

Outsourced accounting services: advantages and disadvantages in financial management 1/34/23



Senior Manager, Tax Reporting, Accounting
and Strategy, PwC Latvia
Juris Boiko

In a market with growing business pressures and increasingly intense competition, companies are looking for ways to optimise their resources and stay competitive. Outsourcing the accounting function is a good solution that offers many advantages, while at the same time posing challenges and risks. This article explores the advantages and disadvantages of an external accountant to help companies better understand this option and make an informed decision about taking it.

A key advantage of outsourced accounting is cost savings. Traditionally, companies have had to set up and maintain their own accounts department, which often requires significant financial and human resources. External accountants allow companies to avoid such extra expenses, as they don't have to invest large amounts in accounting software and training. This approach improves your financial management and allows you to focus on key aspects of your business.

Knowledge and experience is the next advantage you can get from an external accountant. Seasoned professionals with in-depth knowledge of finance can provide companies with required security and reliability in financial planning and tax compliance. Such service providers can frequently offer some other services your company needs temporarily, such as tax advice or legal assistance, which may play a decisive role in various stages of business.

We must admit, however, that not all accounting service providers are equally qualified. Some less known service providers might offer lower prices but they may lack the necessary knowledge and experience. This may lead to your company failing to receive adequate support in its financial management processes and facing potential risks and unnecessary problems.

Keeping your business focus is another key advantage of outsourced accounting. Easing the administrative burden allows you to focus on your core business activity and boost your competitive stance. This advantage is crucial for small and medium enterprises, which may lack the resources necessary for efficient accounting.

Customisation and flexibility are other aspects that make external accountants attractive to companies. Service providers can easily tailor their services to your needs and respond flexibly to market changes and revised business plans. This may be critical for companies seeking to easily adapt to the changing business fortunes.

That said, we must admit that hiring an external accountant brings some disadvantages and risks you should consider. Reduced levels of communication and control are a key challenge. The distance between your company and the external accountant may cause delayed responses to changes or inaccuracies in accounting processes. There is also the risk of misunderstanding a particular country's national tax laws, which may create potential tax issues with adverse consequences. All these factors emphasise the need to carefully assess the service provider's knowledge and experience in order to ensure proper financial management and tax compliance.

Initial outlay is another issue to be considered. A new external accountant may take time to get to know your business specifics and processes, which may mean extra costs and limited efficiency in early months of work, yet a similar contribution of time and money needs to be made also when you replace your own member of staff.

Confidentiality risk is a key aspect of passing financial data to external service providers. Data security measures and contractual terms should be considered to avoid data protection and confidentiality issues.

Also, outsourced accounting can make your company overly dependent on a single service provider. This may cause difficulties if the provider decides to terminate the relationship or runs into personal problems that may affect the stability of your company's financial management.

Thus, external accountants can offer key advantages in financial management, but you should be careful how you select and engage an external accountant. Each company is unique, so it's important to consider your own needs and resources. With proper evaluation and relationship management, an external accountant may become a valuable resource in your financial management and make your company more competitive.

If you are looking for qualified accounting service providers, we can help you evaluate the range of available services, find the best business model and recommend ways of combining your resources with the service provider's activities. Our value is to provide value to your company! We aim to deliver excellent accounting services and financial advice that will help your company grow and compete successfully.