



**AKM GLOBAL**

TAX | CONSULTING | OUTSOURCING



## **LEA North American Regional Conference**

**The current management of private equity (PE) in accounting and emerging models of outsourcing.**

June 10, 2024

# About Us

Headquartered in **Gurgaon** with branches in **New Delhi, Mumbai, Pune, Bangalore, Hyderabad, Singapore and UAE**

**600+ Employees** from audit, accounting, tax, secretarial, legal & and management background

**Over 43 years of industry experience. Working with 100+ CPA Firms**

**1,000+ Customers** from more than 30 Countries

**Strong Media Presence** including views shared on several international and domestic tax and regulatory matters

Ranked Consistently in **International Tax Review's World Tax and World Transfer Pricing Guides (2017-2024)**

# Our services to CPA firms

## **US, UK, AUS & Canada Tax Returns**

1065/1120/1120S/990  
Individual /CT 600 with HMRC etc.  
T1/T2/NTR etc.

## **Audits – US, UK, AUS & Canada**

Commercial Audits, Non-Profits,  
Retirement Benefit Plan Audit  
EBP Audit/ Yellow Book Audit/  
HUD Audit

## **Accounting and Book-Keeping - US, UK, AUS & Canada**

Book-keeping, AR/AP Processing  
and Reconciliation, Financial  
Statement Preparation, Fund  
Accounting, Payroll Services

## **SOC & HITRUST**

SOC 1, 2 & 3 Audits by AICPA  
HITRUST CSF

## **Due Diligence and Valuations**

Due Diligence, QoE, Preparation of  
DDR, Preparation of Financial  
Models, Business Valuations, Stock  
Option Valuations

## **Transfer Pricing Services**

Global Benchmarking  
Preparation of TP Report  
Preparation of TP Documentation

# Focus of PE Funded Firms

## Strategic Acquisitions and Consolidations

- **Targeted Acquisitions** - of those with specialized service offerings.
- **Roll-Up Strategies** - consolidating firms for Geographical Expansion / Broader Service Offerings.

## Achieving Operational Efficiencies

- **Process Optimization:** streamline operations, save cost , and improve efficiency within the platform accounting firm. This includes automating routine tasks and optimizing capacity utilization.
- **Technology Integration:** Investment in advanced technologies such as artificial intelligence (AI), machine learning, and data analytics enhances service delivery, improves client engagement, and supports data-driven decision-making.

## Leadership development

Changing partnership structure to corporate structure to speed up decision-making processes to meet target growth.

# Fostering Collaboration between PE and Outsourcing Firms

**Hyper-Scale**  
Aggressive  
M&A

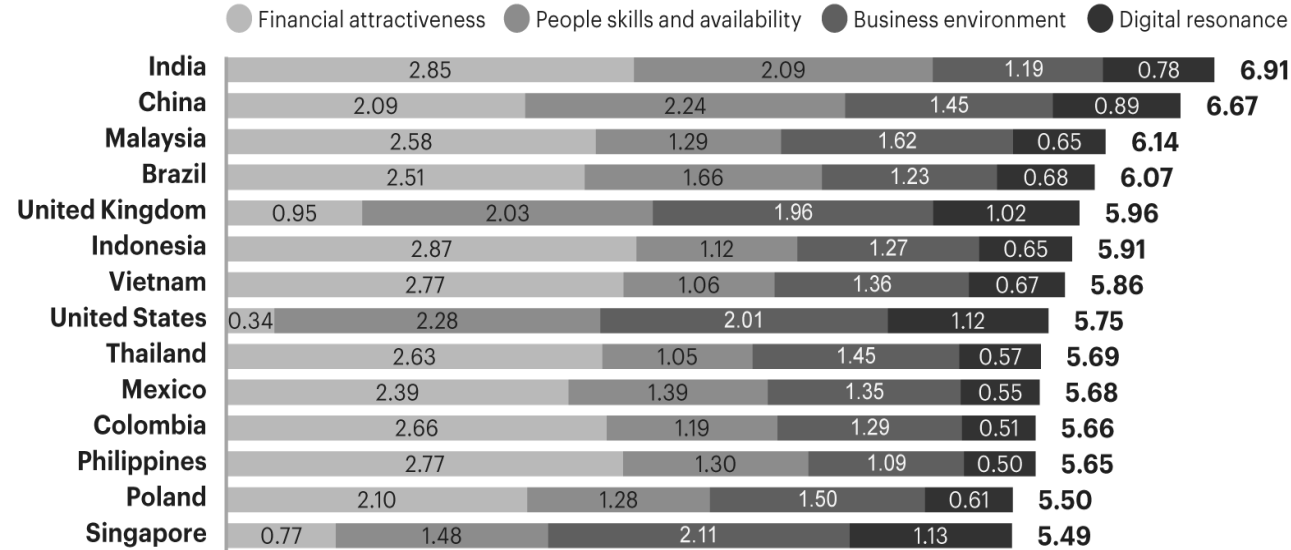
**Efficiency -**  
Improved  
profitability-  
operational  
efficiency

