



Third Party Assurance (TPA) Reporting

2022 Global TPA Benchmarking Results

July 2023





Foreword



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Organisations are more dependent than ever on third parties to fulfil critical business processes across their value chain. Outsourcing business functions, controls and data handling does not outsource the risk. As such, there is a need for transparency and monitoring over the activities and controls in place within third parties to ensure they are suitably robust and in line with the risk profile and appetite set.

Third party governance and monitoring is emerging as a key focus area, all the way up to board level. Regulatory scrutiny is increasing, requiring more direct oversight and ongoing due diligence by management and the board on third party risk and assurance matters. Additionally, third party incidents and customer service disruptions are on the rise, often with immediate public visibility, and greater severity, including; customer, reputational, regulatory and financial consequences.

Many outsourced service providers are therefore issuing third party assurance (TPA) reports to be used by their customers (and their auditors), with the goal of building trust and transparency with those stakeholders.

With this context in mind, Deloitte surveyed a sample of TPA reports, where permissible, from across the globe and from multiple industries to benchmark these TPA reports in order to identify further insights and trends of key interest to the global TPA community. The results of this benchmarking have been shared anonymously in this report.



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Profile of Benchmarked Reports

Deloitte performed a benchmarking exercise of 98 TPA reports issued between 1 July 2020 to 30 June 2022, across multiple service auditors, industries and geographies, in order to provide the global TPA community with trends and insights into the current state of TPA reporting.

Selection criteria for benchmarking reports included a mix of SOC 1 and SOC 2 style reports¹ across:



Four industry categories: Financial services (FS); technology, media and telecoms (TMT), consumer service and life sciences



Five service auditor category: Deloitte, Ernst & Young (EY), KPMG, PwC, non-Big 4²



Four geographical categories³: Asia and Oceania, Europe, North America, Global⁴

1: SOC 1 and SOC 2 are terms used to distinguish between reports that focus on internal controls over financial reporting (SOC 1) and reports that focus on internal controls over data management (SOC 2). Not all reports across all regions use the SOC framework (e.g. under ISAE 3402, there are frameworks such as AAF 01/20 from the UK, GS 007 from Australia etc.), however for simplicity we categorised the type of report framework as either SOC 1 or SOC 2 for benchmarking purposes.

2: Service auditor category other than Deloitte, E&Y, KPMG and PWC.

3: Determined by the geographical region where the controls within the TPA report were owned/operated.

4: Global reports are those where controls within the TPA report were owned/operated across a number of geographical regions.

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Scope/Areas of Focus

Each selected TPA report was analysed based on the following key data points and focus areas:

- Qualified vs unqualified opinions
 - For qualified opinions
 - Number of qualified control objectives
 - Root cause of qualified control objectives
 - Control deviations
 - Number of control deviations
 - Root cause of control deviations
 - Control deviations with/without mitigating controls
 - Control deviation vs qualification deviation
- Average number of control objectives
- Average number of subservice organisations
- For SOC 2 reports, coverage across the five Trust Service Criteria (TSC) (Security, Availability, Confidentiality, Processing Integrity, Privacy)



Note that this report does not include the results of all analysed focus areas. Rather, it is a summary of key insights.

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Summary of Benchmarking Results

The key highlights from our benchmarking analysis of 98 sampled TPA reports are set out below:

Overall:

- 87% of opinions were unqualified compared with 13% qualified
- Asia and Oceania (21%) and Europe (17%) had higher rates of qualification compared to Global reports and those from North America
- Asia and Oceania had the lowest rate of deviations (19%), indicating that deviations in Asia and Oceania have a higher probability of resulting in a qualification
- TPA reports from the FS industry had a much lower rate of qualification compared to the other industries benchmarked
- SOC 1 reports had a higher qualification rate (14%) compared to SOC 2 reports (11%)



SOC 1:

- FS and Consumer Services SOC 1 reports had a significantly greater breadth of scope compared with Life Sciences and TMT
- 61% of SOC 1 reports included control deviations, with inadequate control design, documentation and review being the most prevalent reasons
- Only 14% of these control deviations had compensating controls identified to mitigate the risks, with the FS industry having the highest percentage of mitigant controls
- Root cause of deviations varied across geographies but reports from North America produced some of the most notable results; e.g. lack of evidence and untimely operation of the control were the most prevalent root causes, making up 66.7% and 71.1% of all deviations, respectively
- IT objectives were 1.5 times more likely to be qualified than business controls in SOC 1 reports



SOC 2:

- After the mandatory Security Trust Service Criteria (TSC), the Availability and Confidentiality TSCs have significantly higher coverage across the 27 benchmarked reports (89% and 63% respectively) compared to the Processing Integrity and Privacy TSCs
- FS and TMT had the highest average number of TSCs covered with an average of 3.2 each but the number of controls per TSC varied significantly between them; 45 compared to 35

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How You Can Use the Benchmarking Results

This report can be used to help you benchmark against your peers the TPA reports you produce or receive. This comparison can help you identify areas of risk and challenge, as well as areas of opportunity to improve your control environment, enabling less residual risk and cost and enhancing the efficiency and effectiveness of TPA reporting. Below we provide some specific examples of this.

You can also use the results from our 2022 Global TPA Survey to gain additional insights into the future of TPA reporting, including current and emerging risks and trends.

Refer: <https://www.deloitte.com/global/en/services/risk-advisory/analysis/the-future-of-third-party-assurance-tpa-reporting.html>

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TPA Benchmarking scope/ area of focus	Benefits to you	Page reference
Qualified vs unqualified opinions	<p>This report reveals that a large percentage of SOC 1 qualifications are driven by qualification of IT control objectives.</p> <ul style="list-style-type: none"> In light of this finding, how does your organisation's investment in IT risk mitigation controls keep pace with increased IT risks? Understand the root cause of these IT control failures and compare them to your organisations IT controls. 	Pages 21 - 25
	<p>The qualification of TPA reports results in significant delays in issuing these reports to clients.</p> <ul style="list-style-type: none"> If you produce or receive a TPA report that is qualified, have you considered the impact of this in terms of increased costs, operational disruptions and delays in meeting reporting deadlines? See how it has impacted your peers. 	Page 13
Control deviations	<p>This report identifies three main reasons for control deviations. It also reveals that the identification of compensating/mitigating controls reduces the risk of qualification.</p> <ul style="list-style-type: none"> Has your organisation undertaken its own assessment over the design and operating effectiveness of its key controls, and how often is this undertaken? Understand the root cause of control deviations and consider whether you have effective controls to mitigate for these areas. 	Pages 14 - 18 & 25
Average number of control objectives	<p>In analysing the number of objectives and controls per objective for the surveyed TPA reports, the breadth of scope and granularity of controls may be deduced.</p> <ul style="list-style-type: none"> How does the scope of TPA report(s) you produce or receive compare to that of your peers? Is the scope narrower, potentially resulting in lower levels of assurance to the market, or Are controls too granular leading to increase costs and time to complete? 	Page 22
SOC 2 reports	<p>SOC 2 reports are increasingly in demand, with the scope of these reports also increasing as organisations seek assurances over how their data is managed and secured.</p> <ul style="list-style-type: none"> How does the scope of the SOC 2 report you produce or receive compare? Is there an opportunity to provide/receive greater assurance over the other 4 non-mandatory TSCs? Is the average number of TSCs, controls or deviation rates similar to your peers SOC 2 report? 	Pages 26 - 28

Demographics of Benchmarked TPA Reports

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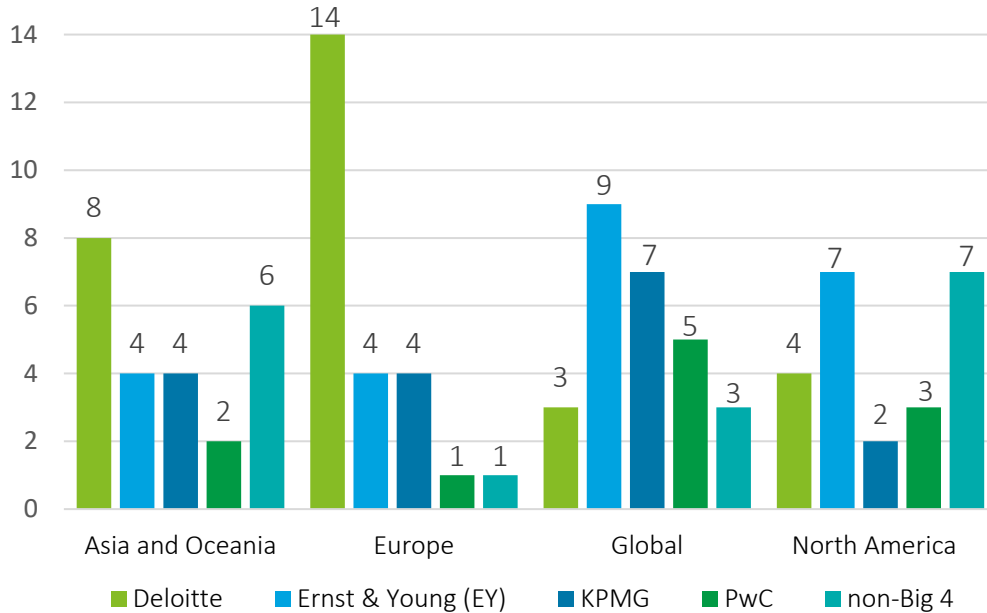


Demographics of 98 Benchmarked Reports (1/2)

