



Accounting Professional & Ethical Standards Board

AGENDA PAPER

Item Number: 3

Date of Meeting: 10 June 2021

Subject: Proposed revised APES GN 30 *Outsourced Services*

Action required **For discussion** **For noting** **For information**

Purpose

To:

- provide the Board with an update on the submissions received on the APES GN 30 *Outsourced Services* (APES GN 30) Exposure Draft 01/21 (ED 01/21);
- obtain the Board's approval, subject to the Board's review comments and editorials, to issue the proposed revised APES GN 30; and
- obtain the Board's approval to include on the APESB's Issues Register to undertake a post-implementation review of the revised APES 305 *Terms of Engagement* (APES 305) and APES GN 30 in 12 months from the effective date of 1 July 2021.

Background

Technical Staff provided an update to the Board on outsourcing in [Agenda Item 2](#) of the June 2020 Board meeting and proposed amendments to APES 305. The Board approved the Exposure Draft on proposed revisions to [APES 305 ED 02/20](#) (ED 02/20), which was issued and open for public comment between 14 July 2020 and 15 October 2020.

Technical Staff provided an update at the November 2020 Board meeting on the submissions received on ED 02/02 ([Agenda Item 7](#)) and the Board approved the issue of the [revised APES 305](#).

Revised APES 305 was issued 4 December 2020, effective for engagements commencing on or after 1 July 2021. The most significant amendment to APES 305 requires members in public practice utilising outsourced services (which can include cloud computing) to disclose the outsource service provider, the geographic location and the nature and extent of outsourced services.

This represents a shift from a recommended disclosure in extant APES GN 30, which has existed since 2013. The Board was of the view that this guidance must become a requirement in APES 305, recognising the fundamental principle that it is the client's right to know about the utilisation of outsourced services.

Revised APES 305 also included new application material that when cloud computing is utilised (that is not an outsourced service), the member should disclose the details of the cloud computing provider, the geographical location of where the cloud computing will be provided and how the client's confidential information will be stored.

The Board also requested at the November 2020 Board meeting that Technical Staff review and update APES GN 30 to align to revised APES 305 and update and include new examples to address stakeholder feedback on APES 305.

The Board approved the issue of ED 01/21 with proposed revisions to APES GN 30 at the [March 2021 Board meeting](#). [ED 01/21](#) was issued and open for public comment between 12 March 2021 and 28 April 2021.

Matters for Consideration

Submissions Received on APES GN 30 ED 01/21

Technical Staff promoted making submissions easier, less time consuming and focusing on small and medium practices (SMPs) with the following comment in ED 01/21:

Whilst APESB prefers formal submissions we also encourage opinions and comments to be sent via email to sub@apesb.org.au.

Technical Staff also updated the *Large National Networks* forum on 28 April 2021 about proposed changes to APES GN 30 and provided additional time to representative firms, accounting bodies and other stakeholders to provide comments.

APESB received submissions from the following stakeholders:

- CPA Australia
- Nexia Australia Pty Ltd (Nexia)

CPA Australia supports the proposed revisions to APES GN 30 in full (refer to General Comments Table Agenda Item 3(a)).

Nexia was not supportive of the proposed changes to APES GN 30 and, by extension, APES 305. Nexia's main concerns are summarised below and included in full together with technical analysis in General and Specific Comments Tables (Agenda Items 3(a) and 3(b)):

Specific Comment	Summary of Concern	Technical Staff View
SC1	Outsourced services need to be considered at multiple levels (firm, division and client) and may not be known at the engagement outset.	Outsourced services are material business activities which should generally be relatively evident within service lines. Paragraph 5.2 of APES 305 provides guidance to firms when determining to reissue or amend engagement documents. No change is recommended.
SC2	Examples in APES GN 30 ED 01/21 do not illustrate the 'nature and extent' of disclosures.	'Nature and extent' in requirement paragraph 3.6 of revised APES 305 is not overly prescriptive, enables professional judgement and discretion based on engagement types and circumstances. No change is recommended (also refer to SC4).

