

## AGENDA PAPER

**Item Number:** 6  
**Date of Meeting:** 3 December 2018  
**Subject:** Project Update: Review of APES GN 30 *Outsourced Services*

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

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### Purpose

To:

- provide the Board with an update on the progress of the project to review APES GN 30 *Outsourced Services* (APES GN 30); and
- seek the Board's views regarding the appropriate approach to progress this project.

### Background

During the 2017 annual review of APES GN 30, the IPA raised the matter of whether APES GN 30 is effective in its current form and whether it is being applied properly by Members in Public Practice. They wondered if there is a need to transform the guidance note into a standard.

In response, the Board approved at its November 2017 meeting a [project plan](#) to determine Members' views in respect of the use and effectiveness of APES GN 30 and whether there is a need to elevate the guidance note to a standard.

Technical staff presented the results of a desktop review to the Board at the Board Meeting in March 2018. The Board also considered the range of stakeholders that Technical Staff should consult with.

### Project Status

In accordance with the approved [project plan](#), Technical staff sought engagement from a wide range of stakeholders (22 different organisations/people) including clients, the professional bodies, regulators, outsourced service providers, and accounting firms (big 4 through to SMPs).

Refer to agenda item 6 (a) for the details of the stakeholders that APESB have engaged with to date.

From this stakeholder engagement process, we observed the following:

#### Use of outsourcing

- Outsourcing and offshoring models are being used by Members across different services and different types of firms.
- A Professional Body estimates that only 10% of their Members are using outsourcing (based on their quality review process).
- Some firms within a network establish Service delivery centres which are not considered as outsourcing.
- Offshoring models have experienced high growth over the last few years (according to the service providers). One provider noted that their client numbers had doubled over the last two years.

#### Key issues/impacts on outsourcing

- New legislation around privacy and reporting of data breaches (in Australia and the EU) has led to a focus on controls around privacy and the use and storage of client data/information.
- Key risks to address when using outsourcing/offshoring is privacy, data confidentiality, communication with client and implementation of controls over the process.
- Several stakeholders believed the key risks/issues associated with outsourcing are appropriately covered by the guidance note.
- TPB decided to issue practice note rather than an authoritative requirement on outsourcing as they did not find any evidence of systemic issues with outsourcing practices by tax agents.

#### Use of the guidance note in practice

- Some stakeholders were of the view that the guidance note was mandatory (or treated it as such).
- Some stakeholders were aware of the guidance note but referred to resources from CPA Australia<sup>1</sup> as their main source of information on outsourcing.
- Accounting firms, on the whole, follow the guidance note as best practice.
- However, a couple of firms noted that they experienced difficulties in communicating with their client about the location of the outsourced service. This was because the decision to use outsourcing may not occur at the start of an engagement but may be made as a resourcing decision as the engagement progresses. These firms tended to use a generalised reference to the use of outsourcing in their terms and conditions.
- The stakeholders familiar with the guidance note believed it appropriately covered the key risks/issues associated with outsourcing.

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<sup>1</sup> Main resource referred to was '*Outsourcing: Opportunity or Threat – Outsourcing Guide*' (2016) CPA Australia Ltd

### Matters that could be reviewed/ revised in APES GN 30

- Whether there should be a distinction between the different models of outsourcing/offshoring (maybe separate sections for the different methods).
- Clarification of whether a minor service is outsourcing (what is considered a minor service).
- Additional guidance material on the definition of 'Material Business Activity'.
- Whether there should be guidance to prompt Members to consider specific client requirements, for example, some government departments may require only Australian citizens work on specific projects.
- Inclusion of a checklist for those who might be starting to use outsourcing as to what they need to consider or put in place.
- Provide links to other relevant pronouncements like APES 320 *Quality Control for Firms* and ISQC 1 *International Standard on Quality Control*.

### Retain current format or change to a standard

When asked whether APES GN 30 should be retained in its current format or whether it should be converted to a standard we received a range of views, as set out below:

#### *Retaining APES GN 30 in current format*

- APES GN 30 adequately addresses the key risks and issues associated with outsourcing in its current format.
- Stakeholders expressed doubt whether conversion to a standard will make the existing content more effective.
- The introduction of relevant laws on privacy and data collection has changed the way Members handle information and communicate to their clients regarding the use of outsourced services. By having these aspects addressed in legislation, there are not many advantages in transforming the guidance note into a standard.
- The use of data analytics in audit may contribute to the reduction in outsourced work, particularly offshoring.
- A view that conversion to a standard would create significant administrative burden if some of the guidance became mandatory (i.e. specifying location of outsourced services).
- Current guidance note is effective for some firms but maybe education and promotion of existing APES GN 30 will make the implementation more effective.
- Prefer to keep existing format as concern about what the commercial impact will be if it is a standard (e.g. could remove flexibility to use outsourced services once engagement commenced, re-negotiation of existing arrangements).
- It is hard to support move to a standard without seeing what it would look like and understanding what the mandatory requirements would be.

