Auditing Outsourced Functions

“Value Proposition for Internal Auditing”

Mark Salamasick CIA, CISA, CRMA, CSP
Author, Consultant, Speaker

For Dallas IIA Super Conference

Dallas, Texas
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Overview

Do you really understand the risks presented by those functions outsourced? With the expansion of outsourcing and cloud computing within the organization can increase if not managed effectively. Mark will summarize many of the key points from his book, “Auditing Outsourced Functions” including a maturity model for outsourcing that was specifically developed for the book. This session is a must to for those trying to get a better assurance of the outsourcing world and adding value to the organization.

Learning Objective:
- Develop a comprehensive risk assessment related to outsourced functions
- Understand emerging issues surrounding outsourcing
- Understand the changing dy
- Forecast future trends of outsourcing and the potential impact on your organization
- Identity trends taking place in the outsourced market
- Better understand where your company stands in the outsourcing maturity model
- Present management with value added comments related to outsourcing projects
Google Search Auditing Outsourced Functions

5 Steps for Auditing Outsourced Operations -- Enterprise...

1. Review and evaluate your company’s processes for monitoring the quality of outsourced …
2. Ensure that adequate disaster recovery processes are in place to provide for business continuity in …
3. Determine whether appropriate governance processes are in place over the engagement of new …
4. Review and evaluate your company’s plans in the event of expected or unexpected termination of …

See all full list on esj.com

IIA Bookstore. Auditing Outsourced Functions: Risk ...
https://bookstore.theiia.org/auditing-outsourced-functions-risk-management-in-an...

Auditing Outsourced Functions: Risk Management in an Outsourced World By: Mark Salamisick, CIA, CISA, CRMA, CSP A must-read, as more and more organizations turn to outsourced contributors to keep their business running at a profit.

Auditing Outsourced Functions: Risk Management in an ...
https://www.amazon.com/Auditing-Outsourced-FUNCTIONS/dp/0470406811

Nov 13, 2014 · Whether you are an auditor, manager, or executive, Auditing Outsourced Functions offers the perspective you need in today’s outsourced world. Auditing Outsourced Functions is a must read! This book will not only help you navigate the hidden risks of outsourcing, but will also give you insight into many emerging issues. Read more Read less

5/5 ★★★★★ (2) Author: Mark Salamisick
Format: Paperback

Auditing Outsourced Functions | For Bankers. From Bankers
https://www.bankersonline.com/.../topics/661923/auditing-outsourced-functions

Jan 24, 2007 · If so, to what extent have you audited these functions -- objectives, scope, procedures, etc.? Specifically in my case, our federal income tax management is outsourced and the overall income tax function came up relatively risky and audible.

Auditing Outsourced Functions: Risk Management in an Outsourced World
Book by Mark Salamisick

Could Your Organization Suffer a Catastrophic Failure Due to Outsourcing? Many times outsourcing partnerships are a great success, effectively reducing costs for an organization. However, outsourcing can also have unintended, unforeseen, or even disaster…

Author: Mark Salamisick
First published: Oct 31, 2012

Get the book

Customer reviews

★★★★★ Nov 13, 2014
Well written and easy to read book. It provides great insight about the ins and outs of outsourcing. Beneficiary for CAEs, business professionals in leadership positions, students and project managers. Highly recommend this book.

Read more Customer Reviews at Amazon.com
Agenda

- Looking at Outsourcing Differently
- Understand the Outsource Decision and Questions
- Outsourcing Maturity Model
- Offshoring
- Assurance Reliance on Others
- Outsourcing Contracts
- Future Trends
- Summary
Starbucks or Make Your Own
Question 1

Have you performed an audit of an outsourced function?

1. Yes
2. No
Understanding Outsourcing Landscape
NOW:

Outsourcing is an agreement in which one company hires another company to be responsible for a planned or existing activity that is or could be done internally, and sometimes involves transferring employees and assets from one firm to another.