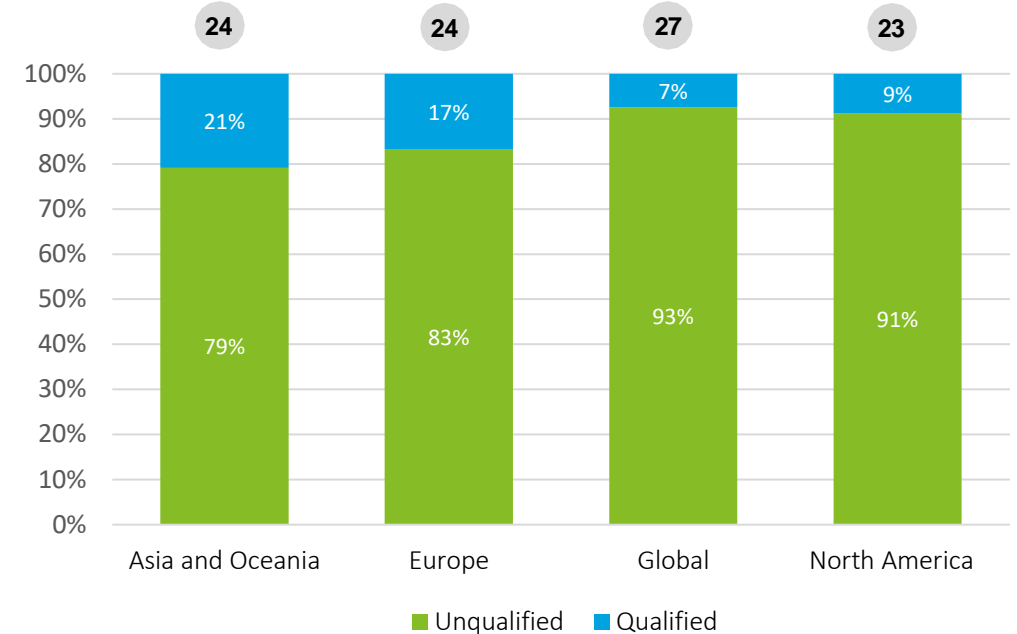
The below graphics present the service auditor spread and qualified vs unqualified report data across the four in-scope regions.

Total no. of reports = 98

Region vs Service Auditor



Region vs Audit Result



Profile Analysis:

- We benchmarked a largely even spread of reports across the four regions.
- Deloitte reports made up 30% of all benchmarked reports, followed by reports from EY (25%), KPMG (17%), non-Big 4 (17%) and PwC (11%).

Profile Analysis:

- 13% of benchmarked reports were qualified, with 87% unqualified.
- Reports from Asia & Oceania had the highest percentage (21%) of qualification compared to other regions, which may be reflective of less mature control frameworks in that region.

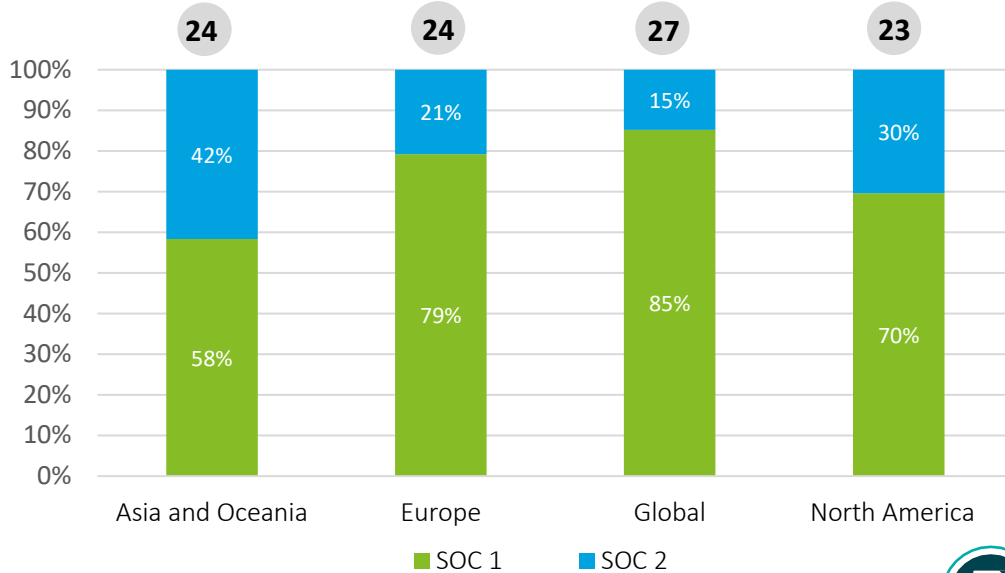
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Demographics of 98 Benchmarked Reports (2/2)

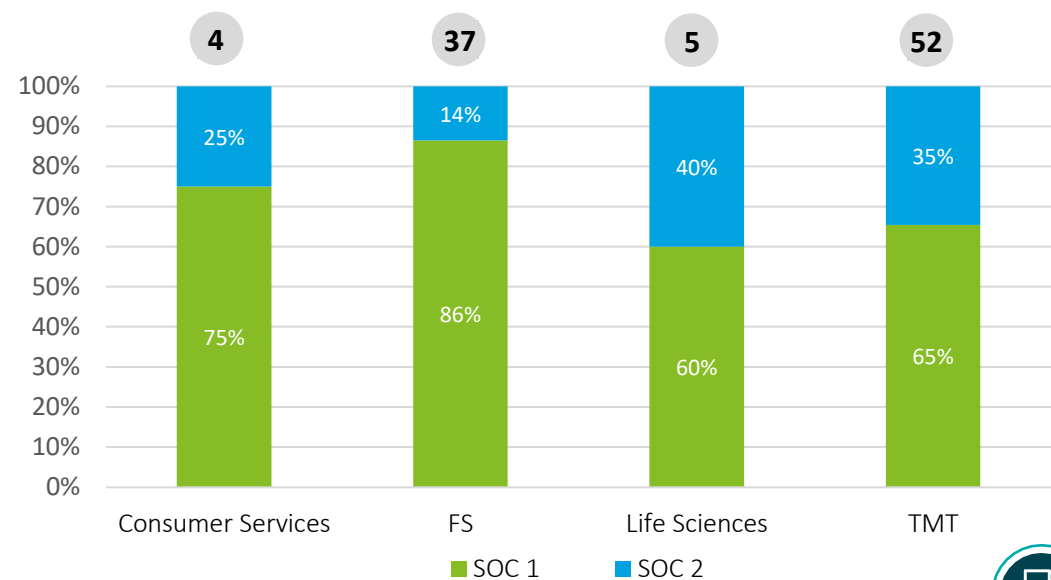
Total no. of reports = xx

SOC 1 reports were most prevalent across the benchmarked reports, with FS organisations issuing the highest proportion of SOC 1 reports compared to other Industries

Region vs SOC Reports



Industry vs SOC Reports



Profile Analysis:

- In total, 73% were SOC 1 and 27% were SOC 2 reports.
- Of the four regions, Asia and Oceania had the most even split between SOC 1 and SOC 2.
- Global reports had the lowest proportion of SOC 2 reports. This could be as a result of SOC 2 reports increasingly being undertaken by start ups/organisations of smaller size who have yet to branch out globally.

Profile Analysis:

- Of the total benchmarked reports, FS (38%) and TMT (53%) industries had the highest representation of TPA reports compared with Consumer Service (4% of reports) and Life Science (5% of reports).
- FS organisations have the highest proportion of SOC 1 compared to SOC 2, conversely TMT have the highest proportion of SOC 2 reports.

The SOC 2 framework is broader with coverage across the TSCs and its flexibility to incorporate other regulatory frameworks as well through SOC2+. It therefore is becoming a de-facto standard that service organizations are using to build trust in the areas they manage for the user organisations. Given the broader coverage of this framework it also gives Organisation more insights into how to improve their systems, processes and controls.

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Qualified vs Unqualified Opinions

