

4 December 2020

APESB issues revised APES 305 *Terms of Engagement*

Accounting Professional & Ethical Standards Board Limited (APESB) today announced the issue of the revised APES 305 *Terms of Engagement* (APES 305) to replace the existing APES 305 (Issued August 2019).

The key changes in the revised APES 305 consist of:

- A new subsection on matters to be considered for inclusion in the Engagement Document when a Member in Public Practice utilises an Outsourced Service or Cloud Computing when delivering a Professional Service;
- Inclusion of guidance to consider APES GN 30 *Outsourced Services*;
- A new requirement that where Outsourced Services will be utilised, the Member must document and communicate to the Client the details of the Outsourced Service provider, the geographic location of where Outsourced Services will be performed and the nature and extent of Outsourced Services;
- New application material on communicating with the Client on the use of Cloud Computing that is not an Outsourced Service; and
- New definitions for Cloud Computing, Material Business Activity, Outsourced Service, Outsourced Service Provider, Outsourcing and Outsourcing Agreement.

Please refer to Appendix 1 of this technical update for details of all the revisions. The revised APES 305 will be effective for Engagements commencing on or after 1 July 2021 with early adoption permitted.

The revised standard is available from APESB's website: www.apesb.org.au

– ENDS –

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Appendix 1

Revision to APES 305 (Issued August 2019)

Accounting Professional & Ethical Standards Board Limited (APESB) has approved the following revisions to APES 305 *Terms of Engagement* which was originally issued in December 2007 and revised in June 2009, March 2013, October 2015 and August 2019.

Paragraph/Section Reference	Revisions
1.2	Accounting Professional & Ethical Standards Board Limited (APESB) has revised professional standard APES 305 <i>Terms of Engagement</i> (the Standard), which is effective for Engagements commencing on or after 1 July 2021 January 2020 and supersedes APES 305 <i>Terms of Engagement</i> issued in <u>August 2019</u> October 2015 . Earlier adoption of this Standard is permitted.
2	<u>Cloud Computing</u> means computing resources that are usually provided by a third party over the internet to a Member in Public Practice, including on-demand access to networks, servers, data storage, databases, software and applications. Cloud Computing entrusts the remote third party with data and information of the Member's Clients.
2	<u>Material Business Activity</u> means an activity of an entity or a Firm that has the potential, if disrupted, to significantly impact upon the quality, timeliness or scale of Professional Services offered by a Member in Public Practice or received by a Client. Whether a business activity is a Material Business Activity should be based on an assessment of the risks associated with the nature and size of the activity and the business activity's relevance to the Professional Service delivered to the Client. Material Business Activities exclude the internal operational activities of the Firm or activities that merely support the Professional Services delivered to the Client, such as record storage, software application hosting or informational reference sources.
2	<u>Outsourced Service</u> means a service involved in Outsourcing a Material Business Activity to an Outsourced Service Provider. ¹
<u>Footnote 1</u>	Engagements which are subject to ASA 600 <i>Special Considerations – Audits of a Group Financial Report</i> are not considered to be an Outsourced Service. Appendix 1 to APES GN 30 <i>Outsourced Services</i> includes a series of examples of Outsourced Services including considerations relevant to what is a Material Business Activity.
2	<u>Outsourced Service Provider</u> means an entity, including a person, that is providing services in accordance with an Outsourcing Agreement. The Outsourced Service Provider may not be located in the same country as the Member in Public Practice or the Client and may not even be a Member.
2	<u>Outsourcing</u> means an activity where an entity or a Firm engages a party, on a continuing basis, to perform a business activity that is being, has been, or could be performed by that entity or Firm. Outsourcing can be from a Client to a Member in Public Practice or from a Member in Public Practice to another service provider to assist with the delivery of a Professional Service to a Client.
2	<u>Outsourcing Agreement</u> means the document (i.e. letter, agreement or any other appropriate means) in which the terms and conditions of an Outsourced Service are set out.
3.3	It is in the interests of both the Client and <u>the</u> Member in Public Practice that the Member documents and communicates the Terms of Engagement,

