

# APES GN 30 Outsourced Services

[Supersedes APES GN 30 Outsourced Services issued in June 2021]

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## 1. Scope and application

- 1.1 The objectives of APES GN 30 *Outsourced Services* are to provide guidance in relation to a **Member in Public Practice's** professional and ethical obligations in respect of:
- fundamental responsibilities of the **Member** who provides or utilises an **Outsourced Service**;
  - management of risks associated with the performance or utilisation of **Outsourced Services**;
  - matters to be included in the **Outsourcing Agreement** pertaining to **Outsourced Services**;
  - management and monitoring of the **Outsourced Services**; and
  - documentation.
- 1.2 Accounting Professional & Ethical Standards Board Limited (APESB) has revised professional guidance note APES GN 30 *Outsourced Services* (the Guidance Note). This Guidance Note is effective from the date of issue and supersedes APES GN 30 issued in June 2021.
- 1.3 APES GN 30 provides guidance or suggestions to assist a **Member in Public Practice** who is providing or utilising **Outsourced Services** and does not prescribe or create any new professional requirements. The term “should” used throughout this Guidance Note is to be read in this context.<sup>1</sup>
- 1.4 **Members in Public Practice** in Australia should follow the guidance in APES GN 30 when they provide or utilise **Outsourced Services**.
- 1.5 **Members in Public Practice** outside of Australia should follow the guidance in APES GN 30 to the extent to which they are not prevented from so doing by specific requirements of local laws and/or regulations.
- 1.6 This Guidance Note is directed towards **Members in Public Practice**. However, **Members in Business** should apply this Guidance Note to the extent practicable when they provide or utilise **Outsourced Services**.
- 1.7 The Guidance Note is not intended to detract from any responsibilities which may be imposed by law or regulation.
- 1.8 For the purposes of this Guidance Note, an **Engagement** which is subject to ASA 600 *Special Considerations – Audits of a Group Financial Report* is not considered to be an **Outsourced Service**.
- 1.9 All references to **Professional Standards**, guidance notes and legislation are references to those provisions as amended from time to time.
- 1.10 **Members in Public Practice** are required to comply with applicable **Professional Standards** and be familiar with relevant guidance notes when performing **Professional Activities**. All **Members** are required to comply with the requirements of the **Code**.
- 1.11 In applying the guidance outlined in APES GN 30, **Members in Public Practice** should be guided not merely by the words but also by the spirit of this Guidance Note and the **Member's** professional obligation to comply with the requirements of the **Code**.

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<sup>1</sup> Refer to APESB's *Due process and working procedures for the development and review of APESB pronouncements* (APESB's Due Process document), Section 5, Paragraph 5.2(e).

1.12 In this Guidance Note, unless otherwise specified, words in the singular include the plural and vice versa, words of one gender include another gender, and words referring to persons include corporations or organisations, whether incorporated or not.

## 2. Definitions

Defined terms are shown in the body of the Guidance Note in title case.

For the purpose of this Guidance Note:

**Acceptable Level** means a level at which a **Member** using the reasonable and informed third party test would likely conclude that the **Member** complies with the fundamental principles.

**Client** means an individual, firm, entity or organisation to whom or to which **Professional Activities** are provided by a **Member in Public Practice** in respect of **Engagements** of either a recurring or demand nature.

**Cloud Computing** 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**.

**Code** means APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*.

**Engagement** means an agreement, whether written or otherwise, between a **Member in Public Practice** and a **Client** relating to the provision of **Professional Services** by a **Member in Public Practice**. However, consultations with a prospective **Client** prior to such agreement are not part of an Engagement.

**Firm** means:

- (a) A sole practitioner, partnership, corporation or other entity of professional accountants;
- (b) An entity that controls such parties, through ownership, management or other means;
- (c) An entity controlled by such parties, through ownership, management or other means; or
- (d) An Auditor-General's office or department.

**Material Business Activity** 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.

**Member** means a member of a **Professional Body** that has adopted this Guidance Note as applicable to their membership, as defined by that **Professional Body**.

**Member in Business** means a **Member** working in areas such as commerce, industry, service, the public sector, education, the not-for-profit sector, or in regulatory or professional bodies, who might be an employee, contractor, partner, director (executive or non-executive), owner-manager or volunteer.

**Member in Public Practice** means a **Member**, irrespective of functional classification (for example, audit, tax or consulting) in a **Firm** that provides **Professional Services**. This term is also used to refer to a **Firm** of Members in Public Practice and means a practice entity and a participant in that practice entity as defined by the applicable **Professional Body**.

