Outsourcing for accountancy practices - pitfalls and benefits

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Introduction

We have tried to ensure that this whitepaper contains information for all accountancy practices, irrespective of their size or experience. It intends to serve as a guide and explain how outsourcing addresses the problems that accountancy firms face from a commercial perspective. Before considering how QXAS can help you implement such a service, it looks at the benefits and pitfalls of accounting outsourcing and provides guidance around how to pick a compatible outsourcing partner.

Why is outsourcing popular?

You have possibly heard about outsourcing accountancy functions but may not fully understand what it means and why it is employed. Research credits the rise of accounting outsourcing to the need for accountancy firms to manage costs, hire skilled resources, and improve business efficiency during these unstable economic times. It also provides them with a real competitive advantage.

UK firms took to outsourcing as early as 2003 with the growing shortage of staff to process work being a driving force. Outsourcing as predicted, quickly turned into a strategic activity and a key part of wider organisational change programmes. The early success stories further helped champion its cause. Today more and more non-core, routine tasks like bookkeeping, accounts production, management accounts and VAT are finding their way into offices in countries like India, for whom these back-office services are a specialty.

Benefits of outsourced accounting

Research says accountancy firms typically spend 70% of their time administering low-margin compliance functions. A good outsourcing company helps you reduce the time spent on these activities while still giving control.

Other than the obvious benefits of cost-savings, outsourcing your compliance functions reduces overheads that come in the form of:

- **Recruiting and training specialist staff**
- **Buying and maintaining systems and software**
- **Retaining non-core skills**
- **Dealing with HMRC**

In addition to the above, the following benefits explain why firms should stop processing their compliance function in-house:

Lower operational costs

This is commonly cited as the primary driver. Under an ad-hoc business model, firms only pay for the resources as and when they need them. Even if they sign up for a dedicated resource, substantial reduction in costs is quickly visible. It is not uncommon for firms to reduce their in-house accounting costs by close to 50%.

Improve margins

For accountancy firms, running the compliance functions is generally considered a low-margin activity. Outsourcing not only reduces costs but ups the margin. It is especially beneficial where there are large volumes of compliance work.

Increase operations efficiency

This is, after cost reduction, the second most cited benefit. Small and medium sized firms lack access to best practices such as technology and infrastructure to perform efficient accounting functions. However, when they outsource such a task to an outsourcing specialist, they can easily achieve equal if not better efficiency and productivity levels as their larger competitors. An outsourcing company can create this levelled playing field only because they are specialists who operate from a location where the overheads are lower than the client country.

Level the playing field

It's a given that small or medium sized firms can't match the in-house quality of non-core tasks that big practice can maintain. This changes totally when SMEs are provided with access to a specialist team and technology that traditionally is only available to big firms. This further allows a firm to compete with bigger firms for bigger jobs and generate larger profits by outsourcing portions of the workload.

Save time

Outsourcing allows billable time to be focused on delivering higher fee earning work, building and maintaining client relationships and growing the practice. It also frees up managers and partners from time-intensive recruitment, training and compliance duties, leaving time for truly strategic initiatives. Our clients have gained 1000s of hours which were otherwise lost in administrative functions each year.

Access to a specialist team and industry best practices at a low cost

This is especially beneficial for small and medium accountancy practices that are looking for 'specialist' employees. Outsourcing opens access to a team of professionals who are specialists at running compliance functions. Particularly in areas of technology, outsourcing provides an instant access to industry best practices that might be too cost-intensive to buy or hire.

Tap relevant expertise

Outsourcing opens access to an articulate, educated, English-speaking workforce that grows with a company without the HR headache. It also brings the benefit of a larger workforce and increases a firm's efficiency without increasing headcount.

Escape the maze of legislation

Outsourcing companies take care of staying a step ahead of the ever-changing raft of legislation. They take over the complex legislation and work in partnership with HMRC and Companies House so the firm can concentrate on delivering the primary services of their practice.

Share risk

The sharing of risk is another less-spoken about benefit which directly affects the growth of a practice. When used as a business strategy, outsourcing allows a firm to significantly reduce its exposure to risk. Further, it reduces the risk of having in-house employees responsible for accounting who may not be available at a critical time due to sickness or holidays.

Get a competitive advantage

Outsourcing brings competitive advantage, for example, enabling expansion of a practice by offering higher valued services to clients or offering services at a more competitive rate. A recent survey of QXAS' current clients found that outsourcing had allowed them to take on more profitable work.

