

Project Plan – APES GN 30 *Outsourced Services*

Background

APES GN 30 *Outsourced Services* (APES GN 30) was developed and issued in early 2013. APES GN 30 was revised in 2015 as part of the suite of APESB pronouncements amended to reflect applicable revisions to APES 110 *Code of Ethics in Professional Accountants* (2013).

During the August 2017 annual review of APES GN 30, a Professional Body raised the matter of whether Members in Public Practice are using the Guidance Note appropriately when providing professional services to clients. The Professional Body expressed a view that transforming APES GN 30 into a standard would enhance its effectiveness and use in public practice.

At its August 2017 Board meeting, the Board requested Technical Staff to prepare a project plan to scope a review of APES GN 30's use and effectiveness in public practice.

Project Rationale

The review of APES GN 30's effectiveness and use by Members in Public Practice is necessary to ensure that it remains relevant and useful to Members, in view of the business risks associated with outsourcing and recent technological developments.

Key matters to consider include:

Growth in the use and provision of outsourcing services

APES GN 30 was developed and issued at a time when outsourcing as a business practice was evolving in Australia. Since then, technological developments and innovations have contributed to outsourcing becoming a widespread practice in business, including the accounting profession. For example:

- In 2014, 30% of Australian accounting firms surveyed (Business Fitness Report, *The Good, The Bad and the Ugly of the Australian Accounting Profession*) were outsourcing and 39% were considering commencing or continuing outsourcing in the following year¹.
- In 2015, 59% of Australian Chief Information Officers (CIOs) expected to increase outsourcing activities in the near future (13% more than the global average)². This would have presented more opportunities for accounting firms to grow their outsourcing services to their clients and the market in general.
- In 2017, an increasing trend in payroll functions being outsourced by Australian businesses of all sizes has been noted, which is in line with trends in the US and Europe³.

Technological advancements and associated risks

Technological advancements (such as cloud computing) have made outsourcing easily accessible to businesses of all sizes¹. These advancements have contributed to complexities in outsourcing arrangements, and increased IT-related risks including in respect of:

- Cybersecurity concerns;
- Maintaining confidentiality and privacy of client information;
- Business continuity and disaster recovery, including data loss and recovery issues; and

¹ See [Outsourcing: Opportunity or Threat?](#) (2016) by CPA Australia.

² See [Harvey Nash CIO Survey](#), in association with KPMG (2015).

³ See [Payroll Benchmarking Report](#) (2017) by the Australian Payroll Association.

- Protection of intellectual property rights over proprietary information and systems.

The implications of the IT-related risks to APES GN 30, including when the services are provided by parties in other jurisdictions, will be explored as part of the APES GN 30 review.

Regulatory environment/risk of non-compliance with laws and regulations

Technical Staff note that both the Tax Practitioners Board (TPB) and Australian Securities & Investments Commission (ASIC) have shown an increased interest in outsourcing in recent times.

The TPB has recently issued an exposure draft on a proposed practice note on outsourcing/offshoring, which is intended to provide practical guidance to tax practitioners in understanding their professional obligations relating to the use of outsourcing and offshoring services. APESB has made a [submission](#) to this exposure draft, with a recommendation for the TPB to consider expanding the practice note to also provide guidance to tax practitioners who offer outsourced tax services as a business (see Agenda Item 6).

ASIC has increased its scrutiny of outsourcing arrangements of Australian Financial Services Licence (AFSL) holders. ASIC has made it clear that they expect AFSL holders to have documented agreements with its service providers (including overseas related entities) in connection with financial services. In 2015, ASIC issued RG 104⁴, which outlines an AFSL holder's key responsibilities when engaging external service providers in relation to the provision of licensed services.

Members need to obtain an understanding of the laws and regulations relating to outsourcing, to ensure that they appropriately address the risk of non-compliance with laws and regulations (including when the service provider is based in another jurisdiction). This matter will be further considered in during the APES GN 30 review.