**Network** means a larger structure:

- (a) That is aimed at cooperation; and
- (b) That is clearly aimed at profit or cost sharing or shares common ownership, control or management, common quality management policies and procedures, common business strategy, the use of a common brand-name, or a significant part of professional resources.

**Network Firm** means a **Firm** or entity that belongs to a **Network**.

**Outsourced Service** means a service involved in **Outsourcing** a **Material Business Activity** to an **Outsourced Service Provider**.

*Appendix 1 includes a series of examples of Outsourced Services including considerations relevant to what is a **Material Business Activity**.*

**Outsourced Service Provider** 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**.

**Outsourcing** 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**.

**Outsourcing Agreement** 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.

**Professional Activity** means an activity requiring accountancy or related skills undertaken by a **Member**, including accounting, auditing, tax, management consulting, and financial management.

**Professional Bodies** means Chartered Accountants Australia and New Zealand, CPA Australia and the Institute of Public Accountants.

**Professional Services** means **Professional Activities** performed for **Clients**.

**Professional Standards** means all standards issued by Accounting Professional & Ethical Standards Board Limited and all professional and ethical requirements of the applicable **Professional Body**.

**Terms of Engagement** means the terms and conditions that are agreed between the **Client** and the **Member in Public Practice** for the **Engagement**.

### 3. Fundamental responsibilities of Members in Public Practice

#### *Members providing or utilising Outsourced Services*

- 3.1 The **Code** is the conceptual framework and foundation on which all APESB pronouncements are based. Compliance with, and application of, the **Code** is fundamental to the professional behaviour of all **Members**. Non-compliance with the **Code** can lead to disciplinary proceedings being initiated by the **Professional Body** to which the **Member** belongs.

- 3.2 The professional obligations and ethical requirements that all **Members** are required to comply with are based on the five fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour in the **Code**.

*Members providing Outsourced Services*

- 3.3 The provision of **Outsourced Services** may create threats to compliance with the fundamental principles of the **Code**, as well as risks of non-compliance with applicable laws and regulations (for example, the *Privacy Act 1988 (Cth)*). A **Member in Public Practice** providing an **Outsourced Service** should consider potential threats to the fundamental principles in accordance with Part 1 *Complying with the Code, Fundamental Principles and Conceptual Framework* of the **Code**. Where threats cannot be eliminated or reduced to an **Acceptable Level** and the **Member** is considering resigning from an **Engagement**, then the **Member** is reminded to consider the legal and other implications of existing contractual arrangements.
- 3.4 A **Member in Public Practice** who becomes aware of instances of non-compliance or suspected non-compliance with laws and regulations when providing **Outsourced Services** is required to comply with Section 360 *Responding to Non-Compliance with Laws and Regulations* of the **Code**.

*Members utilising Outsourced Services*

- 3.5 A **Member in Public Practice** utilising **Outsourced Services** should evaluate the **Member's** ability to comply with Subsection 113 *Professional Competence and Due Care* of the **Code**.
- 3.6 A **Member in Public Practice** who is considering utilising **Outsourced Services** should take reasonable steps to determine that the **Outsourced Service Provider** has the required professional competence, skills, capacity, policies and procedures to conduct the **Outsourced Services** and to manage the risks associated with **Outsourcing**. As part of the risk management process, prior to sharing confidential information with an **Outsourced Service Provider**, the **Member** should evaluate the **Outsourced Service Provider's** controls to safeguard such information, including whether the **Outsourced Service Provider** has appropriate systems and procedures in place to prevent unauthorised access.
- 3.7 When a **Member in Public Practice** is considering using **Outsourced Services**, the **Member** should determine the **Client's** specific requirements and whether there is any prohibition on the use of **Outsourced Services**, including the use of an **Outsourced Service Provider** operating outside of Australia.
- 3.8 A **Member in Public Practice** who utilises an **Outsourced Service Provider** retains the primary responsibility to deliver the **Professional Service** in accordance with the **Terms of Engagement** with the **Client** and in compliance with the ethical requirements of the **Code** and applicable **Professional Standards**.
- 3.9 Where a **Member in Public Practice** will utilise **Outsourced Services** (which may include **Cloud Computing**) in the provision of **Professional Services** to a **Client**, the **Member** is required to comply with the disclosure obligations in APES 305 *Terms of Engagement* (APES 305), including to document and communicate the details of the **Outsourced Service Provider**, the geographical location<sup>2</sup> of where the **Outsourced Services** will be performed and the nature and extent of the **Outsourced Services** to be utilised. These factors impact the amount of risk associated with the **Outsourced Service** being delivered and the management of the **Client's** confidential information.

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<sup>2</sup> Geographical location might include the country where the **Outsourced Service** or **Cloud Computing** will be performed or provided.

