IT Outsourcing:

Considerations, Methods and Risks

White paper



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Background

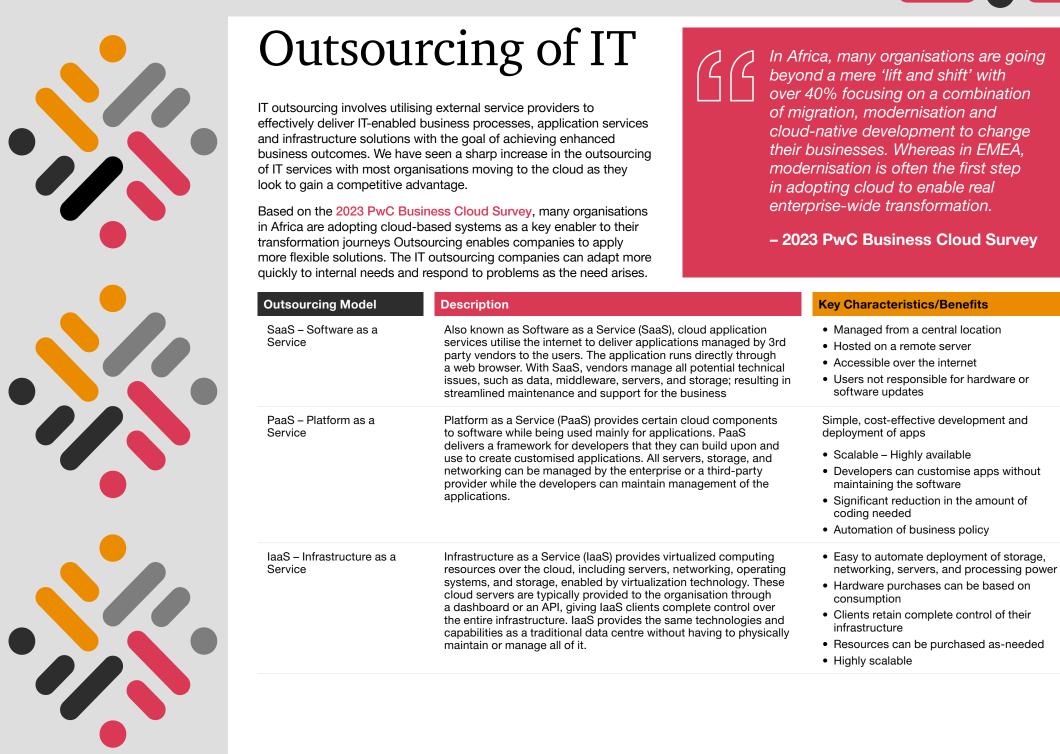
Over the past several years, there has been an industry shift toward outsourced technology services. This has resulted in key regulatory requirements being issued and implemented – for example, Guidance Note 5/2014 issued by the South African Reserve Bank which relates to the outsourcing of functions (including IT) within banks. The guidance note details key requirements and expectations of controls and processes that should be controls and processes for outsourcing functions.

For companies in these sectors, Third Party Assurance (TPA) (i.e., certifications and Assurance Reporting, etc.) is an increasingly important sales enabler and often contractually obligated with customers. Assurance reports such as SOC 1, SOC 2, ISAE 3000, and ISAE 3402 are well-established industry standards, meaning readers understand their implications and reporting format. These reports allow comparisons of an organisation's governance and controls against its competitors.

Additionally, there has been increased data security and resilience regulation 'directly' targeting the Banking sector. We expect this to drive further TPA reporting considerations. There can be significant efforts and preparation time needed for successful TPA reporting. From a practical standpoint, organisations should assess their reporting needs and begin planning now.





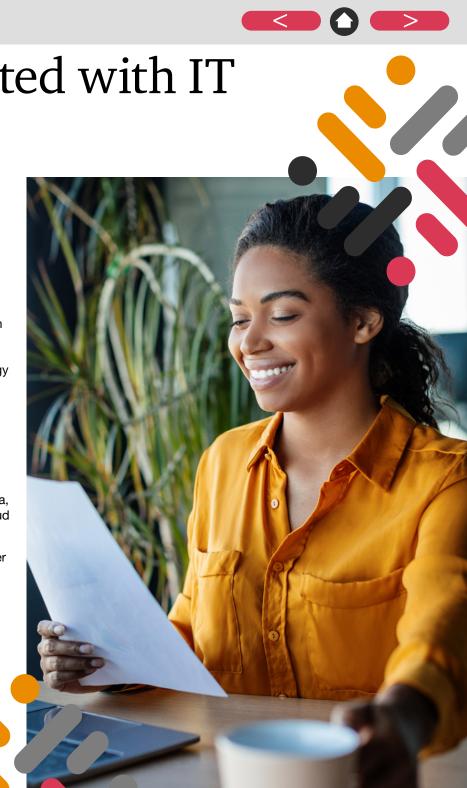




Some risks associated with IT Outsourcing

While IT outsourcing is bringing benefits to most organisations, there are also multiple risks associated with outsourcing of IT systems, applications and data to 3rd parties which should be considered when:

- 1. Potential security risks in outsourcing include vulnerabilities in the cloud infrastructure itself, vulnerabilities introduced by other tenants sharing the cloud environment or ecosystem partners, which could lead to security breaches and failures. It is also crucial to continually assess and address any newly identified vulnerabilities
- 2. Identity and access management risks relating to the implementation of appropriate access controls and restriction of access for vendor/ cloud operator staff. IT operations risks can arise when it becomes challenging to align key control areas with the internal entity's strategy and requirements, including areas such as:
- a. Access management
- b. Change management
- c. Project management
- d. Incident management
- 3. Safeguarding of data including data storage, usage/accessing of data, transfer of data (including integration of data across internal and cloud hosted systems) and data disposal
- 4. Supplier management and communication: communication can suffer serious lapses depending on the provider. Long periods between inquiries is problematic, as the slower the outsourced response, the more services are affected. Further risks of vendor lock-ins and monitoring of vendors
- 5. Alignment with regulatory requirements.



Third Party Assurance

Most IT Service Providers make SOC/ISAE 3402 reports available to their clients to build trust and provide assurance over the controls that they have implemented to mitigate the risks.

PwC is a market leader in auditing Technology, FinTech, and Telecommunications, and is an organisation with extensive experience in Third Party Assurance. We can leverage our experience and 'tried and tested' approach to help our clients prepare their TPA strategy and prepare for the third party assessors.

This is not an insignificant effort. By using PwC to assist, our clients can avoid unnecessary re-work, additional unforeseen costs, or burden on management.





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