

**ABS GUIDELINES
ON
CONTROL OBJECTIVES & PROCEDURES
FOR OUTSOURCED SERVICE PROVIDERS**

**FREQUENTLY ASKED QUESTIONS
15 June 2017**

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The ABS Guidelines on Control Objectives & Procedures for Outsourced Service Providers (OSPs) are effective from 26 June 2015.

SECTION 1: OBJECTIVE AND BENEFITS OF THE ABS GUIDELINES

1. What is the objective of the ABS Guidelines?

The ABS Guidelines aim to standardise and provide clarity on the level of standards that OSPs should have in providing their service to FIs. This initiative aims to reduce the industry's compliance costs by reducing the number of control audits the OSPs will be subjected to.

2. How would OSPs and the financial industry benefit from these Guidelines?

OSPs typically service more than one FI. As a result, they would be subjected to service control audits from several FIs. Compliance to these Guidelines will:

- a. assure the OSPs' FI clients that it adheres to a minimum standard of controls and procedures as expected by the financial industry.
- b. minimise the number of service control audits the OSPs are subjected to and conducted by the FIs. This would benefit the financial industry as a whole.
- c. differentiate OSPs which are in compliance with the ABS Guidelines from those OSPs which are not.

3. How do FIs' customers benefit from these Guidelines?

FIs are ultimately responsible for the services that they provide to their customers, even though these services may have been outsourced. The ABS Guidelines raise the standards of controls of the OSPs, which would ultimately benefit the FIs' customers, by providing the assurance on the integrity and effectiveness of the OSPs' internal controls and safeguarding the FIs' customers interest.

For the above please refer to the ABS' press release issued on 26 Jun 2015 on the ABS Guidelines

SECTION 2: SCOPE OF COVERAGE OF THE ABS GUIDELINES

The ABS Guidelines apply to:

- OSPs which are physically located in Singapore.
- OSPs which undertake material outsourcing arrangements with FIs in Singapore or handling FIs' customer's information as part of the outsourcing arrangements.
- OSPs' subcontractor(s) which are also physically located in Singapore and provide the services or part of the services covered under the outsourcing arrangements with the FIs.

Out-of-scope:

- OSPs which are FI regulated by MAS
- OSPs which operate outside Singapore

4. What outsourced services falls under Material Outsourcing?

FIs use the definitions as stated in the MAS Consultation Paper P019-2014 – September 2014 – “Notice of Outsourcing” and “Guidelines of Outsourcing” in classifying:

- a. an outsourcing arrangement
- b. a material outsourcing arrangement

As stated in MAS Consultation Paper –

outsourcing arrangement means an arrangement in which a service provider provides the institution with a service that may currently or potentially be performed by the institution itself and which includes the following characteristics:

- a. the institution is dependent on the service on an ongoing basis but such service excludes services that involve the provision of a finished product (e.g. insurance policies); and
- b. the service is integral to the provision of a financial service by the institution or the service is provided to the market by the service provider in the name of the institution.

material outsourcing arrangement means an outsourcing arrangement –

1. which, in the event of a service failure or security breach, has the potential to either:
 - (i) materially impact an institution's business operations, reputation or profitability; or
 - (ii) adversely affect an institution's ability to manage risk and comply with applicable laws and regulations,or
2. which involves customer information and, in the event of any unauthorised access or disclosure, loss or theft of customer information, may materially impact an FI's customers.

For the above 2 definitions, please always refer to the latest available MAS Outsourcing Guidelines.

5. Does the OSPAR apply to Singapore-based OSPs with data centres outside of Singapore?

Yes. The OSP's operations in Singapore should demonstrate its oversight over the controls/data centre outside Singapore.

6. If an OSP only handles seasonal gift delivery to FI's customers, does this fall under the scope of these ABS Guidelines?

No. Gift delivery is not "outsourcing" as per the outsourcing definition in the MAS Outsourcing Guidelines.

SECTION 3: IMPLEMENTATION GUIDELINES

FOR OSPs HAVING EXISTING OUTSOURCING ARRANGEMENTS WITH FI's

7. When should the OSPs comply with these Guidelines?

OSP's should comply with the ABS Guidelines with immediate effect.

8. When should the OSPs provide their OSPARs to their FIs?

OSP's should provide their OSPAR to the FIs by the Q4 2016.

9. What are the steps an OSP to do to get itself ready in complying with these Guidelines?

The following are the recommended steps for OSPs to deliver their OSPAR reports by Q4 2016:

Q1 2016

- a. Perform a self-assessment or a gap analysis against the ABS Guidelines
- b. Ensure that the required controls are put in place
- c. Appoint and engaging auditor(s)
- d. Discuss with their FI clients on the audit plan, where it's appropriate.