- 3.10 The **Member in Public Practice** should consider obtaining written consent from the **Client** to use **Outsourced Services**. Appropriate forms of written consent from a **Client** include a signed engagement letter that incorporates details of the intended **Outsourcing** activities and acknowledgement of the acceptance of use of **Outsourced Services**.
- 3.11 Where the **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** should follow the guidance in APES 305 on disclosures about the details of the **Cloud Computing** provider, the geographical location<sup>3</sup> of where the **Cloud Computing** will be provided and how the **Client's** confidential information will be stored.
- 3.12 The use of an **Outsourced Service Provider** may create threats to compliance with the fundamental principles of the **Code** as well as risks associated with non-compliance with applicable laws and regulations (for example, the *Privacy Act 1988 (Cth)*). A **Member in Public Practice** should consider potential threats to the fundamental principles in accordance with Part 1 *Complying with the Code, Fundamental Principles and Conceptual Framework* of the **Code**. Where threats cannot be eliminated or reduced to an **Acceptable Level** and the **Member** is considering resigning from an **Engagement**, then the **Member** is reminded to consider the legal and other implications of existing contractual arrangements.
- 3.13 A **Member in Public Practice** who becomes aware of instances of non-compliance or suspected non-compliance with laws and regulations when utilising **Outsourced Services** is required to comply with Section 360 *Responding to Non-Compliance with Laws and Regulations* of the **Code**.<sup>4</sup>

## 4. Management of risks associated with Outsourced Services

### *Members providing Outsourced Services*

- 4.1 A **Member in Public Practice** providing an **Outsourced Service** should develop and document an **Outsourcing** policy framework to effectively manage the risks associated with **Outsourcing**. Matters that may be addressed by this framework include:
- the approach to managing the business;
  - the approach to managing business, operational and other risks;
  - management of the administrative function;
  - maintenance of compliance with regulatory frameworks where relevant;
  - communication protocols;
  - procedures for maintenance of **Client** and third party confidentiality;
  - procedures for reporting to the **Client**; and
  - processes for review of work.

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<sup>3</sup> Geographical location might include the country where the **Outsourced Service** or **Cloud Computing** will be performed or provided.

<sup>4</sup> **Members in Business** should refer to Section 260 *Responding to Non-Compliance with Laws and Regulations* of the **Code**.

*Members utilising Outsourced Services*

- 4.2 A **Member in Public Practice** utilising **Outsourced Services** should develop and document an **Outsourcing** policy framework together with policies and procedures and communicate this framework to all relevant personnel of the **Member's Firm**. The framework could set out the **Member's** approach to utilising **Outsourced Services** and include the **Member's** approach to managing business, operational and other risks associated with the performance of the **Outsourcing Agreement**.
- 4.3 When a **Member in Public Practice** is considering using an **Outsourced Service Provider**, the **Member** should conduct appropriate due diligence prior to entering into any **Outsourcing Agreement**. Matters to be assessed in this context typically include:
- the operating policies and procedures of the **Outsourced Service Provider**;
  - whether the **Outsourced Service Provider** has sufficient staff with the necessary professional competencies and skills;
  - the adequacy of contingency and business continuity plans of the **Outsourced Service Provider**;
  - whether the information security measures adhere to applicable legal and regulatory obligations;
  - whether the **Outsourced Service Provider** has appropriate quality management requirements in place in respect of the **Outsourced Service** that will enable the **Member** to comply with the **Member's** professional obligations in respect of APES 320 *Quality Management for Firms that provide Non-Assurance Services* or, where applicable, ASQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements* (ASQM 1) issued by the Auditing and Assurance Standards Board (AUASB), and other applicable **Professional Standards**;
  - whether the **Member** has sufficient comfort that file review and error correction processes are employed by the **Outsourced Service Provider**;
  - the communication skills of the **Outsourced Service Provider** and its personnel;
  - whether the **Outsourced Service Provider** will perform the duties and responsibilities of the **Outsourcing Agreement** in a timely manner;
  - how the **Member** is going to address the changes to the risk profile of the **Material Business Activity** that is the subject of the **Outsourced Service**; and
  - the ability of the proposed **Outsourced Service Provider** to conduct the **Outsourced Services** on an ongoing basis.
- 4.4 A **Member in Public Practice** who utilises **Outsourced Services** should consider developing, documenting and periodically reviewing contingency plans to enable the **Outsourced Services** to be provided by an alternative **Outsourced Service Provider** or to be brought in-house, if required.
- 4.5 **Outsourced Services** may result in the day-to-day responsibility for certain activities moving to an **Outsourced Service Provider**. However, a **Member in Public Practice** who utilises such a service retains the responsibility to monitor the work that is performed by the **Outsourced Service Provider** and to perform sufficient reviews to assess whether the **Professional Service** provided complies with the **Code** and **Professional Standards** applicable to the **Engagement**.