**Increase in  
bottom line**  
- More value  
per partner

**Centers of  
Excellence**

# Leading Locations for Offshoring

“According to The 2023 Kearney’s Global Services Location Index, India continues to rank first as the most preferred outsourcing location, owing to its skilled workforce at a low cost and through initiatives by the government to build on its STEM backbone to adapt to new age technologies and increase talent regeneration.”



Source:  
<https://www.kearney.com/service/digital-analytics/gsli/2023-full-report>

**1580 +**

GCCs in India with 65% headquartered in USA

**1.66 Mn +**

People work at GCCs across India

**\$46 Bn**

GCC Market Size (FY 2023) – CAGR of 11.4%

**240 +**

Finance and HR Centers of Excellence

Source: Nasscom-Zinnov India GCC Trends 2023

# Driving the India Advantage

- Expanding Talent Pool
- According to Everest Research Institute, India's cost advantage over other IT sourcing countries (France, Japan, UK, US) is likely to continue for at least 10-15 years.
- India accounts for close to 68% of the Global Outsourcing market.
- Highly skilled, large talent pool of professionally qualified people – CA, ACCA, CMA, EA, etc.
- Most Indian Outsourcing companies follow International Standards like CMM, TQM, ISO 9000, Six Sigma Quality certification etc.
- Faster Turnaround Time and extreme flexibility & adaptive approach due to favorable Time Zone Differences. Time zone difference works extremely well in case of the US projects.
- India a preferred offshore location for the largest GGCs – Second home for accounting

**1.4 Bn**

Population of India

**~350 Mn**

English speakers

**7-8 Mn**

People added to the workforce each year

**\$46 Bn**

GCC Market Size (FY 2023) – CAGR of 11.4%

**100K +**

New hires planned by Big 4 in India in 2-5 years

# Increasing Business Profitability with Outsourcing

## Labor Cost Arbitrage

- Outsourcing to countries like India with lower wages can save companies up to 60-70% on salaries.
- Companies can avoid costs associated with employee benefits.

## Operational Efficiency

- Managing capacity with access to specialized expertise improves accuracy and speed.
- Leveraging favorable time zone differences can allow for round-the-clock operations, reducing turnaround times

## Technology and Infrastructure

- Outsourcing partners provide technology and software support, eliminating the need for companies to invest in costly IT infrastructure.
- Outsourced services can be scaled up or down based on business needs.

## Focusing on Core Business

- By outsourcing non-core functions, companies can focus more on strategic initiatives and core competencies, potentially driving higher revenue growth.



# Focus on EBITDA



# Relevant Offshoring Models for PE-backed Platforms

01

**Co-sourcing/  
Outsourcing**

02

**Setting up  
Offshore Captive /  
BOT**

03

**Employer of  
Record (EOR)**

# AKM Experience

01

## Captives

- BDO
- Wipfli
- RSM
- BPM

02

## BOT

Top 100 CPA firm

03

## Offshoring

100+ CPA firms

# Co-sourcing & Outsourcing

Using an expert external service provider to deliver some or all the services provided by the firm including Tax services, Audit, Payroll, Consulting, CAS and others.