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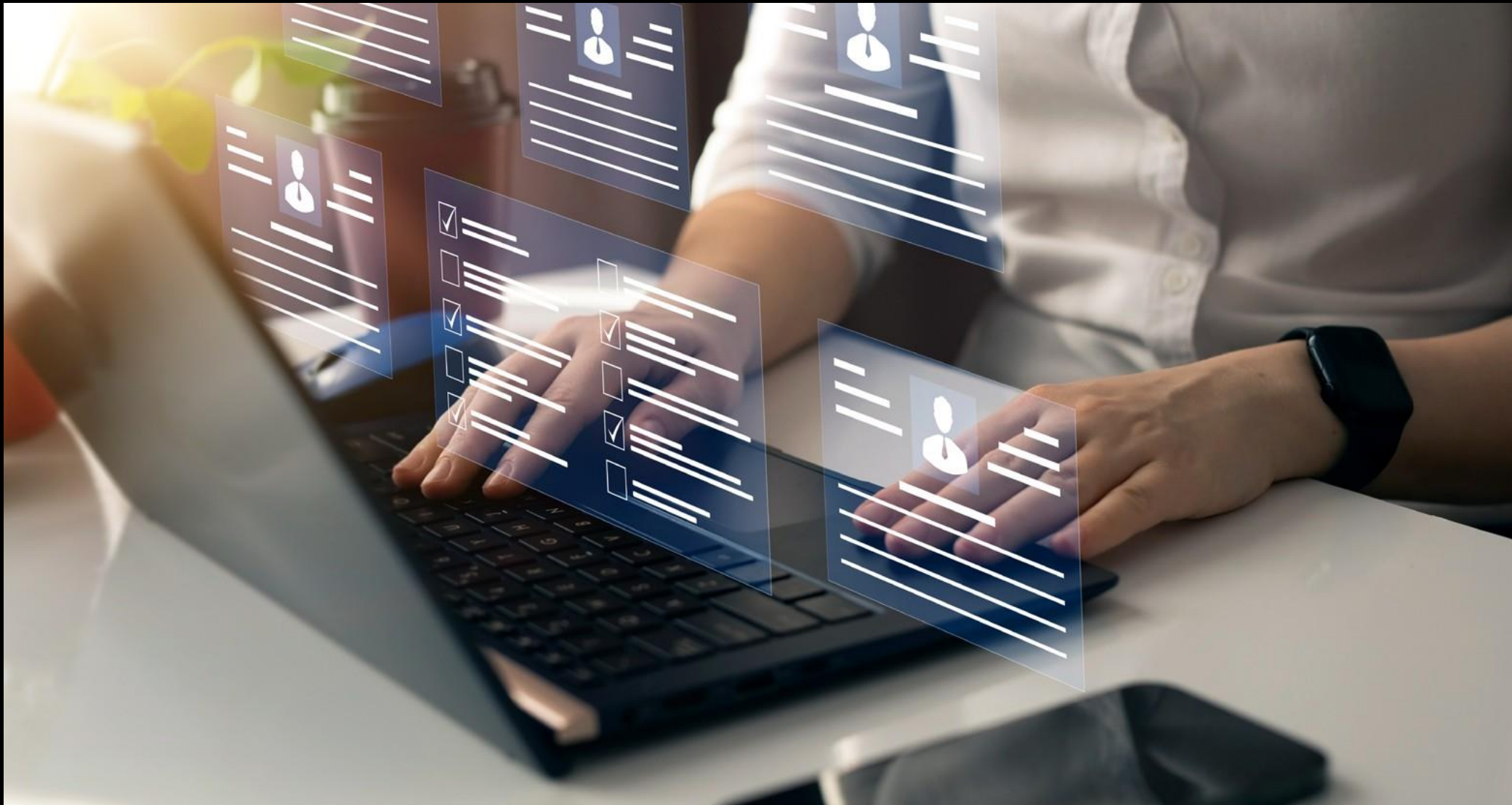
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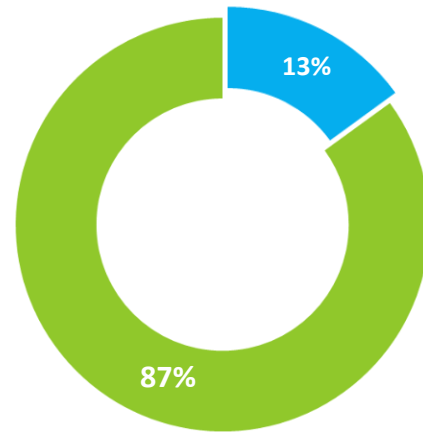
SOC 2 reports



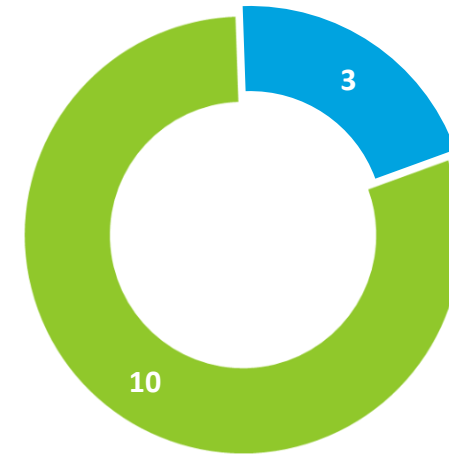
TPA Reporting Opinion and Report Type

13% of benchmarked reports were qualified, with SOC 1 reports having a higher rate of qualification (14%) than SOC 2 (11%).

Note: A qualified opinion means controls are not designed and/or operating effectively to achieve certain control objectives.



■ Qualified ■ Unqualified



■ SOC 1- Qualified opinions ■ SOC 2- Qualified opinions

Analysis and Insights:

87% of benchmarked reports had an unqualified opinion compared to 13% having a qualified opinion.

Analysis and Insights:

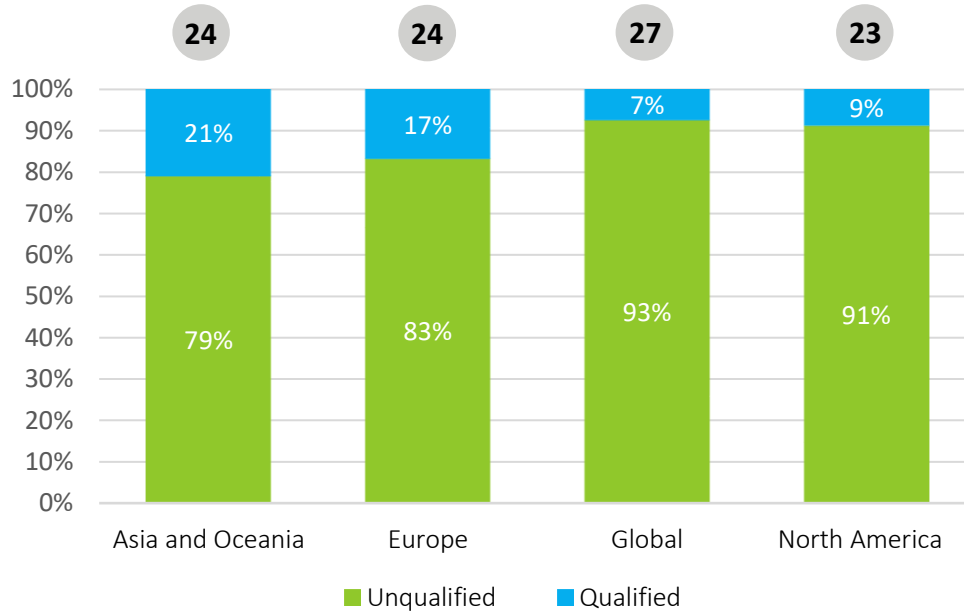
- Of the 13 qualified reports:
 - 10 were SOC 1 (Out of 71 – 14%)
 - 3 were SOC 2 (Out of 27 – 11%)
- The slightly higher rate of qualification for SOC 1 reports may seem surprising given the maturity of SOC 1 compared to SOC 2.

Qualified vs Unqualified Opinions – Region and Industry

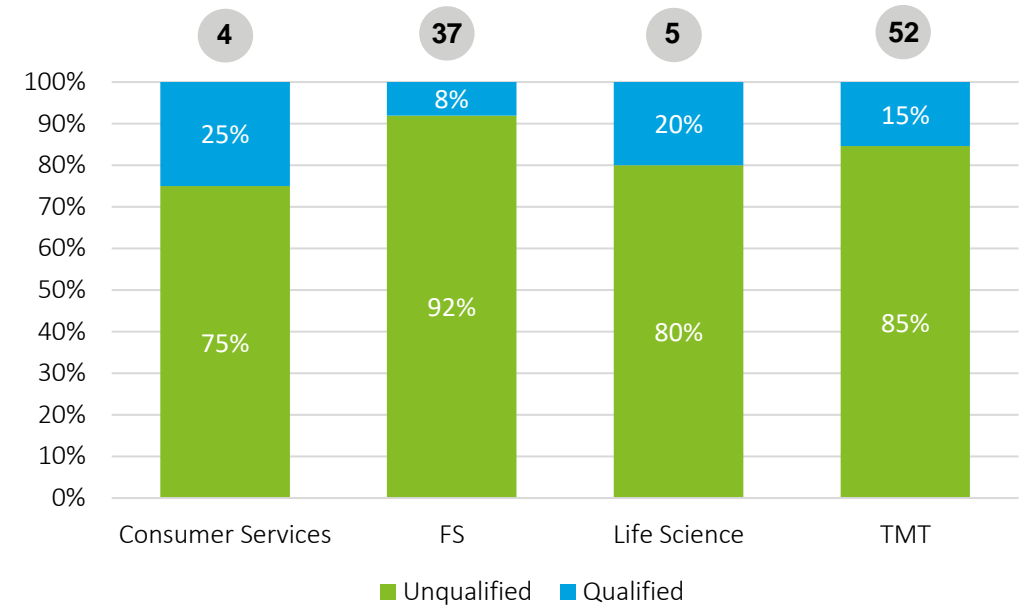
 Total no. of reports = xx

Global reports and those from North America had the lowest levels of qualification across benchmarked regions. Reports issued by FS organisations' had a lower qualification rate than other benchmarked industries.

Qualified vs unqualified opinion - Region



Qualified vs unqualified opinion - Industry



Analysis and Insights - Region:

- Asia and Oceania (21%) and Europe (17%) had higher rates of qualification compared to Global reports and those from North America.
- This may reflect the more highly regulated environment in North America, for example the SOX regime, having been in place for over two decades.

