

View Point



BPO as an alternative to the audit & consulting industry

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Companies could move to a more effective and cost-efficient model for auditing and compliance by moving away from the traditional approach

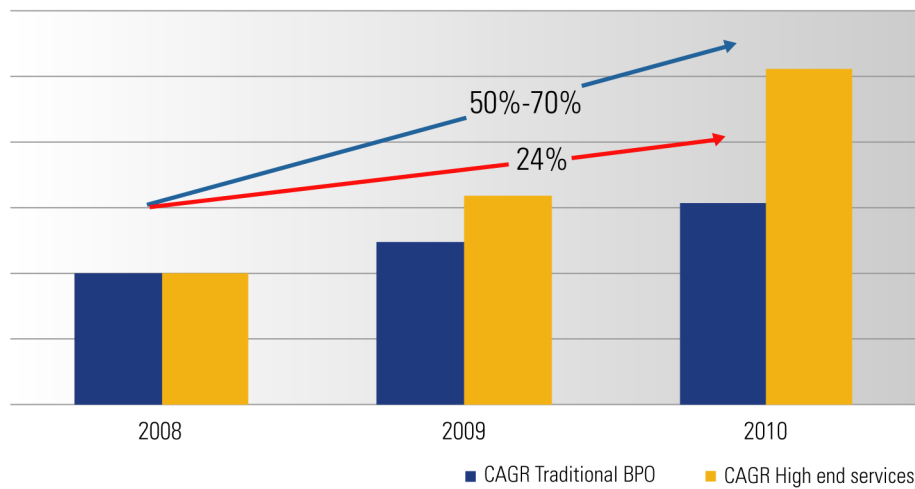
Today, when a company's management considers outsourcing in Finance & Accounting, the most common processes to be outsourced are payables, receivables, general ledger and procurement processes. However, when it comes to knowledge and judgment-based, high-end services like internal audit, compliance and SOX audit - the first thought is usually focused on audit and consulting companies to supplement corporate / internal audit functions. But is this really the one and only solution? And is it the best business decision from a cost efficiency and effectiveness perspective? In this paper, we have put forth an alternative model to this traditional approach which proposes an innovative and break-through way of thinking.

Over the years Business Process Outsourcing (BPO) providers have scaled their capabilities to provide successfully delivered knowledge-based services (such as audit, compliance and implementation of accounting standards).

Clients are increasingly outsourcing knowledge-based, judgment-based and high-end services. The growth of this service segment has already surpassed the growth of normal BPO services. According to a recently issued report by Technology Business Research (TBR) 1, the BPO market segmentation will continue to occur, with more and more high-end services potentially ready to be delivered in an outsourced model. As the market for business process outsourcing continues to mature, TBR expects vendors to penetrate further into knowledge-based services. These emerging trends in finance service outsourcing have already been noted in the past few months. According to “Outsourcing Trends in the Financial Services Industry” perspective paper published by EquaTerra2, high-end services continue to gather momentum and encompass a broad scope of processes such as market research, financial analysis, M&A (Management & Analysis) due diligence and related M&A legal work.

Emerging trends in the outsourcing high-end services market creates more opportunities as compared to the traditional BPO sector. As per Technology Partners Research report3, many experts believe that the growth in high-end services sector will match or even exceed the growth rate of the BPO industry. This report, which focuses on the offshoring of skills-intensive work processes through either outsourcing or captive operations, reveals that the growth rate is likely to yield annual levels of spend of \$12-17 billion globally by 2010 (including 10 billion - \$12 billion in India only). This represents a very aggressively projected compounded annual growth rate (CAGR) in the range of 50-70% for the next 2 to 3 years. In contrast to this percentage, traditional outsourcing services are expected to grow at CAGR of 24% during the same period. The following figure demonstrates the expected growth for both service segments over the coming years.

Figure 1. Expected Growth in Traditional BPO and High-End Services (2008-2010)



Source: Own analysis on the basis of TPR report

High growth rate of outsourcing high-end services to BPO is propelled by the benefits it creates for both customers and BPO providers

Outsourcing of high-end services is a 'win-win' situation for BPO providers as well as for clients in every respect: market competitiveness, quality & efficiency, control, profitability, business relationship, etc. The most significant advantages of this business solution are summarized in table 2

Table 1. Added values of high-end services for BPO Provider and Client.

	Benefits for Service Provider	Benefits for Clients
Market Potential	<ul style="list-style-type: none"> • Broader range of services in the BPO Company portfolio • Promising opportunity to embed deeper within the market 	<ul style="list-style-type: none"> • Ability of outsourcing end-to-end process (routine and non-routine job) to one Service Provider • Customized and value-added outsourcing solutions for high-end processes • Ability to tap into the global skills supply chain to overcome resource availability issues
Quality	<ul style="list-style-type: none"> • Develop better service offering based on detailed understanding of the industry and its drivers 	<ul style="list-style-type: none"> • Access to most up-to-date knowledge and expertise • Additional value by providing business insights in addition to process expertise • Access to tools developed by vendors for automation and controls assurance
Control & Stability	<ul style="list-style-type: none"> • Low employee attrition rate, well-paid employees attracted by prestigious and non-routine job • Access to larger talent pool and sustainable source of skills • Retaining knowledge in the company 	<ul style="list-style-type: none"> • High stability and continuity of operations • High control assurance • Low risk of service breakdown • The knowledge capacity on the provider's side
Profit	<ul style="list-style-type: none"> • Higher revenue and margin on high-end services • Greater competitiveness within the market 	<ul style="list-style-type: none"> • Competitive prices as compared to alternatives like audit and consulting companies
Relationship	<ul style="list-style-type: none"> • Developing insights into the customer's business helps the provider to develop into a true partner rather than just a transaction processor 	<ul style="list-style-type: none"> • Partner-like relations with provider helps in jointly taking more strategic initiatives

