

OUTSOURCING: OPPORTUNITY OR THREAT?

OUTSOURCING GUIDE

CPA Australia is one of the world's largest accounting bodies with a global membership of more than 150,000 members working in 120 countries around the world, with more than 25,000 members working in senior leadership positions.

OUTSOURCING: OPPORTUNITY OR THREAT? is a report of CPA Australia's Public Practice Advisory Committee.

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CONTEXT

Outsourcing is not new. Outsourcing is where a business ‘contracts out’ a business process to a third party. Outsourcing derives from the economic principle of comparative advantage identified by the 19th century economist David Ricardo¹. Often though outsourcing is simply thought of as a way to save costs – that is, outsourcing allows us to produce a good or service cheaper than we can produce it ourselves.

However, a business may also outsource the production of low value goods and services even if it can produce them more efficiently in-house. This is because there is an opportunity cost: for every hour consumed by producing the good or service, there is some other higher-value activity the business could perform.

Here, it might be cheaper to produce the good or service in-house but there are more valuable goods or services we can produce in that same time. Choices have to be made.

The other real opportunity of outsourcing is in accessing skilled expertise the business cannot otherwise access. In specialist areas, this might assist the business to implement new ways to get things done at a higher quality level for a lower cost.

Accessing such outsourced specialist skills supports growth by removing administrative tasks from staff, creating capacity that allows the re-assignment of skilled local resources into higher value add activities.

In addition, specialist advice on attracting new business through digital communications and improved client engagement will also support growth.

Outsourcing less value-contributing tasks to a lower cost provider enables businesses to capitalise on higher value opportunities.

This can be the case even after quality controls to ensure accuracy, completeness and timeliness are implemented into the procedures.

Today, technological advancements have enabled outsourcing services to be accessible to businesses of all sizes. As a result, ‘offshoring’ is also increasingly accessible. Offshoring is where activities are performed in a foreign jurisdiction; such offshoring is a particular type of outsourcing, and introduces its own different opportunities and challenges.

Primary offshoring locations include India, the Philippines, Mexico, Costa Rica, Poland, Ireland, China, the Czech Republic, Vietnam, South Africa, Brazil, Hungary, Dubai and Egypt.²

For outsourcing to be effective, business owners and directors need to confidently embrace outsourcing, and trust to their own abilities to achieve higher value results by focusing their effort where their expertise lies.

¹ Ricardo, D. Principles of political economy and taxation. 3rd edn, (John Murray, 1821).

² Tholons. 2015 Top 100 Outsourcing Destinations. (2014) http://www.tholons.com/nl_pdf/Tholons_Whitepaper_December_2014.pdf.

GLOSSARY OF TERMS

Client: means an individual, firm, entity or organisation to whom or to which professional services are provided by a member in public practice in respect of engagements of either a recurring or demand nature.

Cloud Computing: means the use of computing resources that are delivered as a service over the internet. Cloud computing entrusts remote services with a user's data, software and computation.

Commoditisation: the power has shifted from the producers of goods and services to the consumers. As a result, the member's ability to command a higher price for the item lasts for a shorter period of time. Once a product or service has been commoditised it can no longer be differentiated in the marketplace. At that time the selection process of the customer is based mainly on price.

Core Competencies: the unique internal skills and knowledge that define a member's competitive advantage as seen by its customers.

Cost Plus: means a pricing agreement where the provider is paid for actual costs plus a predetermined fixed amount or percentage.

Crowd Sourcing: obtaining services, ideas or content by requesting contributions from a large group of people, usually in an online context.

Engagement: means an agreement, whether written or otherwise, between a member in public practice and a client relating to the provision of professional services by a member in public practice. However, consultations with a prospective client prior to such agreement are not part of an engagement.

BPO Business Process Outsourcing: involves the contracting of the operations and responsibilities of a specific business process to a third-party service provider.

Engagement models: Build Operate (BO) or Build Operate Transfer (BOT) is a model of outsourcing where a provider builds the delivery centre, operates to a point of stability and (in a BOT model) then transfers the asset and operation to the customer.

Engagement models – Captive: a member-owned offshore operation. The activities are performed offshore, but they are not outsourced to a separate company. They are usually transferred to a company owned by the member.

Engagement models – Joint Venture: a business agreement in which the parties agree to develop, for a finite time, a new entity and new assets. They jointly exercise control over the enterprise and consequently share revenues, expenses and assets.

Material Business Activity: means an activity of an entity or a firm that has the potential, if disrupted, to significantly impact upon the quality, timeliness or scale of professional services offered by a member in public practice or received by a client. Whether a business activity is a material business activity should be based on an assessment of the risks associated with the nature and size of the activity and the business activity's relevance to the professional service delivered to the client. Material business activities exclude the internal activities of a firm such as record storage or software application hosting where these internal activities merely support the professional services delivered to the client.

Nearshoring: moving processes to a nearly adjacent or nearby country of the member.

Onshoring: moving processes to a location within the same country as the member.

Offshoring: moving processes to a country different from the member's home country.

Outsourcing Agreement: means the document (i.e. letter, agreement or any other appropriate means) in which the terms and conditions of an outsourced service are set out.

Outsourced Service: a material business activity that is sent to an outsourced service provider.

Outsourced Service Provider (OSP): means an entity including a person that is providing services in accordance with an outsourcing agreement. The outsourced service provider may or may not be located in the same country as the member in public practice or the client and may not even be a member.

Pricing models – Fee for service: variable pricing set according to amount and/or quality of service delivered.

Professional Bodies: means CPA Australia, Chartered Accountants Australia and New Zealand and the Institute of Public Accountants.

Professional Services: means services requiring accountancy or related skills performed by a member including accounting, auditing, taxation, management consulting and financial management services.

Professional Standards: means all standards issued by the Accounting Professional & Ethical Standards Board and all professional and ethical requirements of the applicable professional body.

Resource Engagement – Seat fee or Facilities fee: the cost paid by the member to the OSP for the provision of the facilities. This usually includes an amount to cover the fixed (office rent, HR staff etc.) and variable (electricity) overheads of the OSP. It may also cover employee related costs such as software, computer, screens, headsets, camera etc.

Resource Engagement – Employee fee: this is the direct salary cost attributable to the hire of the employee. This usually consists of the basic salary and employee on-costs. Employee on-costs can include social security, national savings, health, union fees, unemployment insurance, rice subsidy, transportation allowance, annual bonus, and other entitlements.

Terms of Engagement: means the terms and conditions that are agreed between the client and the member in public practice for the engagement.

INTRODUCTION

The successful outsourcing of business activities to a third party on a continuing basis is more and more important to business success.

Done well, such outsourcing presents opportunities for the business to be more effective and efficient. Done poorly, however, outsourcing can result in business failure due to distractions, increased costs, and poor quality outcomes. This guide presents several case studies that highlight just how effective outsourcing can be as well as the special challenges outsourcing creates.

Getting the mix right with an outsourcing arrangement is important to the businesses that choose to outsource. It is also important to the service providers that undertake the outsourced business activities.

As with business generally, effective outsourcing arrangements are important to the accounting profession. APES GN 30: **Guidance Note on Outsourced Services**³, issued by the Accounting Professional & Ethical Standards Board (APESB), was first issued for 2013⁴, and revised in 2015. That guidance note looks at the provision and utilisation of outsourced services in relation to the professional and ethical obligations of CPA Australia members.

In light of APES GN 30, CPA Australia's Public Practice Advisory Committee (PPAC) has developed this guide to provide context for CPA Australia members in relation to outsourced services.

THE PURPOSE OF THIS GUIDE

The target audience for this guide, then, is CPA Australia members in industry or practice.

For CPA Australia members in industry, this guide helps them assess whether outsourcing may be beneficial. For example, the guide helps with assessing whether to outsource business activities such as accounting, financial, and information technology (IT) services.

For CPA Australia members in practice in an accounting firm, this guide is equally useful in assessing whether the accounting firm should outsource part of its own business and professional activities to an Outsourced Service Provider (OSP). However, CPA Australia members in an accounting firm may also, as part of their services to clients, use this guide to help clients to assess whether outsourcing business activities is beneficial.

For example, the accounting firm might provide a strategic evaluation service to the client to identify opportunities for outsourcing business activities. By extension, the accounting firm may also use this guide to assess whether the client should outsource some of their business activities to the accounting firm as an OSP. So, the client may outsource business activities such as bookkeeping or accounting services to the practice.

The accounting firm might also seek to outsource some of its own business activities to a third party. For example, low-value transactional work performed within the accounting firm might be outsourced to a third party. This frees up your professional staff to work on high-value activities with clients.

³ Accounting Professional & Ethical Standards Board. APES GN 30 Outsourced Services. (2015).

⁴ Accounting Professional & Ethical Standards Board. APES GN 30 Outsourced Services. (2012).

We emphasise that members should adopt a medium to long-term perspective when adopting an outsourcing model. It is said that 50% of outsourcing attempts fail and 70% take longer than expected⁵. Time and energy will need to be invested over the long term to realize benefits from outsourcing. Outsourcing is not a 'quick fix' and requires a lot of hard work⁴.

In addition to the commercial considerations that arise in assessing the business value of outsourcing, CPA Australia members also need to consider their professional and ethical obligations in their own context. These obligations are based on the five fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. This guide incorporates these concerns into the tools and checklists provided.

THE ACCOUNTING PROFESSION AND OUTSOURCING

Outsourcing has special implications for the accounting profession.

In August 2008, the APESB conducted the first meeting of the APES GN 30 Outsourcing Taskforce. The Taskforce identified the eight largest OSPs that focused on the accounting profession as part of their discussion paper 'Issues Impacting the Accounting Industry from Outsourcing'⁷.

Today, hundreds of OSPs target accounting firms with service offerings from local and offshore locations all over the world.

In 2010, CPA Australia released 'Offshoring: Impact on the accounting profession'⁸, and noted then that:

"Offshoring is part of the never-ending search for efficiency and cost reduction in firms, and can be undertaken for both primary and support activities of the firm. Offshoring is particularly prevalent in back-office or support activities that are not as customer facing as other functions of the business, and are therefore open to being located in lower-cost, non-customer-facing locations."

In early 2013, the APESB first issued APES GN 30 **Outsourced services** to provide guidance for members in public practice to manage risks associated with providing or utilising outsourced services in the delivery of professional services. As they noted, the trend of outsourcing professional services had grown rapidly over the last decade with benefits such as staff utilisation on core activities, lower costs and access to specialised skills. These benefits all resulted in greater efficiencies in the performance of our professional services.

Aside from those benefits, APES GN 30 also identified that risks arise that relate to the confidentiality of client information, integrity of information transferred to an OSP, and control and supervision of the work performed.

In 2013, a data collection from a random sample of Australian accounting firms⁹ indicated that the majority of Australian accounting firms at that time were either outsourcing or considering outsourcing accounting services, and firms were outsourcing taxation preparation both onshore and offshore. Furthermore, those firms that currently used the outsourcing approach expected the volume of work being outsourced to increase.

⁵ Aron, R. & Singh, J.V. Getting offshore right. Harvard Business Review 83, 135 (2005).

⁶ Lacity, M.C., Khan, S.A. & Willcocks, L.P. A review of the IT outsourcing literature: Insights for practice. The Journal of Strategic Information Systems 18, 130-146, doi: <http://dx.doi.org/10.1016/j.jsis.2009.06.002> (2009).

⁷ Accounting, P. & Ethical Standards, B. Discussion Paper: Issues impacting the accounting industry from outsourcing (2015).

⁸ CPA Australia. Offshoring: Impact on the accounting profession. (2010).

⁹ Chaplin, S. Outsourcing income tax returns: convenient and/or controversial. Journal of Australian Taxation 15, 279-313 (2013).

In 2014, the Business Fitness report, “The Good, The Bad and the Ugly of the Australian Accounting Profession¹⁰”, noted that 30% of the Australian accounting firms surveyed are currently outsourcing, and that 39% were looking to commence or continue to outsource in the next year.

Finally, in 2015, the APESB released the draft revision of various APESB standards primarily due to revisions and amendments to APES 110: **Code of Ethics for Professional Accountants** (the Code). This draft included a revision of APES GN 30: **Outsourced Services**, particularly with regard to the objectives and the definitions.

The primary objectives of APES GN 30 are to provide guidance to a member in public practice who is involved in providing or utilising an outsourced service in respect of:

- fundamental ethical obligations
- management of risks associated with the performance or utilisation of outsourced services
- matters to be included in service level agreements pertaining to outsourced services
- monitoring and management of the performance of the outsourcing agreement
- documentation of policies and procedures.

The opportunities that outsourcing provides is changing our profession and the way we do business.

ABOUT THIS GUIDE

This guide has three sections that relate to outsourcing in the context of the accounting profession:

1. Same but different: technology versus outsourcing
2. Using outsourced services
3. The accountant as an outsourced service provider.

These three sections aim to provide guidance as to the steps to take in considering entering into an outsourcing arrangement.

These practical steps are highlighted in these sections.

We further provide some case studies of accountants’ experiences with outsourcing, offering practical insights into what it is like for an accountant to use an outsourced service or to become an OSP:

- Case studies: Accountants’ using outsourced services
- Case studies: The journey from accounting firm to outsourced service provider

We then examine the likely future outlook for the accounting profession in the context of outsourcing arrangements.

Finally, we conclude this guide by identifying some insights that arise from these discussions.

¹⁰ Business Fitness. The Good, the Bad & the Ugly of the Australian Accounting Profession. (2014). This report is available from the CPA Australia Library.

SAME BUT DIFFERENT: TECHNOLOGY VERSUS OUTSOURCING

When deciding to outsource work from your business, it is important to first consider whether the task could be improved through automation made possible by technology. Whilst outsourcing may appear to be a simple way to solve your capacity problems, there are many software solutions now available to automate many tasks in our day-to-day work.

A good way to start is to identify the task to be outsourced.

IDENTIFY AND UNDERSTAND THE TASK

Regardless of whether outsourcing or technology is the solution, it is useful to list out the steps involved in that task.

As an example of one approach, Table 1 lists the steps involved in entering accounts payable information into the accounting system. This approach is suitable for simple tasks.

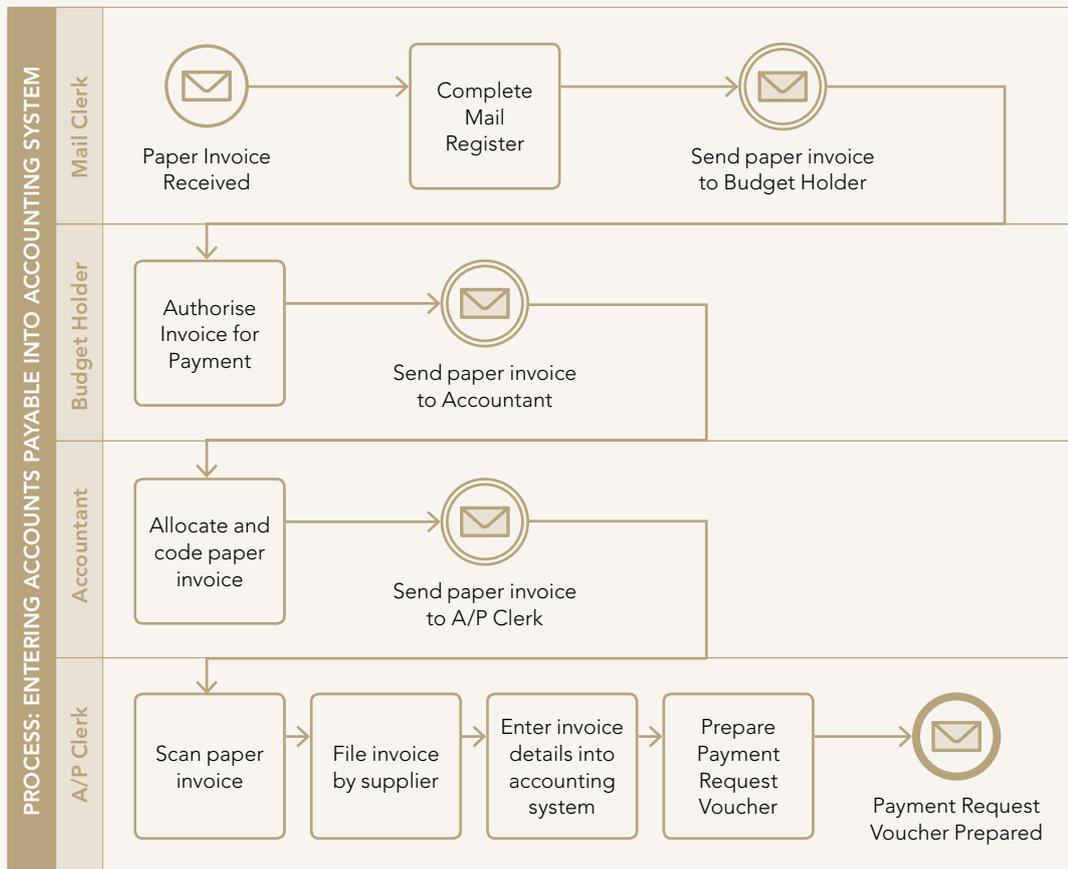
Table 1. A list of the steps involved in the task 'entering accounts payable into accounting system'.

TASK: ENTERING ACCOUNTS PAYABLE INTO ACCOUNTING SYSTEM	
Steps involved:	
1.	Mail clerk completes mail register and sends paper invoice to budget holder
2.	Budget holder authorises invoice for payment and sends paper invoice to accountant
3.	Accountant identifies how invoice is to be allocated/coded and sends paper invoice to A/P clerk
4.	A/P clerk scans paper invoice
5.	A/P clerk files invoice by supplier
6.	A/P clerk enters the invoice details into the accounting system <ol style="list-style-type: none"> a. Supplier (add to system if new) b. Invoice number c. Invoice date d. Due date for payment e. Invoice detail f. Allocate to account identified g. Invoice amount (exclusive of GST) h. GST amount (must match invoice)
7.	A/P clerk prepares the payment request voucher

For more complex and sophisticated tasks, it can be useful to create visual process maps of the task. Process mapping provides a relatively simple way of visualising the process and its steps.

Although there are several methods of processing mapping, one common method is to use the 'Business Process Modelling Notation' (BPMN). Figure 1 presents the same business process, but using the BPMN approach to do so.

Figure 1. Business Process Map of the 'Entering accounts payable into accounting system'.



Either approach is useful to identifying the steps in the process. Listing steps as in Table 1 is clear, simple, and straightforward. Process mapping using tools such as BPMN is better applied to complex tasks that rely upon several roles and decisions that are made. BPMN is an approach that may be worth the investment of your time to learn if you are not yet familiar with it.

You should identify and understand the task that you wish to outsource. To do this, identify either a list of the steps needed to complete the task regularly, or, for more complex and sophisticated processes, create a process model representing the task.

In either case the aim is to identify and understand the task. It is then time to see whether the process can be improved. There are a number of software solutions available that might make this manual task more efficient through automation¹¹.