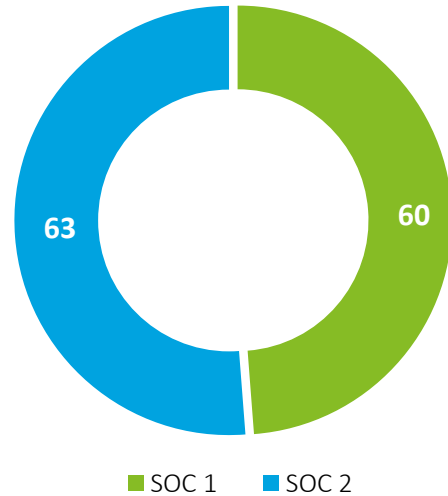
Analysis and Insights - Industry:

- TPA reports from the FS industry had a lower rate of qualification compared to others.
- This may be due to the highly regulated nature of the FS industry over a long period of time, meaning organisations control environments have a higher level of maturity.
- SOC 1 is a more established framework as it relates to Internal Control over Financial Reporting (ICFR), but Deloitte are seeing a growth in SOC 2, meaning this split is likely to change in the coming years.

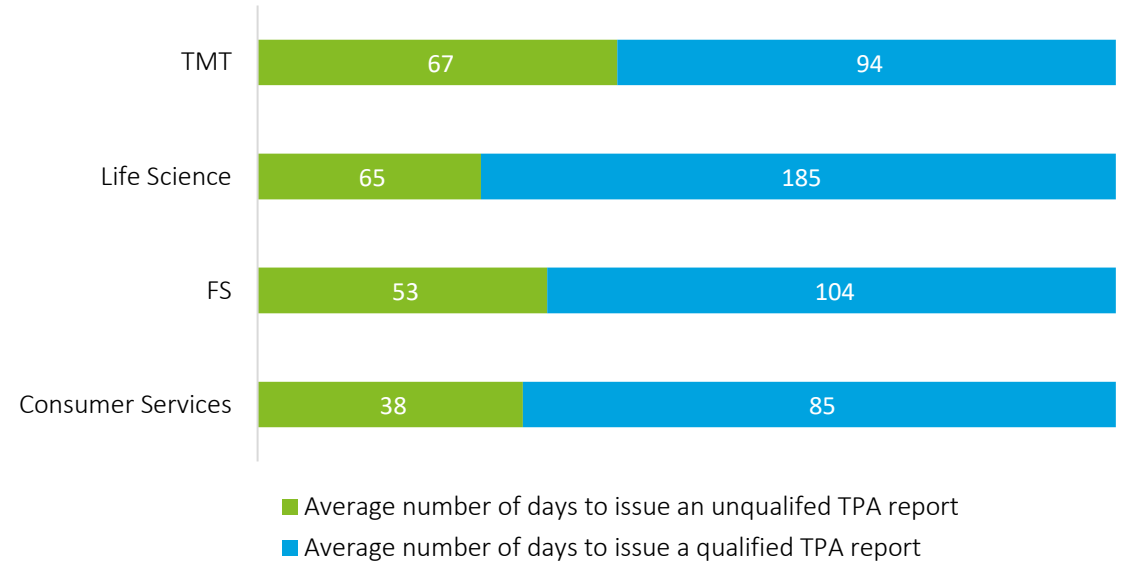
TPA Reporting Timeframes – Based on Type and Industry

For both SOC 1 and SOC 2 unqualified reports (across the different industries) the average number of days to issue a report is 61 days. When reports are qualified, this timeframe increases to 102 days on average.

Average number of days to issue unqualified report - report type



Average number of days to issue the TPA report - Sector



Analysis and Insights – Report Type:

- The average number of days to issue Unqualified SOC 1 and SOC 2 reports were 60 & 63 days.
- This increased to 86 days (SOC 1) and 158 days (SOC 2) for qualified reports.
- The additional time to issue a qualified SOC 2 report compared to a qualified SOC 1 report may be due to the higher complexity of technical SOC 2 controls and therefore more time required to conclude on deviations.

Analysis and Insights - Industry:

- The average time to issue a qualified report is twice that of unqualified reports across all industries.
- This aligns with our experience, as it takes additional time to finalise conclusions and management comments related to issues noted in qualified reports.
- Consumer Services had the quickest report turnaround (38 days on average) for unqualified reports, whilst TMT took 67 days on average to issue an unqualified report.



Control Deviations

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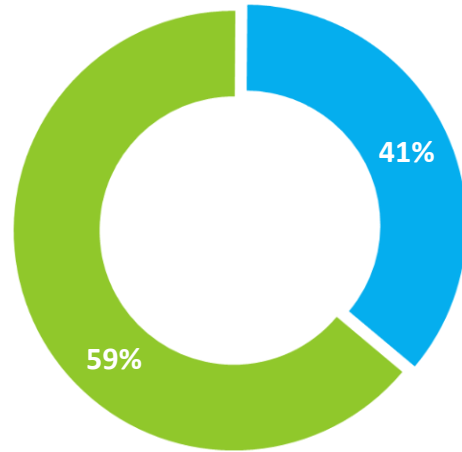


Control Deviations Analysis - All Benchmarked Reports

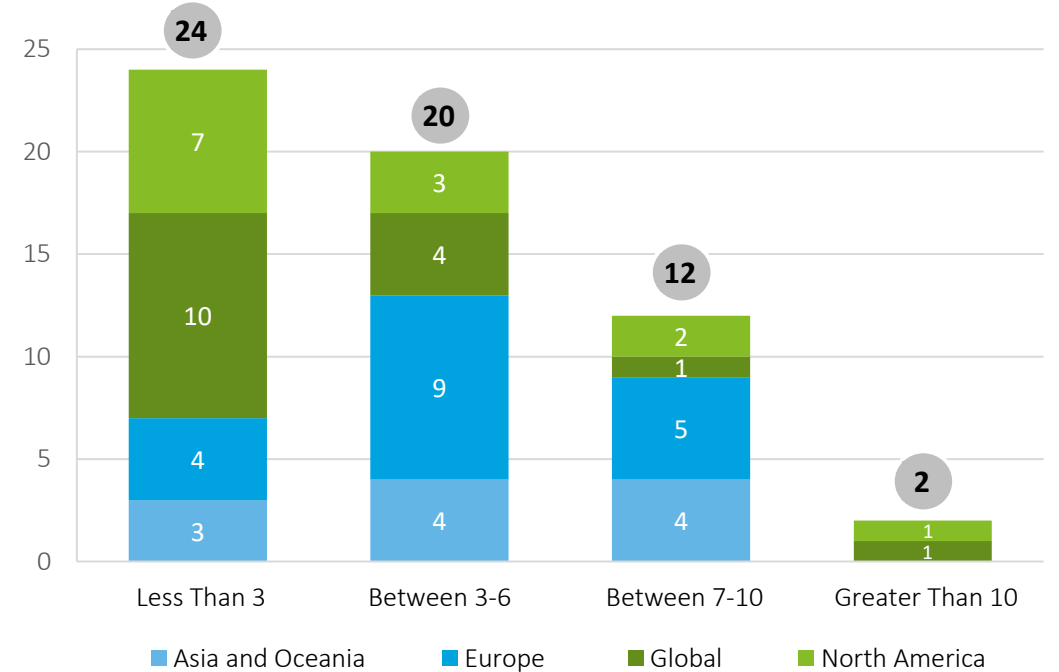
All 98 reports were analysed to assess the number of reports which had one or more deviation.

 Total no. of reports = **xx**

Percentage of total reports with and without deviations



■ Reports with deviations ■ Reports without deviations



Analysis and Insights:

- 59% of benchmarked reports had control deviations but only 13% were qualified (see page 11).

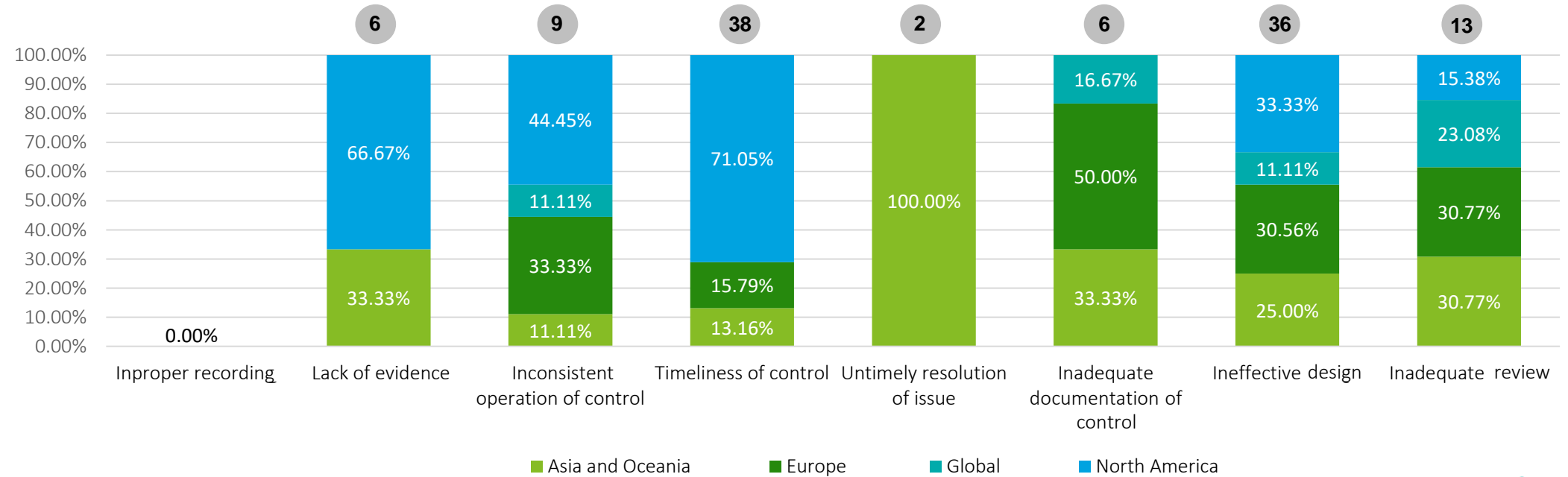
Analysis and Insights:

- The vast majority (76%) of reports with deviations had 6 deviations or less.
- Asia and Oceania had the lowest rate of deviations (11 out of 58, 19%).
- Only global reports and those from North America had more than 10 deviations (1 each).

