

**Constituents' Submissions – General Comments  
Exposure Draft 01/12: APES GN30 Outsourced Services**

**Note: Specific comments relating to APES GN30 are addressed in separate tables. This table excludes minor editorial changes.**

Item No.	Paragraph No. in Exposure Draft	Respondent	Respondents' Comments
1	N/A	APPC	<p>The Australian Public Policy Committee (APPC) appreciates the opportunity to provide comments to the Accounting Professional &amp; Ethical Standards Board (APESB) on Proposed Guidance Note APES GN 30 Outsourced Services (the proposed guidance note).</p> <p>The APPC includes BDO, CPA Australia, Deloitte, Ernst &amp; Young, Grant Thornton, KPMG, PKF, PricewaterhouseCoopers, The Institute of Chartered Accountants in Australia and the Institute of Public Accountants.</p> <p>The APPC's objectives are to promote positive public policy outcomes in respect of audit, accounting and related services in Australia that:</p> <ol style="list-style-type: none"> <li>1. Enhance the reputation of the accounting profession by setting and adhering to high standards of ethical and professional conduct.</li> <li>2. Preserve the viability of a high quality, independent, external financial audit profession through an ongoing focus on audit quality and fair and equitable apportionment of the financial risks associated with the audit function.</li> <li>3. Add value to the accounting profession's clients and stakeholders.</li> </ol> <p>It should be noted that the respective firms and professional organisations that comprise the APPC may have made their own individual submissions to the APESB on the proposed guidance note. Please refer to those submissions for detail on the specific views of individual APPC members.</p>
2	N/A	APPC	<p>APPC member firms are strong supporters of the development of internationally consistent standards and guidance. It is noted that the International Ethics Standards Board for Accountants has not issued guidance or standards covering outsourced services.</p>

Item No.	Paragraph No. in Exposure Draft	Respondent	Respondents' Comments
			<p>Whilst guidance <i>per se</i> in this area can be of benefit, particularly to smaller firms, there are a number of concerns with the proposed guidance note in its current form, as set out below. Additionally, we consider that the objectives of the proposed guidance note are not clearly enunciated.</p>
3	N/A	Deloitte	<p>We appreciate the opportunity to comment on proposed guidance note: APES GN 30 Outsourced Services (“GN 30”).</p> <p>We question the need for a guidance note on Outsourced services; it is not clear to us what the objective of the guidance note is and what risks it seeks to mitigate. We also note that the International Ethics Standards Board for Accountants has not issued an equivalent to GN 30. We have the following detailed comments on GN 30.</p>
4	N/A	E&Y	<p>Ernst &amp; Young welcomes the opportunity to offer its views to the Accounting Professional &amp; Ethical Standards Board (“APESB”) on the Proposed Guidance.</p> <p>In our view, there are a number of fundamental conceptual issues which need to be clarified by the APESB with respect to the scope and practical application of the Proposed Guidance. We would strongly urge the APESB to address these issues prior to the issue of the Proposed Guidance in its final form.</p> <p>We set out below firstly a summary of our main conceptual concerns with the Proposed Guidance. We then discuss each of these concerns in more detail, followed by a number of other issues that we wish to raise. We also attach in Appendix 1 more detailed comments on specific paragraphs of the Proposed Guidance.</p>
5	N/A	GT	<p>Grant Thornton Australia Limited (Grant Thornton) appreciates the opportunity to comment on the Accounting Professional and Ethical Standards Board’s (APESB) proposed Guidance Note: APES GN 30 (ED 01/12).</p> <p>Grant Thornton’s response reflects our position as auditors and business advisers both to listed companies and privately held companies and businesses.</p> <p>Grant Thornton does not support the release of a Guidance Statement based on ED 01/12 for the following reasons:</p> <p><i>(provided in Specifics Comments tables)</i></p>