## 5. Terms of the Outsourcing Agreement

- 5.1 A **Member in Public Practice** who is providing or utilising an **Outsourced Service** should document the **Outsourcing** arrangement taking into consideration the subject matter listed in Appendix 2 of this Guidance Note. The **Member** should also consider whether there are current contractual arrangements in place, and legal and other implications of existing contracts.

### *Members providing Outsourced Services*

- 5.2 Pursuant to APES 305, a **Member in Public Practice** is required to document and communicate the **Terms of Engagement**.
- 5.3 Where a **Member in Public Practice** provides **Outsourced Services** and the **Member** in turn subcontracts part of the **Professional Service** to another service provider, the **Member** should disclose details of these arrangements in the **Outsourcing Agreement** with the **Client**.

### **Insurance**

- 5.4 A **Member in Public Practice** who provides **Outsourced Services** should review their professional indemnity insurance policy to assess whether adequate coverage exists for the **Outsourced Services** provided.

### *Members utilising Outsourced Services*

- 5.5 A **Member in Public Practice** who utilises an **Outsourced Service** should agree and document the scope of the services with the **Outsourced Service Provider**.
- 5.6 A **Member in Public Practice** who utilises **Outsourced Services** should review the **Outsourcing Agreement** periodically to ensure it is kept up to date with changing business needs.

## 6. Performance of the Outsourcing Agreement

### *Members providing or utilising Outsourced Services*

#### **Transfer process and knowledge**

- 6.1 The transition of services to be outsourced has a number of risks associated with it. A **Member in Public Practice** providing or utilising **Outsourced Services** should manage the risks of transition and implementation by using appropriate project management skills and discipline. Where the **Member** does not have the professional expertise to manage the transition of processes and the required implementation support, the **Member** should seek assistance from a suitably qualified third party.

#### **Monitor and manage performance**

- 6.2 A **Member in Public Practice** providing or utilising **Outsourced Services** should consider whether the **Member** has sufficient resources to manage the risks and monitor the performance of the **Outsourcing Agreement**. The type and extent of resources will depend on the **Material Business Activity** that is outsourced.
- 6.3 A **Member in Public Practice** providing or utilising **Outsourced Services** should obtain comfort that the day-to-day operations, as well as issues that arise during the performance of the **Outsourcing Agreement**, will be appropriately managed. Steps that may be undertaken include the establishment and documentation of appropriate corporate governance structures and processes.

- 6.4 A **Member in Public Practice** providing or utilising **Outsourced Services** should develop and document communication protocols between the **Member** and the **Client** or the **Member** and the **Outsourced Service Provider**, as applicable.
- 6.5 A **Member in Public Practice** providing or utilising **Outsourced Services** should use appropriate performance measures (which may be detailed in the **Outsourcing Agreement**) to monitor the performance of the **Member** or the **Outsourced Service Provider**, as applicable. The **Member** should consider the **Outsourcing** policy framework referred to in paragraph 4.1 when developing performance measures.
- 6.6 A **Member in Public Practice** providing or utilising **Outsourced Services** should review the work of the **Member's** personnel or the **Outsourced Service Provider**, as applicable, to:
- (a) assess whether the work has been completed in accordance with the **Outsourcing Agreement**;
  - (b) establish that the objectives of the **Engagement** have been achieved;
  - (c) assess whether the work has been performed in accordance with applicable professional standards, legal and regulatory requirements; and
  - (d) assess whether the work performed has been appropriately documented and supports the conclusions reached.
- The **Member** should review the work performed prior to submitting the work product to the **Member's Client**.
- 6.7 A **Member in Public Practice** who provides or utilises **Outsourced Services** should consider the manner in which information security and legal obligations that address matters of privacy and confidentiality will be managed during the **Engagement**.

#### **Renew, renegotiate and terminate**

- 6.8 A **Member in Public Practice** who provides or utilises **Outsourced Services** should apply both qualitative and quantitative performance measures when evaluating whether to renew, renegotiate or terminate the **Outsourcing Agreement**.
- 6.9 Where a **Member in Public Practice** plans to terminate an **Outsourcing Agreement**, the **Member** should consider planning the process to bring the activity back in-house or to transfer to another **Outsourced Service Provider** in a timely manner prior to the actual termination.

#### **Client monies**

- 6.10 Where a **Member in Public Practice** who provides or utilises **Outsourced Services** holds, disburses or receives **Client** monies or operates **Client** bank accounts, the **Member** is required to comply with APES 310 *Client Monies*.