Root Cause of Deviations - Qualified Reports – Regions

The root cause of deviations for qualified reports was analysed across all four regions and categorised across eight areas.

Total no. of deviations = xx



Analysis and Insights:

- Root cause of deviations varied across geographies but reports from Asia and Oceania and North America produced some of the most notable results:
 - North America** - lack of evidence and untimely operation of the control were the most prevalent root causes, making up 66.67% and 71.05% of all deviations, respectively.
 - Asia and Oceania** - untimely resolution of issue was only relevant for reports from Asia and Oceania - no other regions had deviations with this root cause.
- Improper recording was not the root cause of deviation across any of the reports.

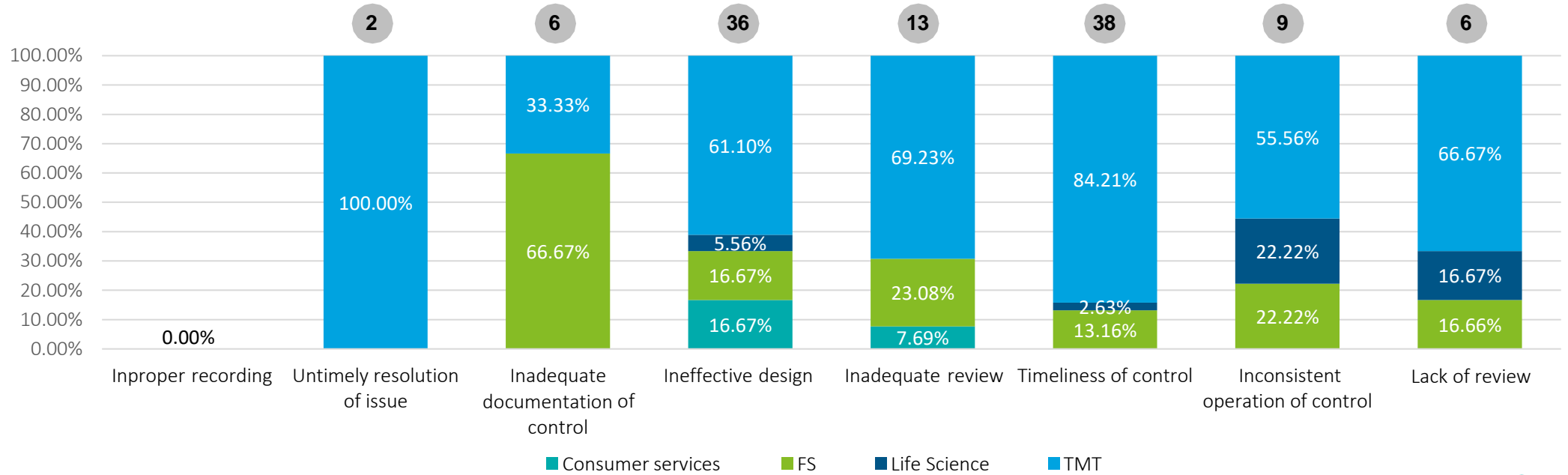


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Root Cause of Deviations - Qualified Reports – Industry

The root cause of deviations for qualified reports was analysed across all four industries and categorised across eight areas.

Total no. of deviations = xx



Analysis and Insights:

- TMT has by far the highest number of deviations but the second lowest rate of qualification (see page 12). This may be because TMT has the highest rate of control deviations with identified mitigants (page 18).
- Of these TMT deviations, untimely resolution of issue and untimely operation of the control were the most prevalent root causes, making up 100% and 84.21% of all deviations, respectively.
- This may be because TMT organisations have a higher proportion of start-ups compared to other industries, meaning they are less mature and may be suffering with resource/capacity constraints, thus leading to delays in control execution.
- Deviations across FS reports were fairly evenly split across root cause categories, except for inadequate documentation of control where FS deviations make up 66.67% of all deviations.
- Only 2 out of 8 root cause categories were relevant for Consumer Services – ineffective design and inadequate review.



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Reports with Deviations that have Identified Control Mitigations

The reports were analysed to determine the average percentage of deviations that have identified mitigating/compensating controls based on region and industry. We acknowledge there may be varied disclosure of mitigating controls across regions and industries, that may impact the below results.

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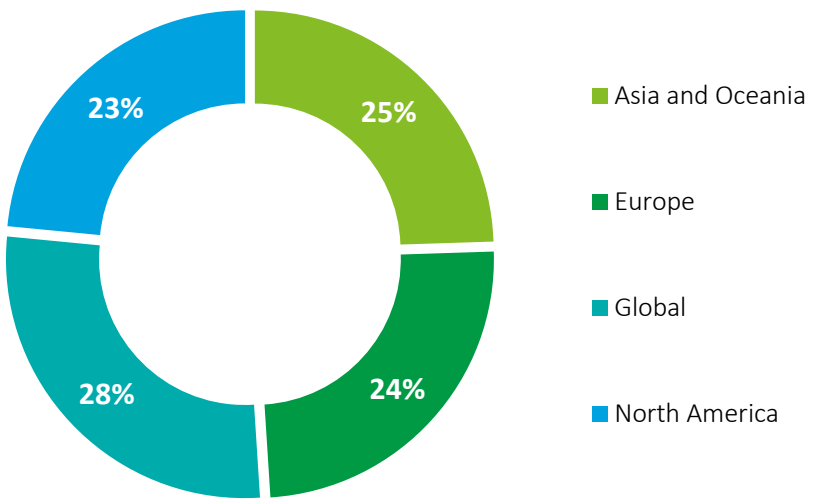
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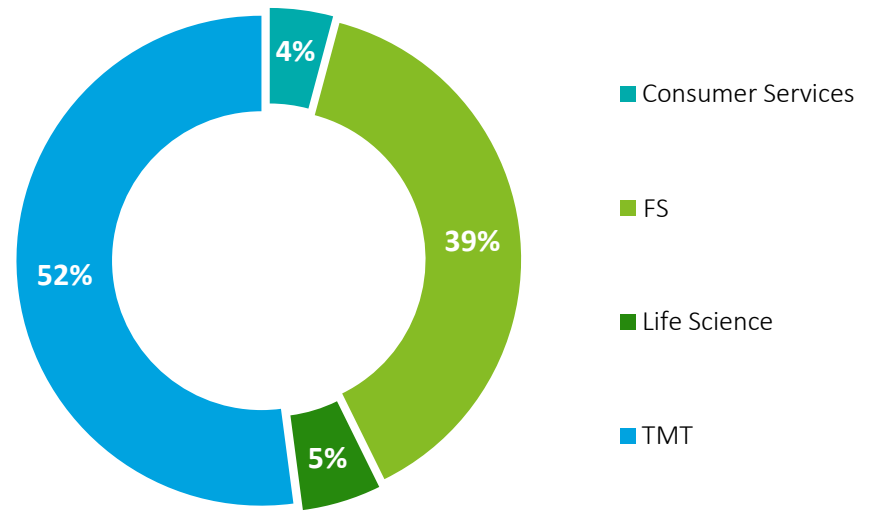
SOC 1 reports

SOC 2 reports



Analysis and Insights:

- Average percentage of control deviations with identified control mitigations is broadly consistent across regions, with a range from 23% to 28%.



Analysis and Insights:

- TMT had the highest percentage of deviations with mitigating controls (52%).
- Of these TMT deviations with mitigating controls, 90% were within SOC 2 reports.
- This may be due to the more automated nature of SOC 2 controls and the opportunity to mitigate through downstream manual controls (whereas many SOC 1 controls are already manual in nature).



