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functions of their businesses, such as tax preparation, legal assistance, financial portfolio management and actuarial services.

Susan Parcells • Feb. 27, 2013

From the March 2013 issue.

For years, small- to medium-sized companies have outsourced specific niche

organizations that now see outsourcing as a smart and viable option to optimize business processes and ultimately improve the bottom line. However, outsourcing is not for everyone.

It's important that companies take the time to understand and assess the pros and cons involved, such as cost/benefit ratio, potential risks, service level agreements (SLAs) and necessary controls, before making any changes.

Considerations – do your homework, set expectations upfront

When considering whether or not to outsource key accounting/finance functions, such as the underappreciated, yet critically important, financial close process, there are several factors to think about. First, do a cost/benefit analysis. Compare the cost of maintaining the finance department (or portion thereof, depending on the scope of the project) in-house, taking into account expenses like salaries, benefits, training, office space, equipment and software, compared to the overall expense of using an outsourcer to achieve the same goals.

All costs associated with outsourcing need to be clearly documented in the written agreement in order to reduce (or, better yet, eliminate) the potential for hidden costs. Setting mutual expectations at the onset, such as deliverables and deadlines, facilitates this process (and will keep costs down in the end). The more detailed and specific the agreed upon expectations are, the better chance of avoiding unexpected costs down the line.

In the case of a finance department outsourcing agreement, it is especially important to clearly understand and agree on how any relevant data is accessed, how frequently, what format it is in and who (from both the company and the outsourcing partner firm) can access it. Company management needs to make sure they are comfortable with the arrangement and that it won't impede their normal

could impact the relationship or service provided.

The transition process is another major consideration. An experienced outsourcer typically has a streamlined process in place to help minimize any delays in getting the work done, without anything slipping through the cracks. As a best practice, the company outsourcing the work can help ensure a smooth transition by having thorough documentation of all policies and procedures prepared ahead of time. Additional time may be required to help with this documentation, if it isn't readily available, but it will prove well worth it when actually handing the work over to a third party.

One of the final, but most critical, challenges in transitioning accounting/finance operations to an outsourcer is ensuring that appropriate controls are in place to protect the company's sensitive financial data. It's critical that the service provider meets or exceeds all of the requirements a company would mandate in-house to safeguard the confidentiality and security of its data; for instance, having a disaster recovery plan in place and any other controls required by auditors, such as compliance with SSAE 16/ISAE 3402 reporting standards.

Outsourcers offer varying levels of control, depending on the services offered and the size and experience of the outsourcer. For accounting/finance functions, companies should be sure their outsourcer has robust controls in place.

When done right, companies reap the rewards of outsourcing
Following careful analysis and selection of the right outsourcing partner, the benefits – both quantitative and qualitative – can be huge.

The most obvious benefit is reduced costs. Supporting in-house employees and facilities can be costly. The cost of labor and operations to outsource a business function is often cheaper, especially when the cost savings can be reallocated and put

outsourcer prepares. Outsourcers are also used to working with deadlines and typically have more flexibility to use their resources to meet varying client timetables.

Key benefit of a smart outsourcer – optimizing processes through technology and automation

Finally, just like their in-house counterparts, smart outsourcers are leveraging technology, where appropriate, to help gain efficiencies around various traditionally manual accounting/finance processes. Outsourcers often have the bandwidth and capital that companies may not have in-house.

For example, a company may not have the time or money to investigate and implement a software tool that could help automate some of the processes in its financial close, such as account reconciliations or variance analyses, but an outsourcer may, because it can share the associated expenses across many clients. In the end, companies benefit by taking advantage of outsourcers' means to streamline processes without the overhead.

Overall, outsourcing allows businesses to leverage a provider's expertise, best practices and efficiencies, so management can focus on customers and growing the business. As long as a company goes into it aware of the potential pros/cons, challenges and risks, the rewards are usually well worth it!

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