## **7. Documentation**

### *Members providing or utilising Outsourced Services*

- 7.1 A **Member in Public Practice** who provides or utilises **Outsourced Services** should develop policies and procedures designed to monitor and manage the delivery of the **Outsourced Service**. Adherence to such policies and procedures may be documented by the **Member** as part of the risk management process.

*Members providing Outsourced Services*

- 7.2 A **Member in Public Practice** who provides **Outsourced Services** is required to have appropriate quality management requirements in place in accordance with APES 320 *Quality Management for Firms that provide Non-Assurance Services* or, where applicable, ASQM 1 issued by the AUASB.
- 7.3 A **Member in Public Practice** who provides **Outsourced Services** should prepare working papers that appropriately document the work performed, including aspects of the **Outsourced Service** that have been provided in writing.

***Conformity with International Pronouncements***

The International Ethics Standards Boards for Accountants (IESBA) has not issued a pronouncement equivalent to APES GN 30.

## Appendix 1 – Examples of Outsourced Services

*This Appendix contains some examples to assist with the determination of whether a particular service is an Outsourced Service.*

*Members in Public Practice are cautioned that the determination of whether a particular service is an Outsourced Service is a matter to be judged based on the particular facts and circumstances of the Engagement. The examples contained in this Appendix are provided for illustrative purposes only and are not intended to be, and cannot be, all inclusive. The examples are not a substitute for reading the full text of APES GN 30 to determine whether the Member or another party is providing an Outsourced Service. In all of the examples presented below it is assumed that there are no unmentioned facts which would be relevant to the consideration as to whether the service provided is an Outsourced Service.*

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### Example 1

A Member in Public Practice is a partner in a four partner Firm, which has a staff member taking parental leave for a period of 12 months. The Member's Firm enters into an agreement with the family company of the staff member to process Small and Medium Enterprises' (SME) ledgers and complete draft income tax returns for some of the Firm's Clients. The arrangement covers approximately 35 Clients that the staff member served before taking parental leave. The Firm has approximately 800 SME Clients.

The Firm is Outsourcing this activity to the family company of the staff member on leave. The key issue is whether the Professional Services constitute a Material Business Activity. The Material Business Activity assessment should be performed from the Firm's and the Clients' perspectives.

This Outsourcing arrangement covers less than 5% of the Firm's Clients and thus may not be a Material Business Activity from the Firm's perspective. However, it may be a Material Business Activity due to the unique circumstances of the Client. The Member should consider whether there is potential that if the Professional Service is not delivered, the Client's operations will be materially impacted. For example, if a substantial proportion of Professional Services provided to one Client is outsourced then the Outsourcing arrangement may be a Material Business Activity from that Client's perspective and the Member should refer to the guidance in APES GN 30 and requirements in APES 305 Terms of Engagement (APES 305) in relation to Outsourced Services.

### Example 2

A Member in Public Practice is a partner in a four partner Firm, which has a staff member taking parental leave for a period of 12 months. The Member's Firm enters into an agreement with the family company of the staff member to process SME ledgers and complete draft income tax returns for some of the Firm's Clients. The arrangement covers approximately 35 Clients that the staff member served before taking parental leave, which amounts to approximately 10% of the Firm's professional fees. The Firm has approximately 800 SME Clients.

The Firm is Outsourcing this activity to the family company of the staff member on leave. The key issue is whether the Professional Services constitute a Material Business Activity. The Material Business Activity assessment should be performed by the Member in Public Practice from the Firm's and the Clients' perspectives.

The Outsourcing activity impacts on 10% of the Firm's revenue base and therefore may be considered a Material Business Activity from the Firm's perspective. The Member should refer to the guidance in APES GN 30 and requirements in APES 305 in relation to Outsourced Services.

Depending on the circumstances, it may also be considered a Material Business Activity from the Client's perspective.

### Example 3

A **Member in Public Practice** is a partner in a three partner **Firm**. The **Firm** has approximately 1,200 **SME Clients** and 100 Self-Managed Super Fund (SMSF) **Clients**. The **Member** enters into a contract with a specialist external SMSF administrator to prepare income tax returns and financial statements for 35 SMSF **Clients**.

The **Firm** is **Outsourcing** this activity to the specialist external SMSF administrator. The key issue is whether it is a **Material Business Activity**. The **Material Business Activity** assessment should be performed by the **Member in Public Practice** from the **Firm's** and the **Clients'** perspectives.