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6	N/A	GT	It is noted that the International Ethics Standards Board for Accountants (IESBA) has not issued a pronouncement equivalent to ED 01/12, and that provides further reasons as to why ED 01/12 should not have mandatory requirements, given that at this the Guidance Note will impose additional costs on Australian Members in Practice. Until the IESBA has considered the issue of Outsourced Services, Grant Thornton believes that there should be no mandatory requirements applying to Australian Members in Practice.
7	N/A	JAB	Thank you for the opportunity to comment on this Exposure Draft for the APES GN 30 <i>Outsourced Services</i> . The Institute of Chartered Accountants in Australia, CPA Australia and the Institute of Public Accountants (the Joint Accounting Bodies) have considered the exposure draft and our comments follow. The Joint Accounting Bodies represent over 210,000 professional accountants in Australia. Our members work in diverse roles across public practice, commerce, industry, government and academia throughout Australia and internationally.
8	N/A	JAB	<b>Interaction with ASA 600</b>  We note that Australian Auditing Standard ASA 600 <i>Special Considerations – Audits of a Group Financial Report (Including the Work of Component Auditors)</i> covers similar subject matter to the proposed guidance note, albeit in a particular context. We ask that the APESB consider whether for clarity the proposed guidance should be stated to specifically exclude those arrangements which are subject to ASA 600, for the avoidance of any inconsistency between the guidance and the legally enforceable standard.
9	N/A	KPMG	We are pleased to have the opportunity to comment on the exposure draft of APES GN 30 <i>Outsourced Services</i> .  KPMG supports the principle of a methodical and consistent approach in the accounting profession to managing the risks associated with outsourced services.  The proposed guidance note is not supported by KPMG at this time or in its current form.
10	N/A	PwC	This submission is provided by PricewaterhouseCoopers (PwC) in relation to APES GN 30. We appreciate the opportunity to provide comments to the APESB on APES GN 30.  PwC is not supportive of guidance being issued by APESB in relation to outsourced services. No international guidance or standard has been issued by the International Ethics Standards Board for Accountants, and we do not believe there is any local reason or market concern that would support the need for local guidance to be issued. The proposed guidance note imposes additional layers of compliance or obligation on accountants which do not apply to

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			<p>other professional service providers such as lawyers or investment banks. We see no reason why it would be necessary or appropriate for accountants to be subject to more onerous requirements than those that apply to other professions.</p> <p>We have set out below some additional concerns. If, notwithstanding this submission, APESB proposes to proceed with a guidance note, we ask that a further draft which takes into account the comments received by APESB be issued for comment.</p>
11	N/A	Deloitte	<p><b><u>International standards and consistency with standards in other jurisdictions</u></b></p> <p>As noted above, the IESBA has not issued an equivalent to GN 30. We are aware of the AIPCA's Ethics Rulings relating to 112 Use of a Third Party Service Provider to Assist a Member in Providing Professional Services. Based on our reading of that ruling we do not believe that it was drafted to respond to the use of Outsourced Services. We believe that it largely covers Members obligations when using experts in the delivery of Professional Services. We also note that it is a lot less prescriptive in nature. For example, whilst Member need to advise the clients of the use of Third Parties in the delivery of Professional Services, they are not required to do so in writing. Furthermore, there is not a requirement to advise the client of the nature and extent of the use of the third party.</p>
12	N/A	E&Y	<p><i>1. Why the need for Australian guidance in the absence of an international equivalent?</i></p> <p>Ernst &amp; Young is a strong supporter of the development of a consistent international framework of professional standards and guidance. Outsourcing, however defined, is not an issue that is specific to Australia and we see no current need for Australia to produce guidance outside of the international framework.</p>
13	N/A	E&Y	<p><b>1. Consistency with Overseas and International Standards</b></p> <p>The Proposed Guidance indicates that the International Ethics Standards Board for Accountants ("IESBA") has not issued an equivalent pronouncement to APES GN 30 <i>Outsourced Services</i>. Outsourced Services are not unique to Australia. Our preference would be for the development of a consistent international approach. It is, in our view, preferable to work with the IESBA and other relevant regulatory bodies in developing an international framework for</p>

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			the provision and/or utilisation of Outsourced Services.
			The Proposed Guidance does not consider whether, and the extent to which, the guidance is consistent with (or no more onerous than) comparable guidance issued by other countries. For example, comparable guidance issued by the American Institute of Certified Public Accountants ("AICPA"), Ethics Ruling No. 112 does not require the disclosure of Outsourced Services to the client to be undertaken in writing; nor is there any reference to a requirement to disclose the "nature" and "extent" of such services. Such inconsistencies are undesirable for a number of reasons, including interpretation conflicts for cross-border arrangements.
14	N/A	E&Y	<p><b>2. Applicability to cross-border teaming arrangements</b></p> <p>In our opinion, cross-border teaming arrangements should be excluded from the scope of the guidance.</p> <p>The use of multi-location arrangements with overseas Affiliate Firms and with shared service centres of the Member Firms in Australia, is increasingly widely used in the professional services market. It is unclear from the definitions included in the Proposed Guidance whether the use of such arrangements in the provision of professional services to the client would be considered "Outsourced Services".</p>
15	N/A	E&Y	<p><i>2. Cross-border teaming is not Outsourcing</i></p> <p>Increasing use is being made by the larger Firms of Affiliated Firms and shared service centres to undertake certain administrative and processing procedures in connection with the provision of professional services by the Australian Firm. These Affiliated Firms and shared service centres are often located offshore. The exercise of judgement in the provision of the professional service remains the sole responsibility of the Australian Firm. We do not consider the use of these services to be "Outsourcing", as properly defined, in circumstances where the Affiliated Firm or shared service centre is a member of the Australian Firm's global network, and is subject to the same policies, procedures and risk management frameworks.</p>
16	N/A	E&Y	It has been market practice for some time for "shared services" teaming arrangements to occur at a cross-border level (sometimes referred to as offshoring). In these circumstances, the primary responsibility for the delivery of the professional service, including supervision, review and quality control procedures, remains with the local Australian Firm. Generally, all matters requiring professional judgement are retained by the local Australian team and the performance of procedures and support services is undertaken by "shared service centres" as extended members of the local engagement teams.

