



BENEFITS AND RISKS OF FINANCE AND ACCOUNTING OUTSOURCING

Abstract

Outsourcing accounting services gives you access to a pool of world-class talent, sophisticated systems, and flexible costing solutions. Read more about the advantages and the risks.

Businesses of every size face these pressing questions at some point in their growth journey.

- Should we have an in-house finance and accounting department?
- Should we continue to let a single bookkeeper handle the back office?
- Will outsourcing accounting and finance give us the time to focus on growth?

Relying on a single bookkeeper may feel secure initially, but as the business grows, you need better risk management. Building an in-house accounting and finance team is very expensive, considering the salaries, hardware, and software you must invest in. This makes outsourcing highly lucrative for time-strapped business owners dealing with rapid growth. Outsourcing helps you

scale up the business without any internal disruptions and cost escalations. However, handing over your financial data to an external organisation is a big decision. Let us learn more about the benefits and risks of outsourcing your accounting and finance processes and the best practices to select the right partner.



Advantages of outsourcing accounting and finance

The reservoir of talented individuals can deliver high-margin accounting and taxation services without getting entangled in the web of low-value tasks such as data entry and compliance.

Outsourcing is the key to getting high-quality work from top talent. Here is an exhaustive list of advantages of outsourcing accounting and finance –

Access to top-quality expertise

Outsourcing can give you access to an exceptional team of accountants, research and business analysts, bookkeepers, and CA professionals. This adds value

to your finance and accounting process and enhances accuracy, compliance, and efficiency.

You can access subject matter experts who have domain knowledge and can steer you through transformations and challenges. Such a pool of experts may not be available locally in your city.

Cost-effective

Outsourcing helps you eliminate the cost of recruiting, hiring, and training new staff. You can also eliminate the fixed cost of software, hardware, and salaries. Research has shown that 88% of businesses witness

cost reductions by leveraging outsourcing solutions. Outsourcing also reduces the risk of weak financials and fraud, resulting in penalties and damage to brand reputation.

Free-up internal resources

By outsourcing your accounting and finance process, you can save more and spend it on marketing, advertising, and brand building. This gets you a higher return on investment. Third-party professionals give you a concise list of tasks. For example, as a business owner, you would only need to sign off the annual financial statements, such as balance

sheets and profit and loss statements. You do not have to supervise the outsourcing partner the way you do an in-house team.

Accuracy and accountability

Your outsourcing partner ensures accuracy and accountability through reporting and high quality. They have service standards with integrity and compliance built into the contracts and managed through KPIs. You can measure their performance based on the KPIs they meet, which gives greater accountability.

Easy scalability

With an outsourcing service provider, there is no obligation to pay salaries, do regular training, and hire employees. You can easily scale up or down, which is difficult when you have full-time employees.

Accounting and finance outsourcing service providers offer packages that you can get off the shelf or customise according to your needs. You can also outsource selectively, such as auditing and

tax filing only, while keeping bookkeeping an in-house process.

Access to data-driven tech and analytics

Business success in today's world depends on real-time and data-driven analytics that help leaders make strategic decisions. An exceptional **finance and accounting outsourcing** partner holds pride in their reporting package that gives absolute transparency and insights that support decision-making.

Having the required technology and capability in-house can be expensive due to the cost of licensing the systems and the salaries you pay to the staff. By outsourcing the services, you access top-of-the-line systems by paying the standard service package fee.

Compliance support

It is difficult for any business to keep up the pace with changing compliances in accounting, auditing, tax filing, and renewal of certifications (if any). It becomes

even more challenging during times of rapid growth and transformation. An outsourced partner ensures that you keep up with the compliances as your business grows. The experts the third-party supplier brings to the table are always up-to-date with the changes in compliance requirements.

Reduced pressure on the workforce

Outsourcing lowers the load of searching for and hiring in-house, which puts a significant burden on the acquisition department. The recent talent crunch has made recruiting time-consuming, expensive, and often frustrating. Good candidates do not stay for long, and mediocre ones have unrealistic expectations.

Let the third party provide proven talent to relieve your strain and added costs of in-house recruitment.



Risks of outsourcing accounting and finance

Despite the advantages we mentioned above, businesses still feel uncomfortable in outsourcing their finance and accounting process for these key reasons –

Control and accessibility

Outsourcing takes your finance and accounting data to a third party. While many CFOs could equate this to losing control and accessibility, you can solve this by creating an outstanding relationship with the supplier and setting your expectations straight.

Having an in-house finance and accounting team may make you feel that all the answers will be readily available. However, that may not always be true. An outsourcing partner with the right technology will set clear communication channels and work on cloud systems that are accessible to even your employees.

Inherent risk

Since you are sharing your finance and accounting assets and intellectual property with a third party, including invoices with client and supplier details, there is a risk of data leakage, loss, and security breaches. However, there is a risk with every partnership, be it for finance and accounting or business growth.

However, considering the benefits of outsourcing, the focus should be on how well the partner manages this risk. This is where selecting the right partner is of utmost importance, and we will discuss that in the next section.

Mismatched working hours

Since your external finance and accounting team may work at different hours, you may face time discordance and struggle to find a working rhythm. If the outsourcing partner does not live up to your

expectations and deadlines, it can affect business operations and compliance. Yet again, choosing the right partner becomes very important.