Potential Areas of Opportunity

As per a study by The Hackett Group in 2005, the finance cost of typical companies increased by 18% over a period of the previous 24 months due to increased cost of controls and compliance (post-implementation of SOX). These costs are typically associated with the use of high-cost consulting and audit firms for controls assurance.

As such, this area represents a big opportunity for generating cost efficiencies. Some of the potential areas of opportunity which clients could explore using the BPO providers include - Internal Audits, Controls Assurance and Evidencing, SOX Audits, Revenue Accounting (complex Vendor Specific Objective Evidence), IFRS - US GAAP convergence and implementation of controls and Accounting Standards.

Case Study

A large diversified multinational manufacturer is generating significant savings on the compliance and controls assurance cost by using Infosys BPO

A major multinational manufacturer ("the Client") having revenues in excess of \$35 billion had huge compliance costs across its operations which spans multiple business lines in multiple countries. To achieve its objective of reducing the cost of compliance while not compromising on quality, the Client decided to move a substantial part of its SOX audit functions offshore. On the basis of access to highly-skilled human resources, a team of experts responsible for SOX documentation and audit services was formed.

Initially, the process was performed in cooperation with internal corporate functions of the Client (co-sourcing); and once business specific expertise was built up in the offshore team, all related services were gradually transferred offshore. The following table represents the services currently delivered by this team to the Client.

Table 2. SOX services currently provided by Infosys BPO

SOX sub-process	SOX service description
SOX implementation and documentation	<ul style="list-style-type: none"> • Performing risk assessment to identify significant risks & processes • Documenting processes, designing controls, identifying control deficiencies & gaps • Support in remediation
SOX testing	<ul style="list-style-type: none"> • Defining testing scope, planning and coordinating execution of controls testing (both operating and design effectiveness) • Reporting testing outcome including proposal of remediation
SOX rationalization	<ul style="list-style-type: none"> • Implementing continuous rationalization model; limiting SOX testing and maintenance expenses by applying a risk-based approach • Harmonizing and standardizing controls to allow further rationalization
Process management & monitoring	<ul style="list-style-type: none"> • Monitoring of testing, remediation and reporting results
Internal control advisory and consulting	<ul style="list-style-type: none"> • SOX methodology consulting: developing approaches, guidelines and best practice solutions • Supporting in remediation of control deficiencies • Providing training for SOX, Internal Control Standards and US GAAP/ IFRS

Among various benefits arising from SOX process outsourcing, the most significant include:

- **Cost-effective sustainable SOX model**
 - Lower costs of control execution, testing and maintenance
 - Limited testing procedures of external auditors, who rely on testing done by independent, qualified testers
 - Reduced number of controls and significant locations without compromising risk profile due to continuous rationalization
- **Higher quality and control assurance**
 - Credible third party delivering expertise, wider and cost-effective solution
 - Service provided by highly experienced and objective professionals
 - 'Early warning procedure' - issues identified by independent testing team can be solved before external audit
 - High quality of SOX testing documentation
 - Proven alignment of SOX testing findings with external auditor's results
- **Enhanced business excellence and effective governance**
 - Internal resources engaged in SOX activities released to focus on core business
 - Centralized and integrated process management
 - Global monitoring of issues and remediation actions; ongoing identification, assessment & risk management
 - Improved change management due to central and harmonized way of working.

According to an estimate by the Client, offshoring of these services has resulted in a saving of approximately 10 million Euros in testing and annual savings of 1 million Euros through SOX rationalization. Verification of the testing results has successfully proven that services provided by Infosys have been in alignment with the results of external auditors. Based upon the demonstrated success of SOX service offering, the Client has now also engaged this team of Infosys to support the IFRS and US GAAP convergence.

Conclusion

Controls and Compliance-related issues are increasingly becoming one of the top concerns for a prudent finance manager. The current high costs of managing these functions provide BPO providers with an excellent opportunity to move into higher value-added services. For the clients, outsourcing of high-end audit and compliance processes to BPO providers represents an opportunity to efficiently manage effective compliance - an opportunity that one cannot afford to reject without at least considering.

References

1. Technology Business Research: BPO Delivery from Eastern Europe, June 16, 2008
2. EquaTerra: Outsourcing Trends in the Financial Services Industry, June 7, 2007
3. Technology Business Partners: KPO: A Balanced View of an Emerging Market, July 2007
4. The Hackett Book of Numbers 2005

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