Previous:

Outsourcing is the **contracting** out of an internal **business process** to a third party organization. The practice of contracting a business process—rather than staffing it internally—is a common feature in the modern economy. *

*From: Wikipedia*
Shortage and Demand for New Skills

Outsourcing skills needed for 2020

- Digital transformers
- Transformation architects
- Automation experts
- Customer-centricity managers
- Operation strategists
- Design-thinkers

The Institute of Internal Auditors
Why Are We Doing This?...Value Proposition From the Outsourcer

Cost
- Reduce Operating Costs
- Transition Fixed Costs to Variable Costs
- Better Utilization of Capital
- Gain Value-add Services at No Cost

Right Source Talent and Best Practices

Speed
- "Talent on Tap," Rapid Ramp-up with Broad and Deep Skill Sets
- Right Skill Sets for the Right Job
- 7x24 Service Capability
  "Follow the Sun"

Quality
- Processes and Tools
- Ability to Measure and Monitor via Metrics and Dashboards
- Tighter Estimation Process
- Defect and Rework Reductions
- Improved Change Control
- High Quality Skill Sets in Emerging Technologies

World Class Organization
Quality and Productivity / Six Sigma
Shareholder Value Added
Admired Company
Business Drivers
Survey of 300 large corporations from Deloitte Consulting
Business Perspective on Outsourcing

• Advantages to Outsourcing
  • *Allows focus on core competencies*
  • *Can improve productivity*
  • *Share and spread risk*
  • *Take advantage of economies of scale*
  • *Minimum Investment and speed to market*

• Disadvantages to Outsourcing
  • *Can lose control over key issues*
  • *Breach of confidentiality*
  • *Loss of key personnel*
  • *Additional Charges*
  • *Difficulty of bringing process back in house*
Question 2

Do you consider yourself primarily for or against outsourcing functions?

1. For
2. Against
Understand the Outsource Decision and Key Questions
The Setting and Background

- When and how the decision was made to outsource
- The level of the organization the outsource decision was made
- Review of documented cost benefit analysis
- Company analysis of keeping the function in house
- Alternatives considered
Enterprise Outsourcing Risk Assessment

- Strategy
- Feasibility
- Transaction
- Transition
- Optimization and Transformation
- Termination and Renegotiation

IPPF – Practice Guide Auditing External Business Relationships
# Phases of Outsourcing

<table>
<thead>
<tr>
<th>Alignment</th>
<th>Transaction</th>
<th>Optimization &amp; Transformation</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Validating the strategy.</td>
<td>- Structuring the deal.</td>
<td>- Monitoring the contract and resolving disputes.</td>
</tr>
<tr>
<td>- Identifying the options.</td>
<td>- Agreeing on outsourced assets.</td>
<td>- Transforming the business.</td>
</tr>
<tr>
<td>- Preparing the business model.</td>
<td>- Negotiating the contract.</td>
<td>- Reassessing the relationship.</td>
</tr>
<tr>
<td>- Agreeing on sponsorship and building the team.</td>
<td>- Delivering the deal and the business case.</td>
<td>- Delivering the business case—realizing the benefits.</td>
</tr>
</tbody>
</table>

## Governance Process

1. **Alignment**
2. **Feasibility**
3. **Transaction**
4. **Transition**
5. **Optimization & Transformation**
6. **Termination & Renegotiation**

## Project and Risk Management

<table>
<thead>
<tr>
<th>Feasibility</th>
<th>Transition</th>
<th>Termination &amp; Renegotiation</th>
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</thead>
<tbody>
<tr>
<td>- Building the business model and case.</td>
<td>- Delivering the change.</td>
<td>- Planning the termination.</td>
</tr>
<tr>
<td>- Creating the baseline.</td>
<td>- Getting quick returns on investment.</td>
<td>- Renegotiating the contract.</td>
</tr>
<tr>
<td>- Understanding the market.</td>
<td>- Establishing the culture.</td>
<td>- Reassessing the relationship.</td>
</tr>
<tr>
<td>- Assessing and benchmarking options.</td>
<td>- Managing people.</td>
<td>- Decommissioning or reallocating outsourced services.</td>
</tr>
</tbody>
</table>

*Figure 1: Typical outsourcing value chain.*
Business questions to ask?