Acquire flexible resources

This is benefit which makes a real difference. Outsourcing nowadays offers the option of scalability with an array of Engagement models like Managed FTE, Onshore Support, and hybrid workforce. Depending on work volumes, it is possible to choose the one that fits requirements. During peak seasons when a firm is inundated with work it is possible to easily scale up the outsource team, and when work is slow it can be slimmed down. Moreover, there is no worry about back-ups to cover holidays, sickness, maternity, together with the time and cost it involves.

Pitfalls of accounting outsourcing and how to avoid them

Cost overruns

This is one troubling aspect which has apparently resulted in the biggest single complaint made against outsourcing.

How to avoid: Ensure you set the prices with variances in advance before you agree to a contract. Cost overruns can be mitigated through contractual specifications and other managerial arrangements concerned with controlling of cost.

Security & Confidentiality

There is a concern over the transfer of sensitive financial information that an outsourcing service provider handles and risk of compromise of confidentiality.

How to avoid: Since any drop in security can put the outsourcing provider out of business, most of them make considerable investments in technology and have back-up systems and software in place.

ISO 27001 is a demonstration of an outsourcing supplier's IT security risk-management capabilities. However, the next best route would be a visit to the supplier's workplace and evaluate if they use the best IT Infrastructure, encryption and policies to protect your proprietary data and knowledge. Moreover, you will be able to analyze and understand their processes, methodologies and workforce employed to run your accounting processes.

Financial Instability

Not all companies enjoy the same financial stability.

How to avoid: The knowledge about the supplier's financial stability should be of prime importance before finalizing the one you will work with. Assessment might involve a review of the supplier's audited financial statements, annual reports, business growth plan and other information that supports financial analysis. Some research on threatened or pending financial or legal claims on the supplier is a good area to explore.

Cultural Differences

Many an outsourcing deal has been marred by poor communication.

How to avoid: This is not the time to cut corners. We suggest you spend at least a week with your outsourcing partner to get a first-hand experience of their work ethos and culture. Get involved with them; attend the staff meetings; interact with your extended team. This is the best way to experience their workculture. India is the second largest English-speaking country in the world after the US and it is easy to find a well-educated, articulate workforce to deal with.

Poor quality output

What seems like a cost-saving strategy can turn into a nightmare if the quality of processed output is poor.

How to avoid: Problems with quality arise when your outsourcing partner doesn't have proper processes in place. We perfectly understand that quality compliances are a good general measure and the best outsourcing suppliers should have quality built into their systems. But it doesn't hurt to find outsourcing partners that follow a standard model like ISO. Find companies who are certified by the latest, revised ISO standards as these adopt a process oriented approach and focus on measuring process performance and effectiveness. Other than helping measure and improve quality standards, it also ensures that a company is following defined processes and abides by quality parameters set by the regulating body.

Additionally, look for a company with a proven track record; companies which provide reports on a daily, weekly or bi-weekly basis. These reports help you monitor performances of people who work on your process and take action as the work happens. The only thing that should change when you outsource is the location the work is being processed at. In terms of quality, ensure that your outsourcing supplier delivers similar or better output than your own internal resources. Don't settle for anything less.

Complexity of achieving suitable control from a distance

Whether you are outsourcing the entire finance department or parts of your finance processes, there are chances that you might lose control over the outsourced aspect of your practice.

How to avoid: Pre-defined SLAs and KPIs with regular reporting should provide full control over your outsourced finance department. Many outsourcing companies help you manage the workforce in your own way through a single-point-of-contact located offshore who reports directly to your Head of Finance. With advances in technology, virtual communication in the form of face-to-face meetings is possible through a video conference facility.

By defining an appropriate set of governance frameworks over how a task is performed you will not only gain from the expertise of the service provider, but will actually be able to mitigate risks associated with accounting outsourcing.

Financial Instability

We have heard stories of outsourcing failing due to low quality of processed work, unmet SLA's, differences in language and culture, productivity declines,etc. However, non-participation from the client side is one of the often ignored reasons for an outsourcing deal to fail.

How to avoid: Many companies these days look at outsourcing as a path to quickly cut costs and improve their financial status. Since they are looking for a quick fix to solve their problems they sometimes fail to prepare themselves for the relationship. We believe, for a successful outsourcing relationship, you need to involve yourselves wholeheartedly. When you make that informed decision to outsource an activity overseas, it is better to not adopt a "They will do it" attitude. Take it seriously at your end and work with your partner just the way you'd work with people you employ directly.

Questions to ask your accounting outsourcing provider

We won't deny the fact that outsourcing is a mammoth step to take, and selecting a compatible partner can be challenging, especially because of the countless options available today. After all, failure to pick the right partner can lead to a disruption of business, or even legal and reputational problems.

But if you are clear about where you want to go and what you want to outsource, selecting a partner should be as easy as eating pie. Use the following tips as a guideline to review the right partner.