The **Outsourcing** arrangement covers less than 5% of the **Clients** of the **Firm** and thus may not be a **Material Business Activity** from the **Firm's** perspective, as non-provision of the **Professional Service** is unlikely to materially impact the scale of **Professional Services** offered by the **Firm**. However, depending on the circumstances of the individual **Client**, it may still be considered a **Material Business Activity** from the **Client's** perspective. If the **Outsourced Service** being provided to a **Client** is material from that **Client's** perspective, then the **Member** should refer to the guidance in APES GN 30 and requirements in APES 305 in relation to **Outsourced Services**.

### Example 4

A **Member in Public Practice** is a partner in a **Firm** based in Australia. The **Member's Firm** has entered into an agreement with a company in India to perform accounting work for the Australian **Firm**. In the coming year, and going forward, 80% of the SME accounting work of the Australian **Firm** is to be undertaken by the Indian company.

The **Firm** is **Outsourcing** a **Material Business Activity** to the Indian company. The Indian company is providing an **Outsourced Service** to the **Firm** and the **Member** should refer to the guidance in APES GN 30 and requirements in APES 305 in relation to **Outsourced Services**.

### Example 5

A **Member in Public Practice** is a partner in a **Firm** based in Australia. The **Member's Firm** has entered into an agreement with a company in the Philippines that employs an individual to perform accounting work in the Philippines for the **Member's Firm**. The **Member's Firm** has managerial responsibility for the individual, trains the individual on the **Firm's** system operating in Australia and reviews the individual's work before sending it to the **Firm's Clients**. The company in the Philippines manages human resources and payroll and arranges office facilities in the Philippines for the individual to work from. The **Member's Firm** pays the company in the Philippines a monthly fee for the service.

This is an **Outsourcing** arrangement as the **Member's Firm** has engaged a party on a continuing basis, to perform a business activity that has been, or could be performed by the **Firm**. Although the **Member's Firm** has managerial responsibility for the individual, trains the individual on the **Firm's** system operating in Australia and reviews the individual's work before sending it to the **Firm's Clients**, the company in the Philippines has ultimate control over the individual through the contract of employment. The **Member's Firm** also pays a monthly service fee to the company in the Philippines, which is an **Outsourced Service Provider** as it is providing services in accordance with an **Outsourcing Agreement**.

The remaining matter to determine in respect of whether this arrangement is an **Outsourced Service** is whether it constitutes a **Material Business Activity**, which should be assessed from the **Firm's** and the **Clients'** perspectives. Whether it is a **Material Business Activity** will depend on additional facts and circumstances and whether the activity performed by the individual employed by the company in the Philippines has the potential, if disrupted, to significantly impact the quality, timeliness or scale of **Professional Services** offered by the **Member's Firm** or received by the **Firm's Clients**. If it is a **Material Business Activity**, it will be an **Outsourced Service** and the **Member** should refer to the guidance in APES GN 30 and requirements in APES 305 in relation to **Outsourced Services**.

### Example 6

A **Member in Public Practice** provides accounting services to SME **Clients**. The **Member** and the **Member's Clients** have on-demand access to online accounting software that is owned and hosted on a server by a remote third party (software-as-a-service). The software licence and access are organised and set up by the **Member** on behalf of the **Member's Clients**. The **Clients'** data and accounting information is held by the remote third party and the accounting software also imports transactions from **Clients'** bank data feeds and processes transactions.

The **Member** is using **Cloud Computing** as it is on-demand access to software provided by a remote third party that is entrusted with data and information of the **Member's Clients**.

The **Member** is likely using an **Outsourced Service Provider** in respect of a **Material Business Activity**. It is likely to be a **Material Business Activity** because if disrupted it would significantly impact the quality, timeliness and scale of **Professional Services** offered by the **Member** and received by the **Client**. The accounting software is also not excluded from being a **Material Business Activity** as it performs activities that do more than merely support the **Professional Services** delivered to the **Client**, including importing and processing transactions.

Accordingly, this is an **Outsourced Service** and the **Member** should refer to the guidance in APES GN 30 and requirements in APES 305 in relation to **Outsourced Services**, including to document and communicate the details of the **Outsourced Service Provider**, the geographical location (which might include the country) of where the **Outsourced Services** will be performed and the nature and extent (including how the **Client's** confidential information will be stored) of the **Outsourced Services** to be utilised.

### Example 7

A **Member in Public Practice** provides accounting services to medium-sized companies operating in various industries. To perform this role for the relevant companies, the **Member** obtains accounting files and company data from the **Clients'** bookkeepers. The **Member** has recommended to the bookkeepers to transfer the respective **Clients** on to **Cloud Computing** to make the accounting process more efficient.

The **Member** is merely recommending the benefits of **Cloud Computing** technology to the bookkeepers, which is different to providing an **Outsourced Service** in respect of a **Material Business Activity**. In these circumstances, it is unlikely that the **Member** needs to consider APES GN 30.