- Am I doing this because I want to simplify my life, or offer the market something new?
- Am I doing this so I can “focus” on my “core” business?
- How will this advantage me versus competitors? Would emerging competitors do this?
- Can competitors do what I’m doing? Can this lead to a price war?
- How will this make me more competitive in 10 years?
- How will this make me more connected to markets?
- How will this make me more flexible to deal with shifting markets, and how will I exploit this flexibility?
- Am I doing this because I’m desperate to cut costs?
- What could I be doing instead of outsourcing to be more competitive?

From: Forbes September, 2010
Mark’s Six Critical Questions

- *What* is being outsourced?
- *Why* is it being outsourced?
- *Who* is it being outsourced to?
- *When* is the outsourcing going to be performed?
- *Where* will the outsourced functions be performed?
- *How* will the outsourced functions be performed?

*From Auditing Outsourced Functions – October 2012*
Question 3

Does Internal Audit get involved with the decision making process for the creation of an outsourcing partnership?

1. Yes
2. No
Question 4

Do you believe internal audit should be involved in the due diligence before outsourcing operations?

1. Yes
2. No
How do you decide where to start?

- Do analysis of high to low dollar vendors from A/P system or vendor management system
- Discuss vendors with procurement or vendor management group
- Discuss vendors with business management and Information Technology Group
- Determine key attributes for risk ranking of vendors
- Complete risk analysis of vendors and review with management
Outsourcing Maturity Model
Outsourcing Controls Framework Maturity Model

**Optimizing**
Continual improvement of outsourcing strategy, policies, practices, and controls, with:
- Outsourcing continually evaluated throughout the organization.
- Dedicated resources allocated to achieve outsourcing objectives.
- A high level of cross-functional integration and teamwork throughout the organization to optimize the organizations' business strategy.

**Managed**
A consistently high degree of managing outsourcing, outsourcing requirements, and considerations is reflected in the organization, with:
- Overall outsourcing strategy and evaluation in place.
- Outsourcing integrated and evaluated throughout all business functions.
- Monitoring of all outsourcing contracts and evaluation through key functional levels.
- Periodic audit reviews of high-risk areas.

**Defined**
An overall outsourcing policy and procedures exist with the following in place:
- Risk assessments of outsource providers are performed.
- Comprehensive procedures exist for dealing with outsource situations.
- Activities for outsourcing are coordinated throughout the organization among the appropriate groups.

**Repeatable**
The outsourcing policy and procedures are defined, with:
- Some senior management commitment to standard practices related to outsourcing.
- Awareness that controls around outsourcing should exist.
- Specific actions for high-risk outsourcing areas.

**Initial**
Outsourcing is ad hoc and not coordinated.

*From Auditing Outsourced Functions – October 2012*
Stage 1 - Initial State of Maturity

- Outsourcing is ad-hoc
- No overall strategy for outsourcing exists
- Outsourcing is not tied to overall business strategy
- Each case is looked at individually for outsourcing
- No governance process exists for decision to outsource, selection, and oversight of vendor

*From Auditing Outsourced Functions – October 2012*
Stage 2 - Repeatable State of Maturity

- Outsourcing strategy exists
- Procedures to support overall outsourcing are in place and loosely followed
- Some governance and controls in place for outsourcing
- Awareness that controls around outsourcing should exist
- Specific procedures in place to deal with high risk vendors

*From Auditing Outsourced Functions – October 2012*
Stage 3 – Defined State of Maturity

- Outsourcing policy and procedures are well defined and followed throughout the organization.
- Risk assessment of the outsource providers is performed.
- Comprehensive procedures exist in dealing with outsourcing along with evaluation of outsource provider controls.
- Outsourcing is coordinated throughout the organization with the appropriate groups.