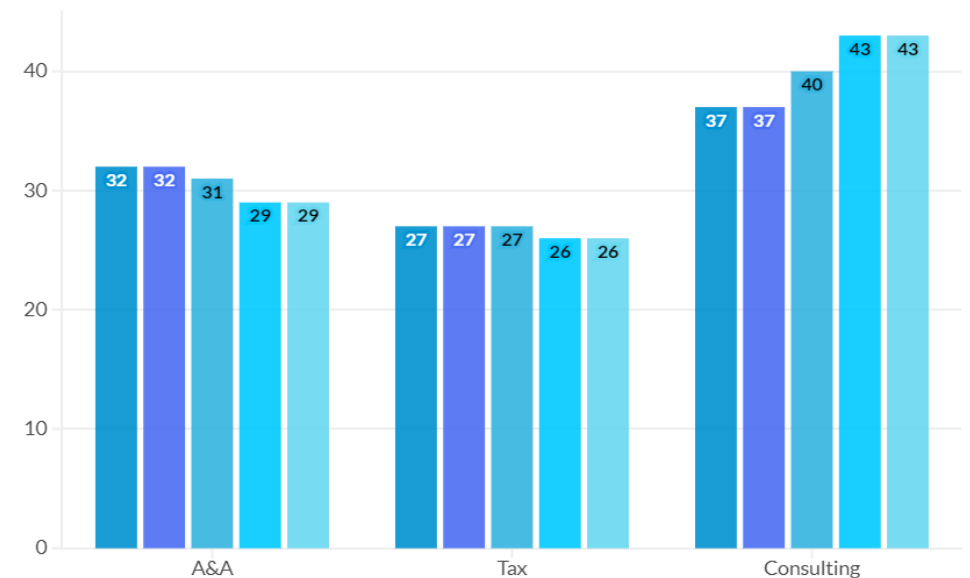
## Features:

- Sustainable solution for long-term growth
- Desired outcomes from trained staff
- Gain efficiencies arising out of the learning curve
- Flexibility of Manpower – favorable time zone
- Operational Proficiency – custom checklists and internal trainings

## Consulting holds its lead

Fee splits for the Top 100 Firms over the past 5 years

■ 2019 ■ 2020 ■ 2021 ■ 2022 ■ 2023



Source: Accounting Today Top 100 Firms

Consulting accounts for a plurality of the Top 100's revenue, but that's largely because that's the case among the billion-dollar firms, where it accounts for 46%; the smaller cohorts are much less interested, with consulting representing only 23% of revenue at firms with between \$100 million and \$1 billion in revenue, and a mere 15% at firms with less than \$100 million; they much prefer tax, which accounts for 37-38% of the revenue, versus only 24% among the billion-dollar firms.

# Areas to Outsource (1/2)

## Audit Outsourcing

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- Assistance in Statutory and Internal Audits under IFRS, US GAAP, UK GAAP GAGAS
- Assistance in Agreed-Upon-procedures, Attestations, Reviews & Limited Reviews and Compilations
- Assistance in end-to-end audits - Planning/Interim/final from Planning/Risk Assessment stage to **Execution of Substantive accounts** (Performing TOD and SAP) to **Reporting stage** (FS preparation, tie outs and checklists)
- Assistance in Governmental/Yellow Book Audits, Single Audits, HUD Audits, SOX 404 Compliance Audits

## Retirement Plan

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- ERISA (103 a3c) and non-ERISA 103a3c audits
- Assist on plans like 401Ks, 403Bs, Health & Welfare, Profit Sharing, Dental etc. for all DC plans
- Assist in DB plans
- Participant Data testing, eligibility, Contributions, distribution, rollovers testing for such Plans.
- Benefit payments, Individual Participant Accounts, Loan Testing, Income Allocation
- 11K Tie outs & form 5500 filings

## Tax Preparation

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- Individual Tax Returns, HNI, Expat / Inpats : Form 1040
- Business Income: Form 1120/1120S/1065
- Tax Return for Estates and Trusts: Form 1041
- Not for Profit - 990, 990EZ 4720 etc.
- Foreign Tax Credit: Form 1116
- Foreign Earned Income: Form 2555
- Other forms: Form 8582/8801/8812/8829/8825
- Forms under SALT, Schedule K-1/ K-2/ K-3
- Fund of Funds
- International Forms 5471,5472,8865,
- Other Specific Forms- 1120PC, 1120RIC etc.
- CT-600s
- T1, T2, T3

## SOC & HITRUST

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- Assistance in SOC Audits - SOC 1, SOC 2 & SOC 3 Audits as mandated by AICPA (including SOC Memos)
- Assistance in complying with HIPPA Privacy & HIPPA Security Rules
- Assistance in performing HITRUST CSF Readiness & Validated Assessments