Q2 – Q3 2016

- e. Put in place appropriate controls to mitigate the gaps identified.
- f. Start of the audit process with their appointed auditor(s)

Q4 2016

- g. Discuss the OSPAR with the appointed auditor(s), and if there is any gaps identified document the corrective action plan with appropriate timelines
- h. Receive the final OSPAR from the appointed auditor(s) and submit to their FI clients

10. Will FIs still visit OSPs for direct audit during this period (now till Q4 2016) when OSPs are preparing for their 1st OSPAR and thereafter?

Yes, FIs may still visit an OSPs for direct audit during this period when OSPs are preparing for their 1st OSPAR. This is because FIs are still required to conduct their due-diligence on the OSP and to satisfy any internal / regulatory requirements. Thereafter, FIs would review their scope to minimise duplication when sending in their audit teams to the OSP.

11. What should an OSP do if its OSPAR report is not ready by Q4 2016?

- a. The OSP should immediately inform their FI clients that their OSPAR will not be ready by Q4 2016.
- b. The OSP should then work closely with their appointed auditor(s) to complete their OSPAR as soon as possible.
- c. The OSP should provide their FI clients with an indicative date as to when their OSPAR would be submitted to the FIs.

FOR OSPs BEING ONBOARDED

12. Do we expect OSPs being on-boarded by FIs in 2016 to submit their OSPAR?

Yes. All new OSPs must submit their OSPAR to FIs for on-boarding consideration.

SECTION 4: IMPLEMENTATION METHOD/PROCESSES

A. AUDIT PROCESS

13. If an OSP services only a handful of FI clients and it is commercially non-viable for the OSP to engage an external auditor to perform the service control audit, can the OSP choose to be directly audited by its FI clients?

No, OSPs are required and expected by the financial industry to engage an external auditor to perform its service control audit.

14. Are the ABS Guidelines a legal document

No, it is not legal document. Nevertheless, it is the requirement and expectation from the financial industry that all OSPs comply with the minimum/baseline control standards stated in the ABS Guidelines. OSPs can expect not be engaged by the banking industry if they fail to comply.

15. Will an OSP be subjected to any penalties if it does not adhere to the ABS Guidelines?

No. There are no penalties if an OSP does not comply with the ABS Guidelines. However, looking ahead, FIs are only on-boarding/engaging OSPs which have been assessed and comply with the ABS Guidelines. While the OSP who has not adhered to the ABS Guidelines would not be penalised legally, they can expect not to be engaged by the FIs if they fail to comply.

16. Are the ABS Guidelines and the process supported by MAS?

MAS expect FIs to comply to the MAS Outsourcing Guidelines. MAS required relationship between FIs and their OSPs to reflect adherence to the MAS Guidelines. The OSPAR requirements follow closely the requirements of the MAS Outsourcing Guidelines.

B. AUDIT SCOPE

17. If an OSP have specific/different SLAs with individual FI clients, should the OSP include all the specific/different SLAs into its audit scope?

The OSPAR should basically cover all the common services provided by the OSP to their FI clients. If there are FI Clients with additional scope, the OSP should engage their appointed auditors(s) to cover it separately.

18. Are the OSPs' sub-contractors also subjected to the ABS Guidelines?

Yes, the OSPs' sub-contractors are also subjected to the ABS Guidelines and the OSPAR requirements.

Whenever an OSP outsources the service arrangements provided to the FIs (in part or whole) to a sub-contractor, the OSP is responsible to inform its sub-contractor that they need to comply to the ABS Guidelines and to discuss/make arrangement for the audit on the sub-contractor.

OSP's must obtain prior approval from their FI clients before they sub-contract any part of the FI's outsourcing arrangement with the OSP.

19. An OSP is expected to engage an external auditor, and therefore do its sub-contractors need to engage an external auditor too?

No, the OSPAR from the OSP must cover the FIs' outsourced arrangements that are performed by the OSP and their subcontractor(s).

20. If an OSP have many layers of sub-contractors, how many layers of the sub-contractors need to be audited?

The OSPAR must cover all sub-contractors of the OSPs that undertake the FIs' outsourced arrangements

OSP's must obtain prior approval from their FI clients before they sub-contract any part of the FIs' outsourcing arrangement with the OSP)

21. Outsourcing covers a wide range of services. Do OSPs need to comply with all the controls stated in the ABS Guidelines?

The types of controls OSPs needs to comply with depending on the types of services performed.

The Entity Controls and the Service Controls of the ABS Guidelines are applicable to all types of services performed.

