

Proposed Principles to be addressed in APES GN 20 *Outsourced Accounting Services*

Roles and Responsibilities

The proposed Guidance Note 20 *Outsourced Accounting Services* (GN 20) will set out the various roles and responsibilities of Members who are involved in Outsourced Accounting Services (OAS). GN 20 will provide guidance for Members who are involved in providing and/or utilising OAS to deliver a Material Business Activity whether it is provided by an In-House Service Provider or Third-Party Service Provider via contracting and/or Service Level Agreements. A diagrammatic illustration of Outsourced Accounting Services arrangements is provided in Appendix 1.

Key Definitions

It is proposed that GN 20 will incorporate the following defined terms which have been adapted from the APESB Discussion Paper *Issues Impacting the Accounting Industry on Outsourcing* (June 2008) and other materials developed by APRA and professional accounting bodies such as AICPA, CIMA, and CMA:

In-House Service Provider means any entity that is not a Third-Party Service Provider.

Material Business Activity means a business activity that has the potential if disrupted, to have a significant impact on the Client's or Employer's business operations or the Member's ability to manage organisational risk effectively. [based on APRA Prudential Standards APS 231 and GPS 231]

Outsourced means contracting with a Third-Party Service Provider or putting in place an arrangement with an In-House Service Provider to transfer the responsibility for conducting internal processes to that party to perform a Material Business Activity which if not delivered would materially impact upon the quality, timeliness or scale of service delivered by the Member. [based on APESB Consultation Paper and AICPA, CIMA & CMA Paper]

Outsourced Accounting Services means Professional Services (as defined in APESB standards) provided or utilised by a Member in connection with a contract for Outsourced services.

Third-Party Service Provider means any entity that the Member individually or collectively with other parties, does not control and any individual who is not employed by the Member. [based on AICPA ethical ruling, basis of conclusions]

These terms have been used consistently within this document as defined above.

Fundamental Responsibilities

The proposed GN 20 should draw reference to the following fundamental principles of APES 110 *Code of Ethics for Professional Accountants* (the Code):

- Public Interest;
- Objectivity;
- Conflicts of interests;
- Professional Competence and Due Care; and
- Confidentiality.

Structure and Coverage

Structure

The proposed GN 20 will be structured to:

- Address matters applicable to members providing Outsourced Accounting Services to deliver a Material Business Activity for a Client or Employer and those applicable to members that utilise Outsourced Accounting Services to conduct a Material Business Activity.
- Differentiate between Outsourced Accounting Services provided by an In-House Service Provider or by a Third-Party Service Provider.

Coverage

A Member's obligations when providing Outsourced Accounting Services to deliver a Material Business Activity for a Client or Employer and/or issues to consider in this context

- A Member should take reasonable steps to determine, negotiate and document the scope of the Outsourced Accounting Services to deliver the Material Business Activity with the Client or Employer;
- A Member should take reasonable steps to clearly articulate, agree and document the role and responsibilities of the Member providing Outsourced Accounting Services to deliver the Material Business Activity and the role and responsibilities of the Client or Employer;
- A Member should take reasonable steps to ensure that the Member or the Member's entity has suitably qualified personnel with the requisite skills and competence to undertake Outsourced Accounting Services;
- A Member should take reasonable steps to ensure that the skills and competence of personnel of the Outsourced Accounting Service delivery team are subject to periodic review and where necessary appropriate training and professional development is undertaken to ensure the quality of the service delivery;
- A Member should take reasonable steps to develop and document appropriate communication protocols in respect of Outsourced Accounting Services with the Client or Employer;
- A Member should maintain a policy of professional indemnity insurance with adequate coverage for the range of Outsourced Accounting Services provided;
- A Member should develop and document appropriate policies and procedures to ensure the quality of the Outsourced Accounting Services provided to the Client or Employer;

- A Member should ensure that they have in place an appropriate risk management framework.
- A Member should develop appropriate contingency plans or disaster recovery plans to ensure continuity of Outsourced Accounting Services;
- A Member should develop, document and adhere to policies and procedures to manage data security, including complying with applicable legal obligations that address matters of privacy and confidentiality; and
- A Member should develop, document and adhere to policies and procedures designed to monitor and manage the delivery of the Outsourced Accounting Service.

