

WHITE PAPER

In-House vs. Outsourced Accounting: Which Model Works Best for NFPs?



Brendan Lucas
Managing Director

October 2024

Introduction

Increasingly, NFP organisations are following the lead of small to medium businesses and seeking outsourced accounting services. But what does a strategic decision to switch to outsourced services really involve? This paper examines the pros and cons for the NFP that is exploring the option of Australian-based outsourced accounting.

Globally, outsourcing continues to grow in popularity. In business, outsourcing means using an external service provider. It could be for a specific service, such as payroll, or substituting a whole team, such as an accounting department that covers all accounting functions, from bookkeeping to CFO tasks.

The recent Deloitte reports on global outsourcing confirm the top finance processes carried out in outsourced or 'Shared Service Centre (SSC)' arrangements are accounting payable and receivable, and fixed asset accounting. [1]

However, outsourcing does not necessarily mean offshoring. In fact, with outsourced bookkeeping and accounting, the option many Australian NFPs want to consider is using an external 'onshore' Australian service provider.

Our 2022 white paper, [Onshore and outsourced: key trends for 2022](#), recognised a trend in Australia where external services that are 'onshore' – based in the same country, city or region – are the preferred choice. For clients, these 'onshore outsourced services' can provide the best of both worlds: external help and local knowledge. The services meet the expectations of donors and stakeholders who presume that the NFP will employ and outsource onshore. Our report also noted that, "More recently, Australia's lockdowns, border closures, and supply chain problems have clarified that keeping operations often makes great business sense." [2]

The Covid-19 pandemic impacts have changed many work practices irrevocably, especially the concept of remote support. More flexible working patterns, including outsourced arrangements, are now embedded in business routines. The NFP sector may have taken longer than the commercial sector, but increasingly NFPs are co-opting the outsource model to keep their operations functional and fit for purpose.

SNAPSHOT OF AUSTRALIAN NOT FOR PROFITS

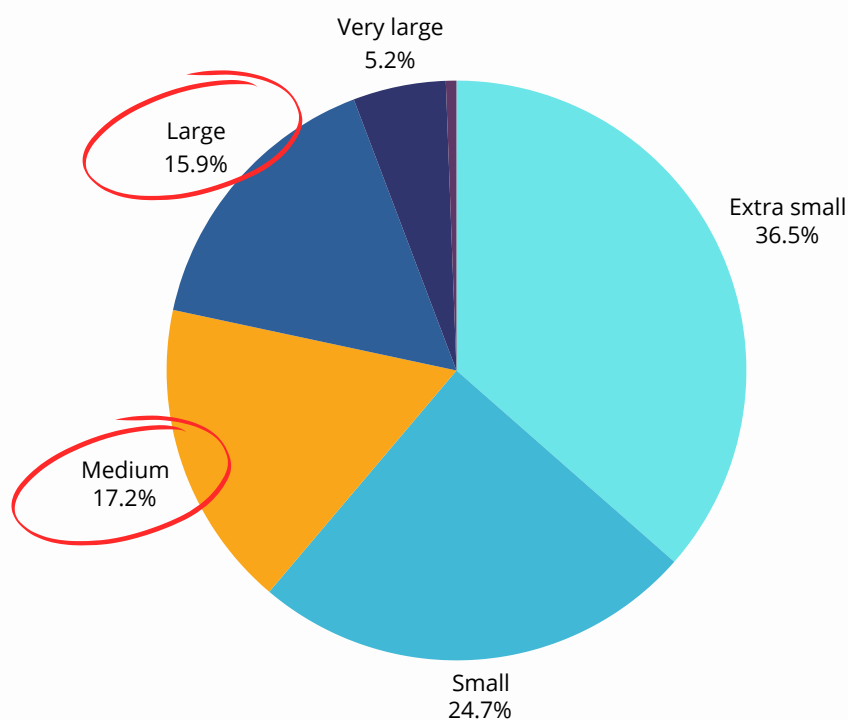
Outsourced services are ideal for lean, medium-to-large sized organisations that must maximise cost efficiencies.

The Australian Charities and Not-for-profits Commission (ACNC) reported in early 2024 that there were 60,572 registered charities in Australia. [3] The number increases each year.

Of the 'extra small' charities (31% of the number of Australian charities) nearly 90% of them operate without paid staff. The 'Small charities' making between \$50,00 and \$250,000 per year constitute 21% of the number of charities. At the other end of the scale are the very large charities that in number represent 4.4% of Australia's charity sector, and a few extra-large influential charities representing just 0.5%.