However the General IT Controls are applicable to OSPs where the outsourced service involved the provision of IT capabilities / services by the OSP.

C. AUDIT COSTS

22. Will complying with the ABS Guidelines increase operating costs for the OSPs?

Overall it is expected that some OSPs will need to enhance their existing standards and controls. Compliance with the ABS Guidelines should assure the OSPs' clients of the acceptable level of service.

With the increase in the regulatory expectation, OSPs must expect that an increase in compliance cost is unavoidable. However, whether the OSPs bear the cost or handle it as part of their pricing, it is a commercial decision of the OSPs.

23. What is the difference in audit cost for a SMEs and large companies like the MNCs?

Generally the cost of audit depends on its scope. Each audit firm has different pricing model; it is best for OSPs to approach the audits firms to discuss on their audit pricing.

Generally the audit cost is determined by:

- a. Number of sub-contractors
- b. Number of specific/additional SLAs
- c. Complexity of the OSPs' processes

D. AUDITORS TO ENGAGE

24. Who can the OSP appoint to perform the Service Control Audit?

The OSP should appoint an external auditor to perform its service control audit. This auditor should demonstrate a sound understanding of outsourcing risks pertinent to the financial industry as fulfilling the following external auditor criteria as stated in the ABS Guidelines:

- a. The audit firm must have audited at least 2 commercial banks operating in Singapore in the last 5 years; and
- b. The engagement partner signing off the OSPAR must have audited at least 2 commercial banks operating in Singapore in the last 5 years. OSPs may discuss/review the credibility of the engagement partner directly with the audit firm that they are engaging.

25. How does an OSP know if the Audit Firm meeting its FIs' expectation?

By meeting the external auditor criteria stated in the ABS Guidelines is meeting the financial industry's expectation. OSPs also advised to inform their FI clients on the audit firm they are engaging to perform their service control audit.

26. Will the list of qualified auditors be public?

Yes. The list of qualified auditors can be found at the ABS Outsourcing website, <https://www.abs.org.sg/industry-guidelines/outsourcing>.

27. How can an auditor firm be on the ABS qualified list of auditors?

The audit firm should write to ABS at outsourcing@abs.org.sg with their detailed CV and relevant experience of their auditors. The ABS Outsourcing Advisory Committee will review the auditors' details and advise accordingly.

E. AUDIT FRAMEWORK

28. What are the audit standards to be applied to the OSPAR? Does it mean that the engaged auditors are required to be a Certified Financial Auditor (CFA)?

The audit standard to be applied to the OSPAR is:

- a. ISAE3000, SSAE3000,
- b. SOC2
- c. ISAE3402, SSAE3402 (where applicable to financial reporting service controls)

These audit frameworks focus on organisation service controls and having the rigidity to front regulatory needs.

OSPs could have discussion with their engaged auditor on which of the stated framework/standard is most appropriate for their type of services and FI clients.

It is important that the service control audit reports delivered by the audit firms are in the expected OSPAR format.

The engagement audit partner signing off the OSPAR need to meet the requirement dictated by the respective service control audit framework selected, and at the same time both the audit firm and the engagement audit partner meet the experience as stated in the ABS Guidelines under the section "Criteria of External Auditor".

29. Can the auditors used ISO 27000 framework to perform the service control audit?

No. Please see the answer to Q28.

30. If an OSP is already certified with other industry standards such like ISO27000 or ISO 31000 or already has an ISAE3402 or SSAE16 report, is the OSP still required to audit itself against the ABS Guidelines?

Yes, the OSP is still expected to engage an external auditor to perform the audit against the ABS Guidelines.

Whilst some of the requirements in the ABS Guidelines may overlap other industry standards adopted by the OSP, the ABS Guidelines is the common baseline standards that is recognised by all the banks in Singapore. As such, the OSP is still required to engage in an external auditor to perform an audit against the ABS Guidelines and to deliver the OSPAR report to all its FI clients

F. AUDIT REPORTS

31. How long is the OSPAR valid for?

The OSPAR is valid for 12 months from the date of issue.

32. What happens if a FI is not satisfied with an OSP's Service Control Audit Report?

If a FI is not satisfied with an OSP's Service Control Audit Report, the FI can request for additional information from the OSP– including conducting site visits and additional service control audits, to satisfy itself on the OSP's controls.

33. Will FIs and/or the regulator still visit OSPs, or request for additional audits on OSPs?

FIs and the regulators may still visit any OSPs, or request for additional service control audits to satisfy any regulatory and due-diligence requirements.

Please contact ABS at +65 6224-4300 or outsourcing@abs.org.sg for more information.