*From Auditing Outsourced Functions – October 2012*
Stage 4 – Managed State of Maturity

- High degree of focus in the organization around outsourcing processes, controls and ongoing evaluation
- Management throughout the organization understands outsourcing strategy and how it fits into the business functions
- Monitoring of outsourcing contracts is performed by management
- Periodic audit reviews of high risk areas and other areas as determined appropriate by management

*From Auditing Outsourced Functions – October 2012*
Stage 5 – Optimized State of Maturity

- Continuous improvement in place around outsourcing policies and procedures
- Management continually evaluating outsource alternatives
- Dedicated resources in the organization for oversight of outsourced functions
- Significant coordination and communication throughout the organization related outsourcing

*From Auditing Outsourced Functions – October 2012*
Question 5

Which stage of outsourcing controls maturity is your organization?

1. Stage 1 - Initial
2. Stage 2 – Repeatable
3. Stage 3 - Defined
4. Stage 4 - Managed
5. Stage 5 - Optimized
Offshoring
Location Analysis-2016

2016 A.T. Kearney Global Services Location Index™

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<th>Rank</th>
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Offshore Outsourcing Specific Risks

- Country risks
- Ownership
- Government implications
- Sub-contracting
- OFAC and regulatory implications
- Privacy laws and identity theft
- FCPA implications
- Quality issues
- Resources in country
Question 6

Have you performed audit work at an outsourced function that is performed overseas?

1. Yes
2. No
Assurance Reliance on Others
Question 7

Do you have a formal process in place to evaluate reliance on third party assurance?

1. Yes
2. No
Do you use SSAE 18 reports to provide assurance of IT environments?

1. Yes
2. No
3. Don’t know what SSAE 18 reports are
Outsourcing Contracts
12 Key Components of Outsource Contract

- Financial standards for the contract
- Dispute resolution and termination
- Billing provisions
- Quality Assurance
- Confidentiality
- Employee allocation
- Term of contract
- Security
- Additional Services
- Regulatory Compliance
- Delineation of responsibilities
- Asset ownership

Mark’s More Comprehensive List of Auditing Vendor Contract Terms

- Accounting
- Assignment
- Right to Audit
- Business Continuity
- Confidentiality
- Controls
- Costs
- Disaster Recovery
- Dispute Resolution
- Exclusivity
- Indemnification
- Information Security
- Insurance

- Intellectual Property
- Limitation of Liability
- Monitor Service Levels
- Non-Compete
- Non-Solicitation
- Ownership
- Privacy
- Reports
- Remedies
- Security-Physical
- Term
- Subcontracting
- Termination
Future
NEXT EXIT
Future Trends
Outsourcing will be one of the most important factors in the long term success of a company.

Picking which functions to outsource is more critical than before.

Selecting who to partner with both short term and long term can have a big impact on operations and financial performance.

More than ever your partner is a reflection of your company.

Evaluation of third party risk will only increase in importance.
Technology Impacts

- Smartdevices – virtual access to data anytime and anywhere
- Cloud Computing
- Robotics
- Social Media
- Big Data
- Cybersecurity
Things that can impact Future Outsourcing
Factor’s Impacting Future Trends

- Political Unrest
- Stability of World Economy
- Scarce Resources
- Speed of Change
- Regulations
- Competition
- Profitability
10 Trends for the Future

- Increased Vendor Reliance
- More complex external business relationships
- Consolidation of vendors for specific functions
- Fewer choices of vendors to deal with complex environments
- More choices of small vendors for smaller organizations
- Pressure to reduce margins of vendors
- More global dependence and movement on specific outsourcing specialties
- Increase regulation related to third party transactions
- Increased regulatory and compliance requirements on vendors
- Increased reliance on internal audit to provide independent, objective assurance of outsourcing
Summary
Summary

- Understand the key factors to evaluate when outsourcing functions
- Understand your outsourced functions and the risk related to those areas being outsourced
- Risk rank the outsource providers and act accordingly
- Advise management on issues related to outsourcing to various environments
- Understand the future of outsourcing
- Determine how technology impacts and accelerates the rate of outsourcing
- Determine where your organization is in the Outsourcing Maturity Model
- Assist your organization in moving up the Maturity Curve
Additional Questions?

Mark Salamasick
- Author, Consultant, Speaker
- Retired UT System
- Mark.Salamasick@gmail.com
- Phone: 972-768-3016