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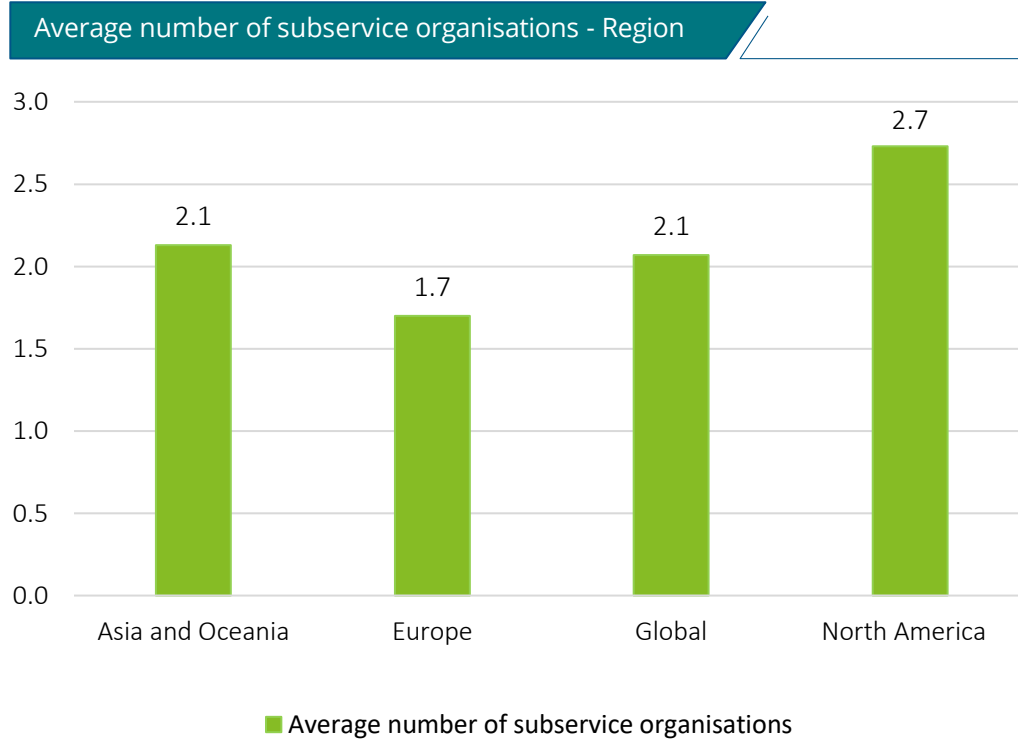
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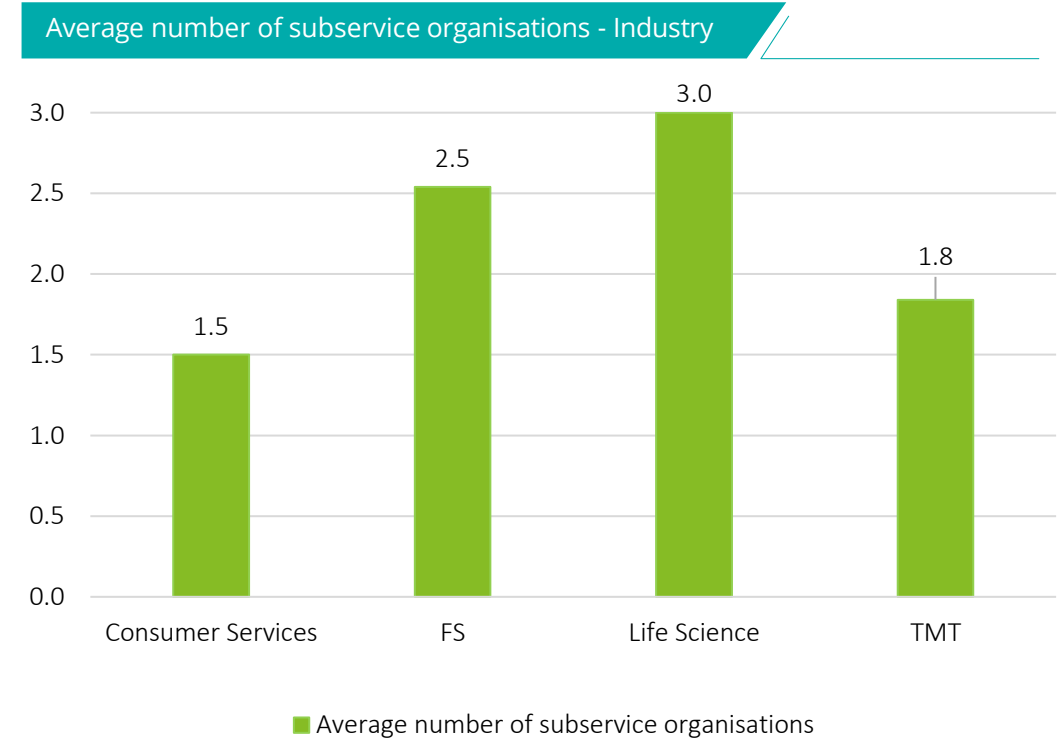
Average Number of Subservice Organisations - Region and Industry

Benchmarked reports were further analysed to assess the average number of subservice organisations based on Region and Industry



Analysis and Insights:

- Average number of subservice organisations per report is highest in North America, which may be reflective of a more complex third-party ecosystem in more mature markets.



Analysis and Insights:

- Average number of subservice organisations is highest for Life Science which may be due to the specialist nature of services provided and therefore the need to outsource certain functions to external specialists.



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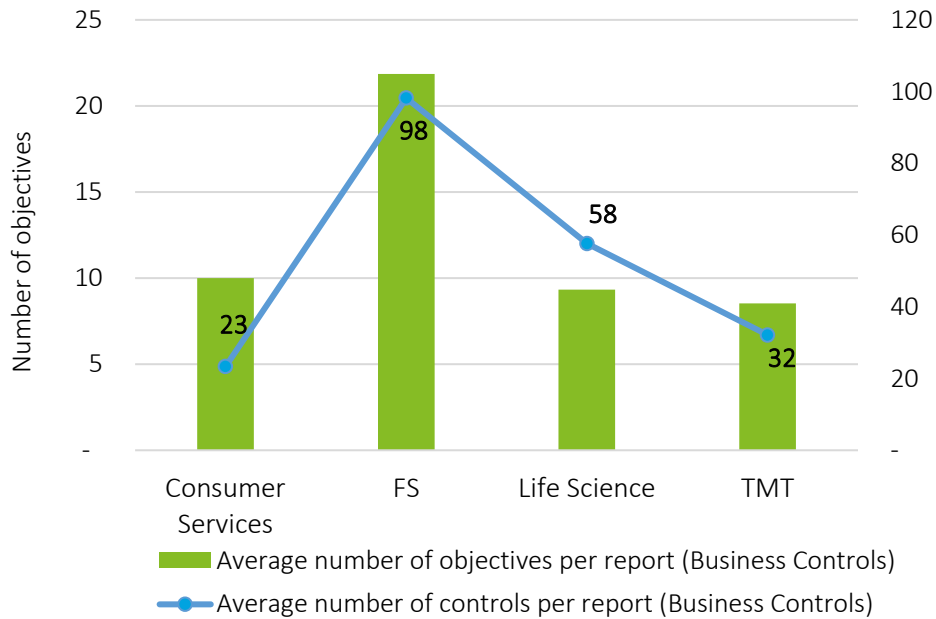
SOC 2 reports



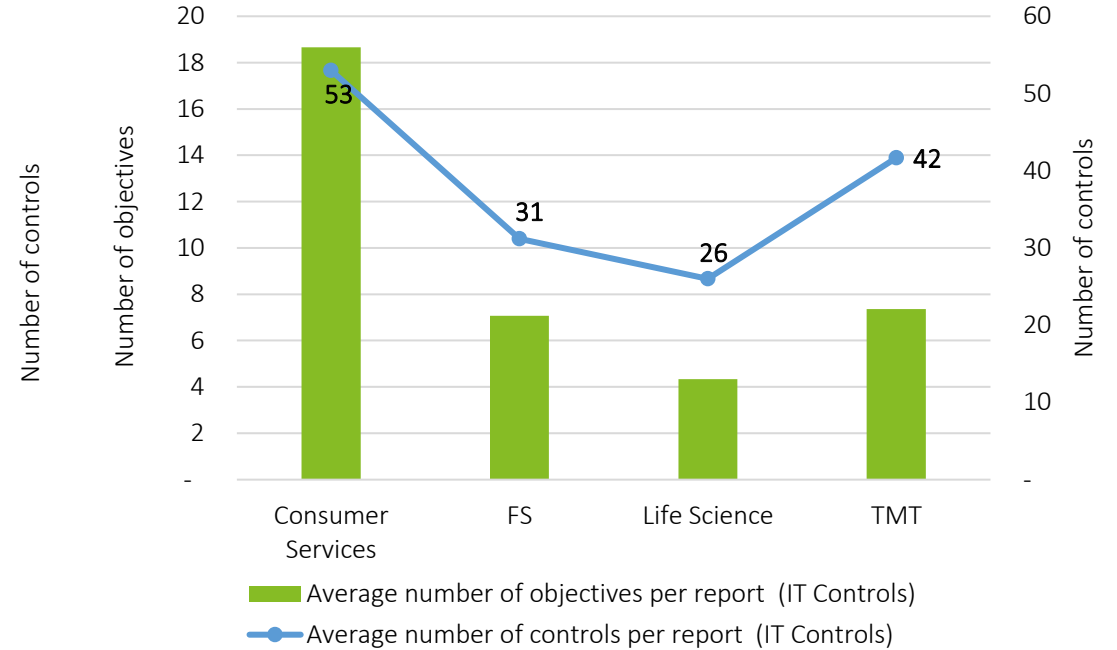
Objectives & Controls per SOC 1 Reports

The average number of objectives/control per report – by Industry.

Average number of business objectives & controls in scope - Industry



Average number of IT objectives & controls in scope - Industry



Analysis and Insights:

- FS reports included the most business control objectives across its control environments, whilst Consumer Services included the most IT control objectives. Together FS and Consumer Services averaged 29 Business and IT control objectives across all benchmarked SOC 1 reports. This suggests that the scope of FS and Consumer Services SOC 1 reports may be broader, with more services included in the scope of the report than compared to Life Sciences and TMT. This could be due to user demands driving the scope of reports placing greater demands on FS and Consumer Services TPA reports.
- In contrast, Life Sciences, although averaging just 14 control objectives per TPA report, average 6.1 controls per objective, thus resulting in greater depth of controls being included in these reports.