Experience?
Are they limited to the easy tasks, or will they take on the more difficult, or messy jobs?

Can they produce accounts from incomplete records?

Confidentiality?
It is very unlikely that your outsourcer would steal your clients, but it could happen.

Hence, it's advised that you get a written agreement stating that they won't contact your clients.

Security of data and records?
Are they going to be kept securely, and if actual documents are taken are they insured if you want replacements?

Availability?
Are they available throughout the year - will you get plenty of notice regarding planned holidays?

Software?
Can they prepare accounts/tax in the required software?

Bookkeeping?
Will they take client records in any format, e.g. Manual records, Sage, QuickBooks, etc.

Working papers?
Will they work to your templates so as to maintain consistency?

Will they produce a good enough analysis for you to be able to check the accounts?

How thorough are they?
Will they fully reconcile Wages, PAYE, VAT, Bank, etc?

Will they examine the accounts to spot incorrect analysis of income/expenditure by your client?

Will they perform a review of the accounts, summarise all the adjustments, list any errors or omissions, and highlight any concerns?

Will they work to agreed timescales? If amendments are needed, will this incur an extra charge?

Finally, will they do all this at reasonable cost?

At first glance most suppliers might seem to serve the purpose. Nevertheless, before you hit the road don't forget to perform a due diligence on their financial stability, track record, data security measures, reporting tools, industry recognitions, the country laws to which they comply, and most importantly their quality of service.

Which accounting activities are outsourced?

Due to advances made in the field of telecommunications it has become easy to transfer various accounting activities to offshore locations. Although other Asian and European countries are involved, India is recognised as the preferred location because labour supply is both cheap and plentiful. The following is a list of commonly outsourced accounting services:

- Company start-up and Secretarial services
- Bookkeeping
- Statutory accounts
- VAT returns
- Corporate & personal tax returns
- Payroll services
- Management accounts
- Credit control
- Cash flow projections
- Budgeting & forecasting
- Financial reporting

How QXAS can help you implement outsourced accounting services?

This is potentially the most important aspect of outsourcing. QXAS' transition team has extensive experience in migrating realworld accounting processes such as yours. We follow a clear implementation process, mutually agreed with an appointed Project Manager. Timescales are agreed at the outset.

The following is a road map of our implementation process:

Step 1 - Identify and Evaluate

- Identify and evaluate processes that can be outsourced
- Quantify benefits which can be expressed in monetary terms
- Address your questions or doubts

Step 2 - Research

- Appoint a dedicated project manager
- Study service process and train at your site if necessary
- Gather information
- Map roles, responsibilities, timelines and schedules

Step 3 - Plan

- Migrate data onto chosen software
- Ready facilities & deploy IT
- Attend initial project meeting
- Run parallel processes and check for error against pre-set specifications

Step 4 - Implement

- Go live
- Review project
- Provide up-to-date information on process
- Track and sustain project
- Attend planning and performance meetings
- Provide phone and email support

Secure server based solution

Start

1. Scan and upload
Your practice either scans or adds files, checklists and documents to our secure portal.

2. Download
Our team records all source items into our secure system.

3. Process
Our team of qualified accountants process the jobs and keep you posted about delivery schedule and progress.

4. Review
All completed jobs undergo a two-level review by an accounts manager and a quality assurance team.

5. Deliver
You are notified when work is completed and given final output files e.g. working papers, accounts, tax return for review.

Finish

Remote access based solution

Start

1. Allow remote access
We remotely log-in to your system using a secure software like VPN / RDP / Citrix / GoToMyPC®.

2. Process
Our qualified accountants process the jobs and keep you posted about delivery schedule and progress.

3. Review
Completed jobs undergo a two-level review by an accounts manager and a quality assurance team.

4. Deliver
You are notified when work is completed. We place completed files on your server e.g. working papers, accounts, tax return for your review.

Finish

About QXAS

QX Accounting Services is a market-leading outsourcing provider of accounting & bookkeeping, audit, tax, and consulting services to accounting firms. We are a GDPR and SOC 2 compliant company delivering a reliable, professional, and secure outsourcing service to UK & North American accountants.

A part of the QX Global Group, our outsourcing services are backed with the expertise of 3500+ employees working out of state-of-the-art delivery centres in India and across the globe. We also offer nearshore and onshore staffing services, helping eliminate capacity shortages and time zone differences.

Our focus is to help accountants build scalability and free up their valuable time so that they can focus on strategic business activities and revenue generation. Our Next-Generation Outsourcing Solutions, such as Managed Solutions, Business Innovation & Tech Services, and Nearshore/ Onshore Staffing is what distinguishes us from the competition.

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