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Managing Outsourcing Risks

In today's business environment, organisations are outsourcing significant parts of their operations for various reasons e.g. for costs and efficiency reasons, for capacity management or to gain access to expertise. Organisations need to be cognizant of the risks of outsourcing which could have extensive impact on their businesses if not adequately managed. In recent years, there have been many incidents relating to outsourced operations that have not only caused major disruptions to businesses but have also resulted in penalties for non-compliance with regulatory requirements and tarnished their well-established reputation.

Business processing and information technology outsourcing are increasingly prevalent. The most common and significant outsourcing risks relate to business continuity, confidentiality and security of information and intellectual properties, and compliance with regulatory and legal requirements. Organisations need to establish a governance and risk management framework to adequately mitigate the risks.

Internal auditors need to consider and include the assurance review of outsourced operations in their audit plan. There is a need to assess whether outsource risks have been identified and the severity of risks appropriately assessed by the organisation. The governing framework and organisational roles and responsibilities for managing outsourced risks need to be clearly established. Risk dashboards should be put in place to continuously monitor the management of risks so that there are early warning systems for timely measures to be taken. Important risk mitigating measures would include due diligence of potential and existing service providers, robust contract review and administration procedures, procurement processes and vendor performance management and monitoring procedures. It is necessary to also assess the service providers' regulatory compliance management procedures, their service operation framework and controls and their business continuity and crisis management procedures to ensure prompt recovery of critical business functions in the event of major business or systems disruption.

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