

A control room environment featuring a large array of monitors in the background, each displaying various colorful test patterns. In the foreground, a keyboard with illuminated keys in yellow, green, and red is visible. The overall scene is dimly lit, emphasizing the glow from the screens and keyboard.

Deloitte.

Third Party Assurance Reports
Insights and perspectives, including
benchmarking results

See what we see.

Overview of this report



- This is the 6th annual edition of the Deloitte Third Party Assurance insights report. It provides perspectives and benchmarking based on a survey of third party control assurance reports issued or used in Australia. To the best of our knowledge it is the **leading survey in the Australian market**.
- In 2015, we held a national round table discussion with a selection of users, service providers and relevant industry bodies and APRA, to seek views on **the future of third party assurance reports**, including consideration of the **scope, use and purpose of these reports**.
- In this report, we also provide insights into better practices for **managing and monitoring third party services providers** in a world where an organisations extended enterprise continues to expand and with this comes **more complex third party risks**
- **Our benchmarking analysis** includes an assessment of the nature of underlying controls, in particular the **extent of automated controls vs manual, and detective controls vs preventative**.
- The findings of our survey can be used to help **benchmark your own organisation's report**, or those received by you from your service providers.
- Throughout, we have posed a number of **questions that you might wish to ask in relation to your own organisations**.
- There are several standards and guidance statements on which controls reporting is based, in Australia and overseas. This report is not aimed at the technical reader, however does provide a technical update on these standards and guidance statements.
- For ease of understanding we have used the term 'GS 007' as a proxy for controls reporting in Australia by service organisations generally.
- The confidentiality of service and user entities is maintained at all times.
- Please contact a member of our team if you would like to have a more detailed discussion about the trends we are seeing and how this might relate to your organisation.



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Executive Summary:

Key observations & trends



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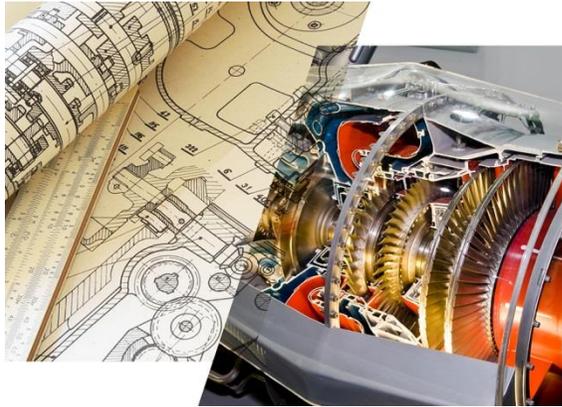


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Observations and trends in respect to our benchmarking analysis



Key questions:

- Do you understand the split between automated / manual and preventative / detective controls in your organisation?
- Is the balance right?
- Are your assurance processes as efficient and effective as they can be?
- Are the instances of control deviations improving in your organisation? If not, why are you falling behind the improving trend?

Internal control efficiency and effectiveness

- Conventional wisdom tells us that automated controls are better (effective, efficient) than manual controls. However, our benchmarking indicated that:
 - The reports surveyed showed an overall **greater reliance on manual controls than on automated controls**.
 - This situation is driven by many factors. **It can be more complex and costly to implement automated**. Resources available for 'BAU' process and control improvements have been made scarcer as time and money has been channelled towards large regulatory and system implementation projects.
- Similarly, preventative controls are regarded as being more effective and efficient than detective controls. However the reports surveyed showed that **detective controls were more common than preventative controls**.
- As GS 007 reporting matures and the number of deviations reduces, Audit Committees are **challenging whether the scope should be broadened or deepened in certain areas to drive continual improvement**.

Decline in deviations continues

- In 2015 control deviations from surveyed reports was **down by 11% from 2014**. An average of just under 4 deviations per report was noted.
- Since our analysis began in 2010, control deviations have continued their **declining trend**. This could be testament to the **improving control frameworks** operated by service providers generally.
- The top 2 deviation in 2015 related to **inappropriate user access** and **inadequate review** controls. This is consistent with previous years.
- **Materiality of controls** and identification of relevant mitigating controls to alleviate the need for a deviation is inconsistently applied, creating frustration amongst industry participants, according to feedback received



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Other observations and trends: the future of third party assurance reporting



Key questions:

- What does the future of third party assurance reporting look like?
- How will the scope and use of these reports change as the needs of users and other stakeholders change?

The Future of Third Party Assurance Reporting

- In 2015 we held forums in Sydney and Melbourne to discuss the future of third party assurance reporting in Australia. A selection of users, service providers and relevant industry bodies, along with APRA, were in attendance. The purpose of these forums were to seek the views of representatives from the industry around the **scope, use and purpose** of third party assurance reports going forward.
- Some common themes and challenges were expressed by participants, including:
 - **Limited scope** – broad but not deep
 - **Use of reports** – changing from auditors report over financial reporting controls to much more
 - **Expectation gap** – leading to an over reliance on the extent of assurance
 - **Inconsistency** – in methodologies and reporting frameworks applied
- Heightened user demands and regulator expectations is driving a need for deeper assurance in relation to:

IT Controls - IT security, data integrity and privacy/confidentiality

Compliance and Governance Controls – Regulatory reporting, Conflicts of Interest, Anti-Money Laundering (AML)