For example, the mail clerk might scan an invoice rather than the A/P clerk, and the information on the invoice could then automatically be entered into the accounting system through a process of optical recognition and data integration tools. The accounting system could then allow the budget holder to authorise the invoice for payment electronically.

¹¹ Gross, A.D., Neely, D.G. & Sidgman, J. When paper meets the paperless world. *The CPA Journal*. 85, 64-67 (2015).

In this way, automation may change the requirements of the task that you may decide to outsource, or it may even eliminate the need for the task altogether. It is well worth investigating possible solutions from a cost benefit point of view to ensure that your overall solution is as cost effective and efficient as possible.

However, whilst automated solutions are fast and cost effective, it is important to remember that they are not always 100% accurate, and human intervention for the purposes of confirmation and review remains important. As the process (and technologies) improve, this will occur less frequently.

TECHNOLOGY AND OUTSOURCED SERVICE PROVIDERS

The nature of outsourcing means that the work is performed offsite, and therefore the technology in place and the way it is used is important to the success of the outsourcing arrangement. It is important that you consider the efficiency and effectiveness of the OSP's technology platform.

You should assess the service provider's technology platform by answering the questions set out in Table 2.

Table 2. Aspects of the service provider's technology platform to consider.

EVALUATING THE SERVICE PROVIDERS' TECHNOLOGY PLATFORM	
Internet speed and reliability	Assessment
What is the reputation of the Internet Service Provider used for reliability?	
What speed is the internet access provided?	
Overall, does the outsourced staff member have fast and constant access during their allocated work time?	
Regardless of the type of arrangement, internet speed and reliability is always a critical factor.	
Hardware and software	Assessment
Are the operating systems and software made available to staff members generally standard?	
Do the operating systems and software allow staff members to be productive and to work without interruption?	
Do staff members have access to quality hardware and all the necessary software is installed?	
Are virus protection software, backup systems, and business continuity plans in place, and are they sufficient?	
Monitoring software	Assessment
Are the staff at the OSP accountable for the work they are doing for their client?	
It may be an option for the service provider to offer as part of their service, direct screen snapshots throughout the day to validate that the work that your client is being charged for has been done according to their instructions.	
File sharing	Assessment
Is the file and data sharing provided by the OSP both secure and encrypted?	
Does the OSP have data privacy policies and data management strategies that meet your requirements under the Australian Privacy Principles (Privacy Act 1988)?	
Service providers need to facilitate collaboration and file sharing in a secure and encrypted manner. Many have developed custom solutions and document portals to provide greater control over document sharing. The type of solution will depend largely on the type of service being provided, however it should form part of the overall risk management strategy of the service provider.	

TECHNOLOGY AND OUTSOURCING – WORKING TOGETHER

Technology has an important role in facilitating the outsourcing process. Apart from assessing the service provider’s technology platform, an assessment of how the provider’s technologies integrate with your own technologies is also critical to the success of the outsourcing arrangement.

Whenever outsourcing is contemplated, there are several aspects of the integrated technology platform that need to work well together for outsourcing to be effective.

You should assess the integrated technology platform by answering the questions set out in Table 3. This will help you assess how well the service provider’s technology platform and your own work together.

Table 3. Assessing the integrated technology platform.

ASSESSING THE INTEGRATED TECHNOLOGY PLATFORM	
Internal communication	Assessment
How will you communicate with your outsourced staff?	
Will they report to one person on your team or collaboratively with the whole team?	
Tools such as Skype, Lync, GotoMeeting, Zoom are all effective for face to face communication and enhance the relationship with your offshore or offsite team.	
External communication	Assessment
Will your outsourced staff have the ability to communicate externally to clients?	
Do they need an email address?	
How will you ensure this communication is consistent with your firm’s communication policy?	
Access to client information	Assessment
How will your offshore/offsite team access client files?	
There are many secure options for sharing and collaborating on files.	
Ideally, you do not want to be transferring files via email or similar means without any encryption or file security. These can be as simple as using a Cloud based platform for your practice with strict password security in place. In addition, file storage tools such as Dropbox and Box are all commonly used for file sharing, however these tools should be monitored and reviewed in terms of user access and file permissions.	
If you are not operating in a cloud environment, you can utilise remote login to your on-site server. In a remote login scenario, you are able to grant various levels of access to data required to perform a task and can control the environment to a greater extent. The downside of using a remote login is that the speed and performance of the remote desktop computer is affected in many cases.	
Does the method of access meet obligations under the 13 Australian Privacy Principles ¹² (Privacy Act 1988)?	
The Privacy Act has a number of obligations that might affect how personal information is shared with an outsourcing service provider. Particularly, APP 8 (Cross-border disclosure of personal information) requires that the recipient of the information handles personal information in accordance with the APPs.	
For example, if someone has access to a client file on Dropbox and downloads it to another person’s computer, this would be a breach of client confidentiality. This is a serious risk management issue for practices and one that requires strict policies and procedures to ensure information is protected.	

¹² Office of the Australian Information Commissioner. Australian Privacy Principles Guidelines, https://www.oaic.gov.au/resources/agencies-and-organisations/app-guidelines/APP_guidelines_complete_version_1_April_2015.pdf (2015).

Table 3. Assessing the integrated technology platform (continued).

ASSESSING THE INTEGRATED TECHNOLOGY PLATFORM	
Time recording	Assessment
How will you ensure that your outsourced team are accountable for their time and the tasks they are performing?	
<p>Timesheets are one way of doing this effectively and it is relatively easy to provide access to your practice management system to allow timesheets to be completed. This also ensures the time is costed into the client work. In addition, there are tools - such as Chrometa or Time Doctor - that will record all work done on a computer in the background to effectively automate the timesheet process.</p>	

TECHNOLOGY FOCUS: USING CLOUD-BASED PLATFORMS

There are important compliance considerations in sharing data between two different technology platforms.

As noted in Table 3 above, the 13 Australian Privacy Principles (APPs) may impose obligations upon your accounting firm. The principle focus of the **Privacy Act 1988** is upon the management of personal information. A large proportion of the information managed by accounting firms is not personal information that identifies an individual, and so is not covered by the Act¹³. Compliance with the APPs may require you to conduct a privacy audit to identify what personal information is collected, and where it is stored, used, and disclosed¹⁴.

However, it is important to note that all members of CPA Australia are also bound by the standards and guidance notes produced by the Accounting Professional and Ethical Standards Board. Hosting your client data on a Cloud based platform of an external IT provider (for example, Dropbox or Box) is regarded as an outsourcing arrangement by the APESB.

Often the conversion of a business’s files to Cloud-based storage is performed outside Australia even if the business contracts with an Australian provider. While such services are considered ad-hoc by the business requesting the service, the entity performing the service will as a usual practice send such work overseas.

It should be noted that contracting with an Australian entity, or using an Australian entity, for cloud conversion services does not preclude or excuse you from the obligations of GN 30 across all related entities. Using an interposed entity does not preclude you from disclosure requirements.

For example, if you contract for the conversion of your files to Cloud-based storage with an Australian entity, you should have appropriate knowledge of where the work is to be performed and who does the work. At all times you must ensure that you meet the requirements of GN 30 requirements and other legislation, such as the **Privacy Act 1988**.

¹³ CPA Australia. About the Privacy Act. <http://www.cpaaustralia.com.au/professional-resources/public-practice/toolkit/privacy-obligations/about-the-privacy-act> (2016).

¹⁴ Cossetto, M. New privacy APPs affect you. Charter (2013). <http://www.charteredaccountants.com.au/News-Media/Charter/Charter-articles/Business-management/2013-06-New-privacy-APPs-affect-you.aspx>.

USING OUTSOURCED SERVICES

Table 4 identifies six stages in the life cycle of an outsourcing relationship.

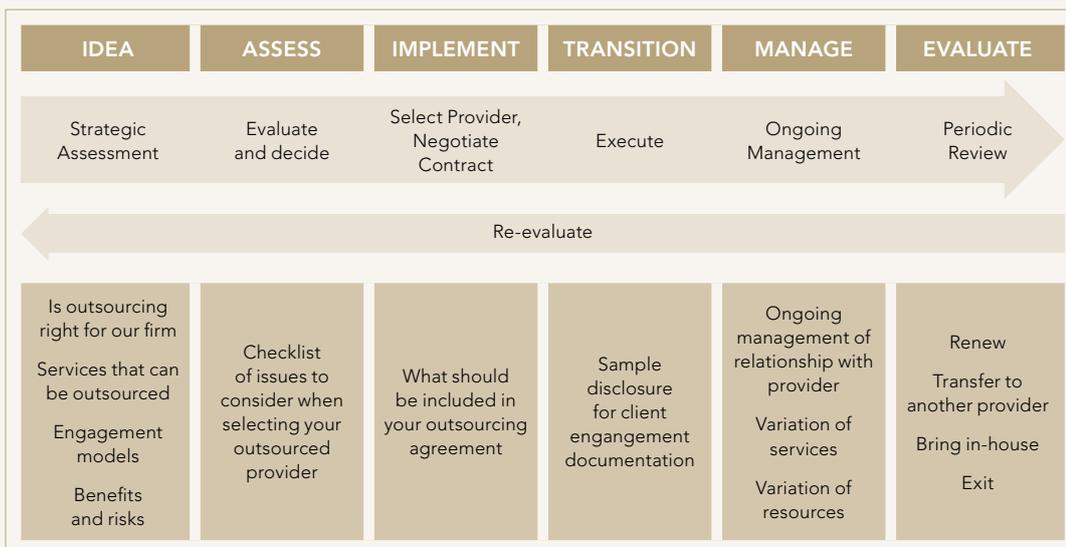
Table 4. Stages in the lifecycle of the outsourcing relationship.

STAGES IN THE LIFECYCLE OF THE OUTSOURCING RELATIONSHIP	
Stage	Description
1. Idea	Identify whether the idea is appropriate
2. Assess	Assess and select your OSP
3. Implement	Select the provider and negotiate a contract
4. Transition	Put the arrangements in place and execute it
5. Manage	Manage and monitor performance over time
6. Evaluate	Renewing, transferring or exiting the arrangement

Figure 2 presents this life cycle of an outsourcing relationship in more detail. Although the life cycle is presented as a series of stages, it is important to recognise that these stages are not always sequential.

Figure 2 provides a guide to the discussion that follows as we consider each stage in detail.

Figure 2. The outsourcing process.



You should constantly seek to re-evaluate your answers to checklists identified in the earlier stages of the outsourcing relationship lifecycle in light of new information that is received.

STAGE 1: IDEA – IS IT APPROPRIATE?

IS OUTSOURCING RIGHT FOR YOUR BUSINESS?

The Robert Walters Global Salary Survey found that a significant number of organisations are considering outsourcing core roles within their accounting and finance teams in 2016 as part of the trend to streamline processes and reduce staffing costs.¹⁵

Later in this guide we provide several case studies that talk about the real-life experiences of accountants in practice. In the 'Active Outsourcing' case study, Kane Munro CPA, who undertook outsourcing professional services for Moore Stephens and Deloitte, says that if we accept that revenue growth will not be dramatic from compliance services, then increasing profitability will require a new process for undertaking that work without compromising the firm's values.

The idea for an outsourcing opportunity might appear from anywhere.

The idea may be inspired by an email, a discussion group, an accountant, a cold call, some inbound marketing (i.e. marketing activities that capture the attention of customers and draws customers to the business website), a business coach or a conference.

The idea may arise from internal issues such as rising costs, an inability to retain graduates, an inability of staff to complete work within timeframes, new technology/cloud offerings forcing changes to processes within the business, an inability to meet increasing staff costs, and so on. The idea may arise through posts on social media, or online articles, or software houses communicating on new software or trends, or it may simply arise as a result of winning a new client.

Whatever the reason behind the idea for an outsourcing opportunity, it is important to clearly document the reason for the initial interest.

The idea forms part of the initial evaluation process, and it should be part of the contractual requirements.

The idea is the yardstick by which you will later evaluate success – did outsourcing deliver on your initial vision?

In her study examining the outsourcing of tax returns, Sally Chaplin found that one of the most important factors in the decision to adopt outsourcing is that outsourcing allows the firm to focus on its core competencies. In that same research, promptness of service to clients and resolving staff shortages were identified as the next most important factors.

Other motivations include the access to specialized expertise that outsourcing provides and resolving issues around a lack of office space. Of lesser importance, but still a factor for many firms, is the opportunity that outsourcing provides to improve service levels in peak periods and to provide rental savings on the business's premises.

SERVICES WHICH CAN BE OUTSOURCED

Chaplin also noted that taxation, bookkeeping and data entry are the services most likely to be considered for outsourcing offshore by public accounting firms. However, she identified other ancillary services that might be outsourced such as corporate secretarial, new entity or new client set-ups, the preparation of engagement agreements and database management, and some of these services apply equally to a general business.

Table 5 identifies some examples of the types of work being regularly outsourced by accounting firms in particular. Some of the examples provided in Table 4 are also relevant to a general business.

You should review the outsourced services checklist to identify whether the identified services are applicable to your business context.

¹⁵ Wales, S. Offshoring to impact jobs market in 2016, survey claims. Accountants' Daily, 1-5, (2016).

Table 5. Services regularly outsourced by accounting firms.

OUTSOURCED SERVICES CHECKLIST	
ACCOUNTING FUNCTION SERVICES	APPLICABILITY
Accounting / bookkeeping software setup	
Accounting / bookkeeping software training	
Bookkeeping	
Budgeting	
Business accounting	
Business activity statements (BAS)	
Cashflow forecasts	
Company / trust / SMSF set-up	
Company registration for TFN, ABN and GST	
Corporate secretarial work, including ASIC register updates	
Financial statement preparation	
Management and KPI reporting	
Payroll processing and services	
Period end reconciliations and reporting	
Personal accounting and taxation ITRs	
SMSF accounting	
SMSF auditing	
SMSF bookkeeping	
SMSF tax returns	
Tax planning	
Tax returns	
ANCILLARY SERVICES	APPLICABILITY
MARKETING	
Article writing for blogs etc.	
Branding	
Market research	
Outbound calls for research etc.	
SEO services	
Website design	
Website hosting	
SALES	
Direct marketing	
Email campaigns	
Outbound calls	

OUTSOURCED SERVICES CHECKLIST	
ANCILLARY SERVICES	APPLICABILITY
CUSTOMER SUPPORT	
Help desks	
Inbound calls	
Sales support	
IT	
Help desks	
IAAS – Infrastructure as a Service	
SAAS – Software as a Service e.g. bookkeeping and accounting	
Software development	
VOIP and Telephony	
ADMINISTRATION	
Administration re clients of firms (set-up clients, database management, ATO correspondence etc.)	
Administration relating to the firm (debt collection, accounts payable etc.)	
Content management	
Client service roles (prepare agreements, arranging signing, new entity set-up etc.)	
Data entry tasks	
Document processing	
Personal Assistant tasks	
Reception	
OPERATIONS	
Data input	
Document conversions	
Document management	
Process documentation	
HUMAN RESOURCE MANAGEMENT	
Development plans, policy construction	
Performance review	
Recruitment	
Training	
OTHER	
Actuarial services	
Audits, SMSF audits	
eBusiness advice	
Enterprise risk advice	
Executive recruitment / selection for clients	

OUTSOURCED SERVICES CHECKLIST	
ANCILLARY SERVICES	APPLICABILITY
OTHER	
Financial planning and investment advice	
Forensic	
Insolvency	
Management consulting services	
Reconstruction and bankruptcy	
Succession planning	

ENGAGEMENT MODELS

There are a number of different engagement models used for outsourcing. There are four common engagement models.

1. Business Process Outsourcing (BPO)¹⁶
2. Information Technology Outsourcing (ITO)
3. Software Research & Development
4. Knowledge Process Outsourcing (KPO)

Each of these outsourcing engagement models can be undertaken onshore or offshore.

As part of your assessment of your idea, you should identify which of these four models of outsourcing is likely to be the most successful, and whether there is potential for the engagement model to work if it is performed offshore.

¹⁶ BPO involves the contracting of the operations and responsibilities of a specific business process 'end to end' to a third-party service provider.

ENGAGEMENT – OWNERSHIP MODELS

There are also several ownership models – that is, who owns the factors of production – that will change depending on the type of strategic engagement required¹⁷. We note three different model types: Captive, Joint Venture, and Build-Operate-Transfer. These different model types are presented in Table 6, together with information on the business contexts each ownership model works best with.

Table 6. Ownership models and their relationship to outsourcing.

MODEL TYPE	CAPTIVE	JOINT VENTURE (JV)	BUILD-OPERATE-TRANSFER (BOT)
Description	The customer builds owns and operates	The customer and supplier share ownership in operations and both contribute selected resources	The provider owns, builds, staffs and operates on behalf of the customer. Ownership, assets and staff transfer to the customer upon completion
Set-up cost	Highest	High	Medium to High
Financial risk	Low	Medium	Low
Operational risk	Low	Medium	Low
Security, privacy and IP risks	Low	Medium	Low
Ability to control	Highest	Depends on amount of ownership	Medium

You should review the different ownership models as part of your assessment of the idea. Do any of these ownership models work better with your idea than others?

OVERVIEW OF BENEFITS AND RISKS

APES GN 30: **Outsourced services** recommends that you consider both qualitative and quantitative measures when assessing benefits and risks. Table 7 below provides a summary of the sources of likely costs and benefits.

Table 7. Summary of the sources of likely costs and benefits (see International Association of Outsourcing Professionals www.iaop.org)

	COSTS		BENEFITS	
	QUANTITATIVE	QUALITATIVE	QUANTITATIVE	QUALITATIVE
People	<ul style="list-style-type: none"> Relocation Retention bonuses Training Temporary staff Redundancy Recruitment 	<ul style="list-style-type: none"> Potential short-term fall in morale and performance levels Potential loss of key personnel from the organisation 	<ul style="list-style-type: none"> Reduction in FTEs Reduction in operating costs Greater spans of control 	<ul style="list-style-type: none"> Increased customer focus and service quality Increased skill levels
	QUANTITATIVE	QUALITATIVE	QUANTITATIVE	QUALITATIVE

¹⁷ Selig, G.J., LeFave, R., & Bullen, C.V., Implementing strategic sourcing. (Van Haren, 2010).

	COSTS		BENEFITS	
Process	<ul style="list-style-type: none"> • Standardise processes • Reengineer processes • Implement best practices • Establish metrics 	<ul style="list-style-type: none"> • Short-term decrease in process efficiency levels 	<ul style="list-style-type: none"> • Increased productivity • Reduced cost of quality 	<ul style="list-style-type: none"> • Increased focus on business partnering • Best practice, standard processes • Consistent, high quality management information • Increased ability to quickly adapt to changing business needs
Technology	<ul style="list-style-type: none"> • Hardware • Software • Implementation costs • Infrastructure • External hosting costs 	<ul style="list-style-type: none"> • Learning curve effect of new systems 	<ul style="list-style-type: none"> • Enterprise-wide software • Platform scalability • Reduced software costs • Reduced licence fees • Reduced maintenance costs • Reduced upgrade costs • Reduced support costs 	<ul style="list-style-type: none"> • Improved speed of dissemination and access to management information • Consistent data models across the organisation • Standard platform for eBusiness strategy
Facilities	<ul style="list-style-type: none"> • Close old facilities • Select new facility • Outfit new facility 	<ul style="list-style-type: none"> • Initial disruption to working environment 	<ul style="list-style-type: none"> • Decreased lease rates • Decreased facilities maintenance costs 	<ul style="list-style-type: none"> • Potentially improved working environment

You should use the likely costs and benefits set out in Table 7 as a template for identifying the costs and benefits of your own idea.

