

Proposed Guidance Note: APES GN 30 Outsourced Services

[Supersedes APES GN 30 Outsourced Services issued in March 2013]

Prepared and issued by
Accounting Professional & Ethical Standards Board Limited

EXPOSURE DRAFT **xx/15**
ISSUED: May 2015

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Commenting on this Exposure Draft

This Exposure Draft, APES GN 30 *Outsourced Services* was developed and approved by Accounting Professional & Ethical Standards Board Limited (APESB).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by 10 July 2015.**

Comments should be addressed to:

The Chairman
Accounting Professional & Ethical Standards Board Limited
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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.

Respondents are asked to submit their comments electronically through the APESB website, using the link <http://www.apesb.org.au/apesb-exposure-drafts-open-for-comment>.

Please submit comments in both a PDF and Word file. All comments will be considered a matter of public record and will ultimately be posted on the website www.apesb.org.au.

APESB prefers that comments are submitted via its website. However, if there are practical difficulties comments can also be sent to sub@apesb.org.au or mailed to the address noted above.

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 **10 July 2015** by contacting:

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Reasons for issuing Exposure Draft xx/15

Accounting Professional & Ethical Standards Board Limited (APESB) proposes to revise APES GN 30 *Outsourced Services* (APES GN 30) primarily due to revisions made by the International Ethical Standards Board (IESBA) to definitions in the International Code in March 2013 and APESB's subsequent amendments to APES 110 *Code of Ethics for Professional Accountants* (the Code) in November 2013.

Overview of the proposed changes

The following summary provides an overview of the proposed revisions to the existing professional guidance note APES GN 30:

- Addition of the objectives of APES GN 30 (paragraph 1.1);
- Amendment of the following definitions: Client, Member, Member in Public Practice, Professional Bodies and Professional Services; and
- Addition of the definition of Professional Activity.

Respondents should not rely on this summary of differences to determine what changes, if any, are required to their current practices, policies or methodologies. Respondents should read the entire Exposure Draft to determine the significance of its proposals.

Proposed operative date

It is intended that this Guidance Note will be operative from the date of issue.

APES GN 30 Outsourced Services

[Supersedes APES GN 30 Outsourced Services issued in March 2013]

Prepared and issued by
Accounting Professional & Ethical Standards Board Limited

REVISED: [Month/Year]

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1. Scope and application

- 1.1 The primary objectives of APES GN 30 *Outsourced Services* are to provide guidance to a Member in Public Practice who is involved in providing or utilising an Outsourced Service in respect of:
- fundamental ethical obligations;
 - management of risks associated with the performance or utilisation of Outsourced Services;
 - matters to be included in service level agreements pertaining to Outsourced Services;
 - monitoring and management of the performance of the Outsourcing Agreement;
and
 - documentation of policies and procedures.
- 1.2 Accounting Professional & Ethical Standards Board Limited (APESB) issues APES GN 30 *Outsourced Services* (the Guidance Note) which is effective from the date of issue and supersedes APES GN 30 issued in March 2013.
- 1.32 APES GN 30 provides guidance or suggestions to assist a Member in Public Practice who is providing or utilising Outsourced Services and does not prescribe or create any new professional requirements. The term “should” used throughout this Guidance Note is to be read in this context.
- 1.43 Members in Public Practice in Australia should follow the guidance in APES GN 30 when they provide or utilise Outsourced Services.
- 1.54 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.
- 1.65 The Guidance Note is not intended to detract from any responsibilities which may be imposed by law or regulation.
- 1.76 For the purposes of this Guidance Note, an Engagement which is subject to ASA 600 *Special Considerations – Audits of a Group Financial Report (Including the Work of Component Auditors)* is not considered to be an Outsourced Service.
- 1.87 All references to Professional Standards and Guidance Notes are references to those provisions as amended from time to time.
- 1.98 Members in Public Practice should be familiar with relevant Professional Standards and Guidance Notes when providing Professional Services.
- 1.109 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 this Guidance Note and the Member’s professional obligation to comply with the requirements of the Code.
- 1.110 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 available to the Member at that time, that compliance with the fundamental principles is not compromised.