Specific Comment	Summary of Concern	Technical Staff View
SC3	Unclear whether disclosures in APES 305/APES GN 30 intend to specifically identify every cloud-based arrangement used by firms, which Nexia believe would be inappropriate and increase IT security risks.	Paragraph 3.6 of revised APES 305 requires disclosures regarding outsourced services (which may include cloud computing). If cloud computing is not an outsourced service, paragraph 3.7 of revised APES 305 applies and firms have discretion on the recommended disclosures. It is unclear how such disclosures would include information to enable 'bad actors' to target systems. Firms must also have policies and procedures that identify, assess and manage technology risks (including cyber-security) (paragraph 4.2 of APES 325 <i>Risk Management for Firms</i>). No change is recommended.
SC4	Unclear why cloud computing that is an outsourced service requires disclosure of 'nature and extent' whereas cloud computing that is not an outsourced service disclosure of how the information is stored is recommended. Recommend the Board provide guidance on the disclosures.	Nature and extent are broader than how the information will be stored. Example 5 in ED 01/21 was updated from extant APES GN 30 and includes specific reference to ' <i>nature and extent (including how the Client's confidential information will be stored)</i> '. Further, the professional bodies have updated engagement letter templates to incorporate changes in the revised APES 305 to assist firms with disclosures in engagement letters. No change is recommended.
SC5	Unclear in Example 5 whether the software licence is held by the firm or the client. Also, unclear whether the Board considers all cloud-based working paper and other internal systems are outsourced services particularly if they 'merely supports' services delivered to clients that this could be viewed as an alternative to paper based working papers. Recommend that the Board clarifies this point.	Cloud-based accounting software provides many benefits, including ease of access, automation, and client/firm collaboration greatly increase the efficiency and often perform part of the service. Firms must exercise professional judgement in respect of their individual circumstances and the accounting software being utilised in determining whether it is an outsourced service or something merely supporting services provided. Recommend Example 5 is made clearer to emphasise circumstances where the firm organises and sets up the software (impacting the level of client knowledge), and in this example, the software does more than merely support service delivery.
SC6	Unclear why Example 9 which includes document data storage is Cloud Computing whereas Example 12 includes record storage and backup services is not deemed backup storage.	Example 12 is a historical example from extant APES GN 30 and referring to an IT service provider backing up data locally and not on the cloud and potentially offshore. To avoid any confusion and delineate this example from Example 9, recommend that Example 12 should be amended to focus solely on information technology services relating to the firm's IT infrastructure.
SC7	Firms use cloud-based backups commonly to ensure appropriate IT and business risk management. Seeking clarity as to whether the Board intends for all such services to be included in engagement letters.	Cloud-based backups that entrust the remote third party with client data and would likely constitute cloud computing but not likely a Material Business Activity as it merely supports service delivery. Recommend Example 9 be amended to also include cloud-based backups.

There has been further dialogue between Nexia and APESB Technical Staff subsequent to Nexia's submission on ED 01/21. Nexia raised concerns in respect of operationalising the disclosure requirements in APES 305. Technical Staff highlighted the reasoning behind the Board's decision being the fundamental principle that it is the client's right to know about the utilisation of outsourced services. Technical Staff also referred Nexia to the engagement letter resources produced by the professional bodies updated for the revised APES 305.

Proposed Revised APES GN 30

Technical Staff propose the amendments to Examples 5, 9 and 12 in APES GN 30 to address some of the stakeholder's concerns as highlighted above. Due to the limited changes being presented to the Board, Technical Staff have not reproduced the complete proposed revised APES GN 30 in this agenda paper. Instead, the proposed changes are marked up in Agenda Item 3(c).

Proposed Effective Date of APES GN 30 and Proposed Post-Implementation Review

APESB Guidance Notes are effective from the date of issue. As the revised APES 305 (to which proposed revised APES GN 30 is now aligned) is effective for engagements commencing on or after 1 July 2021, Technical Staff recommend that the proposed revised APES GN 30 is issued by 1 July 2021.

At the March 2021 Board meeting, the Board requested that once the revised APES GN 30 is issued, it should be reviewed within a year of its release. Technical Staff also recommend a post-implementation review of APES 305 is undertaken 12 months after its effective date of 1 July 2021.

Release of templates by Professional Bodies

We note that CA ANZ has a new [Engagement letter tool \(Australia\)](#) updated for amendments to the revised APES 305. CPA Australia also has [updated templates](#) to assist firms in preparing engagement letters including details on possible disclosures. We understand that the IPA are in the process of updating their engagement letter templates.

Way Forward

Subject to the Board's approval:

- issue the proposed revised APES GN 30 by 1 July 2021; and
- include on APESB's Issues Register to undertake a post-implementation review of revised APES 305 and APES GN 30 in 12 months from 1 July 2021.

Recommendations

The Board:

- note the update on the submissions received on ED 01/21;
 - approve, subject to the Board's review comments and editorials, the issue of revised APES GN 30; and
 - approve Technical Staff's proposed way forward and to add to APESB's Issues Register to undertake a post-implementation review of revised APES 305 and APES GN 30 in 12 months from 1 July 2021.

Materials presented

Agenda Item 3(a)	APES GN 30 ED 01/21 General Comments Table
Agenda Item 3(b)	APES GN 30 ED 01/21 General Comments Table
Agenda Item 3(c)	Proposed Amendments to Examples in APES GN 30

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Date 28 May 2