Monitoring Third Parties – Frequency and rigour of monitoring controls



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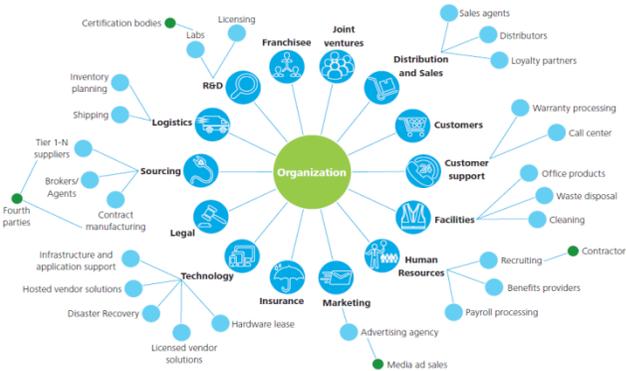
Other observations and trends: the extended enterprise

The Extended Enterprise: how do you best manage and monitor outsourcing risks

- In December 2015 we released the first in a series of quarterly newsletters providing insights into Third Party Assurance, titled: *Monitoring of subservice organisations across the extended enterprise*. In this newsletter we provided insights and benchmarking around better practices for managing and monitoring third party / subservice providers.
- This is important as organisations are increasingly extending their enterprise and placing **greater reliance** on third party or subservice providers to provide business critical services.
- The extent to which subservice providers are managed and monitored is often driven by how material they are considered, however there is **inconsistency in the determination and classification** of material service providers
- **There is also inconsistency in how different providers are being managed and monitored.** The types and depth of controls over subservice organisations in the industry also varies – many are not described in enough detail in third party assurance reports to **determine the extent, consistency and quality of controls implemented** to monitor subservice organisations
- The **evolving operating environment** is highlighting the need to consider other services as key or material subservice providers, such as cloud based services

Some simple tips and better practices include:

- Develop an **inventory of all service providers** within your organisation, and assess their risk and materiality to you
- Develop a framework for **regular, ongoing monitoring and review** of the performance of subservice organisations
- Continually update your understanding of the **end to end controls that extend beyond your organisation**
- **Assigning accountability and ownership** for managing third party providers is necessary
- **Reporting at the Board and Committee level** on higher risk or material subservice entities is necessary, with embedded supporting policies / procedures / technology to manage and monitor these entities.



Key questions:

- How do you get better outcomes from your service provider?
- What information would you like to receive more of from your third party providers?
- How can your third party monitoring framework be improved?
- Are you seeking third party assurance reports from all of your outsourced providers?



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Detailed benchmarking analysis



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Split between Automated/Manual Controls, Detective/Preventative Controls

Automated vs Manual Controls

Across all sectors, manual controls were more prominent than automated controls. The Property Management sector showed a very large proportion (98%) of manual controls compared to the most automated areas, Information Technology (30%) and Superannuation Administration (30%).

Automated vs. Manual Controls



Preventative vs Detective Controls

We saw a relatively consistent split and, pleasingly, a marginally higher proportion of preventative controls than detective controls. Information Technology (72%) had the high proportion of preventative controls.

Detective vs. Preventative Controls



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Number of controls per control objective

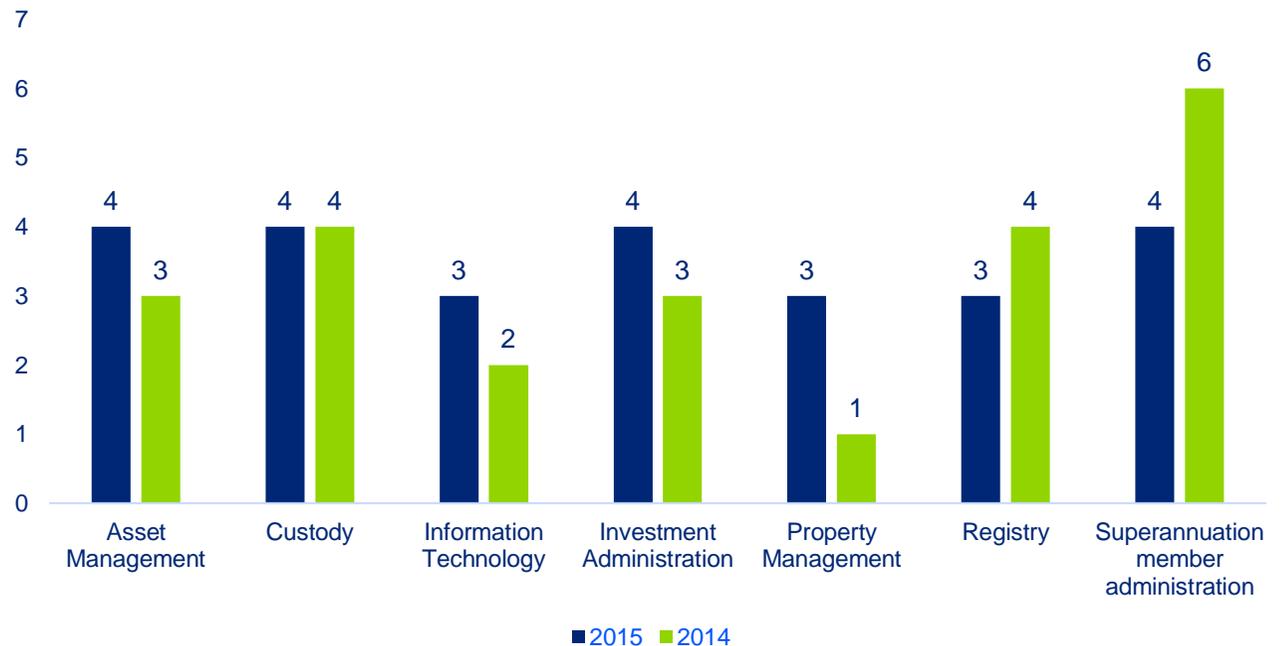
The number of controls listed for each control objective varies between 1 and 6 controls across each sector. We are regularly asked what is the 'right' number of controls. Of course there is no 'right' answer and this analysis is intended to help you benchmark your reports against the average for each sector.