BENEFITS CHECKLIST

The primary benefits that arise from adopting outsourcing include:

- focusing on new, more profitable revenue streams (for example, client advice)
- focusing on core competencies
- improving services, including a wider range of services, to clients
- improving processing speeds and expedite delivery of services to clients
- reassigning lower value tasks to cheaper resources that are usually more skilled and faster

- achieving cost savings through labour arbitrage
- achieving cost competitiveness
- implementing new technologies more quickly as you have access to staff skilled in new technologies.

Table 8 identifies some likely benefits that might arise if your business adopts outsourcing.

You should review the checklist in Table 8 to identify whether the identified benefits are applicable to your business context.

Table 8. Potential benefits of outsourcing that may apply to your business.

BENEFITS CHECKLIST	
GENERAL BENEFITS	APPLICABILITY
Can focus on new revenue streams with higher profitability such as client advice / value add services	
Enable a greater focus on core competencies	
Offer a wider range of services	
Improve processing speeds, expedite delivery of services to clients	
Cost savings through labour arbitrage	
Ability to reassign lower value tasks to cheaper resources, which are usually more skilled and faster	
Access higher level of technical skills with larger service providers, or access skills not available in the business	
Can extend working hours when making use of time differences	
If underinvested in internal resources, can catch up to the market through the use of service provider's resources	
Have time to re-engineer business process to best of practice	
Have time to implement new systems / new technologies	
Can implement new technologies quicker as you have access to staff skilled in new technologies	
Reduce the capital expenditure required locally	
Resolve insufficient office space issues, and provides rental savings when office space is reduced	
Convert fixed assets to variable costs i.e. office space, computer investment etc.	
Relieve long term staff shortages	
Profit can be re-invested back into the business	
OSP provider can identify efficiencies through knowledge of best practice	

BENEFITS CHECKLIST	
GENERAL BENEFITS	APPLICABILITY
OSP can bring best practice file notes and electronic working papers	
Provide real time data for clients	
Improved services to clients	
Improved profitability and underlying improvement in owner / shareholder value	
Enhancing disaster recovery and continuity planning	
Helping to remain competitive	
AD HOC SERVICES	APPLICABILITY
No fixed agreements – flexibility of service use	
Only pay when use the services	
Use only during peak periods	
On demand availability	
Ability to utilize 'part-time' resources	

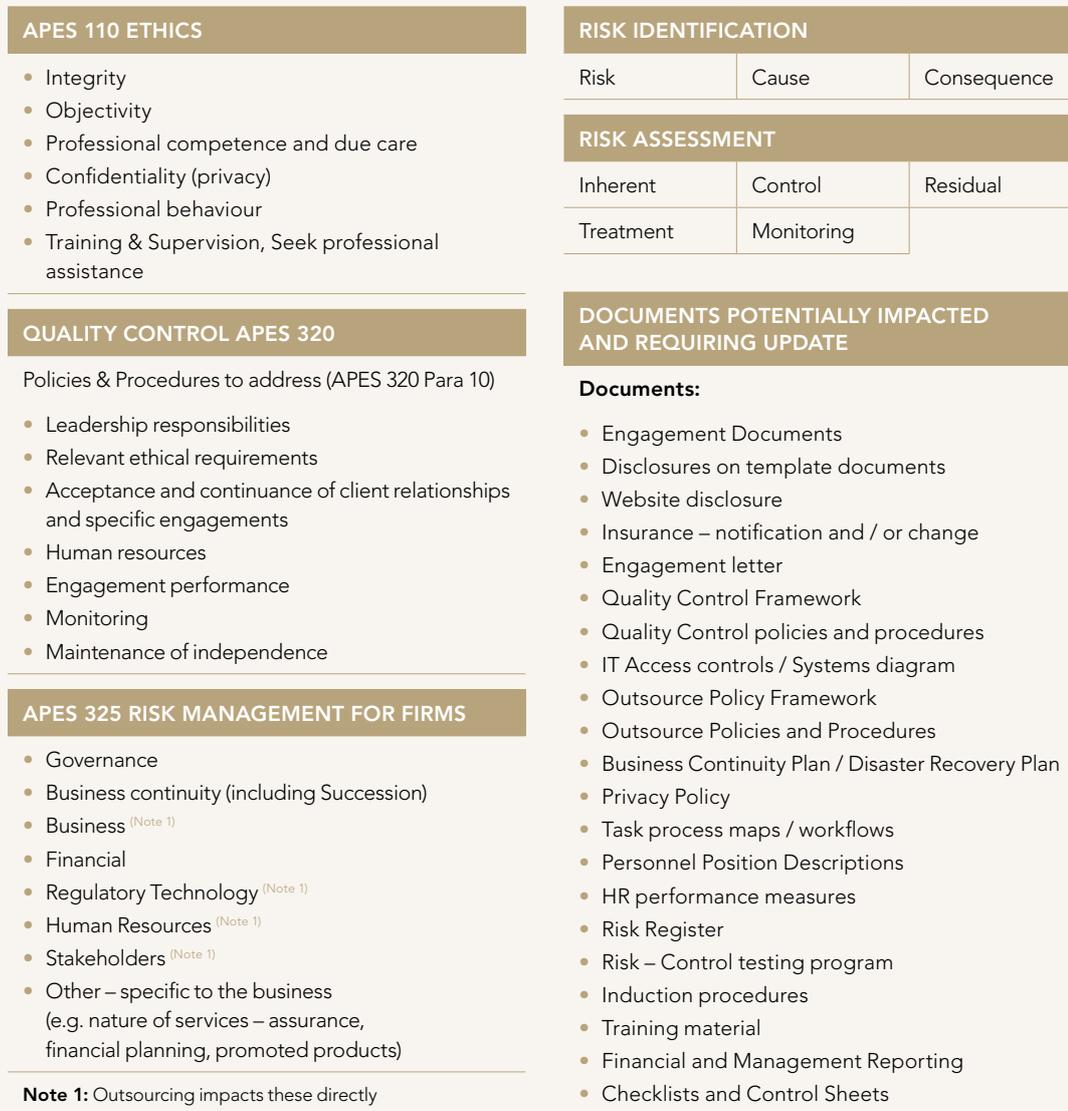
RISKS CHECKLIST

The primary risks that arise from the adoption of outsourcing include:

- service quality does not meet expectations
- the timeliness of the service does not meet expectations
- cost benefits do not match expected benefits
- dependency on an external provider
- loss of internal capabilities or process knowledge
- an insufficient risk management framework
- an inadequate outsourcing agreement
- privacy and data security

The adoption of outsourcing affects several risks that are addressed by the accounting profession’s standards. Several professional standards are relevant to the assessment of risks. Figure 3 below highlights how the risks that are affected by the adoption of outsourcing interact with other Accounting Professional Ethical Standards.

Figure 3. Outsourcing contextual impact according to the relevant Accounting Professional Ethical Standards.



Risk management is the discipline of managing the impact of negative events and capturing the benefits from opportunities. Outsourcing presents a number of opportunities that need to be measured and balanced against the risks.

The primary factors to consider when assessing inherent risk and whether the task is suitable for outsourcing are:

1. the ability to supervise the resource completing the task and your ability to detect and correct errors
2. the quality and availability of the resource and backup resources in the event of failure
3. the importance of the task to the business in terms of quality (completeness, accuracy), timeliness, the ability to maintain throughput or recover from a disruption.

The inherent risks in each engagement model must also be considered. What may be initially considered a high risk could be acceptable due to the nature of the task or the use of effective controls (refer to APES 325: Risk Management for Firms¹⁸ for further guidance on reducing risk through controls).

You should review the checklist in Table 9 that provides more detail on engagement considerations and inherent risk. With this checklist you should identify areas with high inherent risk, and if the inherent risk is high you should look to identify additional control factors that reduce that risk to an acceptable level.

Table 9. Engagement considerations and inherent risk.

ENGAGEMENT CONSIDERATIONS AND INHERENT RISK			
MATERIAL IMPACT →	QUALITY	TIMELINESS	SCALE
	Ability to control	Ability to correct	Impact of error
AREA	GENERAL / INHERENT RISK CONSIDERATIONS		
Regulatory and professional obligations	<ul style="list-style-type: none"> The less exposure, familiarity and education in a jurisdiction the higher the risk. As responsibility can never be outsourced, knowing and meeting obligations is essential. 		
Ability to supervise work including size of team	<ul style="list-style-type: none"> Generally the further away the resource is from management supervision the higher the risk. Generally, the smaller the team the higher the risk. Technology can assist, therefore, the less technology utilised to monitor work and detect errors the higher the risk. 		
Documented and automated procedures, combined with training	<ul style="list-style-type: none"> Operations where processes are not documented and where no training is provided increases risk. Automated process built to documented business rules on industry specific tools reduces risk. 		
Financial strength of business and insurance cover	<ul style="list-style-type: none"> Generally a business with higher tangible assets and large financial investment in their operations is less riskier. The higher and wider the insurance coverage of the provider the lower the risk. (Consider jurisdictional enforcement i.e. an foreign insurance claim may be difficult to access compared to a local policy) 		
Education and experience	<ul style="list-style-type: none"> Employees or businesses demonstrating an investment in professional development and training in industry specific skills are less risky. 		
Use of standardised Industry tools	<ul style="list-style-type: none"> Employees and business adopting industry specific, purpose built software tools (supported by training) are generally less risky. 		
Quality of infrastructure	<ul style="list-style-type: none"> The higher the quality of the infrastructure in place including security access controls, back-up procedures and BCP/DR facilities the lower the risk. In particular the controls and management of access and recovery of data. 		
Availability of alternative resources	<ul style="list-style-type: none"> The more evidence of alternative or substitutable resources being available with similar skills, education, experience and knowledge in the business or industry operations, the less riskier. 		
Communication, environmental and political stability	<ul style="list-style-type: none"> The greater the alignment in communication (Language, culture, mannerism, time zones), the lower the risk. For foreign destinations the environmental (exposure to natural disasters) and political stability of the country will influence the ability to conduct business. 		

In the case study ‘Active Outsourcing’, Munro suggests that risks be managed in three ways:

¹⁸ Accounting Professional & Ethical Standards Board. APES 325 Risk Management for Firms. (2013).

1. Taking the appropriate IT precautions regarding data security
2. Taking the appropriate physical precautions regarding data security
3. Contractual protections with providers, including termination provisions.

Table 10 identifies some potential risks that might be realised if your business adopts outsourcing.

You should review the checklist in Table 10 to identify whether the risks identified are applicable to your business context.

Table 10. Potential risks that arise from outsourcing that may apply to your business.

RISKS CHECKLIST	
GENERAL RISKS	APPLICABILITY
Data security and client confidentiality	
Operational efficiencies	
Service quality	
OSP doesn't have sufficient competent staff	
Technology of OSP isn't reliable enough to ensure work completed within required timeframes (consider Internet speed, transfer of back-up, cloud sharing or server access, ability to access government agency portals)	
Your in-house systems cannot cope with outsourcing IT requirements (consider Internet speed, transfer of back-up, cloud sharing or server access)	
Intellectual property and protection of proprietary information	
Legal and contractual issues	
Incompatibility with IT systems	
Loss of internal capabilities / process knowledge	
Level of innovation on part of the OSP	
Loss of managerial control	
Lack of support for outsourcing in corporate culture	
In-house problems and staff motivation issues	
Lack of acceptance from customers	
Evaluating contract performance	
Dependency on provider	
FULL TIME RESOURCE DEPLOYED	APPLICABILITY
Performance measurement difficulties	
High employee turnover in OSP	

RISKS CHECKLIST

OSP LOCATED OFFSHORE	APPLICABILITY
Cultural differences with employees in offshore location	
Wage inflation in offshore location	
OSP won't adhere to appropriate jurisdictional privacy legislation	
Domestic industrial relations	
Domestic political backlash	
Political instability with offshore location	
Problems due to regulations in OSP country	

STAGE 2: ASSESSMENT AND SELECTION

UNDERTAKE A PRELIMINARY OPPORTUNITY ASSESSMENT

Having determined whether the idea is appropriate, you need to conduct a more thorough and documented approach on the opportunities presented with outsourcing.

This requires a preliminary opportunity assessment.

Here, you will identify the immediate requirements that need to be addressed to take advantage of the opportunity. These requirements might relate to a shortfall in resources or skills, extra capacity requirements during busy season, or extra offerings for services that are expected by clients that can't be met by current in-house resources.

Once your immediate needs are identified and evaluated, you should conduct a high level review of your business through the lens of your services and skillsets.

You will need to review the services you *could* offer, the services you *should* offer, and the services that you *currently* offer. This information allows you to conduct a gap analysis comparing these services.

A gap analysis will allow you to identify any shortfalls between what you currently offer and what you should offer.

You should then evaluate the reasons why you do not offer what you should, and determine whether capacity constraints are the principle cause. If so, review your current services to determine which services can be outsourced to free up capacity.

STAFFING AND PRICING MODELS

There are a number of different approaches you can take to appoint someone to do the work required.

1. Take on an employee (whether based locally or offshore)
2. Appoint an independent contractor
3. Appoint an OSP or a Business Process Outsourcer (BPO)

Option 1: Take on an employee (whether based locally or offshore)

This option involves the appointment of a dedicated remote employee, whether they are working out of a serviced office or from their own base locally or offshore. There are a number of cost factors to consider, and these costs are outlined in detail in Table 11 below.

To make this appointment, you might consider appointing a staff member from an OSP offshore, akin to a labour hire arrangement. Such an outsourced employee is 100% dedicated to your business to perform tasks as you direct.

If you take on an employee, you will be responsible for managing their education, training and mentoring. Under such an arrangement through a commercial OSP that provides support to the employee, you will accordingly pay fees such as a seat fee, a salary fee and general on-costs.

Option 2: Appoint an independent contractor

This option usually involves the appointment of a single individual who operates as a freelance resource. The advent of the many Internet sites offering freelance resources has resulted in a significant increase in the past several years of people seeking services and freelancers offering services online. For such freelancer arrangements, tasks are often specific and one-off in nature. There may also be limited security, insurance and infrastructure controls.

Traditional independent contractors fall into this same category as well, and many accounting firms and businesses will already be using independent contractors in some shape or form.

You should investigate whether appointing an independent contractor is suitable for your business. Prospective contractors can be found online at websites such as remotestaff.com.au, guru.com, upwork.com (formerly elance), freelancer.com, virtualdonewell.com, or ozlance.com.au.

Option 3: Appoint an OSP or a Business Process Outsourcer (BPO)

The option of appointing an OSP or Business Process Outsourcer involves the contracting of specific business process or services to a third-party service provider.

The OSP will select your team, train them, and provide the necessary office and other infrastructure. A recent development is for Business Process Outsourcers to offer a 'Build Operate Transfer' (BOT) model, where they will build a team and then transfer it to your business. This is usually designed for teams in excess of 20 people.

You should note that developing a team under a foreign ownership model brings complexities and some risk in dealing with unfamiliar regulatory regimes.

DIFFERENCES IN PRICING MODELS

If you decide to proceed with options 2 or 3, you have different pricing models to consider. You can pay:

1. an agreed fixed fee:
 - b. on a job by job basis
 - c. or on a percentage of the annual fee to the client
2. on a variable basis:
 - a. fixed hourly rates

Kane Munro in the 'Active Outsourcing' case study notes that a key difference between the pricing models is flexibility. For example, the set fee per job model is fully flexible, and is a good way for a business to start their outsourcing journey. It allows access to resources when you need them and provides capacity to scale up or down according to business requirements.

However, this may be difficult to negotiate in less predictable environments, and the lack of predictability may mean that the price is higher because of this uncertainty. Overall, the nature and type of the model chosen will depend on your specific business requirements.

You need to consider which different pricing model works best for your business context.

PRIMARY ASSESSMENT STEPS

Having considered your options for staffing and pricing your outsourcing arrangement, there remain many assessment steps to undertake. For example, you will need to:

1. Determine your key selection criteria
2. Determine services and tasks to be outsourced
3. Identify the processes involved in each service / task to be outsourced
4. Identify these from your risk framework documentation, such as your risk register
5. Understand your needs within these processes and the implications on roles and responsibilities of staff and the outsource provider
6. Examine which engagement model is appropriate for your business
7. If offshoring is being considered, determine which country best suits your business needs
8. Identify the costs involved
 - opportunity cost to do in-house
 - costs to outsource
 - other revenue that can be achieved if internal resources are freed up, after allowing for additional monitoring, supervision and correction time managing the outsource provider
9. Explore supplier alternatives
10. Perform a thorough due diligence and risk analysis on your potential outsource partner
11. Develop a final business case for outsourcing
12. Decision to outsource made by business owners / stakeholders.

The checklist presented in Table 11 addresses these steps, and using such a checklist allows a logical approach evaluating the services to be outsourced and selecting your outsourcing provider. The checklist ensures that all relevant matters are considered, including not just the initial take-up of the services but the ongoing management as well as the renewal, transfer, or termination of the arrangement.

However, whilst checklists are certainly valuable in terms of agreeing and setting expectations, the execution of a checklist also facilitates your communication with the OSP. This allows you to explore the expected services and service levels provided by the OSP, but also allows a discussion of items that could affect the terms and conditions in the services agreement.

A checklist is particularly helpful in enabling an evaluation of the working relationship as both parties progress through the items on the checklist.

You should review and complete the checklist in Table 11. When completed diligently, this checklist offers a comprehensive “Due Diligence” on the evaluation of the OSP, the outsourcing service and the outsourcing agreement, as per the requirements of APES GN 30: *Outsourced services*.

Table 11. Checklist of issues to consider when selecting your OSP.

CHECKLIST OF ISSUES TO CONSIDER WHEN SELECTING YOUR OSP		
BACKGROUND	RESPONSE	DOCUMENTATION
Political culture and level of government support, including political stability		
Geography and location of OSP, including climatic influences		
Community culture		
Consider infrastructure in the location, including telecommunication capacity i.e. Internet speeds		
Cost and labour arbitrage including inflation and exchange rates		
Market forces and pressures on OSP from competitors		
Tax regime in OSP country		
Consider time zones in the location		
Ability to communicate in an appropriate language		
Availability of alternate suppliers for the service to be outsourced		
ABOUT THE OSP	RESPONSE	DOCUMENTATION
Company culture		
Who owns the OSP? Is it an independent entity or part of a larger group?		
Who will be the OSP contracting entity if there is more than one entity in the group?		
Experience in BPO services being offered – is the work you want to outsource an area they are expert in?		
Reliability and flexibility of the OSP		
Size of the OSP, including financial strength		
Is the OSP a member of a professional accounting body?		
Does the OSP hold an appropriate certification of public practice with a professional accounting body?		
Is the OSP registered to undertake tax work in your jurisdiction?		