# Areas to Outsource (2/2)

## Accounting

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- **Accounting Services in US, UK, Canada, Australia and other countries**
- Financial Statement Preparation
- Cash Flow & Budgeting
- Monthly/Quarterly/Year-End Preparations
- MIS & Costing
- Financial Analysis
- Assistance in GAAP conversions
- Depreciation Assistance
- Accounts Payable
- Accounts Receivable
- Bank & Credit Card Reconciliation
- Invoicing
- Digital Transformation

## Due Diligence: Financial/Commercial

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- Quality of Earning analysis
- EBITDA, Normalized EBITDA
- Trend analysis/ Flux report
- Balance sheet assessment - Cash proof Analysis/ AR, AP aging
- Identifying potential risks and making diligence, management, and proforma adjustments
- Preparation of a Normalized Working Capital Analysis, DSO, DPO, DIO
- Data room preparation including analysis
- Analysis of Commitments and contingent liabilities
- Preparation of due diligence Report
- Quality check of Databook & Report

## Valuation Services

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- Preparation of Financial Models
- Research on Country Specific Premiums and Risk-Free Rates
- Research on Deals/Comparable Models
- Research on Industry/Business Models
- Stock Option Valuation Models
- Sensitivity Analysis
- Base Case/Stress Case Analysis
- Assessment of Sufficiency of Immediate Fund Raise

## Transfer Pricing Services

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- Global benchmarking Services using Global Databases
- Assistance in reviewing transfer pricing report documentation in other countries
- Performing Benchmarking analysis
- Reporting related party transactions

## Payroll Services

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- Payroll Processing and Tax Compliance
- Human Resources Reporting
- Time & Attendance Systems
- Quarterly and Annual Tax Computation
- Assistance in FPS/EPF/Final Submission to HMR
- Assistance in Calculating of Mandatory Payment such as SSP, SMP, SPP, SHPP

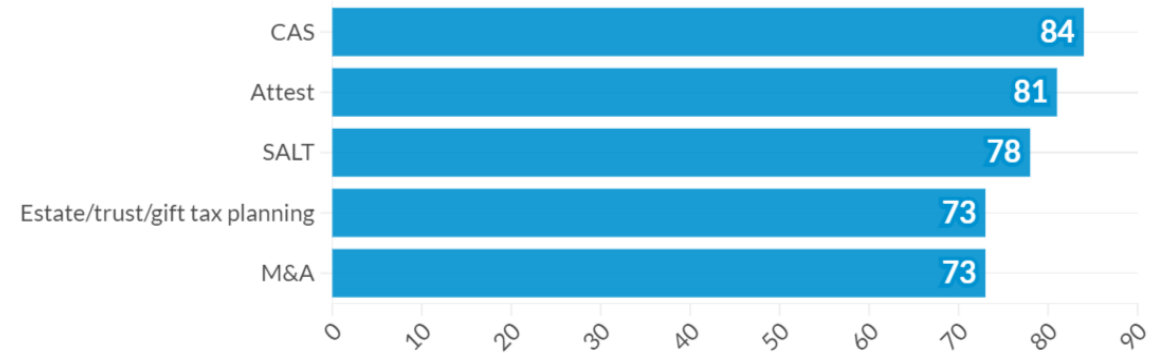
# Outsourced Client Advisory Services (CAS)

## CAS 2.0:

- Automate matching of inter-company transaction and balances
- Automate computation of complex calculations, e.g. minority interest and foreign currency translation
- Design MS Excel with significant programming and macros at back-end
- Automate Procure to Pay, Order to Cash, Record to Report
- Create and deploy BOTS
- Dashboards