Hidden costs

The contract with the third party must mention all the deliverables with timelines, frequency, and associated costs. If you do not craft or review the contract well, hidden costs or scope can creep in, causing inflated spending.

While drafting the contract, carefully build the terms with the third party to avoid unexpected cost inflations.

While it is good to know the risks, they must not overshadow the vast benefits outsourcing brings to the table. The right partner for finance and accounting will answer your specific questions and help you manage the risk.

How do we address the risks of outsourcing accounting and finance?

Outsourcing your finance and accounting lets you invest invaluable time in business growth. By choosing the right partner, you can handle staffing performance, lower costs, and deliver substantial benefits to the organisation. However, you may face these roadblocks in the outsourcing journey –

- 1. Quality assurance** – Without the necessary reporting, monitoring the quality of the work can become challenging. Your partner may need to share reports and dashboards for you to ensure work quality and integrity.
- 2. Communication barrier** – Differences in language, time zone, and culture can create communication challenges. You must have a clear conflict and miscommunication resolution mechanism to address these barriers.

- 3. Transition duration** – Integration of an external agency and its staff into your organisation can take time and effort. During this period, you may face temporary disruption or lower efficiency at work.

Address the common roadblocks in outsourcing finance and accounting

To address the risks and challenges of outsourcing finance and accounting mentioned above, you can take the following steps –

- 1. Set clear objectives and expectations**
 - Have a clear understanding of your outsourcing goals and expectations from the partnership. Put these expectations clearly in the contract and agree on them with the partner.

- 2. Implement quality control** – Have quality control metrics to monitor the work of your internal staff and the external partner. Regularly review their performance and match it with the set benchmark.

- 3. Define performance metrics (KPIs)** – Define the key performance indicators (KPIs) and monitor the outsourcing team's performance against these. This saves you time, and your assessment is based on standards agreed upon by both parties.

- 4. Have monthly reviews** – Conduct regular reviews (monthly or quarterly) to ensure that the arrangement still aligns with the business goals. Make any adjustments, if necessary.

5. Set a risk mitigation plan – Develop contingency plans to handle risks and challenges. For example, understand the duration for which the supplier keeps your data on their systems. You

may want to set a duration after which they must delete.

6. Reduce single-point dependency
– Avoid reliance on single individuals in the outsourcing company. Ask for

cross-training and knowledge sharing among the team members of third-party suppliers.



How do you choose the right finance and accounting partner?

Choosing the right accounting and finance firm can be challenging and decides the financial health of your business. However, this can be difficult if you do not have a checklist or know where to start. Here is a checklist to assist you –

Identify business needs

It is important to know your business needs before embarking on the search for an outsourcing partner. Assess the current state of finance and accounts and know what you want to outsource. Typical processes within finance and accounting include bookkeeping, tax preparation, financial reporting, accounts payable and receivable, and payroll processing.

You may want to outsource your processes fully or partially. This will help you find the right company to partner with.

Expertise and reputation

Once you know the specific requirements, you can shortlist the vendors that

match your needs. Look for their market reputation and expertise in the domain. If your supplier has industry knowledge, it will significantly elevate your partnership experience. They will be much more familiar with specific accounting needs and compliances within your industry.

For due diligence, you can check their website, online reviews, portfolio of services, feedback from other customers, and certifications. For higher stakes, you can even hire a third-party due diligence firm to vet the finance and accounting partner before signing the contract.

Scalability and flexibility

As your business scales up, accounting needs may change. It is crucial to choose a partner that can scale up their services quickly to meet your changing requirements. Check if they have the necessary systems and team to manage changing needs and provide tailor-made solutions.

Security and confidentiality

You must ensure that your data is confidential and secure with the third-party supplier. Enquire about their existing security measures, such as secure servers, access controls, and encryption protocols. They must have the necessary systems to prevent unauthorised access, data loss and breaches and the ability to handle vast amounts of data.

It is critical to have a confidentiality and non-disclosure agreement (NDA) to protect sensitive financial, customer, and supplier information.

Communication and support

On-point communication and support are crucial for a successful outsourcing partnership. Determine how accessible the finance and accounting partner is in responding to your queries and concerns. There must be open lines of communication that handle issues with transparency and integrity.

Having a dedicated relationship or account manager who understands your business will streamline communication and personalise your approach.

Customised solutions and costing

The same finance and accounting solution does not apply to every business. While some businesses only outsource auditing and tax filing, others outsource every process within finance and accounting.

Your partner should provide customised solutions to meet your expectations, challenges, and opportunities.

The cost of services is crucial, and different suppliers have different pricing models.

This would depend on the location, qualifications, and experience of their staff. Clarify the billing frequency, taxes applicable, and fee structure and have it in the contract.

Time zone and location

The location and time zone of your finance and accounting partner should not deter you from choosing the best talent. This opens a wide range of choices and services. Having remote team members working in different time zones can get you 24/7 support, cost-effectiveness, and expertise.

Conclusion

A successful business not only has a clear understanding of its finance and accounting requirements but also chooses

the right outsourcing partner that meets its needs. One must choose a partner where the pros outweigh the cons. Hiring a third-

party service provider gets you the talent and sophisticated solution that is difficult to have in-house.

For more information, contact infosysbpm@infosys.com

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