CHECKLIST OF ISSUES TO CONSIDER WHEN SELECTING YOUR OSP		
ABOUT THE OSP	RESPONSE	DOCUMENTATION
Is the OSP a recognised accounting body under IFAC?		
Does the OSP have contingency and business continuity plans?		
Does the OSP comply with jurisdictional quality control standards?		
Confirm if the OSP has professional indemnity insurance and covering which locations / jurisdictions		
Employment conditions		
Potential for change in ownership		
Quality of work output		
Depth of management		
Has the OSP documented its operating policies and procedures? Including disaster recovery and business continuity plans.		
What business models are available from the OSP?		
Confirm the business hours of the OSP		
ABOUT THE STAFF	RESPONSE	DOCUMENTATION
Where are the staff based? Where is the work actually done?		
Are the staff sufficiently supervised?		
Are there sufficient staff with the necessary professional competencies and skills?		
What professional qualifications do the staff hold?		
How many staff are working in the OSP?		
Consider the resourcing capacity of the OSP and its plans for growth		
Consider staff turnover levels		
How are staff trained in the services to be provided?		
How are staff kept up-to-date with applicable accounting regulations, standards and tax legislation?		
ABOUT THE WORK	RESPONSE	DOCUMENTATION
How does the process work?		
Does the OSP give a trial?		
Are there fixed fees?		
Are there fixed levels of work?		
What are the prices?		
What is the capacity of the OSP? Can it provide work on an ongoing basis?		
What are the turnaround times on the work sent?		
What job functions are you going to outsource? e.g. data entry, bookkeeping, tax, financial planning etc.		

CHECKLIST OF ISSUES TO CONSIDER WHEN SELECTING YOUR OSP		
ABOUT THE WORK	RESPONSE	DOCUMENTATION
Are there any activities which are inappropriate to be outsourced?		
Ensure you have specific job description and well documented workflows for all job functions to be outsourced, identifying each area of responsibility		
Consider the methods of communication and document responsibilities for building and maintaining communication platforms e.g. VOIP phone, software tools, database management tools, workflow management tools, screen sharing tools etc.		
Consider quality control issues e.g. supervision and control of work, review of work, error correction etc.		
SECURITY – PHYSICAL SECURITY	RESPONSE	DOCUMENTATION
Does the OSP share their office with any other firm?		
Does the OSP perform any other work apart from accounting?		
Are USB's disabled or restricted?		
Is there restricted access to the office? e.g. fingerprint scanning		
Are there security cameras in the office?		
SECURITY – LOGICAL IT SECURITY	RESPONSE	DOCUMENTATION
Where will the data be stored?		
If cloud technology is deployed, what are the security procedures implemented by the OSP?		
Does the OSP's accountants have full control of confidential data at all points in time?		
Does the OSP have external IT support or any other external service providers who can access data?		
SECURITY – LEGAL SECURITY	RESPONSE	DOCUMENTATION
Is the OSP legally required to comply with any legislation?		
IMPLEMENTATION ISSUES	RESPONSE	DOCUMENTATION
Are specific job descriptions and well documented workflows in place for all job functions to be outsourced?		
Determine if the work is to be onshored or offshored		
Determine if the business model is task-based or resource-based		
Are staff working out of serviced offices or other locations (e.g. home)?		
Have you considered incorporating your own entity in an offshore jurisdiction?		
Have you considered the software to be used? Including online management tools and workflow management tools.		

CHECKLIST OF ISSUES TO CONSIDER WHEN SELECTING YOUR OSP		
LEGAL ISSUES	RESPONSE	DOCUMENTATION
Consider client disclosure requirements e.g. engagement letters		
Consider tax disclosure requirements (e.g. tax file number)		
Consider insurance disclosure requirements		
Consider privacy legislation		
Consider the legislation, standards and requirements of government bodies, regulators and professional bodies		
Consider client confidentiality		
DIGITAL FOOTPRINT OF THE OSP	RESPONSE	DOCUMENTATION
Search online about the OSP, its principal and executive officers		
Look at social media deployed by the OSP		
Determine if the OSP is listed with your company regulator		
Check the quality of the OSP website – its articles, blogs and testimonials		
Check where the website is hosted and when it was created		
Check other services the OSP provides by searching online		
Check whether the OSP uses professional email addresses		
Use a mapping product to check the office locations		
Determine if you can find any photos / videos of the office or staff		
MISCELLANEOUS	RESPONSE	DOCUMENTATION
Determine if a visit to the OSP is required to obtain direct information		

Offshoring arrangements require special consideration. For example, you might need to evaluate the OSP's home country to understand the legal, financial and professional nature of the OSP. You should also understand who is completing the work, their qualifications, the quality of the systems used, and the provisions of the services agreement. It is important to undertake an independent verification and due diligence of the OSP through third parties and online research.

You should carefully consider and pay attention to those items that are not usually relevant when doing business with an OSP in your home country if your outsourcing is done under an offshoring arrangement.

SAMPLE CLIENT ENGAGEMENT LETTER

There are a number of regulatory and professional bodies which prescribe requirements in relation to client disclosure when outsourcing work. In Australia, those bodies include the Accounting Professional and Ethical Standards Board, the Tax Practitioner's Board and the Australian Prudential Regulation Authority.

CPA Australia provides a pro-forma terms of engagement letter in its **Client Relationship Toolkit**¹⁹ which addresses those requirements.

It should be noted that whether delivered and signed in an online format or in paper format, the terms of client engagement remain the same.

STAGE 3: IMPLEMENTATION

Implementation is critical and, and is the time where the risks are greatest in adopting an outsourcing arrangement. After this stage, significant business disruption will arise if the arrangement is not executed well.

This stage requires additional attention and affects existing staff, including the update of a range of business management documents.

Several steps are required for implementation to be successful. For example, you will need to:

1. Finalise the contract with your outsourcing partner
2. Implement the outsourcing arrangement
 - a. communicate to team
 - b. appoint an outsourcing facilitator/champion who will be responsible for:
 - i. the coordination of work to and from your OSP
 - ii. responses to queries between your OSP and your clients
 - c. possibly conduct a test or a pilot
 - d. develop transition plan
 - e. implement any new structures
 - f. update practice or business documents such as quality control and risk management documents.

It is especially important for you to review your professional indemnity insurance. For example, does it provide cover should there be issues with your OSP? Does it provide cover with regard to cyber security breaches and fraud?

You should review and complete the checklist in Table 12. When completed diligently, this checklist offers a comprehensive "Due Diligence" on what should be included in an outsourcing agreement, as per the requirements of APES GN 30: *Outsourced services*.

¹⁹ CPA Australia. Client relationship toolkit. <https://www.cpaaustralia.com.au/professional-resources/public-practice/toolkit/client-relationships> (2016).

Table 12. Inclusions in the outsourcing agreement.

WHAT SHOULD BE INCLUDED IN YOUR OUTSOURCING AGREEMENT		
SCOPE AND PERFORMANCE OF SERVICES	RESPONSE	DOCUMENTATION
Detailed description of the type and scope of outsourced services to be provided		
<ul style="list-style-type: none"> Where a resource is provided, details of that resource 		
Details of how the outsourced service will be performed		
<ul style="list-style-type: none"> Actions and responsibilities of the parties Inputs to be used Systems to be used to complete the work Location of the systems to be used Access to the systems to be used Software to be used to complete the work Anticipated outputs including reports e.g. BAS / Accounts / Tax Return 		
Accessibility		
<ul style="list-style-type: none"> If Cloud facilities are not being used how will you access your files? 		
DATES OF AGREEMENT	RESPONSE	DOCUMENTATION
Effective date for the commencement and conclusion of agreement		
Extensions of the agreement		
Commencement date for services if not the same as the effective date		
VARIATION AND TERMINATION	RESPONSE	DOCUMENTATION
How changes in service requests will be conducted		
<ul style="list-style-type: none"> Changes in the pricing model Changes in the process Changes in the services to be provided Changes to the resource allocation 		
PROVISIONS FOR TERMINATION	RESPONSE	DOCUMENTATION
Conditions for terminating the agreement under normal circumstances		
Conditions for terminating the agreement under other circumstances e.g. non-performance		
Other conditions e.g. a change in control or management with either party		
Responsibilities of both parties upon termination		
The format, form and quantity of data, in printed or electronic form, to be provided by the OSP		

WHAT SHOULD BE INCLUDED IN YOUR OUTSOURCING AGREEMENT		
PRICING AND FEE STRUCTURE	RESPONSE	DOCUMENTATION
The pricing model		
<ul style="list-style-type: none"> Any initial fee (also known as a set-up fee) for the start of the service and scope of that fee 		
<ul style="list-style-type: none"> Any deposits or security bonds 		
<ul style="list-style-type: none"> Ongoing fees and disbursements associated with all work to be performed under the agreement and the scope of those fees e.g. fixed "seat" fees, variable "employee" fees, office supplies, printing, phone charges and travel expenses 		
<ul style="list-style-type: none"> Employee on costs e.g. health care card, rice subsidy, transport allowance, 13th month bonus etc. 		
<ul style="list-style-type: none"> Employee entitlements e.g. annual leave, birthday leave, sick leave, public holidays etc. 		
<ul style="list-style-type: none"> Surcharges for work 		
<ul style="list-style-type: none"> Miscellaneous fees or expenses 		
Consideration of foreign exchange		
Procedure for reimbursement of expenses and miscellaneous costs		
Fee variations		
Fee increases		
<ul style="list-style-type: none"> Notice period for fee increases 		
Overseas taxation obligations, including any GST considerations		
PAYMENT TERMS	RESPONSE	DOCUMENTATION
The payment terms		
Deposits required, including variations of deposits		
Late payment terms and fees		
SLAs – Service Level Agreements and performance		
Required service levels and performance requirements		
Contract termination and disengagement terms		
Contract reward and penalty considerations		
REPRESENTATIONS AND WARRANTIES	RESPONSE	DOCUMENTATION
OSP's responsibility for the accuracy and completeness of the information supplied to the member		
OSP's responsibility for timely, consistent, professional and high quality level of service		
Who retains ultimate responsibility for all work delivered		
Period of warranty of work		
Responsibilities for rework in and outside the warranty period		
Variations to fees for work as a result of warranty		

WHAT SHOULD BE INCLUDED IN YOUR OUTSOURCING AGREEMENT		
YOUR OBLIGATIONS AND THOSE OF THE OSP	RESPONSE	DOCUMENTATION
Obligations and rights of the parties to the outsourcing agreement		
Nature of the information to be provided by you and the OSP		
Obligations of the parties at the conclusion of the outsourcing agreement		
Requirements for fixed or minimum volumes of work		
COMMUNICATIONS	RESPONSE	DOCUMENTATION
Process for managing the relationship including qualitative and quantitative measures to monitor and review performance		
Ongoing and regular communications procedures		
Audit and monitoring procedures		
Escalation procedures		
DATA RETENTION AND TRANSMISSION	RESPONSE	DOCUMENTATION
Ownership of documents and records		
How data is to be exchanged or accessed		
Terms of file retention by the OSP sufficient to meet your needs or as required by law		
CONFIDENTIALITY, PRIVACY, INTELLECTUAL PROPERTY	RESPONSE	DOCUMENTATION
Ongoing management of confidentiality, privacy and security of information		
Keep each other's information and correspondence confidential		
Procedures for contacting third parties, including other party's clients		
Provision to allow an applicable professional body access to the documentation and procedures relating to the services provided		
Compliance with relevant jurisdictional privacy legislation		
SECURITY AND DATA PROTECTION	RESPONSE	DOCUMENTATION
Ensure transmitted data is free from software viruses, spyware and all other malicious software threat		
Put in place and to use all reasonable security and other access controls to protect all electronic data		
Restrict access by OSP staff		
Terms of file		
Detail where data is stored, particularly if data is being stored on the Cloud		
NON-COMPETE	RESPONSE	DOCUMENTATION
Non-compete sections to protect both you and the OSP		

WHAT SHOULD BE INCLUDED IN YOUR OUTSOURCING AGREEMENT		
DISPUTE RESOLUTION AND JURISDICTION	RESPONSE	DOCUMENTATION
Procedure for escalation of disputes		
Well-defined dispute resolution mechanisms including jurisdictional considerations		
GOVERNING LAW AND JURISDICTION, SIGNING PARTIES	RESPONSE	DOCUMENTATION
Governing law and jurisdiction of this agreement		
Valid signing entities		
Valid signing parties		
MISCELLANEOUS	RESPONSE	DOCUMENTATION
Miscellaneous procedures for changes in business structures and / or ownership structure		
Use of other external service providers or entities e.g. actuarial service providers, SMSF auditors		
Details of liability and professional indemnity insurance held, including jurisdictional coverage		

**STAGE 4:
TRANSITION AND EXECUTE**

At this stage of the outsourcing lifecycle, the contractual arrangements are in place. However, no steps have been taken to give effect to the outsourcing arrangement. Although it is tempting to go ‘big bang’ with the implementation of a new arrangement – that is, convert the entire business over to the new arrangement quickly – long-term success is more likely through a ‘slow burn’ approach to putting the arrangements in place.

Under the ‘slow burn approach’, you should identify a sizable portion of the business to move to the new arrangements, learn what works and what does not, and then move on to the rest of the business. ‘Slow burn’ is lower-risk to the business and allows you to refine the arrangement and improve its effectiveness over time.

For example, if your accounting firm has teams, consider having one team start to use the new arrangements and learn from that transition rather than move the whole firm across. Another option might be to identify types of client work that can be migrated to the new outsourcing arrangements.

You should consider transitioning to the new outsourcing arrangement using a ‘slow burn’ approach. That is, do not move the entire business to the new arrangement all at once as a ‘big bang’.

A central task in putting the arrangements in place is the need to review your business processes and modify them as needed to work with the needs of the OSP. One reason for using a ‘slow burn’ approach is that there are often hidden steps in the current business processes that are important, but not identified.

You need to identify your current business processes, automate and simplify them, and confirm how well these processes work with your OSP.

As your staff move from addressing low-level transactional work to higher-level client-focused work, the skills required and the challenges faced also change.

From the perspective of the necessary skills, training and job redesign will be required.

You should do a skills assessment with your existing staff and create individualised personal development plans that position your staff to higher-level client-focused work.

As highlighted in the case studies later in this guide, it is also very important to undertake a change management program that deals honestly and frankly with staff members’ issues with the adoption of outsourcing arrangements.

There will likely be genuine issues that need to be addressed.

You should develop a change management plan that clearly communicates the changes that are occurring and the reasons for them.

The technologies that underpin the information systems in place will take time to get right. This means that you should ‘stress test’ your technologies and working together with the OSP over time. The ‘slow burn’ approach provides an opportunity to identify

how well the technologies in place work and whether further changes are needed, or some technologies are incompatible.

You should continue to evolve the technologies in place for the duration of the outsourcing arrangement.

In the BOSS case study later in this guide, Peter Vickers highlights the key questions you need to consider in preparing to adopt an outsourcing arrangement. These questions are repeated in Table 13 below:

Table 13. Preparing to outsource.

PREPARING TO OUTSOURCE		
ISSUE	RESPONSE	DOCUMENTATION
Information Technology: Do you have the right people, processes, and technology to work with the external provider?		
Staff: Outsourcing allows your staff to focus on client relationships rather than low-level transactional work. Do they have the different skills needed for this change?		
Internal Processes: Successful outsourcing needs a clear line between ‘the work we do’ and ‘the work the outsourcer does’. This can only be achieved with standard, clear, and mature internal processes. If your internal processes are not clear and work well currently?		

STAGE 5: MANAGEMENT AND MONITORING OF PERFORMANCE

Outsourcing arrangements are not ‘set and forget’ – there are lessons to be learned from its implementation, monitoring how the arrangement is working, and refining the arrangement to suit your changing needs and understanding of what works best.

POST IMPLEMENTATION REVIEWS

Today, many businesses generally require a business case to be developed before proceeding with a project. The business case outlines the expected costs, benefits, and risks that are predicted to arise. For this reason, business cases are often done well, and make many evidence-based predictions.

However, what is not done so well is to consider how well the predictions set out in the business were met. It seems that, having done its job, the business case may be safely ignored. However, there is much to be learned from identifying how accurate the

predictions were, and whether there are further benefits to be achieved.

Such lessons are identified in a post-implementation review.

A post-implementation review considers how well the transition to an outsourcing arrangement went, and assesses the accuracy of the predictions made in the business case. The review confirms the outcomes of the project and its results, identifies key lessons learned, and develops a plan of further actions to take as a result of its findings. Such actions should be a refinement and, perhaps, identify the ‘next steps’ to take in the arrangement.

The details of a post-implementation review vary. Table 14 outlines the core aspects that a post-implementation review ought to address²⁰.

You should use the questions provided in Table 14 as a basis for conducting a post-implementation review.

Table 14. Questions to address in conducting a post-implementation review.

CONDUCT A POST-IMPLEMENTATION REVIEW		
ISSUE	RESPONSE	DOCUMENTATION
In overall terms is the outsourcing arrangement ‘fit for purpose’ – that is, usable and workable?		
Did the implementation meet the business’s requirements set out in the business case?		
Did the implementation identify business requirements that were not set out in the business case (that is, were the business requirements set out in the business case complete?)		
Did the implementation realise all the expected benefits that were identified in the business case?		
Did the implementation meet staff, owner, and client expectations?		
Did the implementation have unexpected impacts on the business?		
Did the implementation effectively mitigate the key risks identified in the business case and project plan?		
What actions can be agreed upon and implemented as an action plan to address issues identified in this analysis?		

²⁰ ISACA. COBIT 5 Enabling Processes. (ISACA, 2012).

A post-implementation review is useful for highlighting weaknesses in the development of the business case, and addressing those weaknesses in future business cases. It also helps by identifying actions to address issues that arise during the implementation.

You should conduct the post-implementation review frankly and honestly. All issues need to be considered transparently and without bias.

In conducting the post-implementation review, it is important to remember that it is likely that your outsourcing arrangement will be difficult and perhaps not as 'perfect' as originally predicted. You should manage your own expectations, and be sure that the benefits you foresee are realistic and achievable.

MONITORING PERFORMANCE

Monitoring the performance of the outsourcing arrangement is important to future performance. As part of an evidence-based management approach, tracking performance times and comparing them to relevant benchmarks provides great insight into your business.

Particularly for repetitive, transactional work such as that contemplated with the outsourcing arrangement, key performance indicators (KPIs) can be used to monitor performance.

It is, though, important that any KPIs are actually key, and further it is important that the indicators are monitored and reviewed. Too many performance indicators can lead to information overload and poor decision-making.

By way of note you should recall that the concept of KPIs is drawn from the balanced scorecard approach²¹. Traditionally, KPIs can be drawn from the financial (for example, profitability), internal, innovation and learning, and customer perspectives.

You should identify the several KPIs relevant to your business that capture each of the four perspectives. You should monitor these KPIs over time to better understand the performance of the outsourcing arrangement from each perspective.