Somewhere in the middle section are the medium charities with annual revenue more than \$250,000 million (14.6% of charities by number), and the 'large charities' with between \$1 million and \$10 million in annual revenue (13.5% of charities by number). [4] These form the key potential market for outsourced accounting services, as many are very productive yet don't have the structure or reliable revenue stream to commit to a permanent in-house accounting department with the appropriate level of skills. Outsourced services become especially useful to NFPs that need a properly resourced and skilled accounting department because they are poised to scale up in size or change the focus of their core activities.

Chart: Australian NFP market for outsourced accounting



TRENDS THAT HAVE CHANGED NFP ACCOUNTING PATTERNS

NFPs have become more open to outsourcing their accounting functions over the past few years, as global developments have pushed along trends towards more flexible, remote and innovative working arrangements.

Post-pandemic flexibility in the workplace

Since the pandemic, the benefits of non-traditional working arrangements and the popularity of flexible workplaces with employees have allowed more NFPs to envisage outsourcing their accounting department.

The Covid-19 pandemic normalised full or hybrid remote work. Just 13% of employees worked from home at least once per week in March 2020; whereas by 2023 it was 37% [5] (ABS). It is generally accepted that remote work patterns will not return to those pre-pandemic percentages.

Affordable, more efficient technology for remote working

The embrace of effective and affordable technology to facilitate remote working has also helped to make outsourcing accounts processes more viable for everyday operations.

Now commonplace, office software and apps such as Slack, Zoom, Asana and Microsoft Teams, plus Cloud accounting software and apps like Xero and ApprovalMax, readily support remote or external accounting teams.

Post-pandemic recruitment problems and workplace law reforms

Outsourcing services can alleviate problems in recruiting and retaining accounting staff in the NFP sector.

Australia experienced more than two years of record low unemployment following the pandemic. Next Dimension conducted a [survey](#) of businesses and NFPs in 2022, which, reflecting national trends, found that, "An overwhelming majority of the Next Dimension survey respondents (80 per cent) agreed that they are currently finding it difficult to recruit more staff." [6] Difficulties in recruiting staff are exacerbated in the NFP sector, which lacks the resources to compete with the higher wages offered by the corporate sector.

Recent changes to Australian workplace laws have created a more complex and litigious environment, increasing the need for NFPs to navigate intricate regulations and compliance requirements carefully.

New compliance and reporting obligations for charities

Compliance obligations for the NFP sector have also increased, corresponding with the heightened expectations of funding bodies, grant providers and the general public when it comes to how charities use their funding and donations.

Outsourced accounting services provide a circuit breaker for NFP staff struggling to meet new requirements for taxation and reporting to the ACNC.

Experienced outsourced teams that receive up-to-date training in NFP accounting requirements are ideally placed to help their charity sector clients. They keep on top of current NFP compliance issues and are equipped to implement new procedures rapidly, where needed. They also have the expertise to keep Board members and senior management properly informed.



INSIGHTS INTO NFP CONCERNS ABOUT OUTSOURCING

The trends nudging more NFPs towards outsourced accounting arrangements are clear. However, the NFP sector has distinct priorities and practices that make it more resistant to change than the commercial sector.

We have consulted many NFPs during our work, and they flag various reasons for their initial reluctance to outsource. These include loss of immediate control, dependence on external providers, limited face-to-face contact or presence in the office, handling cash and in-person bank signatories, and the emphasis on computerised/ digital solutions.

Loss of immediate control

NFP staff may have undertaken standard bookkeeping tasks for years, and balk at relinquishing their familiar role.

Dependence on external providers

NFP staff might cite security concerns when it comes to handing over finance management and records to an external company.

Limited face-to-face contact or presence in the office

NFP teams accustomed to an office-centred traditional working model may assume staff need to be physically present to function.

Handling cash and in-person bank signatories

Manual cash and signing processes may be the way things were “always done” and make NFP staff feel more secure.

The emphasis on computerised/ digital solutions

Not everyone is a digital native who learns new programs with ease. It can be difficult for NFPs to overcome genuine concerns about relying on computers and mastering new technology, especially when older people form the majority of the paid and volunteer workforce.

We are also familiar with how a range of NFPs have surmounted the above problems.

THE ARGUMENTS FOR ONSHORE NFP OUTSOURCING

Answering the concerns of NFP staff who are reluctant to switch to an outsourced accounting model is important, and entrenched opinions can be changed if some of the key advantages are delineated.