We found that Superannuation Member Administration had the largest average number of controls per objective, whilst Property Management had the lowest average number of controls per objective.

Key question:

- How does your organisation's control report compare?

Average number of controls per objective



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Days to report

Timeliness of reporting improved in 2015, with the average time to issue an opinion on control reports being 47 days compared to 54 days in 2014 and 48 days in 2013.

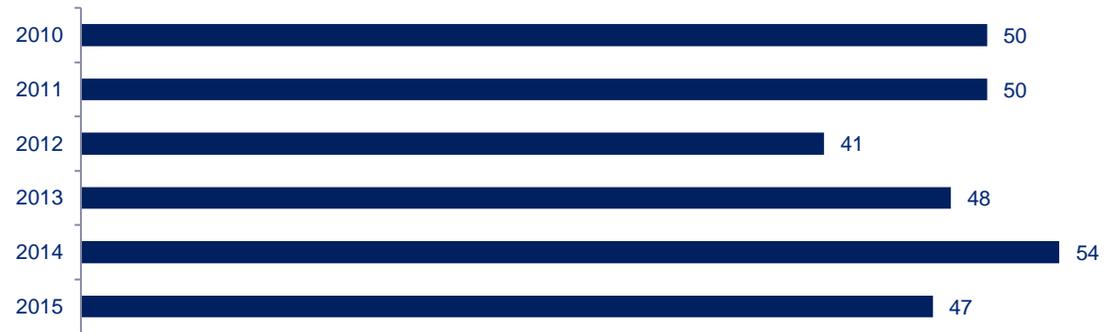
The result was skewed by some very late reports in the Property Management Sector—see below. The underlying trend is for reports to be provided sooner after year end, not later.

The Custody sector had the fastest turnaround of reports at 43 days whilst the Property Management sector was the slowest at an average of 54 days. Property Management reports are not always relied upon for year end audit purposes which in part explains the slow turnaround time.

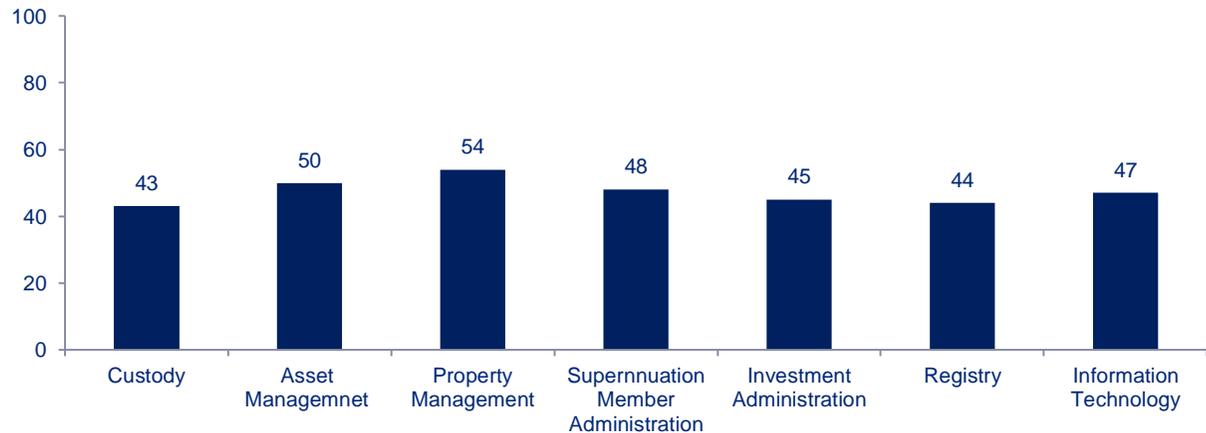
Key question:

- Are you doing what you can to help your clients meet their deadlines?