A key internal measure that might be adapted from lean production techniques is the concept of 'takt time'. Takt time is the average time between the start of production of one 'unit' and the start of the production of the next, and this time relates to the production cycle needed to meet client demand.

For example, in an accounting firm that needs to process 250 tax returns a week, given a 35-hour week, the takt time would be 8.4 minutes. That is, roughly every 12 minutes a new tax return would need to be commenced to meet client demand.

Such a measure, of course, only works if the tax returns in your business are very similar and take, roughly, the same time to process. However, it provides a raw indicator of whether the process is achieving what it needs to achieve.

Other key internal measures might be the number of new clients, or perhaps a ratio of the value of new client work to the time your Australian professional spends with a client. A customer measure might be client satisfaction recorded at the end of each engagement, and a measure that considers innovation and learning might include current qualifications or the time spent training by the staff members at the OSP.

²¹ Norton, D. & Kaplan, R. Putting the balanced scorecard to work. Harvard Business Review 71, 134-140 (1993).

You should be sure to only monitor performance indicators that are key. It is better to monitor several well-targeted KPIs well than to not monitor many KPIs. Where possible and relevant, you should also monitor lead indicators of future performance rather than lag indicators of past performance – this allows you to identify problems as they arise rather than identify problems that have already arisen.

ADJUSTING THE ARRANGEMENT

Often outsourcing arrangements start out very positively. However, once the initial ‘honeymoon’ period is over, the arrangement may go into decline. For example, one relatively common issue in outsourcing arrangements is that the service provider might place their ‘best’ staff on your contract initially (the ‘A team’) and later move those better-qualified staff to work with a new customer. This leaves your arrangement with the ‘B team’, and although they may or may not be satisfactory in their performance, you ought to have a means of addressing such an issue.

In the operational phase of the outsourcing arrangement, it is therefore important to adjust the terms of the arrangement within the boundaries of the original relationship to address issues not originally anticipated. Early on the business and the service provider should agree on how issues and disputes are to be resolved. This means that you should not wait for issues to arise before working out how to address them.

Often, outsourcing arrangements have difficulties because the relationship between the accounting firm and the service provider is not managed well, or the expectations of what is to be delivered differ. For example, the provider may be selected based on price rather than considering how well the service provider can work with your business and your people over the long term.

A formal mechanism to manage the relationship is important to identify and address issues early. For example, such a mechanism might be as simple as a fortnightly teleconference or as complex as a steering committee meeting attended by independent advisers and arbiters.

It is paramount that the contractual agreement has a means to refine how the outsourcing arrangement is carried out, and sets out how to identify issues early and address them to the satisfaction of all stakeholders.

You should ensure that there are formal agreed mechanisms in place to address issues that arise during the period of the outsourcing arrangement.

STAGE 6: RENEWING, TRANSFERRING OR EXITING

You should make plans to renew, transfer or terminate a contract with an OSP provider well before the event. You should also have already outlined your key factors for success before the arrangement comes to an end. A key reason for being prepared before the event is to ensure that you are not forced to renew the agreement as a ‘path of least resistance’. In that case, the only alternative available to you in your negotiation is that, without a renegotiated contract, you lose access to key services provided under the arrangement.

Whether you renew, transfer, or exit the outsourcing arrangement will depend on the desired outcomes.

You should use the checklist provided in Table 15 to help identify whether the desired outcomes were achieved.

Table 15. Checklist to evaluate whether desired outcomes were achieved.

EVALUATION OF OUTCOMES		
ISSUE	RESPONSE	DOCUMENTATION
What was the rate of productivity improvement?		
Did the transition meet expectations?		
Were staff time and direct costs as expected?		
What would you do differently?		

On the basis of your evaluation you will identify whether you wish to renew, transfer, or exit the current outsourcing arrangement. When exiting an agreement, this is usually to transfer to another OSP provider or transition back in-house.

However, transitioning back in-house – or ‘back-sourcing’ can be difficult. Having outsourced a service to an OSP, the business may no longer have the capacity or expertise in-house to perform the service. This is termed ‘hollowing out’²², and it can be very difficult to re-acquire the capability and capacity needed to carry out the service in-house.

RENEWING THE ARRANGEMENT

If you wish to renew the outsourcing agreement, you need to determine whether any terms of the agreement need to be changed. Items for consideration should include:

- re-negotiation of prices, especially when there are foreign exchange issues
- re-negotiation of terms such as deposits required
- discussion of any variations
- discussion of additional services that may be required.

As will be self-evident, the OSP holds increasing power in re-negotiating to supply services already being supplied as the contracted end date becomes closer. They are the incumbent provider, and if your business is ‘hollowed out’ or for some other reason has difficulties in finding an alternative supplier, it will be harder to re-negotiate the terms of the outsourcing agreement.

You should review the outsourcing agreement regularly to ensure that the arrangement continues to meet your business needs.

TRANSFERRING AN ARRANGEMENT

Transfer of an outsourcing agreement usually involves either moving the work or the resource to another entity.

When transferring the resource to another entity there should already be terms in the current OSP agreement to cover the engagement directly or through others regarding the service of the staff member. It is usual for a fee to be paid such as a multiple of the monthly staffing cost. For example, you may choose after a time to employ the contractor directly rather than through an OSP, and in such a case a payment may be required.

²² Becker, M.C. & Zirpoli, F. Organizing new product development: Knowledge hollowing out and knowledge integration – the Fiat Auto case. International Journal of Operations & Production Management 23, 1033-1061 (2003).

TERMINATION

Regarding the arrangement with the current OSP, there should be terms and conditions within the current services agreement that identify the obligations of the parties at the conclusion of the outsourcing agreement. That is, the outsourcing agreement should at least address matters such as:

- conditions for termination (both normal and other circumstances)
- responsibilities of both parties upon termination
- notification period
- completion of jobs in-house
- return of work / return of uncompleted work
- return of deposits
- ownership of documents and records
- financial closure i.e. payment for work completed by OSP
- any agreements on the removal or deletion of data by the OSP.

If your evaluation is to terminate the agreement, and that the services provided under the outsourcing agreement are no longer required, then termination is relatively straightforward.

However, as identified above, terminating the agreement with a view to transition those services in-house can be more complex depending on the length of time that the work has been outsourced, and the in-house expertise or capacity you currently have. Backsourcing those services in-house where the business has been ‘hollowed out’ is difficult and risky.

You should use the checklist provided in Table 16 to help identify issues to consider when deciding to transition a previously outsourced service in-house.

Table 16. Issues to consider when deciding to transition a previously outsourced service in-house.

ISSUES TO CONSIDER IN BACKSOURCING SERVICES		
ISSUE	RESPONSE	DOCUMENTATION
How many processes are outsourced?		
To what extent have there been procedural changes in the process during the period of outsourcing?		
What are the physical resource requirements (such as office space, computers, manuals etc.)?		
What are the software requirements (such as licences for all applicable software and subscriptions to the appropriate material)?		
What staffing levels and skills are needed to perform the work?		
What are the support requirements for staff (such as HR, training etc.)?		
Are any external agreements required in order to bring the work in-house (that is, what suppliers to the OSP need to be contacted such that the supply continues directly in-house – for example, actuarial certificates, SMSF audits etc.)?		

CASE STUDIES: ACCOUNTANTS' USING OUTSOURCED SERVICES

OVERVIEW

A key question is, "What is it like to use an OSP?" The following case studies give personal insights from several accountants into their experiences using outsourced services.

JASON BERTALLI CPA (BNR PARTNERS)

At BNR Partners, we have been utilising outsourced staff for a few years now, and we are often asked two similar questions – how did you get started and does it work well for you?

We became interested in this space after we noticed an increased uptake by peers and clients of the firm. One client working in the IT space had a staff of two in Australia – the two owners. All direct and indirect staff were based internationally. Other clients of ours had employed personal assistants via online resources such as Freelancer, or had had jobs done via sites like Fiver or 99 Designs.

At a coaching session, we heard about tours to consider BPO and OSPs in Manila, so we decided to embark on the journey. The tour ran solid for 2 days, with 15 site visits and 35 presentations from different providers!

Whilst there we discovered that working conditions were similar to what we were used to in Australia and that employing staff at low wages was not exploitation but giving them a chance to have a comfortable lifestyle. In fact, staff in Manila preferred Australian employers due to the similar time zone. They often work for US or UK companies and so nightshift work was required. For Australian work, though, the Philippines is the same time zone as Perth.

We also discovered that communication and language issues were not as bad as we expected.

From this, we decided to engage a firm and the process was simple. We contracted with the firm to supply the infrastructure and staff management, HR and recruitment services,

but we were responsible for selecting the appropriate staff members via resume reviews and Skype interviews.

The day to day job allocations were done at our end also, so once we had our initial team in place, we set up a regular Skype meeting and had direct phone lines to the desks of 'Team Phil', as we affectionately dubbed the Philippines-based staff.

So how does it work? Well, like anything, there are both good and bad aspects.

In the initial stages, we had some resistance from a few staff members. They spoke of security issues, language and cultural differences, and they predicted problems arising from not being able to sit with Team Phil face-to-face to explain issues.

We managed to settle this down quickly with a firm-wide meeting with Team Phil on Skype. Short introductions both ways (and a few jokes) made both parties feel more comfortable. Getting the onshore team comfortable with technology such as Skype was a big consideration, as it had not previously been part of our business operations.

We also stepped the onshore team through the security levels implemented at the offshore end. Mobile phones and USB memory sticks were banned on site, and there were other measures that the firm used to ensure privacy and security.

Once the teething issues were settled, it ran much smoother. Team Phil have the benefit of operating without interruption, so as long as the instructions were clear and all information provided, productivity was great.

We should clarify though - we have not engaged any accounting or taxation work offshore at this stage, and our Team Phil work is in the areas of administrative support and IT projects for our business rather than directly working with our clients. On this basis, we have found that by relieving our professional staff of excess administrative duties, we have managed to increase the productivity of the onshore team significantly.

We have also been able to undertake projects that would have been financially not viable without Team Phil, such as researching and setting up a database of potential clients in a certain radius of our premises, maintaining our staff LinkedIn profiles, and setting up our

website to have more of a social presence via blogs and posts.

We initially had an offshore team of 2 admin staff, an intermediate and a manager, for an annual investment of around \$25,000 total outlay. This expanded quickly to having around 12 people at one stage on various projects!

At the present time we have no staff active on any projects. This is mainly due to the time of year, and having had efficiencies throughout the process that have led to no excess requirement for administrative support. And this is the icing on the cake - we can turn staff on and off as demand changes.

Going forward, I believe the ability to remain flexible and nimble is a key to the success of our businesses and our clients businesses, and our offshore staff (aka Team Phil) definitely help enable this process.

TANYA TITMAN FCPA (CONSOLID8)

In 2012 Consolid8 was at a crossroads in terms of how to grow our Management Accounting Team. In the past, we had used a traditional strategy of engaging new graduates and training them in the basics of bookkeeping to give them a good foundation of knowledge of management accounting.

Unfortunately, many graduates were not content to stay in these roles for more than 12 months, and described the work as 'mind numbing'. They were looking to get greater responsibility and client engagement at a much earlier stage of their careers.

We considered employing bookkeepers; however, experienced bookkeepers were often looking for salaries in excess of \$A70,000. At this level, the financial side of things just did not add up. We were working on fixed fee engagements with our clients. We could not recover this cost based on the type of work that was required, which was essentially data entry.

The solution, we decided, was to find a lower cost alternative to process the data. Our options were to outsource to a third party, use technology to automate the process, or to employ staff offshore.

When considering these options we were concerned that outsourcing to third parties would mean that we would lose control of the work. In addition, the pricing that we were quoted, at that time, did not give us any room to move with our fixed fees. Back in 2012, the technology had progressed a fair way, but was not yet at a stage where it could be fully automated without someone overseeing and being involved in the process. So outsourcing to third parties was not an option on its own.

Employing our own staff in an offshore location was a good option; however, we had no-one located offshore to supervise staff or train them in our processes. This option would, though, give us greater control over the process and productivity of the staff as well as costs.

Our decision was to use technology as far as we could to automate data processing, and to recruit staff offshore to validate, check and process the rest. In terms of countries, we considered both India and the Philippines. Two different time zones, and our decision ultimately came down to whether we wanted staff working at the same time as our team in Australia or if we wanted staff processing the data offshore while we were sleeping. Consolid8 has a great culture and a great team and it was important for us to continue this culture offshore.

Therefore, we chose to employ staff in the Philippines to work with our team in real time using technology such as Skype, Yammer and Xero in a cloud-based environment. We used a serviced office in the Philippines so that the offshore team were located in a professional environment and provided with computer support.

To ensure that the offshore team understood the part that they played in our business, we chose to bring the first offshore staff member to Australia to work with our team for two weeks. This experience gave them a great understanding of our culture and the important role that they would play in our team. It also allowed them to have a good connection with the team that they would be working closely with.

We aimed for organic growth rather than exponential growth. The offshore team grew to a total of 3 staff within the first 12 months. Each member recruited was operating with a productivity target of 95%, and interacted with our Australian team as though they were in the Brisbane office. They would take part in team meetings, have their work reviewed by their supervisor and interact with the team on a daily basis. They also interacted with our clients who were aware that they were based offshore.

We viewed the Manila team as if they were simply working remotely, as some of our Brisbane based staff occasionally do.

In 2015, Consolid8 sponsored one of our offshore team members to come live and work in Australia. This staff member had worked with our team for over 2 years offshore, and showed great initiative in her role and a desire to move to Australia if the opportunity arose. With the experience she gained in a foundation level role, she has now taken up a management accountant role with a higher level of responsibility and client engagement.

Consolid8 has seen and implemented rapid and major changes in technology, automation and cloud services that have changed the way we work with our clients. We no longer require a full team in Manila, but have instead engaged offshore contractors on a project basis through an online site called upwork.com (formerly elance).

Consolid8 now uses outsourcing in a number of different ways depending on our needs. We engage additional team members to assist when staff are on leave, or through busy periods. We have offshore team members research and write blogs on nominated topics to provide our clients with timely communication, and we can also use offshore team members to assist us with technical projects like complex spreadsheet algorithms or formulas.

Through this journey, Consolid8 has learned a lot about outsourcing and the benefits and issues that go with it. We found that, although the team may be outsourced, the issues and obstacles we faced were fundamentally the same. Staff selection is important, as is training, communication and having productivity targets. Managing communication, productivity, team dynamic, leave and absence are all things that still need to be addressed and monitored.

There are always unexpected challenges. One challenge is that the Philippines observes different public holidays to Australia.

Another is that the internet quality and speed fluctuated, and the Philippines is also prone to annual and widespread tsunamis, floods and earthquakes.

Although there have been challenges along the way, outsourcing through engaging staff offshore has provided many benefits to Consolid8. The outsourcing solution was low cost and quite easy to implement. It gave

us the ability to leverage and up-skill our Australian team, which lead to reduced staff turnover. We also found that the Manila team were able to take on more work than originally anticipated. There was little or no impact on, or resistance from our clients. We were able to provide a cost effective solution for our clients at a time when they needed it most. A 'win-win' solution all around.

HITESH MOHANLAL CA (WOW ADVISERS AND BUSINESS ACCOUNTANTS)

I am a UK Chartered Accountant and have been running accountancy practices since 2000. In 2004 I set up my own practice in the UK and starting outsourcing accounts and tax work to India in 2005. By 2008, 95% of all my business accounts and tax work was outsourced to India. It was not an easy process and took about 18 months to get right.

In 2008 I moved to Australia and set up my accounting practice in 2011.

I realised immediately that there was a need and a gap for a professional bookkeeping operation, as most if not all bookkeepers in Australia were individuals and many were providing poor quality work that we were sorting out at year end. None had any real tax knowledge. Having looked at the market and the wage structure it became apparent that setting up a practice with Australian bookkeepers was not going to be cost effective.

I could not find any decent outsourcing operations in India as, despite claims to the contrary, no-one knew much about Australian tax.

I went to the Philippines in September 2012 on an outsourcing tour. There I found a BPO servicing only finance and accounts. They had just started using Xero. I spent four months with them training, specifically on Xero and GST and in 2013 we slowly started sending work out under strict supervision. There was a review process in the Philippines, then here in Australia, before it came to me.

Once I had the final review it went to the client. After moving all of our bookkeeping operations across we then started sending out basic tax return work. By the middle of

2015 this was no longer working for us and we reviewed the arrangement. The three primary factors in this were:

1. Insufficient communication between the Philippines and Australia
2. Inconsistent and ineffective supervision
3. High rates of staff turnover in the Philippines, often without warning.

I now have one person in the Philippines, who is responsible for all administrative tasks and that is working well for us.

Our bookkeeping operations now operate out of Fiji, where we have two full time employees. They have been given extensive training both in Fiji and in Australia. The team understand exactly what is expected of them and they are performing well.

It is fair to say that tax work was not initially successful in the Philippines or Fiji, not through any fault of the workers there but because our systems were not correct. We have worked on this so that now tax returns are processed with few issues.

Our bookkeeping side has grown rapidly but over the last year we have concentrated on the type of client we want. I find the quality of work we get back is better from our

overseas workers and their work ethic is good. It is not as cheap as many people would assume – it is cheaper than Australia, but not as cheap as most people think.

My clients have been concerned about security and confidentiality. We have very specific procedures that deal with this. All data remains in Australia and our staff overseas are restricted on what they can do. We always give our clients an option. If the work is done in Australia then the price is higher than if sent to Fiji. We let the client make the decision and do not force it on them.

There are both positives and negatives to these arrangements.

We found communication in the Philippines was hard – not the language, but in keeping up to date about where jobs are at. They told us they would work Australian hours but they do not always do that. And the culture is such that they will not ask questions or tell you if problems exist. They do not like following set procedures. You really need to be on top of what they are doing. Also, they may understand the GST system but they do not understand the Australian tax system.

Fiji is much different – they think about what they are doing, we are kept up to date and communication is good. Travelling to Fiji is also easier than the Philippines. The tax system in Fiji is similar so there is more awareness. They still have to be continually trained though. You do need to allow a lot of time for training. It also made a difference when we started getting our Fiji team involved in our weekly meetings. We have a specific agenda item that goes through errors and issues from the last week and how to avoid them next time. It just gets the whole team thinking about efficiency and making sure everything clicks.

If you want outsourcing to work it is all about systems, procedures and lots of checklists. We now have checklists for everything and are constantly revising them. If you think you simply send work out it will not work – they need direction. Outsourcing work can be

frustrating but if set up correctly it can work.

I do have five 'top tips' for anyone wanting to work with an outsourcing arrangement:

1. Don't use anyone working from home:

You want a proper BPO operation. This costs more but you have no control over someone who works from home. They also use old computers and have no virus protection.

2. Visit them:

They need to see you and you need to see them face to face, regularly, otherwise the connection is not there. They need to understand your team and culture and your team needs to understand your outsourced team. You should try to get them to visit your Australian office as we found it adds tremendous value.

3. Make sure your team is right:

Do not be afraid to speak up if it is not working. If you are given staff who are not right for the role, make a decision quickly to remove them. This is one of my biggest lessons because training takes up a lot of time and you should not spend time training someone who is not right for you.