### Example 8

A **Member in Public Practice** is a partner in a **Firm** based in Australia. The **Member's Firm** has developed software that assists with implementation and ongoing application of a new accounting standard AASB 16 Leases and is integral to the delivery of **Professional Services** to **Clients**. The software application is hosted by a remote third party on a server (infrastructure-as-a-service) to enable other **Network Firms** to access and use the software application in the delivery of **Professional Services** to the **Network Firms'** **Clients**. The **Clients** maintain their own financial information and **Client** data which relates to the leases is provided to the remote third party. The third party does not have effective access to the information due to security controls including encryption.

The third party hosting the software application would meet the definition of **Cloud Computing** as the remote third party is entrusted with data and information relating to the leases of the **Member's Clients** and would also meet the definition of **Outsourcing** as hosting is an activity that could be performed by the **Firm** (for example, on an internal server). However, it would not likely be an **Outsourced Service** for the **Member** as it is not likely to be a **Material Business Activity** as software application hosting merely supports the **Professional Services** delivered to the **Client**. The **Member** should refer to the guidance in APES 305 in relation to **Cloud Computing** that is not an **Outsourced Service**.

The Firm and the Network Firms would need to exercise professional judgement to determine whether provision of, and access to, the software application to account for leases is an Outsourced Service being provided by the Firm and utilised by the Network Firms and may depend on whether it is a Material Business Activity for either the Firm, Network Firms or the Clients. If it is a Material Business Activity to either the Firm, Network Firm or the Clients, then the Member should refer to the guidance in APES GN 30 and requirements in APES 305 in relation to Outsourced Services.

#### Example 9

A Member in Public Practice's Firm utilises a remote third party technology platform that provides Firm employees with access to tools, templates and internal and external resources whilst delivering Professional Services to Clients. No Client data is provided to the remote third party.

The technology platform would not likely meet the definition of Cloud Computing in APES GN 30 as the remote third party is not entrusted with data and information of the Member's Clients. Although the technology platform would likely meet the definition of Outsourcing, as it is an activity that the Firm could perform, it would not likely be an Outsourced Service. This is due to it being excluded from the definition of Material Business Activity as the technology platform is an informational reference source that merely supports the Professional Services delivered to Clients.

#### Example 10

A Member in Public Practice's Firm utilises a document data storage facility provided by a remote third party (infrastructure-as-a-service) to manage Client Engagements, coordinate Client Engagement acceptance and continuance store Engagement documents and backup data and software. Client data is provided to the remote third party who does not have effective access to the information due to security controls including encryption.

The technology platform would likely meet the definition of Cloud Computing in APES GN 30 as the remote third party is entrusted with data and information of the Member's Clients. Although the technology platform would likely meet the definition of Outsourcing, as it is an activity that the Firm could perform, it may not be an Outsourced Service. This is due to it being not likely to meet the definition of Material Business Activity as the record storage merely supports the Professional Services delivered to Clients. The Member should refer to the guidance in APES 305 in relation to Cloud Computing that is not an Outsourced Service.

#### Example 11

A Member in Public Practice's Firm utilises a suite of 'off-the-shelf' applications, which are hosted on the cloud by a remote third party (software-as-a-service), to manage various tasks including word processing, spreadsheets and emails and includes Client data.

The applications would likely meet the definition of Cloud Computing in APES GN 30 as the remote third party is entrusted with data and information of the Member's Clients. The applications would likely meet the definition of Outsourcing, as the Firm could perform the activity, for example by maintaining such software on an internal server. Whether it is an Outsourced Service depends on the assessment of the risks associated with the nature and the size of the activities and their relevance to the Professional Services delivered to Clients.

If it is a Material Business Activity for either the Firm or the Client, the Member should refer to the guidance in APES GN 30 and requirements in APES 305 in relation to Outsourced Services. If it is not a Material Business Activity, then the guidance in APES 305 in relation to Cloud Computing that is not an Outsourced Service needs to be considered.

### Example 12

A **Member in Public Practice** assists a large multi-national company with offices in Australia, New Zealand and Singapore to restructure its management reporting and accounting processes. To complete required procedures, the Australian **Firm** intends to utilise its **Network Firms** in New Zealand and Singapore to perform the **Engagement**.

The **Member in Public Practice** discloses to the **Client** that the **Member** will be using **Network Firms** based in New Zealand and Singapore to perform the **Engagement**.

Depending on the circumstances and nature of the **Engagement** (i.e. whether it is a **Material Business Activity**), the **Member** may need to consider the guidance in APES GN 30 and requirements in APES 305 in relation to **Outsourced Services**.