Compliance with the Code and APES 320

The use of an outsourced service provider has the potential to impact primarily upon the fundamental principles of professional competence and due care and confidentiality. With the increasing risks brought about by technological advancements and the stringent regulatory regime, there is a heightened risk of non-compliance. This matter will be given consideration in the APES GN 30 review.

Technical Staff also believe that there needs to be consideration of the applicable requirements of APES 320 in respect of a firm's policies and procedures relating to review and supervision responsibilities.

Objective and Key Project Stages

Appendix A outlines the project objective and key stages of the project.

The project will focus on obtaining the Members' views about APES GN 30's use and effectiveness in public practice and the extent of Members' compliance with or adherence to this pronouncement.

Stakeholder engagement (with the Professional Bodies, regulators and other relevant stakeholders) will be a key component of the project, also undertaking a survey to gain an understanding of the significant views and/or concerns of the Members in Public Practice and other stakeholders.

⁴ See ASIC RG 104 [Licensing: Meeting the General Obligations](#) (2015)

This project is intended to inform the Board about potential revisions to APES GN 30, including whether there is a need to transform the Guidance Note to a Standard.

Other Matters to Consider

Impact on other APESB pronouncements

The impact of any proposed revisions to APES GN 30 will depend on the extent of the changes. If the Guidance Note is transformed into a Standard, there is a potential that other applicable pronouncements will need to be updated.

Impact on accounting, auditing, or other relevant standards

If significant revisions are made to APES GN 30 it may impact guidance released by the Tax Practitioners Board. APESB will need to engage with the AUASB for any potential impact on Auditing and Assurance Standards that contain references to outsourcing.

Related legislative developments

None noted.

Related international developments

None noted.

Project Objective

To determine Members' views in respect of the use and effectiveness of APES GN 30 *Outsourced Services* (APES GN 30) and whether there is a need to elevate the Guidance Note to a Standard.

Project Stages

1. Initial research/ environmental review

This stage of the project will focus on:

- performing a risk assessment for the project to understand the key outsourcing risks that impact the professional services provided to clients by Members in Public Practice;
- performing a risk assessment for the project to identify risks;
- researching the extent of the use and provision of outsourcing services amongst Members in Public Practice (including consultation with the Professional Bodies and other relevant stakeholders);
- obtaining an understanding of the issues that arise when utilising or providing outsourcing services;
- conducting a desktop review of applicable current laws, regulations or requirements;
- conducting a desktop review into other applicable guidance and resources on outsourcing that is available to Members in Public Practice;
- identifying key stakeholders to engage with during the consultation process; and
- determining appropriate methods to engage with stakeholders (including survey tools).

The research will be undertaken internally by Technical Staff.

Timing: December 2017/January 2018

2. Initial stakeholder engagement

This stage of the project will focus on conducting interviews with a cross-section of the key stakeholders to:

- confirm the key issues and current practices around outsourcing identified in Stage 1; and
- determine how APES GN 30 is used or referred to by Members in Public Practice.

The discussions will be undertaken by the CEO and Technical Staff across all categories of stakeholders (e.g. professional bodies, other standard setters, Firms, Members in Business, SMPs, etc.).

Timing: February - April 2018

3. Identification of Issues & other matters to consider

In Stage 3, Technical Staff will:

- Analyse the information gathered from Stage 1 and 2 of the project;
- Determine the key issues that may require further study or feedback;
- Consider if there are other matters that need to be considered from an outsourcing perspective.

Timing: May 2018

4. Conduct Survey and analyse results

Key steps at this stage include:

- Develop survey questions that address key issues and matters identified in Stage 3;
- Conduct survey of stakeholders; and
- Consider respondents' comments and their views on whether APES GN 30 should be elevated to a Standard.

Timing: June – July 2018

5. Decision on necessary amendments to APES GN 30

At the August 2018 Board Meeting, Technical Staff will provide an update on the project and make a recommendation to the Board about whether APES GN 30 should remain as a Guidance Note or whether it should be transformed into a Standard.

Timing: August 2018