4. Focus on your systems:

It will take two years to get your processes running properly – if you expect it to work overnight, forget it. We have made some real howlers over the last three years. Stick with it and be patient. It will be frustrating at times. The number of times my manager has screamed at me sometimes made me think it is just too hard. But eventually, if your systems are good, it will work.

5. Keep your Australian staff 'in the loop':

You need to explain why you are doing what you are doing to your Australian staff. This will be your biggest hurdle – if you are taking work away from them you need to work out what they are going to do. We moved our practice to more value add work but I have been doing business advisory for 15 years. If you have no experience doing add on work you have to retrain yourself and your team.

PAMELA POINTON FCPA (AUSTRALIAN TAXATION ACCOUNTANTS)

Pamela Pointon had problems²³. The Queensland public practice she had established in late 2010, Australian Taxation Accountants, was going well, but Pointon, former Queensland president of CPA Australia, was keen to build it further. One year on it had become clear that her compact team of three might soon struggle to meet increasing client demand. CPA Australia's INTHEBLACK magazine talked to Pamela in 2012²⁴.

Pointon needed more qualified accountants, and finding them locally was difficult. Compounding her dilemma was the space factor. There was no room for a new employee to work on the premises, and the lease on the firm's Surfers Paradise office had another 18 months to run.

Pointon began researching the idea of developing offshore accounting services. She embarked on a virtual professional journey exploring the abundance of business process outsourcing (BPO) operations in South-East Asia and the Indian sub-continent. Months later she settled on a team of accountants in Bangalore, India, run by a subsidiary of Sydney company Back Office Shared Services (BOSS).

Under an agreement with BOSS, Pointon has decided to employ an experienced accountant in India for two days a week to help with the practice's growing compliance workload. It's a solution that she anticipates will be both cost effective and time-efficient, freeing her to focus on advising clients and training staff.

Following months of research, Pamela Pointon chose to outsource to India, not least because – with its historical links to the UK – its tax legislation is not so removed from Australia's.

She's had plenty of time to look before she leaps, and raises something of a potential ethical dilemma.

"If I had the space, then I might feel I should be training someone in Australia." She says. "We need to take responsibility for bringing on the next generation." Meanwhile, her employees are keen to add supervision of an offshore colleague to their skill sets.

²³ Pamela Pointon told her story to CPA Australia's INTHEBLACK magazine on 24 September 2012, and it is reproduced here with permission.

²⁴ Tarrant, D. Outsourcing: the pros and cons of going offshore, INTHEBLACK (2012)

THE ACCOUNTANT AS AN OUTSOURCED SERVICE PROVIDER

For general businesses as well as accounting firms, outsourcing arrangements offer the opportunity to grow the services offered through the adoption of outsourcing arrangements. The onset of technology makes becoming an OSP more accessible to businesses and accounting firms. However, there are special aspects to consider for an accounting firm that wishes to operate as an OSP.

Although they likely would not call such arrangements outsourcing, many accounting firms are already 'outsourcing onshore' by contracting out work to their referral network etc.

As indicated in the case studies later in this guide, there is a growing trend for accountants to establish offshore teams themselves and then scale up to provide those services to others. In order to compete in this growth market you will need to invest in quality training, processes and systems.

There are several examples²⁵ of accountants and financial planners that have established their own back office operations and then transformed them into a service offering to be used by other businesses. For example, Jaquillard Minns Chartered Accountants established an office in Manila that employed local CPAs trained in Australian taxation law. These CPAs produce accounts and taxation returns for their rural clients in the country-based accounting practice²⁶.

The case studies in this guide document the experiences of some Australian entrepreneurs in this area. These case studies include Andrew Noble and Mr Madhavan Boobalan, who founded AccSource; Peter Vickers CA, Managing Director of BOSS; Kane Munro, the founder of Active Outsourcing; and Nicholas Sinclair, the founder of The Outsourced Accountant. All these organisations have used outsourcing to expand their capabilities and the services provided, although the diversity of these case studies show that the journey is unique to each business.

For example, Sinclair first tried project outsourcing, then employed his own team through an offshore Business Process Outsourcer before eventually establishing his own offshore BPO operation. Sinclair notes that his model requires a long term commitment from clients. In comparison, Noble initially outsourced work to an IT company before AccSource was born. The journeys to becoming an OSP are never identical.

BECOMING AN OUTSOURCED SERVICE PROVIDER

APES GN 30: Outsourced Services provides specific guidance for accountants looking to become an outsourced services provider.

You should review APES GN 30 as part of your journey to becoming an outsourced services provider.

However, there are other professional bodies that should be consulted as part of becoming an outsourced services provider. Of particular relevance is the International Association of Outsourcing Professionals who provide ethical guidance for outsourcing service providers.

You should review the Code of Ethical and Business Practice Standards for Outsourcing Professionals, published by the International Association of Outsourcing Professionals.

²⁵ CPA Australia makes no conclusions about the suitability of any supplier mentioned in this guide. Any person considering using or becoming a service provider should seek independent professional advice, explore their ethical responsibilities, assess risk management and security issues and obtain guidance from an international industry body.

²⁶ Jaquillard, P. Small Business in Asia – an example <http://www.cosboa.org.au/blogs/small-business-in-asia-an-example> (2012).

Before becoming an OSP, there are many issues to be considered. Many of these issues are business issues, whilst others are required to comply with the necessary standards.

A core issue is the need to comply with Section 100 of the APES 110: **Code of Ethics for Professional Accountants**²⁷.

You will need to consider the legal and other implications of existing contractual arrangements should any threats not be able to be reduced to an acceptable level and you are looking to resign from the engagement.

An outsourcing policy framework should be interwoven with your existing quality control and risk management framework. The outsourcing policy framework needs to consider:

- the approach to managing the business
- the approach to managing business, operational and other risks
- management of the administrative function
- maintenance of compliance with regulatory frameworks where relevant
- communication protocols
- procedures for the maintenance of client and third party confidentiality and privacy
- procedures for reporting to the client
- processes for the review of work.

You will need to develop and document an outsourcing policy framework to effectively manage the risks.

Other issues relate to the accounting firm's capacities and maturity in the delivery of services. For example, the accounting firm will need to ensure:

- the IT and workflow management systems are sufficient
- best practice security protocols are adopted
- the outsourcing agreement outlines and defines key terms in the agreement
- adequate and appropriate professional indemnity insurance
- develop and document policies and procedures, systems and processes to monitor and manage the delivery of the outsourced service
- appropriate quality control requirements in place in accordance with APES 320: **Quality Control for Firms**²⁸.

As noted in the AccSource case study later in this guide, security issues encompass more than just internet security. For example, you will need to ensure the security of the office premises, security around the regulatory framework, and security of data access.

Communication considerations are also important. Addressing these concerns require that robust workflow application software and communication platforms such as Skype are in place for the outsourcing arrangement to be successful.

Finally, the accounting firm will need to ensure that working papers are prepared to document the work performed.

ISSUES TO CONSIDER AS AN OUTSOURCING SERVICE PROVIDER

The checklist provided in Table 17 address these issues comprehensively, although you will need to consider the specific business context of the proposed outsourcing arrangement.

You should review and complete the checklist in Table 17 as part of your due diligence in becoming an OSP.

²⁷ Accounting Professional and Ethical Standards Board. APES 110 Code of Ethics for Professional Accountants. (2013). <http://www.apesb.org.au/>

²⁸ Accounting Professional and Ethical Standards Board. APES 320 Quality Control for Firms. (2015) <http://www.apesb.org.au/>

Table 17. Issues to consider as an outsourcing service provider.

CHECKLIST OF ISSUES TO CONSIDER AS AN OUTSOURCING SERVICE PROVIDER		
BACKGROUND	RESPONSE	DOCUMENTATION
Political culture and level of government support, including political stability		
Geography and location of OSP, including climatic influences		
Are there specific locations within the country where OSP firms are encouraged by government incentives		
Community culture		
Consider infrastructure in the location, including telecommunication capacity and Internet speed		
What is the inflation rate and historic exchange rate compared with your local currency		
Consider market forces and pressures on OSPs from competitors, including alternative suppliers who may poach resources or compete with you for resources		
Consider time zones in the location		
Consider your ability to communicate in an appropriate language		
Consider levels of corruption and develop a stated policy regarding bribery		
How does the OSP comply with jurisdictional privacy legislation, and other applicable legislation?		
TAX	RESPONSE	DOCUMENTATION
What is the tax regime in the OSP country?		
How is profit remitted from the OSP country?		
How are foreign currencies held in the OSP country?		
What are the rates of personal income tax and the impact this may have when you visit the country or if you relocate to that country?		
What are the tax issues when moving to a different structure?		
What are the tax issues on exiting the country?		
ENTITY STRUCTURE	RESPONSE	DOCUMENTATION
What entity structure is available?		
For that entity, what services can that entity legally provide? Is the entity restricted in services by the laws of the OSP country?		
Will the OSP be a recognized accounting body under IFAC?		
What are the costs to set-up the entity, including intermediary entities?		
Are there any requirements regarding entity capital or loan capital to be contributed?		
What are the ongoing regulatory requirements for taxes and reporting to the OSP authorities?		
What entity structure is better to hold the ownership of the OSP company? i.e. consider intermediary companies		

CHECKLIST OF ISSUES TO CONSIDER AS AN OUTSOURCING SERVICE PROVIDER		
ENTITY STRUCTURE	RESPONSE	DOCUMENTATION
Who will be the OSP contracting entity if there is more than one entity in the group?		
Does the entity intend to comply with APES GN 30: Outsourced Services?		
What is your exit strategy with respect to this entity?		
If the exit strategy is through BOT, what entity will be required to receive the operation on transfer?		
If the entity is to be closed down after conclusion, what is the procedure, time and issues with respect to closure?		
BANKING	RESPONSE	DOCUMENTATION
What banking is available in the OSP country?		
Are there any restrictions in holding foreign currencies?		
What is the set-up for bank accounts?		
Are there any requirements to contribute entity capital to specific bank accounts?		
Will alternate payment methods need to be used e.g. credit card payments or online payments?		
INSURANCE	RESPONSE	DOCUMENTATION
What insurance is available and what insurance is required?		
Is professional indemnity insurance available or how will the OSP entity comply with applicable PII requirements?		
PERSONNEL	RESPONSE	DOCUMENTATION
What are the labour regulations regarding staffing?		
Will HR staff be required to manage OSP staff?		
Where will the staff be based compared to where they will live? Will the OSP provide transport?		
What benefits will be given to the staff above normal legislated benefits?		
What employment conditions will be provided? For example, staff canteen, staff parking etc.		
How does your exit strategy impact on employees?		
What are the employee rights on transfer or termination?		
How will staff be supervised?		
Will you require staff from your home location to work in the OSP?		
TRAINING AND PROFESSIONAL QUALIFICATIONS	RESPONSE	DOCUMENTATION
What professional qualifications will staff hold (such as accounting qualifications) and what impact will this have on the OSP?		
How will staff keep up-to-date with applicable accounting regulations, tax legislation and any other knowledge requirements?		
Will training be done remotely from your home location?		

CHECKLIST OF ISSUES TO CONSIDER AS AN OUTSOURCING SERVICE PROVIDER		
IT SUPPORT	RESPONSE	DOCUMENTATION
What is the approach to IT? Will IT support be internal or external?		
What websites / coding is required to provide the service?		
What resources are available to support the OSP?		
What investments are required in IT hardware and software?		
Consider communication methods e.g. VOIP phones, screen sharing platforms etc.		
Do you have a disaster recovery plan and business continuity plans?		
OTHER	RESPONSE	DOCUMENTATION
What process modifications are required by the OSP to provide the new services?		
What transition procedures and plans are in place to provide the new services?		

OUTSOURCING AGREEMENTS

The outsourcing agreement is a key tool in setting up and managing the outsourcing arrangement.

The checklist provided in Table 18 outlines some of the important considerations you should address in your outsourcing agreement, in accordance with the guidelines in APES GN 30: Outsourced Services.

You should review and complete the checklist in Table 18 as part of your implementation process in becoming an OSP.

Table 18. Checklist of what to include in an outsourced agreement.

CHECKLIST OF WHAT TO INCLUDE IN AN OUTSOURCED AGREEMENT		
SCOPE AND PERFORMANCE OF SERVICES	RESPONSE	DOCUMENTATION
Description of the type and scope of outsourced services to be provided		
<ul style="list-style-type: none"> • accounting services 		
<ul style="list-style-type: none"> • bookkeeping services 		
<ul style="list-style-type: none"> • tax services 		
<ul style="list-style-type: none"> • other services etc. 		

CHECKLIST OF WHAT TO INCLUDE IN AN OUTSOURCED AGREEMENT		
SCOPE AND PERFORMANCE OF SERVICES	RESPONSE	DOCUMENTATION
Details of how the outsourced service will be performed		
<ul style="list-style-type: none"> • inputs to be used 		
<ul style="list-style-type: none"> • systems to be used to complete the work 		
<ul style="list-style-type: none"> • location of the systems to be used to complete the work 		
<ul style="list-style-type: none"> • access to the systems used to complete the work 		
<ul style="list-style-type: none"> • software used to perform the work 		
<ul style="list-style-type: none"> • anticipated outputs including reports e.g. BAS, Accounts, Tax Returns 		
How clients will access OSP files where not using the cloud		
DATES OF AGREEMENT	RESPONSE	DOCUMENTATION
Effective date the agreement commences and concludes		
Extensions of the agreement		
Commencement date for services if not the same as the effective date		
Details of the initial transition process to OSP operations, including actions and responsibilities of the parties		
VARIATION AND TERMINATION	RESPONSE	DOCUMENTATION
How changes in service requests will be conducted		
<ul style="list-style-type: none"> • changes in the pricing model 		
<ul style="list-style-type: none"> • changes in the process 		
<ul style="list-style-type: none"> • additional resource requests 		
Provisions for termination		
<ul style="list-style-type: none"> • conditions for terminating the agreement under normal circumstances 		
<ul style="list-style-type: none"> • conditions for terminating the agreement under other circumstances e.g. non-performance 		
<ul style="list-style-type: none"> • other conditions e.g. a change in control or management at either of the parties 		
<ul style="list-style-type: none"> • Responsibilities of both parties upon termination 		
<ul style="list-style-type: none"> • The format, form and quantity of data, in printed or electronic form to be provided by the OSP on termination 		
PRICING AND FEE STRUCTURE	RESPONSE	DOCUMENTATION
The pricing model		
<ul style="list-style-type: none"> • Any initial fee for start of the service 		
<ul style="list-style-type: none"> • Any deposits or security bonds 		
<ul style="list-style-type: none"> • Fees and disbursements associated with all work to be performed under the agreement 		
<ul style="list-style-type: none"> • Surcharges for work 		
<ul style="list-style-type: none"> • Miscellaneous fees or expenses 		

CHECKLIST OF WHAT TO INCLUDE IN AN OUTSOURCED AGREEMENT		
PRICING AND FEE STRUCTURE	RESPONSE	DOCUMENTATION
Consideration of foreign exchange		
Procedure for reimbursement of expenses and miscellaneous costs		
Fee variations		
Fee increases		
<ul style="list-style-type: none"> • Notice period for fee increases 		
Taxation obligations, including GST obligations		
PAYMENT TERMS	RESPONSE	DOCUMENTATION
The payment terms		
Deposits required, including variations of deposits		
Late payment terms and fees		
SERVICE LEVEL AGREEMENTS (SLAS)	RESPONSE	DOCUMENTATION
Required service levels and performance requirements		
Contract termination and disengagement terms		
Contract reward and penalty considerations		
REPRESENTATIONS AND WARRANTIES	RESPONSE	DOCUMENTATION
OSP's responsibility for the accuracy and completeness of the information supplied		
OSP's responsibility for timely, consistent, professional and high quality level of service		
Who retains ultimate responsibility for all work delivered		
Period of warranty of work		
Responsibility for rework in and outside the warranty period		
Variations to fees for work as a result of warranty		
OBLIGATIONS OF BOTH PARTIES	RESPONSE	DOCUMENTATION
Obligations and rights of the parties to the outsourcing agreement		
Nature of the information to be provided by each party		
Obligations of the parties at the conclusion of the outsourcing agreement		
Requirements for fixed or minimum volumes of work		
COMMUNICATIONS	RESPONSE	DOCUMENTATION
Process for managing the relationship, qualitative / quantitative measures to monitor and review performance		
Ongoing and regular communication procedures		
Audit and monitoring procedures		
Escalation procedures		

CHECKLIST OF WHAT TO INCLUDE IN AN OUTSOURCED AGREEMENT		
DATA TRANSMISSION	RESPONSE	DOCUMENTATION
How data is to be exchanged or accessed		
CONFIDENTIALITY, PRIVACY AND INTELLECTUAL PROPERTY	RESPONSE	DOCUMENTATION
Ongoing management of confidentiality, privacy and security of information		
Measures to keep each other's information and correspondence confidential		
Procedures for contacting third parties, including the other party's clients		
Compliance with applicable jurisdictional privacy legislation		
SECURITY AND DATA PROTECTION	RESPONSE	DOCUMENTATION
Ensure transmitted data is free from software viruses, spyware and all other malicious software threats		
Put in place and use all reasonable security and other access controls to protect all electronic data		
Restrict access by OSP staff		
NON-COMPETE	RESPONSE	DOCUMENTATION
Non-compete sections to protect both parties		
DISPUTE RESOLUTION AND JURISDICTION	RESPONSE	DOCUMENTATION
Procedure for escalation of disputes		
Well-defined dispute resolution mechanisms including jurisdictional considerations		
GOVERNING LAW AND JURISDICTION, SIGNING PARTIES	RESPONSE	DOCUMENTATION
Governing law and jurisdiction of this agreement		
Valid signing entities		
Valid signing parties		
MISCELLANEOUS	RESPONSE	DOCUMENTATION
Miscellaneous procedures for changes in business structures and/or ownership structure		
Use of other external service providers or entities by the OSP e.g. actuarial service providers, SMSF auditors etc.		
Details of liability and professional indemnity insurance, including countries covered		
Ownership of documents and records		
A provision that allows the applicable professional body access to the services' documentation and procedures		
Terms of file retention by the OSP sufficient to meet the needs of the other party or as required by law		

COUNTRIES DELIVERING OFFSHORE SERVICES

As already stated, the journey of each OSP is different. Nonetheless, in the case studies discussed in this guide a common theme is the use of offshoring as part of an outsourcing arrangement.

For example, Jaquillard Minns Chartered Accountants and The Outsourced Accountant both offshore their services to Manila in the Philippines, whereas Accsource, BOSS, and Active Outsourcing have offshored some of their services to India.

For these reasons it is likely that offshoring will be part of any successful outsourcing arrangement in an accounting firm.

The firm A. T. Kearney tracks the offshoring landscape in 51 countries and looks to identify the countries with the strongest underlying fundamentals to deliver IT, BPO, or Voice services. Each year they publish their "Location Index"²⁹. This report highlights some of the issues to consider when choosing to offshore as part of an outsourcing arrangement, and identifies some of the countries that are prominent in the outsourcing field.