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

Cloud Computing means the use of computing resources that are delivered as a service over the internet. Cloud Computing entrusts remote services with a user's data, software and computation.

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.

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 or a Firm that has the potential, if disrupted, to significantly impact upon the quality, timeliness or scale of Professional Services offered by a Member in Public Practice or received by a Client. Whether a business activity is a Material Business Activity should be based on an assessment of the risks associated with the nature and size of the activity and the business activity's relevance to the Professional Service delivered to the Client. Material Business Activities exclude the internal activities of a Firm such as record storage or software application hosting where these internal activities merely support the Professional Services delivered to the Client.

Member means a member of a Professional Body that has adopted this Guidance Note as applicable to their mMembership 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~~ This term is also used to refer to a Firm of Members in Public Practice and means a practice entity and a participant in that practice entity as defined by the applicable Professional Body.

Network means a larger structure:

- (a) -That is aimed at co-operation; and
- (b) -That is clearly aimed at profit or cost sharing or shares common ownership, control or - management, common quality control policies and procedures, common business - strategy, the use of a common brand-name, or a significant part of professional ↓ resources.

Network Firm means a Firm or entity that belongs to a Network.

Outsourcing means an activity where an entity or a Firm engages a party, on a continuing basis, to perform a business activity that is being, has been, or could be performed by that entity or Firm. Outsourcing can be from a Client to a Member in Public Practice or from a Member in Public Practice to another service provider to assist with the delivery of a Professional Service to a Client.

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 Activity means [an activity requiring accountancy or related skills undertaken by a Member, including accounting, auditing, taxation, management consulting, and financial management.](#)

Professional Bodies means the ~~Institute of Chartered Accountants in Australia~~ [Chartered Accountants Australia and New Zealand](#), CPA Australia and the Institute of Public Accountants.

Professional Services means [Professional Activities performed for Clients, 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 The Code is the conceptual framework and foundation on which all APESB pronouncements are based. Compliance with and application of the Code is fundamental to the professional behaviour of all Members. Non-compliance with the Code can lead to disciplinary proceedings being initiated by the Professional Body to which the Member belongs.
- 3.2 The professional obligations and ethical requirements that all Members are required to comply with are based on the five fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour in the Code.

Members providing Outsourced Services

- 3.3 The provision of Outsourced Services may create threats to compliance with the fundamental principles of the Code as well as risks of non-compliance with applicable laws and regulations, for example, the *Privacy Act*. A Member in Public Practice providing an Outsourced Service should consider potential threats to the fundamental principles in accordance with Section 100 of the Code. Where threats cannot be eliminated or reduced to an Acceptable Level and the Member is considering resigning from an Engagement, then the Member is reminded to consider the legal and other implications of existing contractual arrangements

Members utilising Outsourced Services

- 3.4 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.

- 3.5 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 and to manage the risks associated with Outsourcing. As part of the risk management process, 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.
- 3.6 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.
- 3.7 Where a Member in Public Practice utilises Outsourced Services, the Member should disclose to the Client the geographical location of the Outsourced Service Provider and the nature and extent to which Outsourced Services are used in the delivery of the Professional Service to the Client. These factors impact the amount of risk associated with the Outsource Service being delivered and the management of the confidential information of the Client. Where a Firm uses Outsourcing on a regular basis with a multitude of Clients, a standard form of disclosure may be used by the Firm.
- 3.8 The Member should consider obtaining written consent from the Client to use Outsourced Services. Appropriate forms of written consent from a Client include a signed Engagement Letter that incorporates details of the intended Outsourcing activities and acknowledgement of the acceptance of use of Outsourced Services.
- 3.9 The use of an Outsourced Service Provider may create threats to compliance with the fundamental principles of the Code as well as risks associated with non-compliance with applicable laws and regulations, for example, the *Privacy Act*. A Member in Public Practice should consider potential threats to the fundamental principles in accordance with Section 100 of the Code. Where threats cannot be eliminated or reduced to an Acceptable Level and the Member is considering resigning from an Engagement, then the Member is reminded to consider the legal and other implications of existing contractual arrangements.