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			<p>Member Affiliate Firms typically are not “controlled” by the Australian practice (as defined by Australian Accounting Standards), as all practices operate as separate legal entities that are Member Firms of the relevant global network.</p> <p>However, all Member Firms typically operate under the provisions of agreed Global policies covering, but not limited to infrastructure, risk management frameworks, quality review procedures to ensure compliance with internal policies, International Standard on Quality (ISQC) 1, and data privacy policies which address the requirements of the <i>Privacy Act</i>. This is the basis upon which Members Firms of the Ernst &amp; Young network operate.</p> <p>We believe that the scope of the Proposed Guidance should not be applicable to cross-border teaming arrangements utilising offshore “shared services” where staff are employed by Affiliate Firms. The primary responsibility for the delivery of professional services remains unequivocally with the local Australian Firm.</p>
17	N/A	KPMG	<p>The objective of the proposed guidance note is not clearly stated in the exposure draft. That is, it does not set out what issues are intended to be addressed by the guidance note. It is noted that the media release dated 25 January 2012 states, “The market for outsourced services has significantly grown in recent times and this raises issues around quality control of the work performed by accountants and risk management issues.”</p> <p>KPMG has not seen evidence to support the assertion that the growth in the outsourcing market “raises issues around quality control of the work performed by accountants and risk management issues.”</p> <p>It is understood that the intention of the proposed guidance note is to address risks associated with both the provision of outsourced services and the use of outsourced services, including risks to quality outcomes. KPMG’s comments are made in this context.</p>
18	N/A	KPMG	<p><b>Key comments</b></p> <p>Our key comments on proposed guidance are set out below.</p> <ol style="list-style-type: none"> <li>1. KPMG considers that the development of a consistent international approach is preferable to commencing with a local standard applicable for Australian Members in Public Practice. Furthermore the cross-jurisdiction impacts on outsourcing arrangements are not considered. It is envisaged that any guidance from the Accounting Professional &amp; Ethical Standards (APES) Board or international standard setter would do so.</li> </ol>

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			<p>Whilst KPMG notes the existence of an AICPA equivalent, the International Ethics Standards Board for Accountant (IESBA) has not provided guidance or sought comments concerning outsourced services</p>
19	N/A	KPMG	<p>1. The exposure draft is detailed and prescriptive and such detailed guidance may hinder the ability of Members in Public Practice to provide commercially acceptable outsourced services to organisations, which are subject to other standards. KPMG considers that a succinct, outcome focused or principles based approach is preferable to a detailed, prescriptive or rules based one.</p>
20	N/A	KPMG	<p>2. KPMG submits that any guidance should be outcome focused. It should be non-prescriptive concerning detailed arrangement for managing outsourced services. The key components of any guidance should address at a high level:</p> <ul style="list-style-type: none"> <li>- Risk assessment and due diligence process and activities</li> <li>- policy relating to the implementation and ongoing governance of outsourcing of material business activities</li> <li>- Monitoring processes to support oversight of the outsourcing of material business activities; and</li> <li>- Legally binding agreements.</li> </ul> <p>Please note that it is our strongly held view that any guidance should not address the content of agreements, which are subject to the detail of the commercial arrangements between the parties to the arrangements. The negotiation of such arrangements should be determined by the Member in Public Practice according to the specific commercial circumstances of the outsourced services and not mandated by standards.</p>
21	N/A	KPMG	<p>3. Many members in Public Practice participate in outsourcing arrangements and have contracts already in place. It is clear that legally binding obligations will arise from any such existing contracts. KPMG considers that any Guidance Note needs to provide a clear principle based guidance concerning transition from existing contractual obligations.</p>
22	N/A	KPMG	<p>4. High levels of detail and prescription in the guidance are considered to increase the risk of unintended consequences arising from its application. Therefore, it is KPMG's strongly held view that should the APES</p>

