

Outsourcing the accounting function

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Who is with you today



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Learning objectives

After this webinar, attendees should be able to:

- 1** List the challenges facing the accounting industry
- 2** Locate accounting areas that require focus from companies
- 3** Identify the positive impact that industry best practices can have on growth

Agenda

1

Challenges facing accounting departments globally

- a. Recruiting and retaining talent
- b. Pandemic issues
- c. Technology
- d. Increasing demands
- e. Fraud due to lack of segregation of duties

2

Strategies companies are using to address challenges

- a. Automation
- b. Aggressive recruiting
- c. Pay hikes
- d. Outsourcing to mitigate turnover issues and create internal controls

3

Accounting outsourcing

- a. How are companies using outsourced accounting?
- b. Pricing models
 - Fixed
 - Per transaction
 - Hourly rates
 - Cost recovery-benefit sharing
- c. Benefits
- d. Risks

Challenges facing accounting functions



- The “Great resignation,” low unemployment, and a shortage of skilled workers has created significant issues for accounting functions.
- The pandemic demonstrated the need for resiliency, scalability, and automation.
- Providing infrastructure and keeping up with latest technology requires significant investment.

Recruiting and retaining talent

Highly competitive **recruiting and retention** environment

- Companies are challenged to attract qualified candidates.
- Employees desire growth opportunities and training while often preferring to work in a remote environment.
- Starting pay has increased with additional bonuses and incentives making it difficult for companies to compete for top talent.
- Employees crave robust companies that provide diversity, equality, inclusion, sense of belonging, and mission.

Great resignation reshuffle

A recent Crowe client pulse survey:

51% of companies describe themselves as being highly challenged.

28% consider themselves moderately challenged by labor shortages.

Roughly **half** of U.S. employees are seeking out a new role or plan to do so soon, suggesting the great resignation is continuing into 2022.^{1,3}

May unemployment rate of²: **3.6%**

¹ Greg Lacurci, "The Great Resignation Continues, as 44% of Workers Look For a New Job," CNBC, March 22, 2022, <https://www.cnbc.com/2022/03/22/great-resignation-continues-as-44percent-of-workers-look-for-a-new-job.html>

² "Employment Situation Summary," U.S. Bureau of Labor Statistics, June 3, 2022, <https://www.bls.gov/news.release/empsit.nr0.htm>

³ "Bankrate Job Seeker Survey, February 16-18, 2022"

Accounting team cost

| Typical cost of small accounting department | | |
|---|------------------------------|---|
| Position | Annual base starting salary* | Base salary +25% (benefits and related expenses) |
| Controller | \$188,250 | \$235,313 |
| Accounting manager | \$102,000 | \$127,500 |
| Staff accountant | \$ 70,000 | \$ 87,500 |
| Clerk | \$ 41,250 | \$ 51,563 |
| Turnover recruiting (assume 10%)** | \$ 40,150 | \$ 40,150 |
| Total staffing costs | \$441,650 | \$542,026 |
| ERP system (annual license, implementation) | | \$65,000 |
| Hardware annual costs | | \$10,000 |
| Office space annual costs | | \$30,000 |
| Total annual costs | | \$647,026 |

* From the Robert Half Salary Guide (2022), using 50th percentile data for the United States. Actual salary amounts vary by location.

** Does not include costs of retraining and lost productivity during periods of staff transition.

Work balancing

- Resource needs are intensive at:
 - Month-end, quarter-end, and year-end
 - Audits (external and internal)
 - Compliance initiatives, including SOX
- What does accounting team do after books are closed and accounts reconciled?
 - Parkinson's law: **“Work expands so as to fill the time available for its completion.”**
- Attempts to repurpose resources toward value-added activities not always effective.
 - Information needed for decision-making and planning requires a different skill set than transactional and technical accounting.
 - Additional training costs may be required.

Technology investments

Significant technology investments are required for finance and accounting operations.

- Baseline system requirements
 - General ledger, accounts payable, customer billing, and accounts receivable
 - Cloud solutions such as NetSuite, Sage Intacct®, and Workday® for mid-market companies license costs \$50K-\$100K annually plus implementation.
 - Remote workforce – collaboration tools such as Zoom or Microsoft Teams
- Advanced automation
 - Robotic process automation (RPA), artificial intelligence (AI), and machine learning (ML)
 - Tools such as reconciliation software (e.g., BlackLine)
- Analytics such as Microsoft Power BI™, Salesforce, and Tableau® licenses + training

Increasing demands

- Pace of change
 - Need for agility
 - Scaling and growth
- Internal control
 - Sarbanes-Oxley (SOX) requirements, SOX-lite, COSO
- New market entrants
- Regulatory change
 - Industry and SEC regulations
 - ESG
 - Tax law changes

Risk of fraud

There is a high risk of fraud when a company does not invest in the proper resources to allow segregation of duties to protect the assets of the company.