## CAS in the lead

■ % of Top 100 Firms reporting growth in this service area



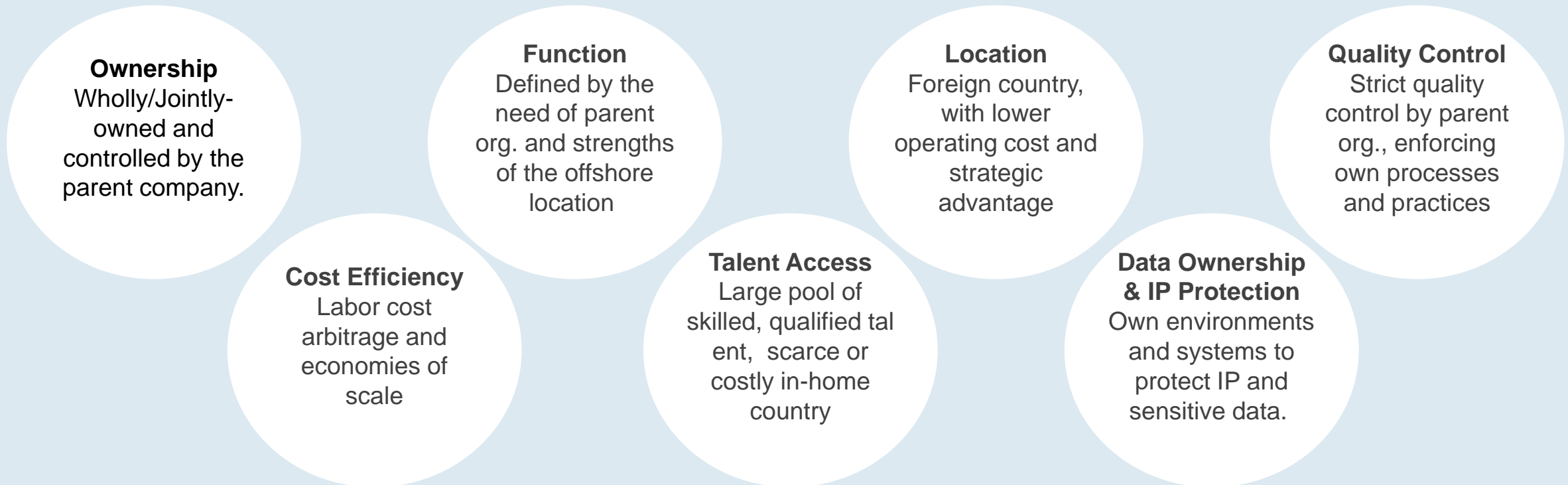
Source: Accounting Today 2024 Top 100 Firms

Client advisory services was the service line that most of the Top 100 reported seeing growth in, coming in at No. 1 after being No. 2 last year – dethroning attest services, which had held the top spot for decades.

# Setting up Offshore Captive – Build, Operate and Transfer

A business model where a company establishes its own or wholly-owned operation in a foreign country to perform specific functions or services for the parent organization. The company may partner with a local outsourcing partner to build operations before transferring complete ownership to themselves.