Average Days Elapsed Overall by Year



Average days elapsed after balance date per sector



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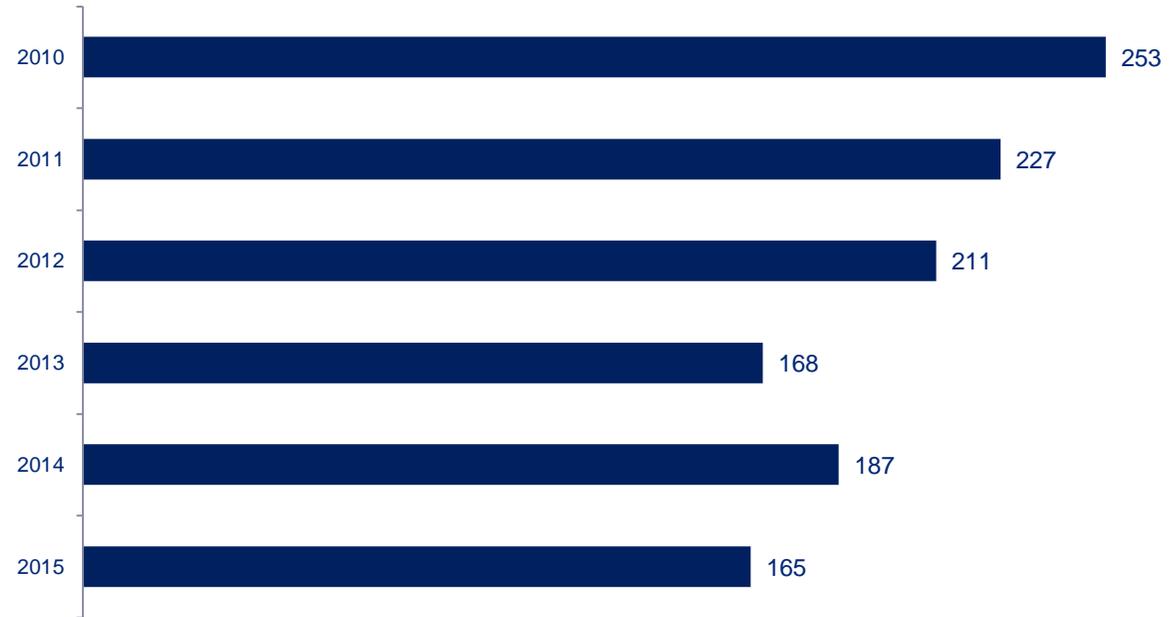
Deviations

- The steady trend of declining deviations has continued in 2015, with an 11% drop from 2014. Our analysis shows an average number of deviations per report of just under 4.

Key questions:

- Do you seek guidance from your auditors on changes to controls throughout the year?
- Are your assurance processes as efficient and effective as they can be?
- Are the instances of control deviations improving in your organisation? If not, why are you falling behind the improving trend?

Total number of deviations



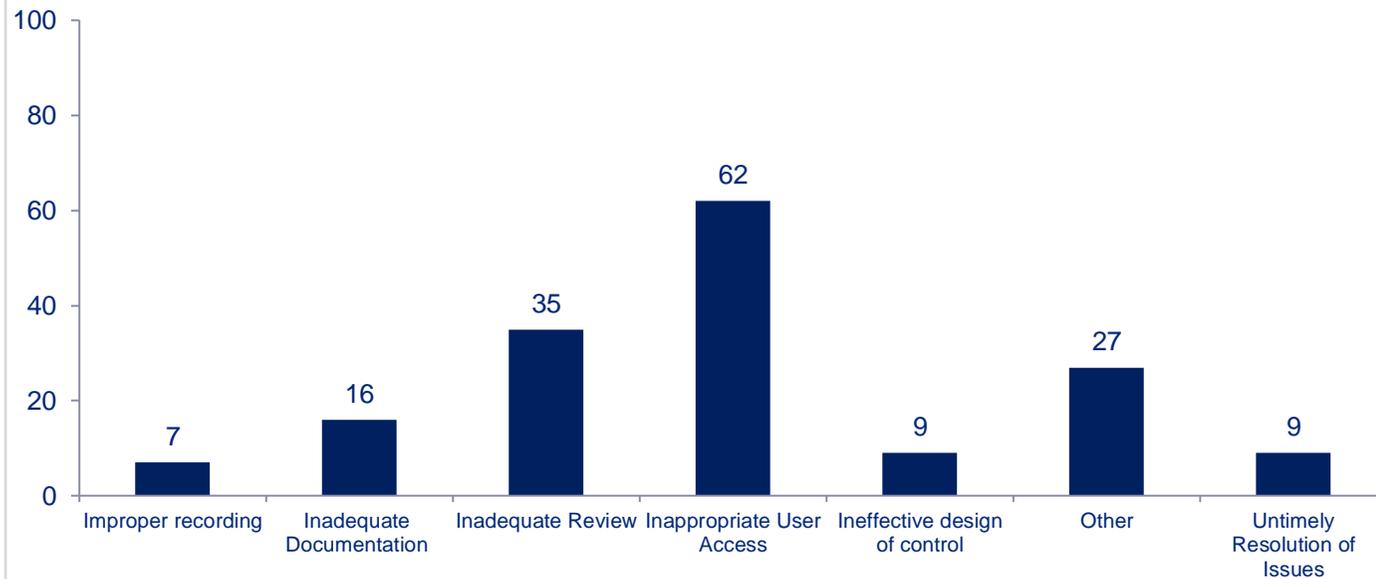
Causes of Deviations

Information Technology continues to be the source of the most deviations, particularly in relation to the user access controls that are critical in ensuring appropriate segregation of duties.

In 2015, the top two causes of deviations were “Inappropriate User Access” and “Inadequate Review”.

This is consistent with prior years types and causes of deviations

Types of deviations in 2015



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Top Deviations per Sector



Asset Management

1. Untimely resolution of issues
2. No evidence of timely review of security reconciliations.
3. Lack of formal documentation of trade instructions
4. Broker exposures were not evidenced as monitored
5. Report was sent outside the timeframe agreed with the client.

