

AGENDA PAPER

Item Number: 6
Date of Meeting: 31 May 2023
Subject: Proposed revisions to APES GN 30 Outsourced Services

Action required For discussion For noting For information

Purpose

To seek the Board's approval, subject to the Board's review comments and editorials, to issue an Exposure Draft of proposed revisions to APES GN 30 *Outsourced Services* (APES GN 30).

Background

The Board approved a revised APES 305 *Terms of Engagement* (APES 305) at the November 2020 meeting ([Agenda Item 7](#)), which was issued on 7 December 2020 with an effective date of 1 July 2021. Key amendments to [APES 305](#) included:

- a new requirement that where an outsourced service is utilised that the member must document and communicate to the client the details of the outsourced service provider, the geographic location of where the outsourced service will be performed, and the nature and extent of outsourced services;
- similar application material in relation to the use of cloud computing in circumstances where it is not an outsourced service;
- guidance referring members to consider APES GN 30; and
- new definitions for cloud computing and material business activity.

The Board approved a revised APES GN 30 at the June 2021 Board meeting to align to changes in the revised APES 305 ([Agenda Item 3](#)), issued on 25 June 2021 and effective from that date. Key revisions to [APES GN 30](#) included:

- updated definitions of cloud computing and material business activity;
- revisions to paragraph 3.9 and a new paragraph 3.11 to refer members to the requirements and application material in APES 305; and
- revisions to existing examples, including references to APES 305 and the development of new examples 7 to 10 in Appendix 1 relating to outsourced services and cloud computing.

At the June 2021 Board meeting, the Board also [approved](#) Technical Staff to undertake a post implementation review (PIR) of APES 305 and APES GN 30 post 1 July 2022.

An update was provided at the December 2022 Board meeting on the PIR of APES 305 and APES GN 30 ([Agenda Item 8](#)). The Board noted that the PIR indicated no substantive revisions to APES 305 or APES GN 30 are required. However, the Board agreed that the following matters raised by stakeholders could be addressed in a revision of APES GN 30:

- that some members have experienced reluctance from cloud-based providers to specify the exact location where services are performed; and
- whether an outsourcing arrangement where an overseas entity holds the individual's employment contract and the individual provides services to Australian Clients under the supervision of an Australian Firm is an 'outsourced service'.

Matters for Consideration

The PIR indicated that there is some uncertainty about what 'geographical location' means in the context of APES 305 and APES GN 30, indicating that clarity is required on the meaning of this term.

The outsourcing arrangement highlighted in the PIR relates to an individual employed by an overseas company, but where the Australian Firm has managerial responsibility for the individual. Technical Staff believe clarity is required about whether this arrangement meets the definition of 'Outsourcing', a fundamental component of an Outsourced Service.

As discussed at the December 2022 Board meeting, quality management conforming amendments to APES GN 30 are also required due to the reissued APES 320 *Quality Management for Firms that provide Non-Assurance Services* and the new Auditing and Assurance Standards Board's (AUASB) quality management standards, in accordance with the project plan approved at the March 2022 meeting ([Agenda Item 5](#)).

To address the above issues, Technical Staff propose the following revisions to APES GN 30:

- addition of footnote 2 to paragraphs 3.9 and 3.11 explaining that 'geographical location' in the context of APES 305 and APES GN 30 might include the details of the country where the Outsourced Service or Cloud Computing will be performed or provided, and similar amendments to Example 6 in Appendix 1;
- quality management-related conforming amendments to the definition of 'Network' in paragraph 2, paragraph 4.3(e) and paragraph 7.2;
- inclusion of a new Example 5 in Appendix 1 addressing the specific example raised during the PIR; and
- editorial amendments to Example 6 (extant Example 5) in Appendix 1.

A proposed Exposure Draft for APES GN 30 is attached at Agenda Items 6(a) (marked-up) and 6(b) (clean). Technical Staff recommend the Exposure Draft is released for a public comment period of 45 days.

Small and Medium Practices (SMPs)

Technical Staff believe the proposed amendments to APES GN 30 will positively impact SMPs by clarifying the meaning of geographical location and the specific example of outsourced services where an overseas entity holds the individual's employment contract.

Recommendations

The Board approve, subject to the Board's review comments and editorials, the issue of an Exposure Draft on proposed revisions to APES GN 30.

Materials presented

Agenda Item 6(a) Proposed Exposure Draft for APES GN 30 (marked-up)

Agenda Item 6(b) Proposed Exposure Draft for APES GN 30 (clean)

Authors: Jon Reid
Disna Dharmasekara

Date: 16 May 2023