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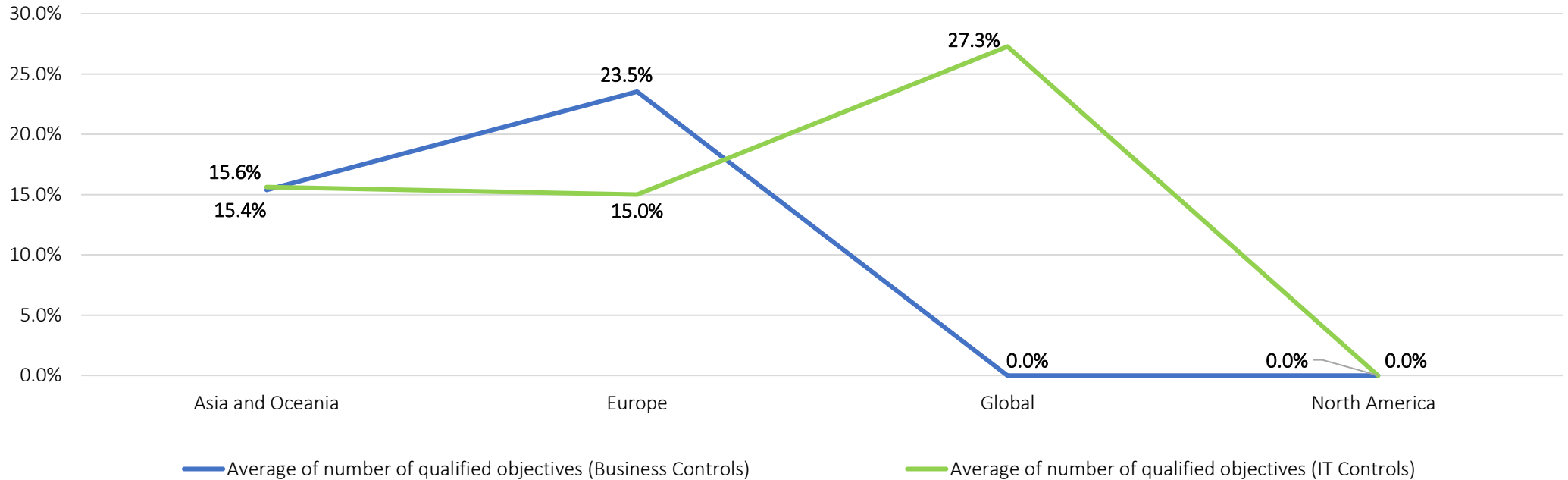
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Qualified Business/IT Control Objectives for Qualified SOC 1 Reports.

The percentage of qualified business and IT objectives for qualified reports – Region.

Percentage of qualified objectives analysis



Analysis and Insights:

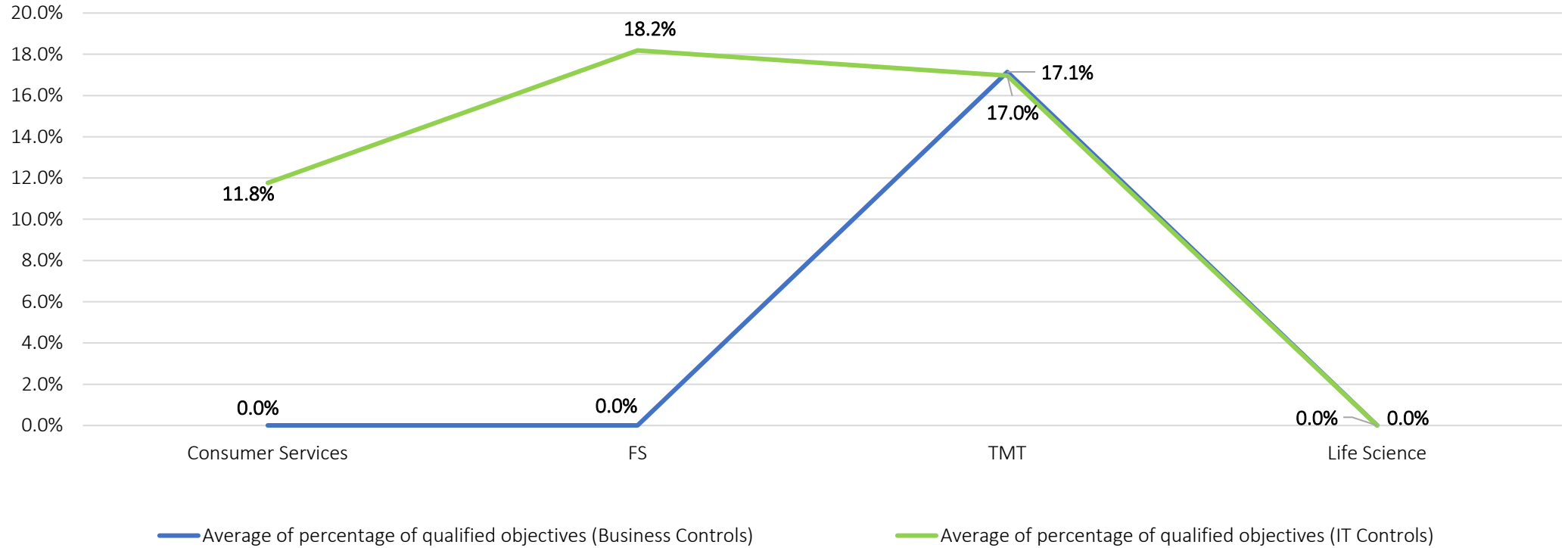
- None of the benchmarked SOC 1 reports from North America included qualified objectives.
- None of the business objectives were qualified for Global reports, although 27% of IT objectives were qualified, representing the top end percentage for control objective qualifications.
- The data indicated that on average, where a SOC 1 TPA report was qualified, 10% of the objectives would be qualified.
- Apart from Europe, the qualification of IT objectives exceeded that of business objectives both per region and industry (page 24). This greater qualification rate may indicate that entities are not keeping pace with IT risk mitigation control requirements.



Qualified Business/IT Control Objectives for Qualified SOC 1 Reports.

The percentage of qualified business and IT objectives for qualified reports - Industry.

Percentage of qualified control objectives analysis



Analysis and Insights:

- TMT had the highest rate of objective qualification across both Business and IT objectives (17%).
- FS also stands out with the highest qualification rate (18%) of IT objectives with no business objectives qualified.
- There were no objectives qualified for the sample of five Life Science SOC 1 reports included in the benchmarking.



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Control Deviations and Mitigating/Compensating Controls.

Control deviations and mitigating/compensating controls for SOC 1 reports - Industry.

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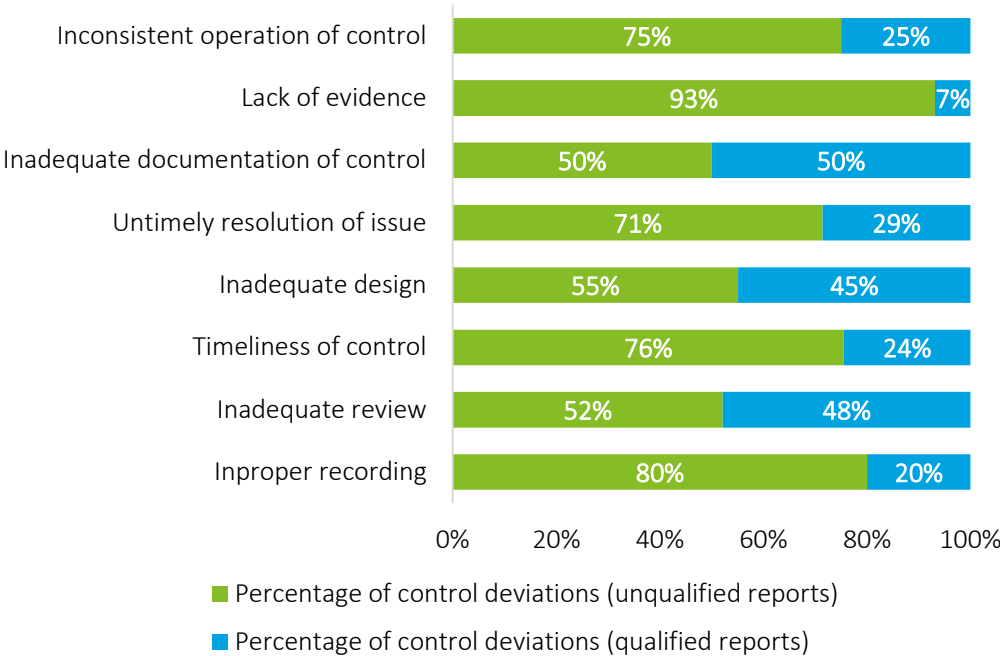
Control deviations