The NFPs we have worked with value these attributes of the outsourced accounting team: cost savings for NFP; qualified accounting professionals taking responsibility for NFP's complex or onerous tasks; NFP gains expertise of a skilled team of accountants; NFP avoids internal key dependency risks; outsourced accountants use Cloud accounting processes that enable remote work; face-to-face support for NFP can still be offered on request; electronic payment methods can increase transparency and oversight; and the outsourced team can support the uptake of fast, cost-effective computerised processes that suit NFPs.

Organisations often overlook the full spectrum of costs associated with hiring and employing staff. While the focus is typically on an employee's annual salary, there are numerous additional expenses that may not be immediately considered.

For example, employing a Finance Manager involves costs beyond their base salary, such as annual leave loading, long service leave, superannuation, payroll tax, workers' compensation, recruitment fees, technology, software subscriptions, CPD training, professional memberships, rent, and communication expenses like phone bills.

These hidden expenses mean that the actual cost of employment can be significantly higher than anticipated—typically around 25% more than their base wage.

In contrast, outsourced accounting services offer a more cost-effective and transparent solution. By opting for outsourcing, charities and non-profits (NFPs) can reduce overheads and eliminate many of these ancillary costs.

This approach allows for better allocation of resources, directing more of their valuable funding towards core programs and services. Outsourced teams also provide access to specialised expertise and scalable support, ensuring that financial management remains robust without the burden of managing internal staff.

This can lead to improved efficiency, streamlined processes, and ultimately, better financial stewardship of the organisation.



Qualified accounting professionals takes responsibility for complex or onerous tasks

Entrusting a qualified outsourced accounts with the accounting department can be a truly liberating experience for NFP staff and management. Being able to focus on the organisation's mission rather than time-consuming bookkeeping chores or baffling compliance obligations is a huge plus for the many NFPs that would much prefer to focus on their calling. The organisation can become more productive when staff gain the time to play to their strengths – such as increasing contributions from grants and donors, nurturing valued volunteers or innovating special campaigns that increase public awareness.

NFP gains expertise of a skilled team of accountants

Immediate access to the skills and experience of accounting professionals is of prime importance. Outsourcing clears the first hurdle NFPs face – attracting and retaining qualified staff.

Qualified outsourced accountants will be able to cover bookkeeping and payroll, tax and CFO duties. Qualified accountants can offer mature advice, based on their familiarity with Australian NFP requirements generally, plus knowledge of issues related to specific areas, such as community transport providers, sporting groups, humanitarian organisations and support organisations.





Outsourcing also provides an NFP with access to their outsourced accountant's team. This team can contribute workable solutions and tips based on their collective experience handling accounting for NFPs.

NFP avoids internal key person dependency risks

Key person dependency is one of the common problems NFPs face, but outsourcing can provide a beneficial alternative pathway. [7]

Key person dependency problems are not just about the criminal risk of uncovering a trusted employee who has actually been siphoning off funds for years.

The nature of many struggling NFPs is that good staff can present key person dependency risks. Underpaid staff who love their organisation become strongly attached to their work, as they certainly aren't in it for the money. These are relatively common scenarios in the NFP sector:

	<p>A talented over-worked staff member who juggles multiple accounting tasks heroically, but performs all tasks at a sub-optimum standard</p>
	<p>The barely-there fortnightly bookkeeper who strives to keep up with the payments cycle but isn't allocated time to update their technical skills</p>
	<p>The committed 'stayer' who knows a great deal, but hogs the financial roles to keep any newbies at bay</p>
	<p>The NFP founder who is integral to its story, but unfortunately in 2024 is blithely ignoring good governance, managing finances poorly and still appointing rellies – exhibiting the classic signs of 'Founder's syndrome'. [8]</p>

Using a quality outsourced accounting team, the NFP could circumvent these sorts of key person dependency problems. Having the outsourced team in place mitigates the risk that a key person's sudden departure, serious illness, or long-term leave will destabilise the organisation's finances.

Outsourced accountants use Cloud accounting processes that facilitate remote work

Professional outsourced accounting teams were using Cloud accounting technology before the pandemic, so they are adept at introducing NFP teams to the benefits of working remotely but securely with various software solutions. A key advantage of Cloud-based operations is that multiple responsible people can oversee the figures, in real time, wherever they are based.

Face-to-face support can still be offered on request

Onshore outsourced accounting teams can provide personnel who work in-house when needed, for example during budget season.

Electronic payment methods can increase transparency and oversight

Modern payment systems can provide greater security for NFPs. An outsourced accounting service will ensure the NFP uses the right technology, with the level of control it needs.

Outsourced team can support the uptake of fast, cost-effective computerised processes that suit NFPs.

