of renewal of the Outsourcing Agreement.

Disclosure requirement for written consent

Some respondents queried the benefit of disclosing Outsourcing arrangements to Clients noting that standard Engagement terms which state that part of the services for a Client may be Outsourced or provided outside of Australia is sufficient disclosure to Clients. Most of the respondents did not think it was necessary to disclose the nature and extent of the Professional Service being Outsourced. These respondents noted that since the Member in Public Practice retains the primary responsibility to deliver the Professional Service, the extent to which Outsourced Services are used is no more relevant for disclosure to a Client than any other valid business practices employed by the Member.

However, it should be noted that where a Member in Public Practice Outsources a Professional Service to a third party it creates a threat to the fundamental principle of confidentiality contained in the Code as the third party will have access to confidential information of the Client. Accordingly, APESB is of the view that best practice should be disclosure of Outsourced Service arrangements to the Client, and obtaining the Client's consent to use the Outsourced Service to perform the Engagement.