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			<p>Board proceed to issue a guidance note, it should contain a clear statement that it:</p> <ul style="list-style-type: none"> <li>- Is intended for guidance only;</li> <li>- Needs to be adapted to suit the specific circumstances of the Member in Public Practice and the nature of the outsourcing arrangement concerned; and</li> <li>- Is not intended to later be imposed as a standard.</li> </ul>
23	N/A	KPMG	<p>5. KPMG notes the operation of other “guidance” and “standards” for outsourced services. Such standards may provide value to Members in Public Practice when considering appropriate measures for implementing and managing outsources services. An example is CPS 231 issued by the Australian Prudential Regulatory Authority (APRA), which is to become effective 1 July 2012. It establishes mandatory measures for entities regulated by APRA. It is a consolidation of APRA’s existing industry sector specific standards, which have been operational since 2007 and in turn were based on a standard for Approved Deposit-taking Institutions (ADIs), which commenced operation in 2002.</p>
24	N/A	APPC	<p><b>Language:</b> Whilst purporting to be guidance, the proposed guidance note has the look and feel of a standard. The language used within the proposed guidance note (particularly the prevalence of “should”) suggests mandatory requirements rather than points of guidance.</p>
25	N/A	Deloitte	<p><b><u>Authority, format and presentation of GN 30</u></b></p> <p>GN 30 is intended to give guidance to Members and therefore is non-authoritative in nature. However, we are concerned that its format and presentation is almost identical to the authoritative pronouncements of the APESB and that this will lead to confusion amongst users. In APESB authoritative pronouncements the word “shall” is used to describe requirements that the Member must comply with. In GN 30 the word “should” has been used in the majority of the paragraphs whilst in the APESB standards the word “shall” is used. Paragraphs containing the word should are also in grey letter rather than bold type face which is used for standards. Other than these changes the document looks like the APESB standards. We are unclear as to the difference in the Member’s obligations when the word “should” is used instead of “shall”.</p>

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			<p>We also note that the use of the word “should” is inconsistent with the approach taken by other standard setters in the issuance of guidance notes or statements. For example, the guidance notes of the AUASB avoid the use of the words should, shall, or must and are written in the active tense. This in our view helps to minimise the risk that people may interpret the wording as a requirement. In addition, the AUASB include an authority statement at the start of each guidance note which explains that they “provide guidance to assist the auditor to fulfil the objectives of an audit..... Guidance Statement does not prescribe or create new requirements”. We would be supportive of the APESB including an authority statement at the beginning of GN 30.</p> <p>If the APESB proceeds with the issuance of a GN on Outsourced Services, we strongly recommend that the APESB reconsider its approach to the drafting of the document and re-expose the revised GN 30.</p>
26	N/A	E&Y	<p><b>Guidance Note vs Standard</b></p> <p>We note that some of the language in the Proposed Guidance infers requirements rather than guidance. References are made throughout the Proposed Guidance such as “Members in Public Practice should” and “Members in Public Practice are required to”. We would encourage the APESB to assess the language used throughout the Proposed Guidance to ensure that APES GN 30 <i>Outsourced Services</i> is positioned appropriately as guidance.</p>
27	N/A	GT	<p>Whilst it is headed as a Guidance Note, ED 01/12 has mandatory requirements that Grant Thornton believes are excessive and do not necessarily reflect the significance of the outsourced service. For instance the outsourcing of communications such as mailings, might be caught by the definition of a Material Business Activity as it does impact the timeliness of communications, however is there really a need to have 29 separate conditions that are set out in Para 5.5 of ED 01/12? Whilst Para 5.5 might be read as providing some discretion on whether all 29 conditions need to be met, the use of the phrase ‘that includes the following depending on the particular circumstances’ could be better worded to state ‘that may include the following etc.’. As it presently stands, the Guidance is clearly not guidance but contains mandatory requirement that requires justification where not followed.</p>
28	N/A	JAB	<p><b>The language of guidance</b></p> <p>Guidance paragraphs in APES standards typically provide clarity in relation to mandatory paragraphs. However, in a stand-alone guidance note that is not associated with a specific standard, we consider that guidance should have a distinctly different flavour, more akin to the identification of best practices approaches.</p>