ASIA PACIFIC

Countries from the Asia Pacific region rank highly on the list. India (1), China (2) and Malaysia (3) top the index, with Indonesia (5), Thailand (6) and the Philippines (7) following closely in the top 10. All of these countries rank highly according to their financial attractiveness, people skills and availability, and business environment.

Since the late 1990s, offshoring to low cost developing countries has become widespread. India has been one of the major providers from the start, and India continues to provide all round offshoring offerings. India outranks the other countries in the A. T. Kearney assessment by a fair margin, and is an attractive choice due to the scale of the outsourcing industry and the skills available. India's BPO export sector earns annually \$20 billion.

The Philippines has risen to the 7th place in the index, and its export sector now earns around \$14 billion. The Philippines continues to rank highly, and the Tholons report shows Manila at the second spot in terms of cities as an outsourcing destination. However, consistent with the A. T. Kearney report it is worth noting that the other top six spots on that list are held by Indian cities. However, as part of its growth strategy the Philippines is expanding into higher value add voice services as well as into IT and BPO offerings, and this provides one basis for the attractiveness of offshoring to the Philippines.

However, the Philippines is approximately 25% more expensive than India. This higher cost may be related to the centralisation of outsourcing services in Manila. Manila accounts for 70% of all outsourcing employment whereas 80% of IT/BPO growth in India is spread amongst tier-two and tier-three cities³⁰.

²⁹ A.T. Kearney. 2016 A.T. Kearney Global Services Location Index: On the eve of disruption, <https://www.atkearney.com/strategic-it/global-services-location-index> (2016).

³⁰ Oxford Business Group. BPO firms are expanding into secondary and tertiary cities in the Philippines, <http://www.oxfordbusinessgroup.com/analysis/bpo-firms-are-expanding-secondary-and-tertiary-cities-philippines> (2015).

LATIN AMERICA

Latin America has a large pool of skilled labour, and this attribute helps place Brazil (4), Mexico (8), Chile (9), and Costa Rica (19) in the top 25 of the A.T. Kearney report.

Part of the reason for these results are the similar time zones these countries hold with the US and Canada, and Mexico in particular benefits from its shared border with the US. Mexico is arguably the premier 'near-shore' offshore destination for US and Canadian companies, especially give the number of Spanish speaking US citizens.

The Central American countries such as Costa Rica, Panama (31), and Guatemala are also close to the U.S., in similar time zones, and offer bilingual university graduates. However, these countries are limited by the size of their labour pools³¹. More recently Costa Rica in particular has seen challenges with cost competitiveness³², though investment promotions have traditionally attracted large brand name companies.

EUROPE

Central Europe offers a mature industry and highly skilled employees. Poland (10), the biggest country in Central and Eastern Europe, has a large labour force and several large cities. Coupled with a reasonable cost profile this remains a destination of choice and Krakow is 9th on Tholon's index and 10th on the A. T. Kearney report.

MIDDLE EAST AND NORTH AFRICA

Notable outsourcing countries in this area include Egypt (16), the region's industry leader, with favourable costs, good universities and proximity to Europe. Mauritius (30), Morocco (34), and Tunisia (38) remain favourites for the French customers.

In Dubai, the Dubai Outsource City was launched in 2007 to support the market demand for outsourcing companies, supporting BPO, call centres and back office operations. Dubai comprises 90% of outsourcing activity in the UAE, and the UAE is 37th on the A. T. Kearney list.

FIJI AND NEW ZEALAND

In the local Australian market, both Fiji and New Zealand (55) are destinations for OSP providers. Fiji has government incentives to attract BPO operations, and has been for the past decade active in attracting BPO firms³³.

New Zealand offers a country with a similar culture to Australia, with high English skill compatibility, but usually at a lower labour rate. There is freedom of movement between citizens of New Zealand and Australia, which means relocation to either country is readily possible. With similar education systems, it is relatively easy to move employees between the countries. New Zealand's tax system has certain benefits through no capital gains tax and a lower top personal income tax rate of 33%.

³¹ KPMG International. Nearshore Attraction: Latin America Beckons as a Global Outsourcing Destination, <https://www.kpmg.com/ES/es/ActualidadNovedades/ArticulosyPublicaciones/Documents/Nearshore-attraction-LatinAmerica-beckons-as-a-Global-Outsourcing-Destination.pdf> (2009).

³² Lopez, J. Why are so many foreign companies leaving Costa Rica. 14 April 2014 (2014). <http://news.co.cr/why-are-so-many-foreign-companies-leaving-costa-rica/34328/>

³³ The World Trade Review. Fiji trade mission promotes ICT incentives. Volume 8 Issue 20 (2008). <http://www.worldtradereview.com/news.asp?pType=N&iType=A&iID=189&siD=6&nID=43641>.

OUTSOURCING AND THE 'STATE OF THE NATIONS'

As this overview shows, India continues to hold the top spot in the Asia Pacific as the outsourcing destination of choice both as a country, and in six of the top seven cities. The Philippines holds the 7th position as a country, though Manila is 2nd in the city position. As well as India and the Philippines, other countries active in offering outsourcing services into the Australian market include Malaysia (3), Vietnam (11) and Sri Lanka (14).

Of course, from this summary the difficulty of capturing and identifying outsourcing activities must be recognised. Offshoring statistics may be under-represented as many local entities have offshore captive entities through which work is sent. For example, one Brisbane-based firm has a Queensland regional office but also has an Indian entity based in Delhi. The Indian entity is structured as a subsidiary and so will not be captured as an offshored outsourcing arrangement.

Within the accounting world, there are consolidators (wholesalers) who have ongoing relationships to send work overseas, but provide services directly to accounting firms. Some of these outsource overseas, though provide services directly to the local audience. There is considerable scope for such services to become a disrupting force in the local accounting profession.

CASE STUDIES: THE JOURNEY FROM ACCOUNTING FIRM TO OUTSOURCED SERVICE PROVIDER

OVERVIEW

The following case studies tell the stories of different accounting firms that have undertaken the journey from a traditional accounting practice to acting as an OSP. Each firm's journey is unique, but there are common themes that emerge from considering the 'key lessons' learned in each case.

NICK SINCLAIR (THE OUTSOURCED ACCOUNTANT)

The Outsourced Accountant (theoutsourcedaccountant.com) has developed a range of services to assist accountants with their outsourcing requirements. Nick Sinclair is the CEO of The Outsourced Accountant, and discusses his journey below.

THE INSPIRATION FOR OUTSOURCING

The reason I started the outsourcing journey was that I was visiting Manila as part of a global board retreat and joined an outsourcing tour taking place. I was blown away at how many SME's from all over the world were already there, doing every type of role you could imagine.

It opened my eyes to outsourcing and what was possible. It gave me a driver and motivation to do things better and be a leader in our industry. At that stage I had a financial planning, finance and accounting business with 38 staff, and all of them were overloaded and never had time to actually talk to clients.

This sent me on an outsourcing journey. We first tried project outsourcing in India and Vietnam but had really bad results with this. We couldn't control the workflow (times weren't what they promised and blew out) and the quality of work wasn't the best. We found it wasn't worth the time and effort. We then decided to try a different way, offshoring by employing our own team but in someone else's BPO facility. While this way worked well, the BPO didn't understand how we did business and our tax systems etc., which made it hard to manage our team. We then decided to setup our own BPO and this turned into a full time business providing

dedicated services to accounting and financial planning firms.

In the end, the model we adopted was offshoring. What this means is that we provide the facilities, management, HR, IT services and the team members to our clients. These team members work full time for the nominated client. It's like having a second office for our clients, the only difference is that it is overseas.

KEY LESSONS

The key issues with our offshoring model is that it takes dedication and commitment from our clients. Our solution is a long-term strategy, not a short-term workflow fix.

If the accounting firms have the IT systems and the firm's processes set up correctly, there are no issues with their offshore team accessing or using the information. The offshore team work on the accounting firm's systems.

Most accounting firms are already set up on terminal servers and cloud software. Any information needed for the work they do is on these systems. There is never a need to email information and the offshore team have no access to USB drivers or printers in the facility. The offshore offices are normally twice as secure and safe in comparison to accounting firms onshore.

KANE MUNRO CPA (ACTIVE OUTSOURCING)

Kane Munro founded Active Outsourcing in 2015 after having previously been the head of the outsourcing teams at Deloitte Private and Moore Stephens Melbourne (now Shine Wing). Active Outsourcing provides professional outsourcing services to accounting firms in Australia. Kane documents some of his experience in the following discussion.

REASONS FOR OUTSOURCING

Most accounting firms now recognise that the growth in both existing and new client fees is limited to the individual endeavours of the owners of the firm, and that the existing professional staff are, on the most part, essentially providing a compliance orientated service.

The pressure on fee margins on this type of work are continually being squeezed from both the increase in professional salaries, write offs, reduction in productivity and an expectation by clients to minimize any fee increases.

Accordingly if we accept that revenue growth in firms will not be dramatic, and at the same time wish to increase our firm's profitability, we need to introduce a new process for undertaking the work without compromising the firm values such as quality, service, integrity and timeliness.

Teaming the use of key technology and processes with a lower cost staff structure means the ability to maintain or increase firm profitability, while having minimal impact upon a firm's position in the market place.

THE OUTSOURCING MODEL ADOPTED

The most common two main models that adopted by firms looking to outsource are the 'per job' model or a 'team based' model.

The 'per job' model is fully flexible and is a good way for a firm to 'dip their toe' into outsourcing. As the name suggests, this model is based around a set fee per job to have an outsourcing provider assist your firm with your work. This allows your firm to have the resources available when you need them, rather than having a commitment to the day-to-day management of a full team.

This model is particularly popular for SMSF compliance, and especially suits firms who have less than one hundred SMSFs. These firms lack the scale to employ a specialist in the area.

The second option is a 'team based' model which offers firms more access and control over systems, software and training that the outsourced team works on. The provider will identify the right candidates, train the staff in the basics of taxation and accountancy and provide them with an office and the infrastructure to work on your jobs, but from there you have the ability to shape the team to your firm's needs and requirements.

Which model suits a firm best depends on the strategic direction and operational problems being encountered by the firm.

KEY LESSONS

In the following discussion, Kane identifies some of the key lessons that arose when building outsourcing arrangements.

Due diligence

It is incumbent on firms to ensure that they do their due diligence on the provider they are considering. Firms must ensure that the provider has the right experience to assist their firm in the most meaningful way.

Qualifications

Some outsourcing operators have better educated outsourcing staff than others, and with minimal visibility of these team member qualifications it is difficult for accountancy firms to know the level of education and training possessed by the staff that are supporting them.

As a bare minimum, we at Active Outsourcing would expect that outsourcing staff should have a degree in a financial discipline and have undergone significant in-house training to ensure they can provide the service to the required level of quality.

Appropriate Legal Agreements and Structures

Although we hope for the best, we ought to prepare for the worst. It is essential that, at its outset, you are clear as to what happens if the relationship fails and you wish to terminate the outsourcing arrangement.

Most of the legal agreements that we have seen fail to provide adequate protection for the firm and/or its clients.

This is a huge risk and the bare minimum a firm should have a watertight agreement in place with their OSP.

Management of Risk: Privacy and Data Security

Placing client data into the hands of an OSP raises various risks, but perhaps none of these risks are more prominent concerns than those related to data privacy and security. Table 19 sets out three key ways that firms and outsourcing providers must respond to these increased risks.

Table 19. Managing data privacy and data security risk.

MANAGING DATA PRIVACY & DATA SECURITY RISK
1. TAKING THE APPROPRIATE IT PRECAUTIONS REGARDING DATA SECURITY:
Australian organisations are required to take appropriate security measures to protect any personal information from misuse. Risks arise if data is stored in a jurisdiction that does not maintain appropriate standards or is not legislatively comparable to Australia. Storing information overseas may be a breach of legislation. It is therefore important that your outsourcing provider is willing to work inside your own secure IT system or alternatively that they can show you that their IT system is secure with data stored on Australian servers with the right data handling procedure in place the equal of your own firm.
2. TAKING THE APPROPRIATE PHYSICAL PRECAUTIONS REGARDING DATA SECURITY:
Physical precautions that we have seen and used include the disabling of USB hubs and CD as well as the physical restriction of phones, paper, etc. in the offices of your outsourcing provider. The physical precautions also means having the right security protocols in place to safeguard against unauthorised access to computers outside supervised hours
3. ENSURING CONTRACTUAL PROTECTIONS WITH THOSE PROVIDERS:
At the bare minimum a firm should have a watertight agreement in place with the outsourcing operation that they are utilising. The contract should include a termination provisions on the outsourcing service provider with respect to:
<ul style="list-style-type: none"> • retaining personal information • destroying or permanently removing any identifying information from any remaining records of personal information
In practice, exit plans in outsourcing contracts deal with the arranged relocation of a service to a new provider and/or include data transfer.

In addition, consideration should also be given to forming an equity type arrangement with your outsourcing provider to give your firm ownership and control with regards to the overall operation of your outsourcing team. This can ensure that there is an

employment relationship in place between the person providing the outsourcing services and the persons undertaking the work and also enables you to ensure the team operate within your own parameters and security measures in place.

Client Communication

Each firm should be including the outsourcing arrangement in the terms of their engagement letter between the firm and the client.

The important communication is that there will be no change to the quality, control and service and all communication will continue through the existing relationships the client holds with each respective firm. Clients need to be clear in their understanding of the nature of the relationship.

Quality Control

Accountancy firms have the responsibility to ensure that their professional staff comply with the professional standards applicable to its accounting practice.

Work undertaken by an outsourced team should be considered no different to work undertaken by local staff, and local managers would remain responsible for:

- review
- final quality control
- client relationships.

It is therefore very important that policies, procedures and a standard set of consistent work papers be established to provide clients with reasonable assurance that the work performed by our professional staff meet the applicable professional standards, regulatory requirements, and the firm's standards of quality.

These standards apply equally to outsourced staff and Australian-based staff.

ANDREW NOBLE (ACCSOURCE)

Mr Andrew Noble ran an accounting practice in Western Australia. In the early 2000s, unable to scale up his practice, Andrew thought of outsourcing his work. Being a small practice, he did not have the necessary bandwidth to scale up and was constantly restrained by constraints of staff and time.

Managing the day-to-day affairs of his business, and not being able to provide as much value as he would have liked, made him consider the adoption of an outsourcing arrangement. Andrew travelled to Vietnam, the Philippines and finally to India, where he hired a local IT company to do the job for one year. However, this arrangement was not entirely satisfactory, and from this dissatisfaction came AccSource (accsource.com.au).

Andrew was one of the founding members of AccSource, and he identifies some key lessons in the discussion that follows.

HISTORY OF ACCSOURCE

Andrew's initial foray into outsourcing arrangements ended on a note of dissatisfaction and general misery. His initial apprehension towards outsourcing seemed justified, and he became reluctant to explore such arrangements further.

Meanwhile, Mr Madhavan Boobalan had amassed a wealth of experience working with Big Four firms, but was looking to start his own entrepreneurial venture. He had always believed that technology is an enabler and not a mere tool. He wanted to incorporate the potent capabilities of technology into accounting.

The two met in December 2007. After his initial hesitation was overcome, Andrew became attracted to the idea of creating a Knowledge Process Outsourcing (KPO) provider along with Boobalan. Another accounting firm with like-minded vision and perspective also showed enthusiasm in joining the venture, and at around the same time there was a market demand for outsourced services. Together, this led to the establishment of AccSource in 2008.

Today, AccSource provides services to individual businesses as well as public accounting firms, like public accountant's back office, bookkeeping services, SMSF annual compliance services, transaction processing and finance & accounts BPO services. The discussion that follows presents Accsource's journey to become an OSP.

ACCSOURCE'S APPROACH TO OUTSOURCING

While there are many different models in use for outsourcing arrangements (for example, insourcing, captive BPO's, third party OSPs, etc.) AccSource chose the Third Party Outsourcing model. This model has the following key features:

- Business Process As Service (BPAS)
- Plug and Play business model
- Services rendered to organizations on an "as and when needed" basis
- Upfront Pricing Mechanism
- Digital working papers
- Projects are handled by a dedicated Client Relationship Manager and the work is assigned to a specific team
- Independent Preparers and Checkers for every activity in the organization.

A fact that should be appreciated is that no particular outsourcing model is appropriate for all the situations or clients or under all circumstances. The nature and type of the outsourcing model used will depend on the client's industry, their specific business requirements, availability of outsourcing service providers, etc.

OUTSOURCING IN THE EYES OF "PUBLIC ACCOUNTING FIRMS"

As would be obvious with any BPO, and a KPO more so, the initial days were challenging. Many organisations in Australia are yet to appreciate and fully acknowledge the outsourcing of business processes as a

strategic advantage. Psychological barriers still exist – for many accountants, giving up their total control over their processes is difficult. Accountants are often 'control freaks' and the idea of giving all their client data to be processed to a third party over whom they do not have direct control makes them apprehensive.

These apprehensions manifest themselves in several ways. Firms often harbour myths on competency issues, pricing issues, cultural issues, technology issues etc. Often accountants also have misconceptions about outsourcing arrangements as a viable and strategic approach to enhance organizational value.

Together, these misconceptions, attitudes, and barriers have made it difficult for public accounting firms to embrace the idea of outsourcing their work. However, to be successful any outsourcing arrangement needs to properly consider these issues.

FUTURE OUTLOOK FOR OUTSOURCING ARRANGEMENTS

The future outlook for outsourcing arrangements can never be completely certain, but there are certain trends that are apparent.

First, vendors are moving further up the service value chain. That is, OSPs are striving to provide value through greater business analytic services.

Second, businesses are consolidating multiple processes in their outsourcing initiatives. More business processes are outsourced on the basis of cloud technologies that provide for novel outsourcing models and ways of delivery.

Third, outsourcing is becoming more widely accepted politically. This steady growth in the outsourcing market is expected to continue for some time.

Fourth, outsourcing is now being considered as a strategic activity rather than a cost-saving approach. Outsourcing is a strategic activity that is adopted through an informed decision-making process rather than just a mechanism to tide over the busy season.

Finally, important changes have occurred in the market that compels accounting firms to provide clients with higher-value services. The tradition of engaging with clients at the end of the year to compile the financial statements and complete the tax return is slowly coming to an end. As part of a client partnership approach, outsourcing arrangements are important to the value clients receive from the relationship –so long as they are executed well.

KEY LESSONS

What triggers firms to look at outsourcing?

Andrew highlights the following triggers for considering outsourcing:

- Although your staff may have great expertise, there is a constraint on what can be achieved, and particularly if the staff with expertise are also undertaking the task. That is, the accounting firm's bandwidth, or 'throughput', is highly limited.
- To address this issue of limited bandwidth, the accounting firm needs a larger resource pool. That is, to do the work of more clients, a larger pool of staff is needed to address more tasks.
- A further trigger is the an over-reliance on key staff members – that is, if and when staff leave the accounting firm, finding a replacement is not simple and the sustainability of the business is in question.
- This trigger means that the accounting firm needs to scale up and leverage its capabilities with the larger resource pool, but to maintain the quality of client outcomes whilst maintaining a client relationship.
- The final trigger is that the accounting firm is focused on the delivery of client outcomes (for example, tax returns and accounting reports) rather than maintaining a focus on the client's needs and having a relationship with the client.