Investment Administration

1. Failure to retain evidence that reconciliations were performed in a timely manner.
2. Untimely resolution of issues
3. Failure to review and update tax policies.
4. Failure to evidence independent review of exception reporting.
5. Report was sent outside the timeframe agreed with the client.

Super Member Admin.

1. Lack of evidence of review of exception reports and reconciliations.
2. Insurance Guide and Application for Insurance was not sent to member as per application form.
3. Failure to record changes to member data.
4. No evidence on investigation and follow up on errors.
5. Benefit payments were not adequately authorised.

Registry

1. No evidence for validation of instructions.
2. Failure to evidence independent review of daily checklists and reconciliations.
3. Untimely actioning of member data change instructions.
4. No evidence of review of Internal Policies

Information Technology

1. Inappropriate super user access.
2. Failure to review user access on a timely basis.
3. Failure to revoke user access following employee termination/resignation or transfer.
4. Inappropriate segregation of duties between production, development and test environments.
5. Inadequate physical security e.g. of internal servers.

Custody

1. No evidence of review of reconciliations
2. Review of client instructions was not performed in a timely manner
3. No evidence of review on Checklists
4. No periodic reviews is performed on the sub-custodian services.
5. Failure of review to detect error in recording of instructions



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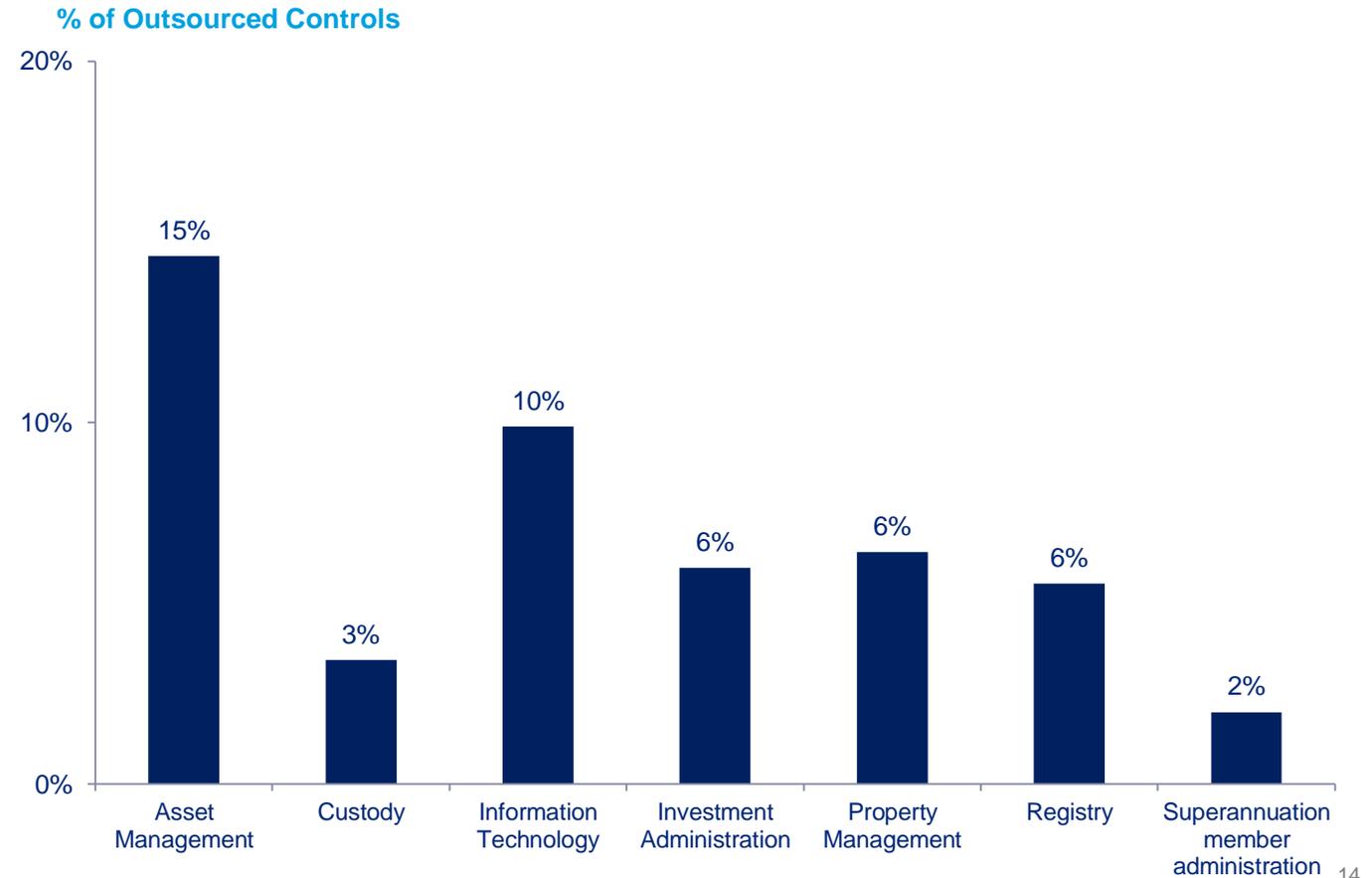
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Outsourced Controls

Financial services organisations are increasingly 'extended enterprises', with high reliance on third parties.