Outsourced accounting teams support the NFP by introducing cost-effective accounting software where needed. They have certifications in the software they recommend.



Outsourcing for NFPs - the cases for and against

The decision to outsource accounts is a big step for some NFPs.

We've talked to hundreds of Australian NFP staff over the years and we understand that for each organisation there will be both pros and cons to using an outsourced accounts service.

After consulting our staff and surveying our NFP clients on some of the key issues they felt were important, we have come up with a list of key reasons for and against outsourcing.

For Outsourcing

A tech-savvy accounts professional takes responsibility for accounting tasks, so you can focus on your organisation's development.

Your NFP **gains access to a team** of skilled and reputable accounting professionals; and **avoids internal key dependency risks**.

Outsourced teams **use Cloud accounting processes** that free up staff to **work remotely**; plus **offer face-to-face support on request**.

Outsourced accounts utilise **electronic payments and secure non-cash payments** that can **increase transparency and oversight**, plus save time.

Fast, cost-effective computerised processes suit NFPs, and an outsourced accountant will **support your uptake of accessible software**.

Against Outsourcing

Loss of immediate control can deter NFP management from relinquishing familiar accounting tasks.

Dependence on external providers might be a cause of concern, particularly to an NFP's long-term bookkeeping staff.

Limited face-to-face contact or presence in the office may be off-putting to more traditionally run NFPs.

NFPs accustomed to **handling cash and in-person bank signatories** may be reluctant to replace physical processes.

The emphasis on computerised/ digital solutions may alienate NFP staff who dread learning new computer programs.



DIFFERENT WAYS OUTSOURCED ACCOUNTING SERVICES HELP NFPS

The NFP is in control when it comes to procuring outsourced accounting services. The NFP can choose a standard service, add on more high-level assistance, such as the Outsourced CFO option, or book short-term services for a specific project.

Service types

- **Standard accounting service** – Bookkeeping, Payroll, BAS and Reporting.
- **On-Demand CFO service** – CFO duties include managing KPIs, board meetings, budgets and forecasts, financial modelling and analysis, unit costing, and advice. An example would be assessing the budget for a new service offering. This role is sometimes referred to as a ‘Fractional’ or ‘Virtual’ CFO.
- **Project based assistance** – This could include managing the budget for a grant application and the acquittal of grant funding.
- **Supplementary accounting personnel for leave cover or at peak times** – An outsourced accounting team can provide temporary cover when staff are on leave. They can also supplement the staff at peak times such as during BAS preparation, budget season, audit season or work on a major new grant.

FUTURE TRENDS FOR NFPS IN AUSTRALIA

The landscape is changing for Australian NFPs. The public is demanding more oversight of donated funds, and there is a general trend towards increased reporting and taxation obligations. Although the global pandemic is receding in memory, its impacts continue to shape the economic climate and the direction of Australian NFPs.

Some developments that may affect the future of Australia's NFP sector include:

- Increasing public and media scrutiny of donations to charities and NFPs
- The current economic climate due to high interest rates and inflation
- Declining volunteer numbers
- A drop in donations to charities outside the big ones and greater competition for donations generally as more charities start up
- Changes resulting in greater competition for services in particular sectors, for example, Aged Care reforms starting in 2025 and further changes to the NDIS
- Government grant funding for NFPs has declined in some areas as pandemic-related grants are wound up
- Increased reporting requirements for grant acquittals
- Proposed taxation reforms – especially changes to Australia's Deductible Gift Recipient (DGR) system
- Reporting and compliance obligations are increasing for organisations retaining charity status and more NFPs are becoming ACNC registered charities
- The ACNC is taking on a more active role in the NFP sector.

An outsourced CFO can help the NFP management team where they lack the time or knowledge to analyse how the above factors have impacted their organisation or assess future impacts under different scenarios (positive and negative).



CHOOSING THE RIGHT ACCOUNTING SERVICE

The choice of an outsourced service is an important one. The service should be aligned with the NFP's organisational goals and its resource availability, as well as qualified to handle its specific accounting needs.

Boards should evaluate providers based on their NFP experience, fit with the organisation's values and mission, plus their technology stack and communications skills.

Strong communication skills can be a critical factor. The outsourced accounts personnel should be able to impart information clearly. As they could be dealing with NFP staff who don't have a financial background, they should have the language skills to converse with all, including the non-tech-savvy people. It is especially important that an outsourced CFO has the language skills to give detailed effective explanations to management and board members that empower rather than confuse them.