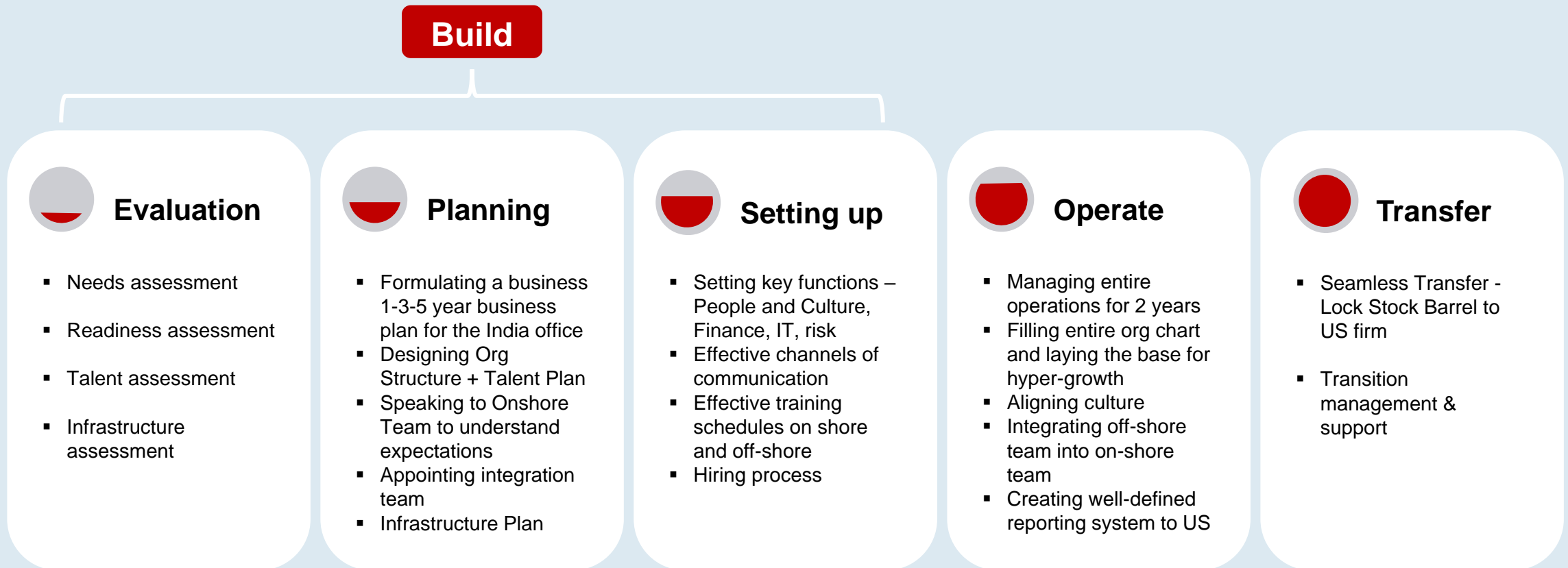
## Key Characteristics





# Build, Operate and Transfer (BOT) Process

Company may partner with a local outsourcing partner to build operations in the foreign country before transferring full ownership over to themselves.



# Building capacity for a leading CPA firm in the US

## CASE STUDY

### Build

The client (one of the top 50 firms in US, highly ranked by Forbes for tax and accounting practice) awarded a build-operate-transfer contract to AKM Global in early 2020. The consortium included tax returns for its real estate group with plans to diversify into other areas of practice. AKM was tasked to support capacity by identifying the right resources and assist in scaling up to meet increased demand.

### Transfer

At the end of the year 3, AKM was obligated to transition and transfer management and operations to the client. Over the course of the engagement, cultural integration had been promoted and capabilities had been built within the offshore team to reap profits and provide quality work.

### Operate

AKM was also appointed to operate and manage the project for initial 3-4 years. They appointed an engagement champion to steer the team's efficiency by aligning trainings, setting up SOP and checklists, thereby attracting other client offices to dispense more diversified projects, resulting in a significant increase in workload capacity and better margins.

Year	Team Size	Client Service Hours provided
0-1	3	3500 +
1-2	6	6000 +
2-3	8	9500 +
3-4	15	18,000+

The BOT model benefited both parties: the Client was able to meet its capacity needs without a large upfront investment, while AKM had a long-term source of revenue and a chance to earn a return on its investment.

Initial hiccups included aligning interests of multiple stakeholders, setting up IT, maintaining service quality, and managing risks such as rising demand, retention and seasonal fluctuation in project needs.

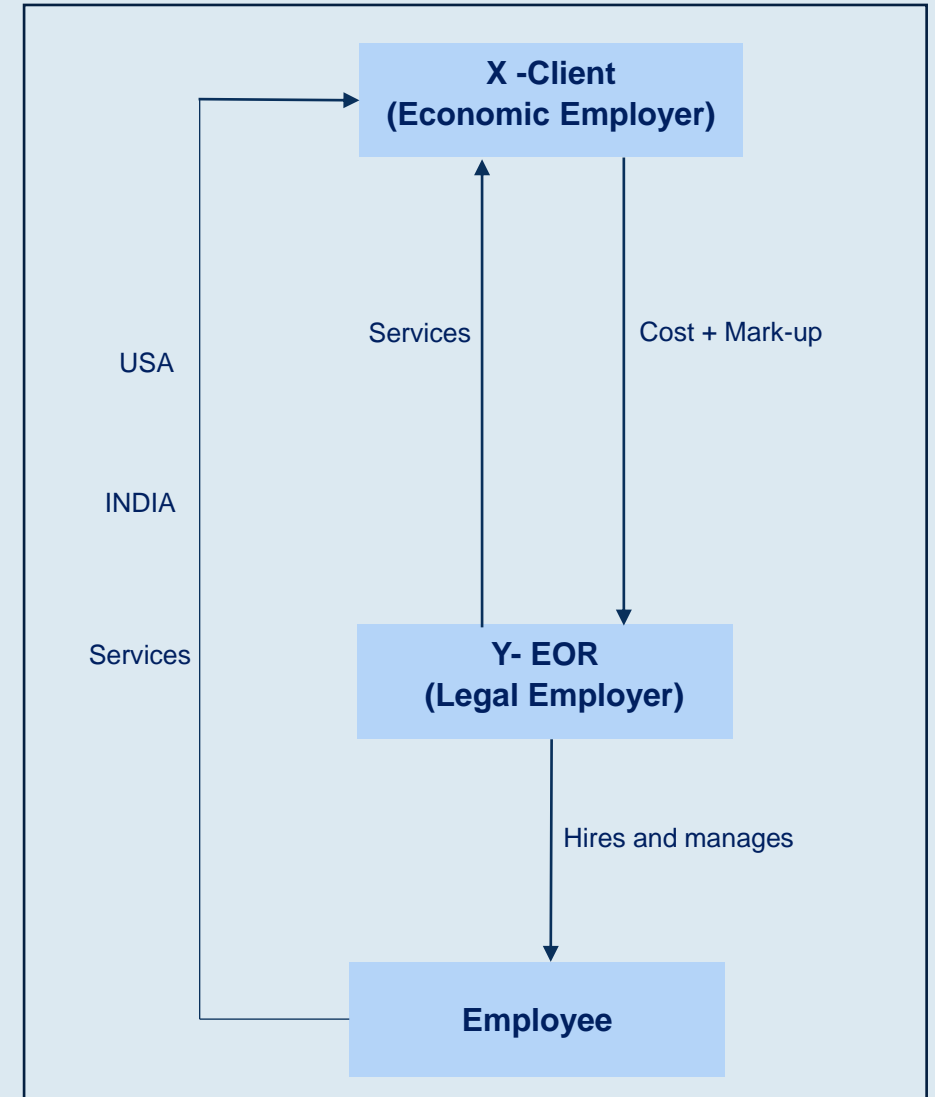
Despite these challenges, the above project is used as successful case of the BOT model, demonstrating its potential as a solution for meeting growing capacity needs of CPA firms.