In 2015, the number of outsourced controls were highest in the Asset Management sector.

Outsourcing of IT controls is an increasing trend as cloud based solutions become more popular and relatively inexpensive.



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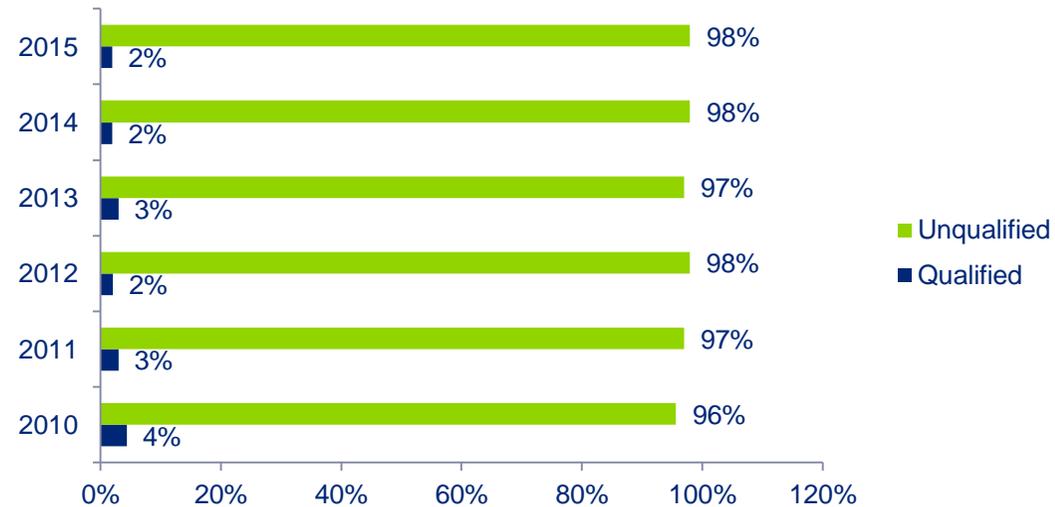


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Qualifications

- The percentage of qualified opinions has remained more or less steady between 2010 and 2015, with the qualification rate of 2-3% seemingly being the 'norm'.
- Qualified reports were due to either user access issues or the existence of large historical error rectification programmes.

Control Report Opinions



The future of third party assurance reporting



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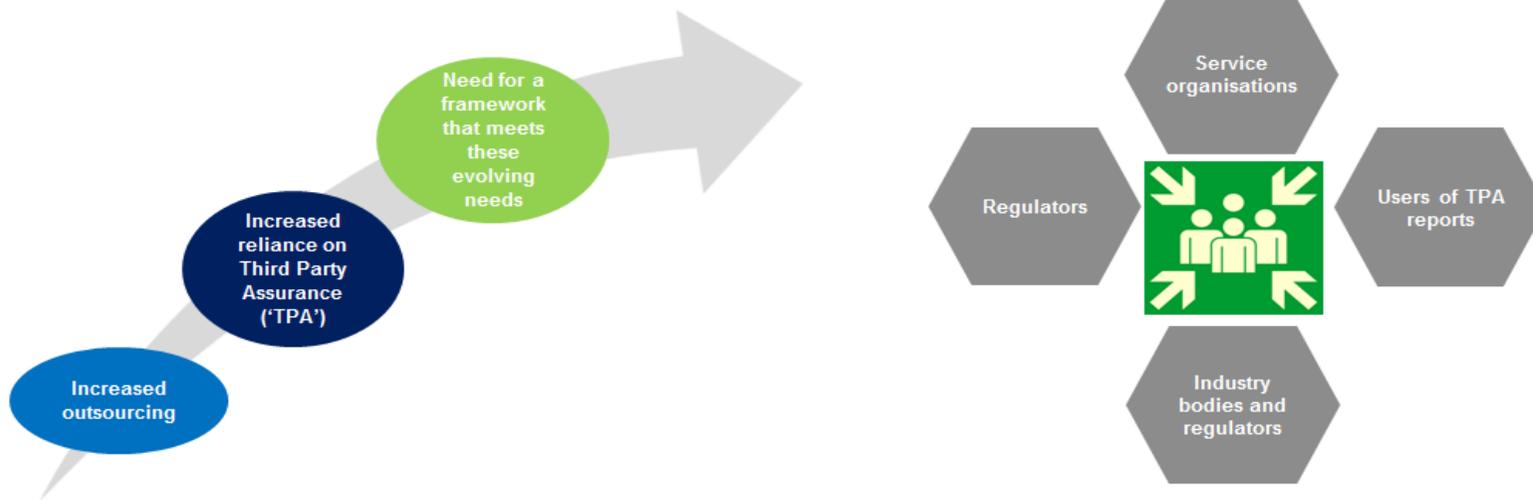
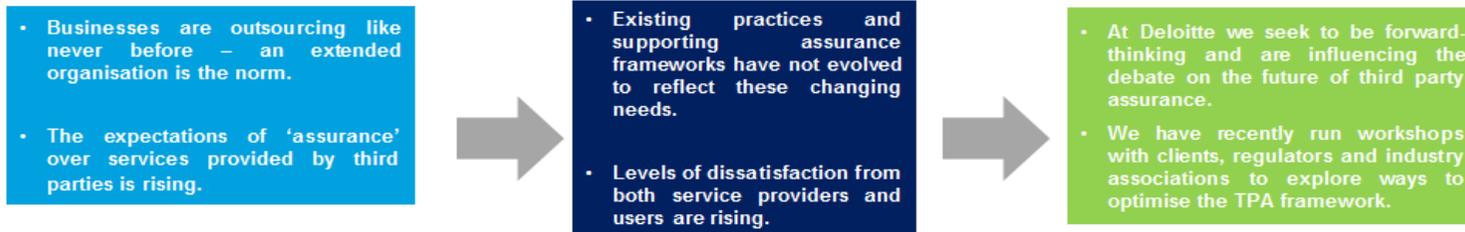