Use of subservice organisations

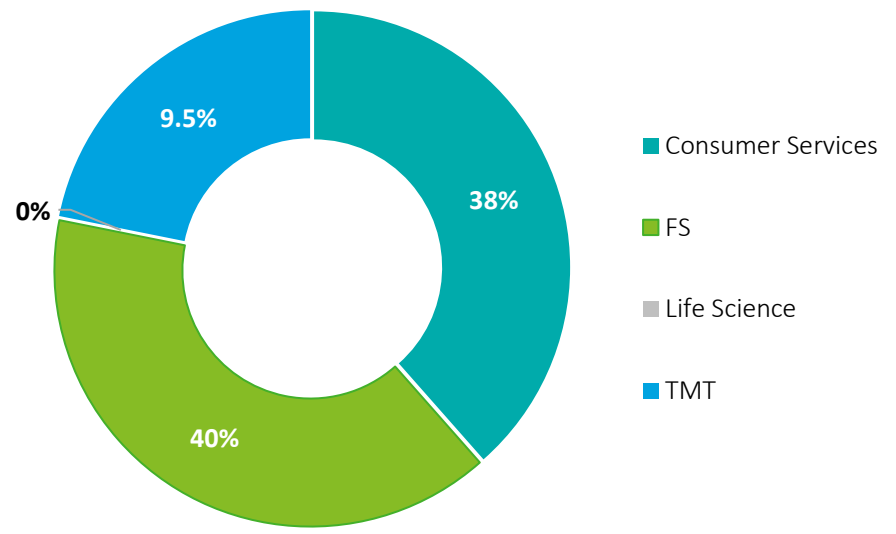
SOC 1 reports

SOC 2 reports

Type and percentage of SOC 1 control deviations



Percentage of controls with deviations and mitigants - Industry



Analysis and Insights: Mitigant controls

- Across all Industries and Regions, 61% of SOC1 reports sampled included control deviations.
- Across all sampled SOC1 reports, the most common control deviations were inadequate design and timeliness of control. However, where a control deviation was as a result of inadequate design or documentation, or lack of review, the report had a 45% to 50% of qualification.
- The application of mitigating/compensating controls were applied to, on average, 14% of all controls with deviations across all Industries. Those Industries where the most mitigating controls were applied were FS, with no mitigating controls identified for controls with deviations in Life Sciences TPA reports.





SOC 2 Reports

- Foreword
- Profile of benchmarked reports
- Scope/areas of focus
- Summary of benchmarking results
- How you can use the benchmarking results
- Demographics of benchmarked reports
- Qualified vs unqualified opinions
- Control deviations
- Use of subservice organisations
- SOC 1 reports
- SOC 2 reports**

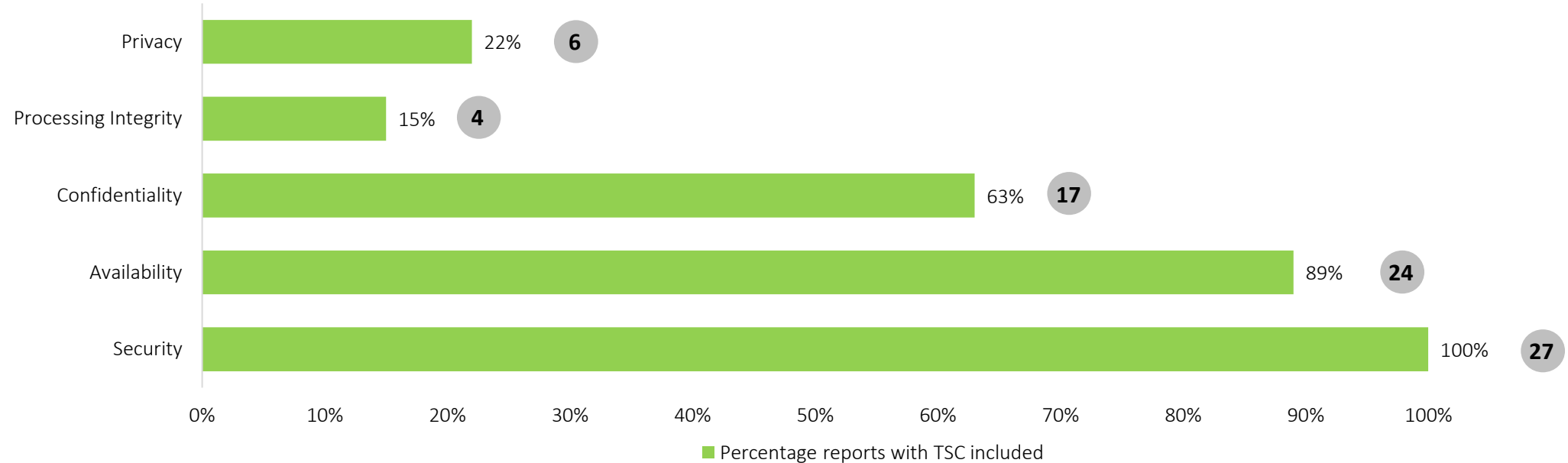


Coverage of the Five Trust Services Criteria (TSCs)

The 27 SOC 2 reports included in the benchmarking were analysed to understand the coverage of the five TSCs across the reports.

 **Total no. of SOC 2 reports = XX**

Percentage of TSCs covered in SOC 2 reports



Analysis and Insights: Mitigant controls

- As the only mandatory TSC of the SOC 2 framework, all reports included Security.
- Availability is second with 89% coverage and Confidentiality third with 63% coverage.
- This is in line with Deloitte’s experience as most organisations undertaking SOC 2, especially for the first time, opt to scope in 2 or 3 TSCs and may expand in future years.
- Availability and Confidentiality are also incremental additional requirements compared to Privacy and Processing Integrity which have a higher number of criteria.
- Privacy is low at 22% but we expect this will grow as privacy requirements expand and deepen globally.
- Processing Integrity is also low at 15% as it is only relevant for organisations that process a high volume of transactions.

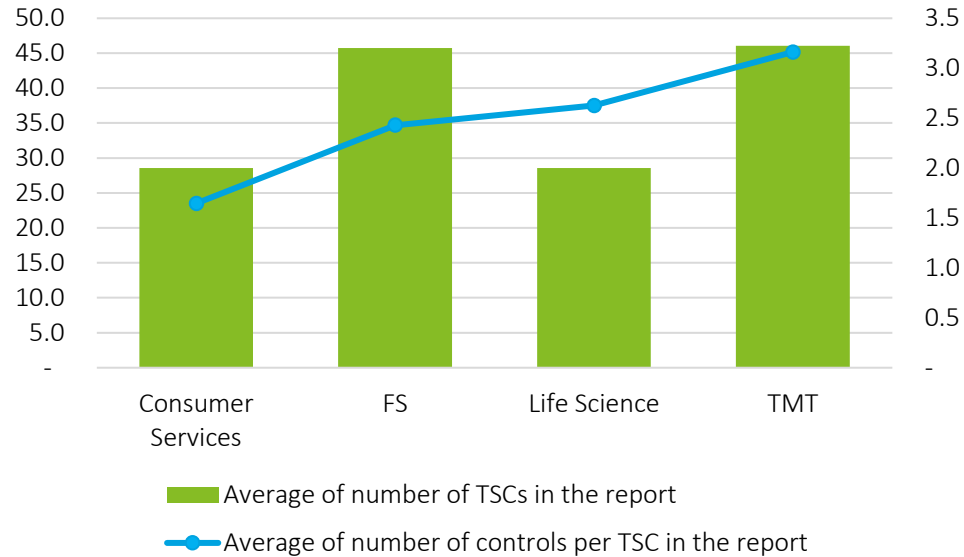


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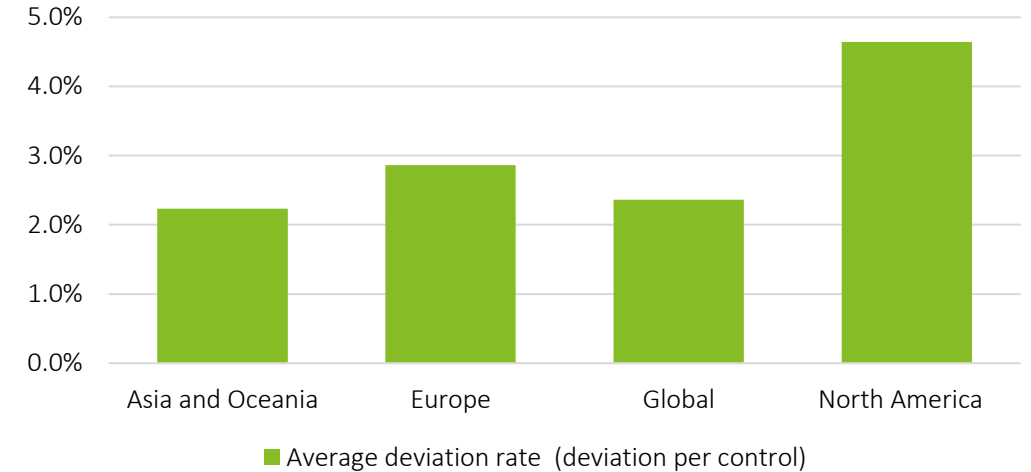
SOC 2 – Average Number of TSCs, Controls and Deviation Rates

Further analysis of the 27 SOC 2 reports is shown below, providing coverage of average number of TSCs, controls per TSC and average deviations.

Average number of TSCs and controls per TSC



Average deviations - Region



Analysis and Insights:

- FS and TMT had the highest average number of TSCs covered with an average of 3.2 each.
- Whilst average number of TSCs is identical, TMT had a significantly higher average number of controls per TSC (45) compared to FS (35).
- Consumer services and Life Science followed a similar pattern, with average number of TSCs being the same (2) but with Life Science having a higher number of controls per TSC (38 compared to 24).

Analysis and Insights - Industry:

- North America had a significantly higher rate of control deviation than other industries at 4.6%.
- This may be surprising as, from Deloitte's perspective, the North American TPA market is probably the most mature
- That said, North America is also arguably the most heavily regulated global market which may mean a higher bar is set with more requirements to fulfill.



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