Evaluations should assess the overall return of investment – how much the expertise of the outsourced service will transform operations and free up time for relevant staff members. Questions about the experience of the potential outsourced accounting providers should focus on qualifications of personnel, employee retention, company certifications, track record of working with similar NFPs and experience in specific areas.

Questions about the technology stack should focus on the recommended software and apps, how NFP staff technology training will be conducted and the protocols for confidentiality and cybersecurity.

Checklist: Nine basic questions for an NFP to ask an outsourced accounting provider

- What services does the fixed cost cover?
- Will there be additional expenses?
- Is the contract term month-to-month, or annual?
- What size team is appropriate?
- What are the skills and expertise of the provider's team members?
- What Cloud accounting software will be used?
- What are the provider's confidentiality terms?
- What cybersecurity measures does the provider have in place?
- Can the provider offer references from its other NFP clients?

CONCLUSION: POSITIVE OUTCOMES FOR NFPS OUTSOURCING ACCOUNTS

Outsourcing will make an NFP more resilient. The following is a summary of service standard to expect from a professional accounting firm.

1. Access to Specialised Expertise

- Outsourcing firms bring knowledge of specific sectors so the NFP gains advice from someone who understands their particular sector
- Advanced technology and financial tools enhance accuracy and reporting
- Services provided by a team of experts (rather than one individual)
- The expertise to conduct conversations at board level, as well as with the NFP's management team
- With outsourced CFO services you have a consultant on tap who understands your organisation and the Australian NFP sector

2. Value-add finance team (focus more on scalability rather than cost)

- Savings on full-time salaries, benefits, training, and infrastructure
- Scalable service packages tailored to each organisation's needs
- Multi-level finance team
- At a fixed cost the NFP's key work demands and aspirations can be met, such as improved reporting, additional analysis, budget and audit season etc.
- An outsourced CFO can provide tailored strategic advice to the CEO and board.

3. Enhanced Compliance

- Outsourced Accounting firms are well-versed in ever-changing tax laws, ACNC requirements, compliance and accounting standards.
- Reduction in errors and streamlined audit experience.

4. Improved Focus on Core Mission

- Outsourcing allows boards and staff to concentrate on strategic goals instead of day-to-day financial management.

5. Reduce key person risk

- Segregated duties
- Enhanced financial controls
- Leave cover (no longer does payroll need to be done early if bookkeeper is away).



Outsourcing offers not-for-profits a strategic advantage by providing cost savings, access to expertise, and operational flexibility. With a growing preference for onshore service providers, Australian NFPs can leverage knowledge while maintaining control over their financial processes. As the sector continues to adapt to post-pandemic challenges, outsourcing has become a valuable tool for NFPs to focus on their core mission while ensuring compliance, efficiency and long-term sustainability. By choosing the right outsourced partner, NFPs can navigate the complexities of today's financial environment with confidence.

References:

(1) Deloitte Global Outsourcing Survey 2022, <https://www.deloitte.com/global/en/issues/work/global-outsourcing-survey.html>

Deloitte 2023 Global Shared Services and Outsourcing Survey, <https://www2.deloitte.com/us/en/pages/operations/articles/shared-services-survey.html>

(2) Next Dimension Accounting, <https://www.nextda.com.au/site/wp-content/uploads/2022/03/Next-Dimension-White-Paper-February-2022.pdf> (2)

(3) ACNC, <https://www.acnc.gov.au/tools/reports/australian-charities-report-10th-edition>

(4) ACNC, https://www.acnc.gov.au/sites/default/files/documents/2024-05/DE-63683%20-%20Australian%20Charities%20Report%2010th%20edition_DIGITAL%20finalpdf.pdf

(5) ABS, <https://www.abs.gov.au/statistics/labour/earnings-and-working-conditions/working-arrangements/latest-release>

(6) Next Dimension Accounting, <https://www.nextda.com.au/nd-accounting-survey-reveals-challenging-times-ahead-for-businesses-and-nfps-as-staff-shortages-bite>

(7) Next Dimension Accounting, <https://www.nextda.com.au/navigating-founder-dependence-ensuring-sustainable-governance-in-charities-and-nfps>

(8) ACNC, <https://www.acnc.gov.au/tools/reports/compliance-reviews-report>

About Brendan Lucas

Brendan founded Next Dimension Accounting (NDA), an outsourced accounting company, in 2021, building on his experience with a top-tier accounting firm. Focused on supporting NFPs and charities, NDA has successfully grown to become one of Australia's leading outsourced accounting companies focused on the NFP sector.

Contact Brendan via hello@nextda.com.au

Book a meeting with Brendan [here](#).



Next Dimension
ACCOUNTING