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Overview of the current environment



GS 007 plays a part in this, but there is more that needs to be done to ensure third party risks are understood, tracked and managed appropriately.



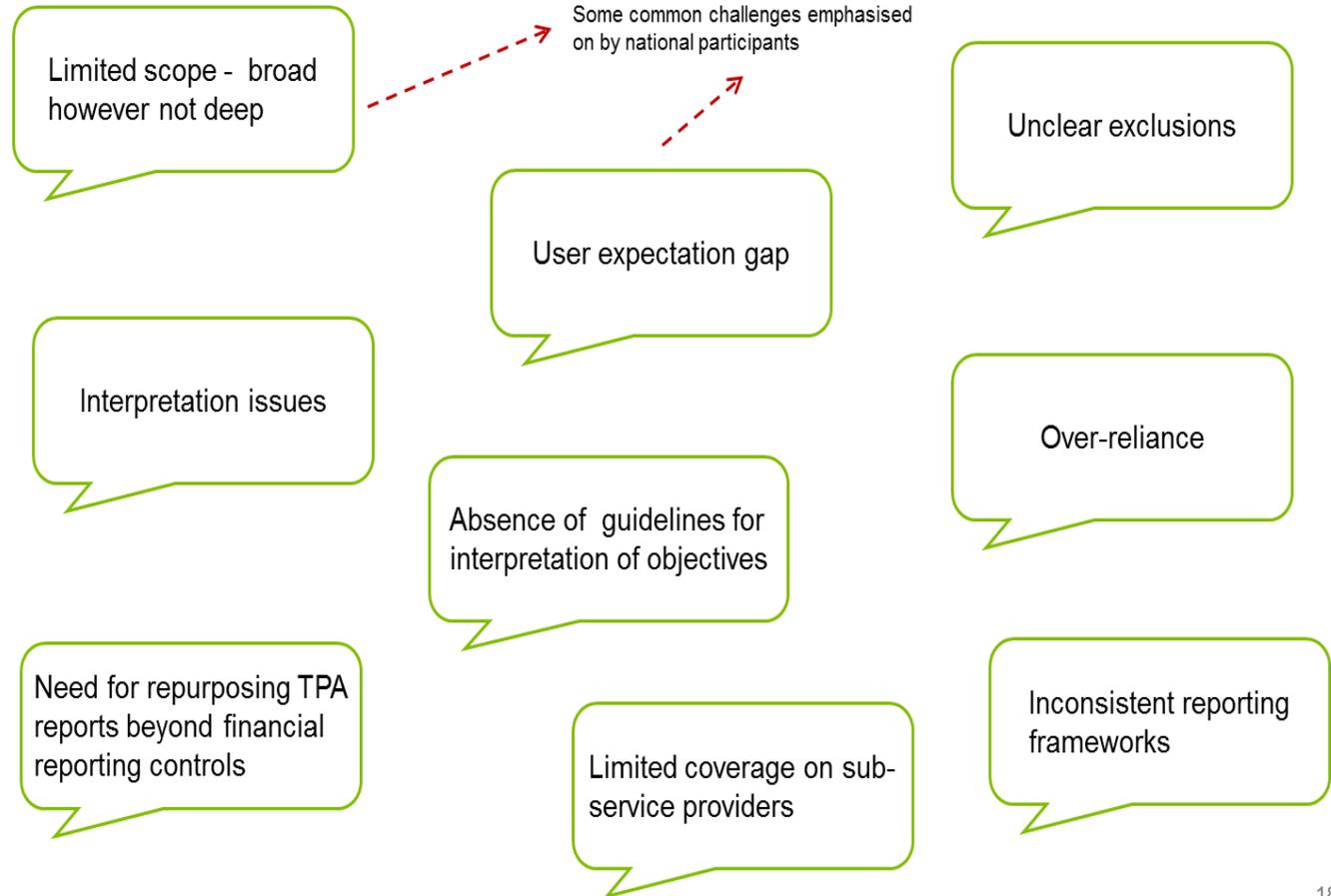
Common challenges and questions from users of GS 007 reports

The following areas were discussed at forums held with service providers, users, regulators and industry associates to explore the future of third party assurance reporting



Key questions:

- What are your common challenges?
- How should the industry and assurance bodies evolve to best address and resolve these challenges?



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Continued: Common challenges and questions from users of GS 007 reports

The following areas were discussed at the 2 forums held in Sydney and Melbourne to explore the future of third party assurance reporting



Key questions:

- Are reports meeting your clients' needs, or is the message getting lost in the report?
- Do you need to refresh your report?