A Member's obligations when utilising Outsourced Accounting Services to conduct a Material Business Activity and/or issues to consider in this context

- A Member should take reasonable steps to ensure that the entity's risk management framework deals with the risks associated with outsourcing of the Material Business Activity;
- A Member should take reasonable steps to determine, negotiate and document the scope of the Outsourced Accounting Service to conduct the Material Business Activity with the Third-Party Service Provider or In-House Service Provider;
- A Member should take reasonable steps to clearly articulate, agree and document the roles and responsibilities of the Member, the Third-Party Service Provider or In-House Service Provider who is going to provide the Outsourced Accounting Service;
- A Member should define and document realistic service levels which are expected of the Third-Party Service Provider or In-House Service Provider and include these details in the Service Level Agreement (SLA);
- A Member should develop key selection criteria (taking into consideration suggested minimum criteria that could be incorporated into the Guidance Note) to determine the Third-Party Service Provider that is best suited for the requirements of the Outsourced Accounting Service;
- A Member should develop a Request For Proposal (RFP) that incorporates the entity's strategic requirements which are linked with the business case for the Outsourced Accounting Service. At this stage, service level targets can be developed and incorporated into the RFP;
- A Member should conduct appropriate due diligence on the potential Third-Party Service Providers, including a consideration of the policies and procedures to manage data security to comply with applicable legal obligations that address matters of privacy and confidentiality, in order to select the most appropriate Third-Party Service Provider.
- Once the Third-Party Service Provider is selected or if an In-House Service Provider is to provide the Outsourced Accounting Service, then the Member needs to develop and document a suitable transition plan and appropriate SLA's;
- A Member should take reasonable steps to ensure that the SLA's include specific performance metrics to measure the Third-Party Service Provider's or In-House Service Provider's performance;
- SLA's should be reviewed periodically to ensure they are kept up to date with changing business needs;
- A Member should take reasonable steps to ensure that the contract provisions include specific provisions about the ownership, lien and rights of access to documents and records including original source data and supporting materials.

- Where a Member in Public Practice utilises an Outsourced Accounting Service, the Member should disclose the nature, details and extent to which Outsourced Accounting Services are used in the delivery of the Professional Service and obtain written consent from the Client to use those Outsourced Accounting Services.
- A Member should take reasonable steps to ensure that the contract provisions include well defined dispute resolution mechanisms as well as the process to exit the contract for Outsourced services.
- A Member should take reasonable steps to develop and document appropriate communication protocols between the entity and the Third-Party Service Provider or internal service line as applicable;
- A Member should take reasonable steps to develop and document appropriate procedures to manage the relationship with the Third-Party Service Provider and to monitor performance (i.e. service level management);
- A Member should review the work of a Third-Party Service Provider or an In-House Service Provider to ensure that the objectives of the engagement have been achieved, the work has been performed in accordance with applicable Professional Standards and regulatory/legal requirements, and the work performed supports the conclusions reached and is appropriately documented;
- A Member should take reasonable steps to establish and document appropriate governance structures and processes so that there are mechanisms for the entity and the Third-Party Service Provider or In-House Service Provider to manage daily operations as well as address issues that arise during the course of the outsourcing arrangement;
- A Member should develop and document contingency plans that would enable the Outsourced Accounting Service to be provided by an alternative Third-Party Service Provider or to brought in-house if required.
- A Member in Public Practice should ensure that they adhere to the requirements of APES 320 *Quality Control for Firms*

Contract for Outsourced Accounting Services:

The following matters should be addressed in a Contract for Outsourced Accounting Services:

- The scope of the outsourcing arrangement and Outsourced Accounting Services;
- Terms of agreement
- Commencement and end dates;
- Review provisions;
- Pricing and fee structure;
- Reimbursement of expenses;
- Taxation obligations (GST);
- Payment terms;
- Obligations of the entity (Client);
- Change of service requests;
- Service levels and performance requirements;
- Ownership, lien and rights of access (including access by regulatory authorities) to documents and records;
- Audit and monitoring procedures;
- Business continuity management;

- Confidentiality, privacy and security of information;
- Default arrangements and termination provisions;
- Representations and warranties;
- Dispute resolution arrangements;
- Liability and indemnity;
- Subcontracting;
- Changes in business structures and/or ownership (including the effect novated agreements entered into by Third-Party Service Providers);
- Use of third party materials;
- Insurance; and
- To the extent applicable, off shoring arrangements (including through subcontracting).

Service Level Agreement:

The following matters should be addressed in a Service Level Agreement:

- (a) Communication service level;
- (b) Escalation of operational issues/problems, specifying levels of escalation and relevant key contacts;
- (c) Delivery;
- (d) Quality control;
- (e) Target response times for the range of functions that form the Outsourced Accounting Services identifying, for example, the Material Business Activity or process, the party responsible for the activity or process and the target response time.

Appendix 1 – Diagrammatic Illustration of Outsourced Accounting Service Arrangements