Paragraph/Section Reference	Revisions
	preferably before the Engagement commences, to avoid misunderstandings with respect to the Engagement.
	<u>Confidentiality</u>
<u>3.4</u>	<u>A Member in Public Practice who acquires confidential information in the provision of Professional Services to a Client shall comply with Subsection 114 Confidentiality of the Code.</u>
	<u>Utilising Outsourced Services or Cloud Computing</u>
<u>3.5</u>	<u>Utilising Outsourced Services or Cloud Computing in the provision of Professional Services to a Client impacts the amount of risk associated with the Professional Service being delivered and the management of the Client's confidential information. Members in Public Practice should refer to APES GN 30 Outsourced Services to determine whether a service is an Outsourced Service (which may include Cloud Computing) and for guidance in relation to professional and ethical obligations in respect of Outsourced Services.</u>
<u>3.6</u>	<u>Where a Member in Public Practice will utilise Outsourced Services in the provision of Professional Services to a Client, the Member shall document and communicate the details of the Outsourced Service Provider, the geographical location of where the Outsourced Services will be performed and the nature and extent of the Outsourced Services to be utilised.</u>
<u>3.7</u>	<u>Where a Member in Public Practice will utilise Cloud Computing in the provision of Professional Services to a Client which is not an Outsourced Service, the Member in Public Practice should document and communicate to the Client 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.</u>
	<u>Engagement Document</u>
<u>3.84 to 3.106</u>	<i>[Paragraphs 3.4 to 3.6 of extant APES 305 remain unchanged but renumbered as paragraphs 3.8 to 3.10.]</i>
<u>4.4</u>	<p><i>Scope of the Engagement:</i> Pertinent details of such matters as:</p> <ul style="list-style-type: none"> (a) time periods covered by the Engagement; (b) period of appointment and time schedules; (c) references to any legislation, regulations, Professional Standards, accounting standards, or auditing and assurance standards <u>or any other applicable standards</u> that may be relevant to the Engagement; (d) any limitations on the conduct of the Engagement including scope limitations and limitations arising from legal or professional and ethical requirements; (e) Client operations or procedures to be included in the Engagement; and (f) details of information to be provided by the Client. <p>The Member in Public Practice should consider the implications of a recurring Engagement when documenting the details noted above.</p>
<u>4.6</u>	<i>Relative responsibilities:</i> Responsibilities agreed upon, detailing those acknowledged to be the responsibility of:

Paragraph/Section Reference	Revisions
	<p>(a) the Member in Public Practice, including reference to relevant confidentiality requirements and the impact of them on the quality review program of the relevant Professional Body to which the Member in Public Practice belongs, and the Member's obligations on responding to actual or suspected non-compliance with laws and regulations (NOCLAR);</p> <p>(b) the Client, noting the fact that the Client is responsible for the completeness and accuracy of information supplied to the Member in Public Practice; and</p> <p>(c) any third party <u>including Outsourced Service Providers</u>.</p>
4.9	<p><i>Ownership of documents <u>and data</u></i>: The Engagement Document should make clear who owns any documents <u>or electronic data</u> produced as a result of the Engagement or provided by the Client for such a purpose including electronic data. If a Member in Public Practice has a policy of seeking to exercise a right of lien over such documents in the event of a dispute with the Client, this policy should be disclosed in the Engagement Document communicated to the Client, including the process for dealing with disputes over the lien.</p>
5.1	<p>In certain circumstances a Member in Public Practice will have to determine whether an Engagement is a recurring Engagement. A recurring Engagement generally exhibits the following features:</p> <ul style="list-style-type: none"> -(a) unchanged Terms of Engagement under which the Professional Services are provided; -(b) the same or similar Professional Service provided by the Member in each period; -(c) defined or identifiable commencement and completion dates each time the Engagement is performed; and -(d) performance of the Engagement is on a regular periodic basis as agreed with the Client, for example annually.
5.2	<p>When determining the need to reissue or amend an Engagement Document for a recurring Engagement, a Member in Public Practice should consider the following factors:</p> <ul style="list-style-type: none"> (a) any indication that the Client misunderstands the objectives and scope of the Engagement; (b) any significant changes in the Engagement; (c) any significant changes in the Professional Services to be provided or the Terms of Engagement; (d) a recent change of Client management or ownership; (e) a significant change in the nature or size of the Client's business; (f) any significant changes to Professional Standards or applicable accounting <u>standards</u>, or auditing and assurance standards <u>and any other standards</u>; and (g) any changes to legal or regulatory requirements.
Appendix 1	<p>Summary of revisions to the previous APES 305 (Issued in August 2019) - Amended</p>