Limited coverage on information technology

Duplicated efforts due to repetitive assurance activities across various reporting vehicles

Limited role in due diligence

Lengthy reports

Use as a Marketing tool

Limited auditor skillsets

Designed for auditor to auditor reliance

Increased user demands

Inconsistent sampling methodology



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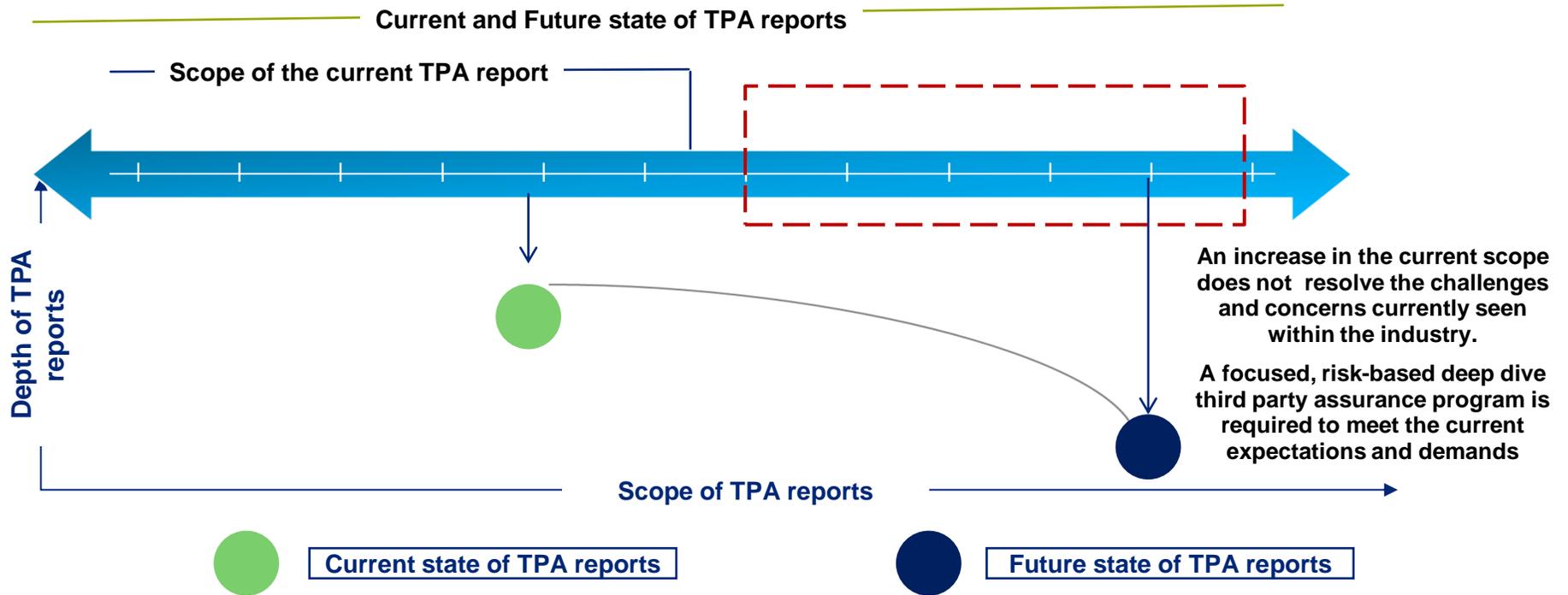
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The heart of the problem...

The below diagram depicts the spectrum of the current and potential future state of the third party assurance ('TPA') reports.



Common areas where users are seeking deeper assurance

Below we outline some of the common areas in which users of third party assurance reports have expressed interest in receiving deeper assurance:



Key questions:

- What assurances do your clients seek that can be rolled into the GS 007 report?
- Are you seeking GS 007 reports from all of your outsourced providers?



Information technology

- Cyber security
- Data integrity
- Privacy & confidentiality



Compliance & Governance

- Regulatory reporting
- Risk Management Framework
- Conflicts of Interest
- Culture and Conduct



Sub-service organisations

- Increased assurance over sub-service organisations



Operations

- Unit pricing
- Fraud
- Anti Money Laundering
- Non financial controls



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Technical update



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Update to auditing standards impacting controls reports



Australian Assurance Engagement Standard ASAE 3150

This Standard on Assurance Engagements on controls has been issued by the Auditing and Assurance Standards Board (AUASB) and has been operative since 01 January 2016 to:

- Establish requirements and provide guidance regarding the conduct and reporting on engagements to provide assurance on controls.
- ASAE 3150 cannot be used for any engagement to which ASAE 3402 is applicable. To clarify, ASAE 3402 is designed to provide assurance on controls at **a service organisation** that are likely to be relevant to the user entities' internal control as it relates to **financial reporting**.
- ASAE 3150 can be used to provide limited or reasonable assurance on the design, implementation or operating effectiveness of controls at **any organisation** and on controls that **go beyond financial reporting matters**, for example, controls in respect to operational risks relating to compliance regulations. The report under ASAE 3150 is **intended for any party** that requests such a review.
- Facilitate conformity with the current AUASB Standards and the revised ASAE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information.
- Replace Auditing Standard AUS 810 Special Purpose Reports on the Effectiveness of Control Procedures.



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