Issues to consider when outsourcing

In adopting outsourcing, be sure that your OSP is able to satisfactory comply with your requirements for:

- data security and data confidentiality
- communication management
- cultural issues
- competency and delivering the required standards of quality
- trust
- regulatory concerns
- physical security, document security, IT security
- IT and workflow systems

PETER VICKERS CA (BOSS)

BOSS (Back Office Shared Services Pty Ltd) was formed in 2004 as a solution to the problem of sourcing good, experienced accountants in Australia for public practices. Its Managing Director in Australia, Peter Vickers CA, is also the Principal of his own accounting firm. Peter Vickers has several lessons from his experience that are reflected in the discussion that follows.

THE BOSS APPROACH TO OUTSOURCING

BOSS offers two different outsourcing models to its clients.

The first approach is the 'permanent dedicated arrangement'. Under such an arrangement, the client engages a part-time or full-time dedicated accountant or bookkeeper for between 1 and 5 days a week. Under this arrangement, the dedicated staff member is similar to having your own staff, but in a remote office.

The second approach is to have a 'casual arrangement'. Here, the client engages a casual accountant or bookkeeper for ad-hoc work. The scope of the work is set, and the work is undertaken to that budget. Essentially, this is a fixed-price approach, although variations are possible if the scope changes. To keep costs low, these ad hoc assignments use standard procedures and only limited customisation is possible. However, the client is still able to contact the staff doing the work directly via Skype or email.

KEY QUESTIONS FOR THE OSP

BOSS highlights the following questions that the client should ask when using an OSP:

- who is doing the work?
- what training and supervision is provided to the staff doing the work?
- does the OSP's Professional Indemnity Insurance apply to this engagement?

These questions also have implications for accounting firms that are seeking to adopt an outsourcing arrangement as part of their services. Just as it is important for the client to ask these questions, it is also very important that the accounting firm providing the

outsourcing arrangement is also to address these questions satisfactorily.

The accounting firm has legal, professional, and ethical obligations for the information obtained from clients and forwarded to the OSP. The accounting firm needs to know that the information passed over is kept secure and confidential. This requires the OSP to be able to identify the steps taken to maintain security and confidentiality, and the accounting firm ought to take independent assurance that these steps are effective and are followed.

Perhaps less obviously, the accounting firm needs to consider particularly how its processes integrate with their proposed provider of an outsourcing arrangement as well as how the arrangement works for the client.

The accounting firm needs to organise its workflow to integrate with the requirements of the OSP. In most firms it is common for the professional that manages the client relationship to also scope, execute, and finalise the work for the client. Under an outsourcing arrangement, the role of the professional becomes more focused on the client relationship and managing the workflow with the outsourced provider. These skills are subtly different, and one option to consider is to appoint a workflow manager whose responsibility is to liaise with the OSP and manage the flow of work undertaken under the outsourcing arrangement.

Key to outsourcing success is whether the client's expectations are met. This requires the accounting firm to clearly communicate the expected benefits of outsourcing. These expectations need to be realistic, and it is important to not overpromise on the benefits of the outsourcing arrangement.

Outsourcing arrangements can be very efficient and effective, but as in all things there is no one 'silver bullet' that will solve all issues.

FUTURE OUTLOOK

Overall, it is BOSS's belief that the accounting industry will need to focus on advisory services as compliance services become more of a commodity. In line with this, most compliance work will be done offshore while in-house staff will fulfil customer service management roles with an advisory focus.

Accounting firms will see the benefit of a more collaborative approach over time (as provided by a permanent dedicated arrangement), as an outsourcing provider learns to work with the accounting firm's procedures and gets to know the firm's clients. Although there will likely be initial problems as is to be expected from such a fundamental shift, the whole operation will be more integrated, efficient and effective over time. The benefit for the Australian accounting firm is that this allows them to spend more time and resources on delivering better value-add services.

There will be more of an appreciation of the benefits of having an outsourcing provider that takes care of all aspects of compliance in totality (e.g. training) leaving an accounting firm to only have to manage workflow.

Overall outsourcing will become mainstream, helped along by the growth in cloud technology that facilitates remote working.

KEY LESSONS

In the first few months you need to put time and effort in to getting organized and nurturing the relationship. Any weak spots in your in-house operation will show up more easily and will need to be addressed. There needs to be a change in mindset to coordinate work offshore effectively.

You need to prepare the accounting firm for this new way of working. The key areas to prepare before you outsource work are:

- **Information Technology:**
Do you have the right people, processes, and technology to work with the external provider?
- **Staff**
Outsourcing allows your staff to focus on client relationships rather than low-level transactional work. Do they have the different skills needed for this change?
- **Internal Processes**
Successful outsourcing needs a clear line between 'the work we do' and 'the work the outsourcer does'. This can only be achieved with standard, clear, and mature internal processes.

FUTURE OUTLOOK FOR THE ACCOUNTING PROFESSION

In our modern business context, disruptive forces are affecting professional and consulting service firms³⁴. The move to adopt outsourcing arrangements is one such force. Together, the internet, developments in accounting software, technological innovation, workforce globalisation and employee demographics are all affecting the accounting profession.

The commoditization of the accountant's basic services brings disruptive change to the profession. Much of the low-level work that is still undertaken will disappear.

The future will see regulators and governments focus on building digital and data sharing capabilities. For example, tax regulators will directly interface with software houses to access data so they can automatically lodge returns as soon as the data is available.

Outsourcing is here to stay due to the economics of comparative advantage, improved delivery mechanisms, and the improvement and accessibility of supporting technologies such as the Cloud, virtual machines and security.

Accountants need to adjust to these disruptive forces by harnessing new talent pools, new technologies and putting into place new ways of working. Innovative, disruptive technologies change the 'rules of the game'. Businesses such as AirBNB, Xero and Uber exemplify the future for the accounting profession, which will transform the client-adviser relationships. Accountants need to be more focused on marketing, sales and business opportunities.

In the Accsource case study, they consider that the underlying facet of the entire outsourcing scenario is risk management, and acknowledges that outsourcing has to be efficiently managed.

Every accounting firm has a code of conduct, and the key to success with outsourcing arrangements is to ensure that the external service providers comply with the code.

If that can be achieved, then outsourcing can be a powerful tool in the hands of all kinds of businesses.

There are several trends that are affecting the likely nature of outsourcing arrangements, and these trends will affect the future of the accounting profession. The trends relate to the adoption of cloud technologies, software that enables outsourcing arrangements, and the changing nature of the accounting firm itself.

TECHNOLOGY AND THE CLOUD

The future outlook for the accounting profession is affected by technology and, consequently, outsourcing. As technology develops, many of the lower level tasks undertaken in accounting firms will be automated. These tasks will be fundamentally transformed, and there will be a move towards the outsourcing of more high-level tasks.

Business Fitness in its 2014 The Good, the Bad and the Ugly report predicts that technology will provide improved risk analysis tools, expanded access to capital, improved collaboration tools, and provide a basis for the development of more powerful cloud-based business toolkits.

³⁴ Christensen, C. M., Wang, D. & van Bever, D. Consulting on the Cusp of Disruption. Harvard Business Review 91, 106-114 (2013).

Cloud computing is a specific technology having a great impact upon businesses. The cloud allows users to access and share data in real time 'any time and anywhere' through an internet-connected device³⁵. This means that staff can similarly work 'any time and anywhere', which completely changes the work dynamic. Business fitness predicted that:

- the cloud and cloud adoption will continue
- cloud accounting will be installed in the majority of businesses
- cloud accounting, tax, practice management, reporting systems will be installed in the majority of accounting firms
- as cloud penetrates SME businesses and accounting firms, there will be more opportunity to outsource

Open technology architectures, in combination with advances in integration, have seen the development of add-ons and applications that create further efficiencies through automation. These tools are evolving into systems that facilitate improved trading and collection between suppliers and vendors. Staying abreast of this is essential in order to effectively support clients' compliance and business needs.

SOFTWARE ENABLERS

Given the ease with which cloud software may now be deployed, there will be a larger number of software offerings. It is apparent that all major software houses will have online software offerings that provide both IaaS (Infrastructure as a Service, such as 'virtual server space' that you rent rather than buy hardware) and SaaS (Software as a Service, such as Xero where the software is provided on a subscription basis).

Over time, more varied ancillary software products will become available, and some of these products might affect accounting

in ways not previously expected. For example, continued developments in automatic translation applications might mean people in non-English-speaking countries can work on English-language bookkeeping/accounting/taxation³⁶. Another example is Robotic Process Automation, which uses artificial intelligence to interact with existing systems – it works as an intelligent user of existing software rather than designed automation as occurs with a scanning data entry tool³⁷.

Software will become increasingly automated and this will replace traditional processing. Other software will be developed to support accountants in their new service offerings, and data interpretation via Business Intelligence tools will support the accountant become a provider of insight and opportunity.

As these software developments and innovations occur together, the result is a technology platform that is increasingly conducive to business disruption. That is, the software 'enables' business disruption and changes the 'rules of the game'.

If your accounting firm is not part of this disruption of the usual way of doing business, then someone else will force the disruption if they can see an advantage by offering a different business model.

ACCOUNTING FIRMS

Accountants will have live data to work on, anytime, any place from any device. They will need to become more responsive to clients demands.

Client relationship, marketing, and sales skills will be critical, and marketing will move to inbound marketing. Specialists in such inbound marketing will be needed (for example, Search Engine Optimisation, Copywriters) that have the skills to attract the attention of customers and draw them to the business website through the publication of interesting content.

³⁵ Eunjeong, C. How Cloud Computing is Revolutionizing the Future. SERI Quarterly 6, 104-109 (2013).

³⁶ Lavars, N. Microsoft unveils Skype Translator to break down language barriers, <http://www.gizmag.com/microsoft-skype-translator-language/32304/> (2014).

³⁷ Hodson, H. AI interns: Software already taking jobs from humans. New Scientist (2015). <https://www.newscientist.com/article/mg22630151-700-ai-interns-software-already-taking-jobs-from-humans/>.

Overall, innovations in technology, the Cloud, and software that enables outsourcing mean that the accountant is under mounting pressure to redefine their value proposition and deliver a profitable service. It is likely that accounting firms will make more use of offshore resources, with offshore teams being built around full back office offerings (including administration).

PROFESSIONAL SERVICES

The differences in the staffing mix, increased software automation and data integration with regulatory agencies are likely to lessen the amount of low-level, transactional work undertaken in accounting firms.

Such automation and the outsourcing of low-level compliance work means that traditional accounting work will become highly competitive. Such work is a commodity, and international globalization means the accounting firm is no longer competing in a local market. Bookkeepers, financial advisers, business coaches, financial institutions, software providers, online companies, consultants, employees (as independent contractors) and offshore resources will all be chasing these traditional or lower value accounting services.

Technology already supports this market-disrupting competition by making sharing information and tasks much easier. However, such disruption is likely to be made greater as technologies continue to advance.

In the future it is apparent that accountants will have to find alternative ways to add value and perform higher-level work. Accounting firms may accelerate the move to providing high-value business advisory services. History shows that business advisory services offer an opportunity for higher profitability.

Such a strategy will not be suitable for all accountants as such services are high level. Staff will require higher levels of expertise than they need to have for low-level compliance work. Business advisory services require a different staff development and training approach.

At the same time, the SMSF market will also become increasingly competitive as technology improves data matching and integration of data back to the original sources. Such technologies reduce or eliminate much of the work of bookkeeping altogether. It is likely that financial planners will move into this space.

These trends have consequences for professional services. Bookkeepers will need to upskill to take on more high-level accounting work. Much of the work of BAS agents may cease to exist when cloud software is able to lodge information at the push of a button, and it will certainly cease to exist if BAS agents cannot provide value to the client. Clients will be unlikely to pay \$200 for the submission of a GST return when it can be done 'DIY' in five seconds.

CLIENTS

Clients will be more transient. If the client's relationship with the accounting firm is transactional rather than a strategic advisory relationship, clients will be more likely to have prospective service providers communicate with them and bid for work through online bidding systems.

Another consideration is that, in the future, clients may bypass the service provider altogether. That is, the accounting firm needs to contribute value to the outsourcing arrangement. If the accounting firm does not add value to the outsourcing arrangement and instead merely passes on the task to an OSP, the client may engage directly with those offshore resources.

Anecdotally, some clients already have their own offshore teams. As clients develop expertise in managing such arrangements, they will likely adopt offshore teams into their business. In addition to competing with other accounting firms, clients may compete with you in your own professional area. They may be better at such arrangements than you.

Taken together these aspects of the client relationship increase the competitiveness of already-competitive environments as the client seeks cost savings from their relationship with the accounting firm. The accounting firm needs to bring a value to the relationship that does not compete on cost but rather provides services that are difficult to replicate.

COMPLIANCE AND BILLING

Technology and outsourcing will affect the nature of the work performed. The accounting firm can equally take advantage of the same technologies as its competitors. As compliance work becomes more of a commodity, automation and decision support tools will make such work less time consuming. So, although compliance work will become more competitive and thus reduce the fees earned from such activities, the cost to provide such low-level services through an outsourcing arrangement will likewise decrease.

Such changes have two major consequences.

The first consequence is that the more predictable nature of compliance work, and its lower complexity, will change the way clients are billed. Several changes are likely:

- Charging on an hourly basis irrespective of the type of work undertaken will be less sustainable. Compliance work is more predictable and the risk of cost overruns less, whilst at the same time such work adds less value. As such an accounting firm will likely have to reduce fees when charging on an hourly basis.
- For the same reasons, upfront fixed price billing will replace time-based billing. Pricing will be made according to different fixed options depending on the service requirements of the client rather than the time spent on the activity.
- Under such fixed-price arrangements, the price of compliance work will fall due to competition and also higher market knowledge.

The second consequence is that compliance work creates aggregated data that reflects the state of the business. For accounting firms able to access this aggregated data, the ability to identify and deliver business insight through the analysis of large volumes of compliance data will emerge as a business opportunity. The accounting firm can use its skilled staff to move up the service value chain.

EMPLOYEES

Plainly, the nature of accounting work is transforming and this changes the likely career path of today's accountant. Business Fitness in its 2014 report predicts that the accountant of the future will have two primary assets, a smart phone and their online reputation.

The transformations for the profession mean that the career of today's accountant is likely to be very different to that of their predecessors. Rather than 'serving time' and 'advancing through the ranks', the recurring theme of their career is flexibility and the ability to adapt to change. The 'traditional' career path of yesteryear is no longer appropriate.

However, this means that the aspirations of today's accountant do not always align with the incentives in place that were designed for different times. As a group, younger employees:

- are less likely to buy into traditional accounting models
- will adopt cloud, outsourcing and new things at a faster pace
- are not interested in buying your clients – your clients are no longer as valuable as they once were, as they are more transient and cost-conscious.

As a result, the accounting firm needs to focus on understanding how to add value to a client and educating employees on how to achieve this. The accounting firm needs to provide employees with alternative educational and development paths. Clients will expect different types and ranges of services from their accountants, and this means that your staff need to be skilled in these services.

The traditional incentive scheme aligning to a 'path to partnership' is less relevant to all staff, and so it is likely that new incentive models will be necessary so that staff work toward similar goals and thus share in the value added by their actions. Given the change in the competitive landscape that arises through the adoption of outsourcing arrangements and technological innovation, it is apparent that lower cost and more flexible staffing models will increase in importance.

INDUSTRY

From the case studies presented in this guide, it is clear that accountants already working as outsourcing service providers believe that the outsourcing industry will continue to mature. This maturity will be supported by greater levels of acceptance of outsourcing arrangements, and more refinement of the outsourcing framework as well as the outsourcing models deployed. These changes are driven in part by technological innovation and digital disruption.

It is apparent that over time:

- there will be an increasing focus on specialist outsourcing service providers
- outsourcing will become more of a strategic decision implemented as part of a portfolio of activities rather than as a one-off activity - Outsourcing will involve multiple processes in the business
- there will be greater collaboration among accountants and service providers leading to more partnerships between the two sectors
- there will be greater utilisation of business analytic services to add value.

AT Kearney in their "Global Services Location Index: On the Eve of Disruption" report identify three disruptive waves that are affecting the provision of services.

These three waves are offshoring, outsourcing and automation. In this guide, we have discussed the offshoring and outsourcing as a way to save costs, to use highly skilled staff to move higher up the service value chain, and to access specialist skills. However, back office services are increasingly affected as automation takes hold.

The effect of this wave of automation is yet to be fully felt by clients and outsourcing providers. For example, there are bookkeeping packages now that automatically receive data from feeder systems, and can process many of the transactions without any human assistance. Early adopters of these packages exist but their use is yet to become mainstream.

We know that not all technological innovations are successful. Innovative uses of technology in fact frequently fail. However, once an innovation has a high rate of adoption it can quickly become a core practice within an industry. Such disruptive forces are difficult to resist³⁸.

Clearly, as technologies integrate, data is shared, and processes are automated, automation and online systems will affect many related industries. Back-office services – particularly where data is shared between businesses using standards such as XBRL – are strong candidates for automation³⁹.

It is likely that we will continue to see innovation that changes the 'normal way of doing things'. Technological advances in automation will continue. So the main challenge for businesses today is to select adopt existing technology and to position them to take advantage of new technologies. Automation is the latest wave to affect back office services, and we anticipate significant disruptive effects on both OSP's as well as the user of Outsourced Services in the future.

³⁸ Swanson, E. B. The Managers Guide to IT Innovation Waves. MIT Sloan Management Review 53, 75-83 (2012).

³⁹ Lombardi, D. R., Bloch, R. & Vasarhelyi, M. A. The Current State and Future of the Audit Profession. Current Issues in Auditing 9, P10-P16, doi:10.2308/ciia-50988 (2015).

CONCLUSION

With a clear vision, clearly defined roles, a committed team and proven systems outsourcing can take your business to the next level. This guide provides some concrete direction through checklists and advice for businesses and accounting firms to consider in integrating outsourcing arrangements into their firm.

We conclude this guide with a final view from Rob Nixon, CEO of accounting software company Panalitix. Rob says that methodical and procedure-based accounting tasks are ideal for outsourcing. Nixon believes that outsourcing can help accounting become a “forward-looking” profession that advises clients on how to build their business, increase profits and protect their wealth.

Although this will force a change in the very nature of what an accounting firm does, it should be seen as a positive change that will deliver more value to clients, says Nixon⁴⁰.

Outsourcing is not for everyone, and the solution you need today may not be the same solution you need tomorrow. Businesses, accounting firms, and their outsourcing arrangements will continue to evolve. We hope, though, that this guide will assist you to assess the suitability of an outsourcing arrangement for your business requirements.

⁴⁰ McMillan, A. F. The Philippines pulls rank in the customer service industry. InTheBlack 1 February 2016 (2016).