### Example 13

A **Member in Public Practice** provides **Professional Services** to a number of **Clients**. The **Member** enters into a contract with an external information technology service provider for the provision computer support services relating to the **Member's Firm's** information technology infrastructure. Where these activities are internal operational activities of the **Firm**, they are not considered to be **Material Business Activities** as defined in this Guidance Note.

### Example 14

A **Member in Public Practice** conducts the audit of a group financial report of a large manufacturing company. The **Member** is the group **Engagement** partner as defined by ASA 600 *Special Considerations – Audits of a Group Financial Report*. There are a number of subsidiaries in the group and to complete the audit, the **Member** plans to use component auditors to audit five of the ten subsidiaries of the group.

In these circumstances paragraph 1.8 of APES GN 30 applies and the **Engagement** is excluded from the scope of this Guidance Note.



## Appendix 2 – Subject matter that should be considered for inclusion in an Outsourcing Agreement

A **Member in Public Practice** who provides or utilises an **Outsourced Service** should negotiate and execute an **Outsourcing Agreement** that may include the following subject matter depending on the particular circumstances of the **Outsourcing** arrangement. When drafting such an agreement, only subject matter relevant to the particular arrangement should be included. Such subject matter might include:

- (a) the duration of the **Outsourcing Agreement** including commencement date, minimum and maximum terms and provisions for termination;
- (b) a description of the type and scope of **Outsourced Services** to be provided;
- (c) details of how the **Outsourced Service** will be performed;
- (d) details of how changes in service requests will be conducted;
- (e) representations and warranties;
- (f) the required service levels and performance requirements including:
  - contract termination and disengagement triggers;
  - contract reward and penalty considerations; and
  - business continuity, security and intellectual property break-up and recovery;
- (g) details of the initial transition process from the **Member's** operations to the **Outsourced Service Provider**, including actions and responsibilities of the parties in respect of the transition process;
- (h) the pricing model including payment terms and how changes that affect the execution of the process during the agreement will affect pricing;
- (i) the procedure for reimbursement of expenses;
- (j) ongoing management of confidentiality, privacy and security of information;
- (k) taxation obligations, including GST considerations;
- (l) the process for managing the ongoing relationship including qualitative and quantitative measures to monitor and review performance;
- (m) the nature of the information to be provided by the **Member** and the **Outsourced Service Provider**;
- (n) the terms of any limitation of liability, to the effect that any subcontracting by the **Outsourced Service Provider** of the **Outsourced Services** should be the responsibility of the **Outsourced Service Provider** (including liability for any failure on the part of any subcontractor);
- (o) audit and monitoring procedures;
- (p) a provision that allows the applicable **Professional Body** access to documentation and understanding of procedures related to the **Outsourced Services**;
- (q) the terms of file retention by the **Outsourced Service Provider** that are sufficient to meet the needs of the **Member** or as required by law or regulation;
- (r) any use of third party resources;
- (s) obligations of the parties to the **Outsourcing Agreement**;
- (t) details of reports or other anticipated outputs, including:
  - expected timing; and
  - intended use and distribution of reports;
- (u) accessibility by the **Member** to the **Outsourced Service Provider's** files;

- (v) the format, form and quantity of data, that is readable in printed or electronic form that is to be provided by the [Outsourced Service Provider](#) at the end of the [Outsourcing Agreement](#);
- (w) ownership of documents and records;
- (x) the fact that the [Outsourced Service Provider](#) is responsible for the accuracy and completeness of the information supplied to the [Member](#);
- (y) well-defined dispute resolution mechanisms including jurisdictional considerations;
- (z) procedures for changes in business structures and/or ownership structure;
- (aa) the use of external service providers (if any);
- (bb) details of liability and indemnity insurance;
- (cc) the conditions for terminating the [Outsourcing Agreement](#) such as:
  - the [Outsourcing Agreement](#) no longer makes economic sense;
  - poor service, non-performance or non-payment; or
  - a change in control or management at either of the parties to the [Outsourcing Agreement](#).

### **Appendix 3 – Summary of revisions to the previous APES GN 30 (Issued in June 2021)**

APES GN 30 *Outsourced Services* was originally issued in March 2013 and revised in October 2015, February 2020 and June 2021 (extant APES GN 30). APES GN 30 has been revised by APESB in September 2023. A summary of the revisions is given in the table below.

**Table of revisions\***

Paragraph Affected	How Affected
1.2	Amended
2 – Definition of Network	Amended
3.9	Amended
3.9 – addition of footnote 2	Amended
3.11 – addition of footnote 3	Amended
4.3	Amended
7.2	Amended
Appendix 1	Amended

\* Refer *Technical Update 2023/8*