

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.



Outsourcing of IT

IT outsourcing involves utilising external service providers to effectively deliver IT-enabled business processes, application services and infrastructure solutions with the goal of achieving enhanced business outcomes. We have seen a sharp increase in the outsourcing of IT services with most organisations moving to the cloud as they look to gain a competitive advantage.

Based on the **2023 PwC Business Cloud Survey**, many organisations in Africa are adopting cloud-based systems as a key enabler to their transformation journeys. Outsourcing enables companies to apply more flexible solutions. The IT outsourcing companies can adapt more quickly to internal needs and respond to problems as the need arises.



In Africa, many organisations are going beyond a mere 'lift and shift' with over 40% focusing on a combination of migration, modernisation and cloud-native development to change their businesses. Whereas in EMEA, modernisation is often the first step in adopting cloud to enable real enterprise-wide transformation.

– 2023 PwC Business Cloud Survey

Outsourcing Model	Description	Key Characteristics/Benefits
SaaS – Software as a Service	Also known as Software as a Service (SaaS), cloud application services utilise the internet to deliver applications managed by 3rd party vendors to the users. The application runs directly through a web browser. With SaaS, vendors manage all potential technical issues, such as data, middleware, servers, and storage; resulting in streamlined maintenance and support for the business	<ul style="list-style-type: none"> • Managed from a central location • Hosted on a remote server • Accessible over the internet • Users not responsible for hardware or software updates
PaaS – Platform as a Service	Platform as a Service (PaaS) provides certain cloud components to software while being used mainly for applications. PaaS delivers a framework for developers that they can build upon and use to create customised applications. All servers, storage, and networking can be managed by the enterprise or a third-party provider while the developers can maintain management of the applications.	<p>Simple, cost-effective development and deployment of apps</p> <ul style="list-style-type: none"> • Scalable – Highly available • Developers can customise apps without maintaining the software • Significant reduction in the amount of coding needed • Automation of business policy
IaaS – Infrastructure as a Service	Infrastructure as a Service (IaaS) provides virtualized computing resources over the cloud, including servers, networking, operating systems, and storage, enabled by virtualization technology. These cloud servers are typically provided to the organisation through a dashboard or an API, giving IaaS clients complete control over the entire infrastructure. IaaS provides the same technologies and capabilities as a traditional data centre without having to physically maintain or manage all of it.	<ul style="list-style-type: none"> • Easy to automate deployment of storage, networking, servers, and processing power • Hardware purchases can be based on consumption • Clients retain complete control of their infrastructure • Resources can be purchased as-needed • Highly scalable

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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