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 to effectively manage the risks associated with Outsourcing. Matters that may be addressed by this framework include:
- the approach to managing the business;
 - the approach to managing business, operational and other risks;
 - management of the administrative function;
 - maintenance of compliance with regulatory frameworks where relevant;
 - communication protocols;
 - procedures for maintenance of Client and third party confidentiality;
 - procedures for reporting to the Client; and
 - processes for review of work.

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 communicate this framework to all relevant personnel of the Member's Firm. The framework could 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 When a Member in Public Practice is considering using an Outsourced Service Provider, the Member should conduct appropriate due diligence prior to entering into any Outsourcing Agreement. Matters to be assessed in this context typically include:
- (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;
 - (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 comfort that file review and error correction processes are employed by 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 Service; and
 - (j) the ability of the proposed Outsourced Service Provider to conduct the Outsourced Services on an ongoing basis.
- 4.4 A Member in Public Practice who utilises Outsourced Services should consider developing, documenting and periodically reviewing 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 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 assess whether the Professional Service provided complies with the Code and Professional Standards applicable to the Engagement.

5. Terms of the Outsourcing Agreement

- 5.1 A Member in Public Practice who is providing or utilising an Outsourced Service should document the Outsourcing arrangement taking into consideration the subject matter listed in Appendix 2 of this Guidance Note. The Member should also consider whether there are current contractual arrangements in place, and legal and other implications of existing contracts.

Members providing Outsourced Services

- 5.2 Pursuant to APES 305 *Terms of Engagement*, a Member in Public Practice is required to document and communicate the Terms of Engagement.
- 5.3 Where a Member in Public Practice provides Outsourced Services and the Member in turn subcontracts part of the Professional Service to another service provider, the

Member should disclose details of these arrangements in the Outsourcing Agreement with the Client.

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 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

- 5.6 A Member in Public Practice who provides Outsourced Services should review their professional indemnity insurance policy to assess whether adequate coverage exists for the Outsourced Services provided.

6. Performance of the Outsourcing Agreement

Members providing or utilising Outsourced Services

Transfer process and knowledge

- 6.1 The transition of services to be Outsourced has a number of risks associated with it. A Member in Public Practice providing or utilising Outsourced Services should manage the risks of transition and implementation by 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 consider whether the Member has sufficient resources to manage the risks 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 obtain comfort that the day to day operations as well as issues that arise during the performance of the Outsourcing Agreement will be appropriately managed. Steps that may be undertaken include the establishment and documentation of appropriate corporate governance structures and processes.
- 6.4 A Member in Public Practice providing or utilising Outsourced Services should develop and document 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 use 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 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:
- assess whether that the work has been completed in accordance with the Outsourcing Agreement;

- establish that the objectives of the Engagement have been achieved;
- assess whether the work has been performed in accordance with applicable Professional Standards, legal and regulatory requirements; and
- assess whether 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 consider the manner in which information security and legal obligations that address matters of privacy and confidentiality will be managed during the Engagement.

Renew, renegotiate and terminate

- 6.8 A Member in Public Practice who provides or utilises Outsourced Services should apply 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 consider 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 policies and procedures designed to monitor and manage the delivery of the Outsourced Service. Adherence to such policies and procedures may be documented by the Member as part of the risk management process.

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 should prepare working papers that appropriately document the work performed, including aspects of the Outsourced Service that have been provided in writing.

Conformity with International Pronouncements

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

Appendix 1

Examples of Outsourced Services

This Appendix contains some examples to assist with the determination of whether a particular service is an Outsourced Service.

Members are cautioned that the determination of whether a particular service is an Outsourced Service is a matter to be judged based on the particular facts and circumstances of the Engagement. The examples contained in this Appendix are provided for illustrative purposes only and are not intended to be, and cannot be, all inclusive. The examples are not a substitute for reading the full text of APES GN 30 to determine whether the Member or another party is providing an Outsourced Service. In all of the examples presented below it is assumed that there are no unmentioned facts which would be relevant to the consideration as to whether the service provided is an Outsourced Service.