- Small to midmarket companies and startups don't always have the accounting team they need to segregate duties appropriately.
- Companies in high-growth phases may outgrow their current accounting team and need to outsource a portion of the process to establish proper internal controls.



Strategies to address challenges

Technology & automation

- Digital transformation: deploying digital technologies to transform all aspects of business
- How is this playing out in finance accounting and finance?
 - Cloud-based accounting platforms
 - Automation of data entry and accounting tasks
 - Timely reporting and dashboards

Cloud-based solutions and SaaS provide greater flexibility, accuracy, and agility for companies and reduce the need for some entry-level staff.


Recruiting, retention & development

- Poaching: Intensive, ruthless recruiting
- Starting pay increasing: 50%+ of companies raising new hire salaries and offering sign-on bonuses
- Pay increases: Accounting firms raising salaries 15%-20%
- Remote work
- Need for purpose and value in work

A close-up, artistic photograph of a watch movement. The dial is visible, featuring the words "ACCOUNTING" and "OUTSOURCING" in a bold, sans-serif font. The watch mechanism, including gears, levers, and the hands, is illuminated with a blue and orange light, creating a dramatic effect. A diagonal line divides the image, with a yellow bar at the bottom left.

Accounting outsourcing

What is accounting outsourcing?

- 
- Leveraging a third-party to perform accounting tasks or processes
 - Common areas to outsource include:
 - Tax filings and provision
 - Accounts payable
 - General accounting
 - Reporting
 - Payroll
 - Some combination of the above

Benefits of outsourced accounting



1. Focus on business growth



2. Cost savings



3. Risk management



4. Flexibility



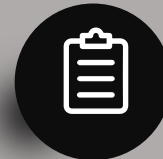
5. Current technology



6. Best-practice process



7. Expertise



8. Compliance



9. Real-time information



1. Focus on business growth

- Companies should focus on those aspects of the business that maximize customer and shareholder value:
 - New markets, new products
 - Customer satisfaction
 - Mergers, acquisitions, and other business opportunities
- Outsourcing accounting activities can help management focus on running the business and more strategic tasks, rather than administering the accounting department.
- Outsourcing can help the business scale and grow as needed (or shrink with demand).



2. Cost savings

- Outsourcing can lead to significant cost savings by leveraging:
 - Reduced cost of back-office accounting team by eliminating costs of attrition, downtime, and inefficiencies
 - Full expertise of outsourced provider (accounting, tax, compliance, consulting, IT)
 - Low-cost resources with specialized skills (just-in-time, experienced resources with precise skill sets to address your needs)
 - Technology efficiencies (the latest technology and the latest thinking around it)
 - Process standardization
 - Reduced internal costs for HR, recruiting, workforce maintenance, and training



3. Risk management

- Outsourcing can mitigate many accounting risks:
 - Turnover risk
 - Fraud risk
 - Regulatory compliance risk
 - Current accounting standards



4. Flexibility

- On demand – resources available for critical times:
 - Month-end, quarter-end, year-end, and audit
- No need to balance the work throughout the year
- Allow business to scale easily and grow
- Add resources, technology capacity, and additional features as needed



5. Current technology

- Immediately gain the benefits of current technology and surrounding thought leadership
- Cloud ERP systems
- Advanced automation
 - Robotic process automation (RPA)
 - Artificial intelligence (AI)
 - Machine learning (ML)
 - Analysis platform and capabilities
 - KPI dashboards
 - Analytics to drive business performance
 - Workflow solutions



6. Best-practice process

- Immediately gain the benefits of best-practice processes
- Reduce or eliminate rework
- On-time close and reporting
- Reduce errors
- Improve controls



7. Expertise

- Technical accounting
- Tax planning and compliance
- International tax
- Process optimization
- Transaction advisory
- Pre-IPO
- IT security
- Audit support



8. Compliance


- Stay current with compliance requirements
- Latest accounting standards (U.S. GAAP, IFRS)
- Tax and reporting requirements
- Regulatory changes



9. Real-time information

- Dashboards provide real-time reporting of KPIs
- On-time financial reports
- Complete audits on schedule and reduce audit compliance costs (and time)
- Information needed for decision-making
 - Customer profitability
 - Costs insights

Risks of accounting outsourcing

- 
- Provider capabilities
 - Provider is too small and has the same staffing challenges as you
 - Provider does not have sufficient training and resources to provide quality services
 - Ability to communicate on a timely basis
 - Ability to establish Service-level agreements to govern the interaction between company and service provider that establish expectations for both parties

Selecting a provider

- Assessing the needs of the company
- Understanding the various provider capabilities
- Cost-benefit analysis



THANK YOU FOR SOURCING

Thank you.

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