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			<p>The JAB consider that the language used in ED 01/12 is overly prescriptive in tone, such that it reads more like a standard than like guidance. In our view an approach to the topic that was written more from the point of view of identifying best practice would better reflect the provision of guidance, particularly in relation to this topic of outsourced services.</p> <p>As an example, paragraph 4.3 of the ED currently states:</p> <p>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:</p> <p>This could be rewritten in a less prescriptive style as: When a Member in Public Practice is considering using an Outsourced Service Provider, it is preferable that appropriate due diligence be conducted prior to entering into any Outsourcing Agreement. Matters to be assessed in this context would typically include:</p>
29	N/A	PwC	<p>The guidance is quite prescriptive and notes what firms “should” be doing. We suggest this be addressed by recasting it as recommendations or suggestions rather than requirements.</p>
30	N/A	KPMG	<p>This appendix forms part of and is to be read in conjunction with and in the context set by KPMG’s letter, dated 30 March 2012 and headed “Proposed Guidance Note: APES GN 30 Outsourced Services”.</p> <p>a) KPMG acknowledges that some members will place value having guidance available to them. KPMG is concerned that guidance which is highly detailed and prescriptive may reduce the applicability of such guidance in all circumstances. Each circumstance of outsourcing will give rise to unique risks which should be assessed individually. On that basis any guidance should be outcome focused and not prescriptive. Furthermore any guidance should specifically state that it is intended as guidance and is not intended to become the basis for any mandatory standard.</p>
31	N/A	E&Y	<p><b>Targeted Guidance for Small Member Firms</b></p>

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			The Proposed Guidance does not distinguish between large Member Firms and small Member Firms, notwithstanding that the examples in Appendix 1 are predominately directed at concerns in relation to small Member Firms' outsourcing arrangements. We request that consideration is given as to whether particular measures within the Proposed Guidance can be specifically targeted to small Member Firms.
32	N/A	APPC	Thank you for the opportunity to provide comment on the proposed guidance note. If you have any questions regarding this submission, I would be happy to provide further information.
33	N/A	GT	If you require any further information or comment, please contact me.
34	N/A	APPC	We recommend that a revised exposure draft of the proposed guidance note be prepared for further stakeholder comment and that it be less prescriptive and more outcomes focused/principles-based. It is requested that the objectives of the proposed guidance note are clearly enunciated.
35	N/A	GT	Grant Thornton does believe that ED 01/12 provides useful guidance but it should not at this time be mandatory without international support.
36	N/A	Deloitte	We would be pleased to discuss our comments with either yourself or other members of your team. If you wish to do so, please do not hesitate to contact me on (02) 9322 7288.
37	N/A	E&Y	In our view, there are a number of fundamental conceptual scope issues that we would ask the APESB to consider prior to finalising the Proposed Guidance. We would be pleased to discuss our concerns and comments with members of the Accounting Professional & Ethical Standards Board and its staff. If you wish to do so, please contact either Denis Thorn on (03) 8650 7637 or myself on (03) 9288 8647.
38	N/A	JAB	If you have any questions regarding this submission, please do not hesitate to contact either Paul Meredith (Institute of Chartered Accountants in Australia) at paul.meredith@charteredaccountants.com.au, Eva Tsahuridu (CPA Australia) at eva.tsahuridu@cpaaustralia.com.au, or Reece Agland (The Institute of Public Accountants) reece.agland@publicaccountants.org.au.
39	N/A	KPMG	Our additional detailed comments on specific points in the exposure draft are set out in Appendix 1 to this letter. We would be pleased to discuss our comments with the APES Board. If you wish to do so, please contact me on (02) 93357108, or Tom Seville, KPMG'S Head of Regulatory Affairs on (03) 92885050.
40	N/A	PwC	We would be happy to discuss this submission with you.

*Staff Instructions:*

- Comments of a “general” nature should be dealt with first, followed by paragraph specific comments.
- Respondents’ comments must be copied verbatim into this table.
- Comments should be dealt with in paragraph order, not respondent order.
- Use acronyms only for respondents. Update the attached table with details of additional respondents.

**RESPONDENTS**

1	APPC	Australian Public Policy Committee
2	Deloitte	Deloitte Touch Tohmatsu Australia
3	E&Y	Ernst & Young Australia
4	GT	Grant Thornton Australia Limited
5	JAB	Joint Accounting Bodies
6	KPMG	KPMG Australia
7	PWC	PricewaterhouseCoopers Australia