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 company 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 company of the former staff member. The key issue is whether the Professional 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 due to the unique circumstances of the Client. The Member should consider whether there is potential that if the Professional Service is not delivered, the Client's operations will be materially impacted. For example, if a substantial proportion of Professional Services provided to one Client is Outsourced then the Outsourcing arrangement may be a Material Business Activity from that Client's perspective and the Member should refer to the guidance in 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 company 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 company of the former staff member. The key issue is whether the Professional Services constitute a Material Business Activity. The Material Business Activity assessment should be performed by the Member in Public Practice from the Firm's and the Clients' perspectives.

The Outsourcing activity impacts on 10% of the Firm's revenue base and therefore may be considered a Material Business Activity from the Firm's perspective and thus the Member should refer to the guidance in APES GN 30.

Depending on the circumstances, it may also be considered a Material Business Activity from the Client's perspective.

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 by the Member in Public Practice 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 as non-provision of the Professional service is unlikely to materially impact the scale of Professional Services offered by the Firm. However, it may still be considered a 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 Member should refer to the guidance in 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 into 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 and the Member should refer to the guidance in 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 and the Member should refer to the guidance in 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 the relevant 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. In these circumstances, it is unlikely that the Member needs to consider APES GN 30.

Example 7

A Member in Public Practice assists a large multi-national Firm with offices in Australia, New Zealand and Singapore to restructure its management reporting and accounting processes. To complete required procedures, the Australian Firm intends to utilise its Network Firms in New Zealand and Singapore to perform the Engagement.

The Member in Public Practice discloses to the Client that the Member will be using Network Firms based in New Zealand and Singapore to perform the Engagement.

Depending on the circumstances and nature of the Engagement (i.e. whether it is a Material Business Activity), the Member may need to consider the guidance in APES GN 30.

Example 8

A Member in Public Practice provides Professional Services to a number of Clients. The Member enters into a contract with an external information technology service provider for the provision of record storage, computer support and backup services. Where these activities are internal activities of the Firm, they are not considered to be Material Business Activities as defined by this Guidance Note.

Example 9

A Member in Public Practice conducts the audit of a group financial report of a large manufacturing company. The Member is the group engagement partner as defined by ASA 600 *Special Considerations – Audits of a Group Financial Report (Including the Work of Component Auditors)*. There are a number of subsidiaries in the group and to complete the audit, the Member plans to use component auditors to audit five of the ten subsidiaries of the group.

In these circumstances paragraph 1.6 of APES GN 30 applies and the Engagement is excluded from the scope of this Guidance Note.

Appendix 2

Subject matter that should be considered for inclusion in an Outsourcing Agreement

A Member in Public Practice who provides or utilises an Outsourced Service should negotiate and execute an Outsourcing Agreement that may include the following subject matter depending on the particular circumstances of the Outsourcing arrangement. When drafting such an agreement, only subject matter relevant to the particular arrangement should be included. Such subject matter may include:

- (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; and
 - 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 and understanding of procedures related to the Outsourced Services;
- (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; and
 - intended use and distribution of reports;
- (u) accessibility by the Member to the Outsourced Service Provider's files;
- (v) the 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 Outsourcing Agreement;
- (w) ownership of documents and records;
- (x) the fact 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:
 - 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.

APPENDIX 3

Summary of revisions to the previous APES GN 30 (Issued in March 2013)

APES GN 30 *Outsourced Services* was originally issued in March 2013. APES GN 30 has been revised by APESB in XX 2015. A summary of the revisions is given in the table below.

Table of revisions*

<u>Paragraph affected</u>	<u>How affected</u>
<u>1.1</u>	<u>Added</u>
<u>1.2 Paragraph 1.1 in existing APES GN 30 relocated</u>	<u>Amended</u>
<u>1.10 Paragraph 1.9 in existing APES GN 30 relocated</u>	<u>Amended</u>
<u>2 – Definition of Client</u>	<u>Amended</u>
<u>2 – Definition of Member</u>	<u>Amended</u>
<u>2 – Definition of Professional Activity</u>	<u>Added</u>
<u>2 – Definition of Professional Bodies</u>	<u>Amended</u>
<u>2 – Definition of Professional Services</u>	<u>Amended</u>
<u>Appendix 3</u>	<u>Added</u>

* Refer Technical Update 2015/x