# Employer of Record (EOR) – Business Model

## Our operating model for carrying out EOR services is explained below:

US entity X intends to hire some employees in India. Such employees would work from India for a US entity.

- US entity contracts entity Y in, India which provides EOR services for hiring such employees in India in a compliant manner,
- Y entity would hire employees as per specifications of X entity in India would manage payroll for administering, tax, and insurance purposes of such employees.
- Hence, entity Y (EOR) becomes the legal employer and entity X becomes economic employer of the employees hired in India.
- Entity X shall be compensated by Entity Y on cost-plus markup basis.



# Comparing Models

	Offshore Captive	EOR	Co-sourcing
<b>Time to Market</b>	<b>3-4 months</b> to establish an entity in a new geography	<b>48 hours</b> to start operating in a new geography	<b>2-3 weeks</b> to start the engagement.
<b>Overhead/ Fixed Costs</b>	<b>Set up \$5,000.</b> Annual investment <b>\$15,000 to \$20,000</b> establish and run it.	<b>Almost 70-80% cheaper</b>	<b>Hourly, monthly or yearly</b> cost structures. Cheaper than having own entity
<b>Compliance</b>	<b>Parent</b> is <b>responsible</b> for all the compliance	<b>EOR is responsible</b> for all the compliance	<b>Co-sourcing Partner is responsible</b> for all the compliance
<b>Flexibility</b>	<b>Liquidating</b> an entity is <b>time consuming</b> and very costly. Can take up to 2 years.	<b>Exit is easy</b> with no compliance at the time of exit	<b>Complete flexibility</b> on the projects and work hours
<b>Scalability</b>	Very <b>time consuming</b> to set up and scale	<b>Easily expandable</b> to multiple geographies	<b>Easy to scale-up</b> as offshore team builds dependability and reliability
<b>Control</b>	Control lies with the parent	<b>Managerial control</b> stays with the employer while everything else is managed <b>by EOR</b>	<b>Flexibility of control which is unique to each client</b>

# Outsourcing Enhancing Value for PE-Backed Firms



Driving profitability and cost efficiency



Provide technological support



Providing industry best practices



Higher quality work can be outsourced as traditional capabilities have evolved.



Long-term staffing solutions



Accountability at scale - clearly defined performance criteria and clarity of responsibility.



Setting up for sustainable growth beyond PE's typical 5-7 years investment period.

# Way Forward for Outsourcing...

- Outsourcing firms will work as **capacity builders for platform firms**
- **Digital Transformation + Outsourcing**
- **Centers of Excellence**
- Talent shortage being the leading cause of concern for the small and mid-sized accounting firms will lead to higher dependency on offshore resources.
- With greater adoption of remote working, a global-market talent model that is the basis for outsourcing and co-sourcing will continue to gain traction as companies see its benefits.
- Reducing workload compression while upskilling internal teams makes outsourced support attractive.
- Continued tech advancement would enable outsourcing firms to provide expanded services – Advisory, consultancy, CAS - CFO etc.



THANK YOU!



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