In summary, the majority of stakeholders preferred to retain APES GN 30 as a guidance note.

### *Converting APES GN 30 to a Standard*

- A Regulator believed a standard in outsourcing could assist in ensuring audit quality (by having mandatory requirements for elements that are outsourced). Note that the Auditing and Assurance Standards are legislative instruments.
- A standard would clearly set out the obligations of the accountant.
- Promotes the use of outsourcing (as it is supported by clear requirements).
- Limited support from stakeholders for changing to a standard – only Two stakeholders believed the pronouncement would be more effective in practice as a standard.

In considering the feedback from the stakeholders, it is apparent that most are supportive of retaining APES GN 30 as a guidance note. There were no clear arguments or reasons presented that indicate there is a compelling reason for the material to be converted to a standard, or that there are significant gaps in the existing guidance note.

### **Matters for consideration**

#### *Analysis of the stakeholder engagement*

Based on the initial consultation with stakeholders and the review of the outsourcing industry, Technical Staff have formed a preliminary view that APES GN 30 should be retained in its current format as a guidance note. However, we are seeking feedback from the Board as to whether this view should be adopted by APESB.

#### *Approach to complete the project*

The approach to complete this project, as per the approved project plan, was to conduct a survey around the issues identified in the initial stakeholder engagement and to seek stakeholder views on the preferred format of the content in APES GN 30.

However, considering the work performed to date, Technical Staff are concerned that a survey may not provide additional insights than what has already been gathered and may not reach a broader range of stakeholders than we have already engaged with.

Therefore, we have been considering what would be the most effective and efficient approach to complete this project. Technical Staff believe that there are 3 options to consider.

1. **Conduct a survey** - Develop survey questions that address key issues and matters identified, conduct survey of stakeholders; and consider respondents' comments and their views on whether APES GN 30 should be elevated to a Standard.

<i>Advantages</i>	<i>Disadvantages</i>
<ul style="list-style-type: none"><li>• Precise quantifiable results</li><li>• Convenient data gathering</li><li>• High Representativeness</li></ul>	<ul style="list-style-type: none"><li>• Difficulty in extracting specific information</li><li>• Design inflexibility</li><li>• Inability to discuss results further with respondents</li></ul>

2. **Issue a consultation paper** - a consultation paper will be able to set out in more detail the issues in relation to outsourcing and the reasons for change. It will allow stakeholder to provide more detailed feedback that a survey would.

<i>Advantages</i>	<i>Disadvantages</i>
<ul style="list-style-type: none"> <li>• Detailed feedback can be solicited</li> <li>• High Representativeness</li> <li>• Allows for stakeholders to be informed in detail on the background and analysis of key issues</li> <li>• Can seek further engagement to discuss submission</li> </ul>	<ul style="list-style-type: none"> <li>• Inability to extract precise quantifiable results</li> <li>• May not obtain conclusive evidence either way</li> </ul>

3. **Retain APES GN 30 as a Guidance Note and address stakeholder suggestions for improvement** – The existing consultation process will be completed, and the matters identified for review will be included on the Issues Register. These matters will then be considered in the next revision of APES GN 30 (scheduled to occur in late 2019 to consider changes from the issue of the restructured Code of Ethics).

<i>Advantages</i>	<i>Disadvantages</i>
<ul style="list-style-type: none"> <li>• Feedback received from survey or consultation paper unlikely to be different from the feedback from initial stakeholder engagement.</li> <li>• Consistent with stakeholder's views that generally supported retaining APES GN 30 as a guidance note.</li> </ul>	<ul style="list-style-type: none"> <li>• Feedback from initial stakeholder engagement may not represent the views of the population</li> <li>• Not an open forum for stakeholders to provide feedback.</li> </ul>

In considering the appropriate action to progress this project, Technical Staff note that the key issues in relation to outsourcing (privacy, data protection, audit quality and compliance with auditing standards) are already addressed by legislative requirements. The feedback from stakeholders show there would be a marginal benefit of converting APES GN 30 to a standard.

Based on these considerations, Technical Staff are of the view that option 3 (to retain APES GN 30 as a guidance note and revise for the matters identified by stakeholders) is the most appropriate approach to complete this project.

Technical Staff seek the Board's views on the preferred approach to progress the project on APES GN 30.

## **Recommendation**

Technical Staff seek feedback from the Board on:

- a) the analysis of the initial stakeholder engagement; and
- b) the appropriate approach to progress the project on APES GN 30.

## **Materials presented**

Agenda Item 6(a)      APES GN 30 Stakeholders consultation

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