

The Ultimate
Guide To
Outsourced Law
Firm Management
Accounts



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01

Introduction

Over the last decade, the pressure on the legal sector has become increasingly profound. The way that legal services are delivered has changed. Emerging technologies have revolutionised the legal market. A strict regulatory regime has brought new risk and compliance challenges. ABS legislation has had a serious and lasting impact.

In response to the myriad challenges faced, many firms have had to become more business-like in their approach. In fact, this is now essential for any firm that wants to improve standards, deliver consistency and work more efficiently. One way that modern firms are doing this is by outsourcing critical business tasks.

Not least because, as well as helping firms to survive, solicitors can also use outsourcing partners to help them innovate, deliver value and thrive.

Firms of all sizes are now choosing to outsource. In addition, with over 500 new law firms expected to open in the next year (as lawyers leave firms to set up their own practices), smaller firms need outsourced support to challenge the larger players.

Management accounts is one function that has become increasingly popular to outsource, for law firms across the UK.

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What are management accounts?

In simple terms, management accounts are a set of financial and statistical data. This can include:

- An up-to-date balance sheet
- P&L
- Budgeting data
- Cashflow projections
- Fee earner performance analysis
- Departmental performance analysis
- Rolling trends (e.g. across a three-month period).

Providing an in-depth analysis of the financial health of your law firm, management accounts range from the production of basic quarterly management information to a full monthly reporting package. The level of reporting you need will depend on your firm's requirements and ambitions.

In reality, management accounts deliver so much more than this. Crucially, by monitoring actual results against budgets and projections, and analysing all available data, they offer invaluable insight, commentary and advice on your law firm's performance.

Of course, many lawyers have access to a "snapshot" of their firm's finances. But all too often, this raw data proves difficult for the lawyers to decipher and turn into meaningful information.

Management accounts give context to the numbers. And, because this context is provided in an easy to read format – with raw data translated into visual representations that partners can quickly digest and understand – it has the power to add value across all aspects of your firm's operations.



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The benefits of management accounts



There are many reasons why your firm should prepare management accounts.

To inform your business strategy

Management accounts provide access to real numbers and analysis. This allows you to plan strategically and grow sustainably.

Management Accounts should report performance against an agreed budget, or report against historical data (so you can compare and contrast). You can also assess whether your plans are on track, or whether your targets were too ambitious (or not ambitious enough). And with insight added to the numbers (e.g. what has happened to cause you to go off track), you can take steps to remedy any issues as soon as possible.

Quality data and analysis also empowers you to make better strategic decisions. For example, you can:

- See what matters make your firm the most money and seek to take on more of this type of work (and vice-versa)
- Establish if there are any cash flow issues. And, if so, identify whether you need to take on more of a specific type of case to bring in cash more quickly.

To help you stay in control

The right data gives you more control over what's happening in your law firm. For example, with management accounts, you can interrogate costs, see where money is being spent, and whether it's delivering the return on investment (ROI) you need. This leads to more informed purchasing decisions.

Importantly, management accounts can also help you to identify any discrepancies or unusual/unexpected expenditure.

You are also better prepared for any tax payments, as you maintain a clearer understanding of what is happening in that respect.

To identify and address any issues

With management accounts, if your firm is struggling, you can identify why and take prompt action. For example, they can help you to:

- Spot any areas where there is a downturn in business, so you can lead the change management required to address the issues
- Establish areas of work that are not converting into cash and why (e.g. are there any issues with credit control that need resolving?)

- Identify any underperforming fee-earners, so you can take steps to find out why.

Even better, you'll often be able to spot issues before they become a problem, with all the data you need to change course. For example, a cash flow projection can identify issues months in advance, thus allowing for remedial steps in plenty of time.

To enable you to plan for growth

Robust management accounts give banks and investors the reassurance that you have a firm grasp of your finances. This means you can better plan for growth and secure the funding you need.

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Why outsource your law firm's management accounts?



Rather than wasting time trying to carry out specialist, non-legal tasks, savvy law firms are increasingly choosing to outsource. Here are just some of the ways that outsourcing your law firm's management accounts is a smart decision.

Give your firm a finance function

Management accounts is a complex task, but it's also an extremely worthwhile one. Today, far too many solicitors still look at their bank statements to determine how their firm is doing. Even where cashflow looks fine, this approach fails to take the bigger picture into account.

It's not uncommon for a firm that thought it was successful to suddenly get into trouble because of an unexpected VAT bill or insurance payment. This will be of particular relevance during the present Covid crisis, with deferrals of VAT and loan repayments falling due in early 2021.

Using an outsourced management accounts provider gives you access to all the financial expertise you need at a cost lower than employing a specialist accountant or financial controller.

What's more, an outsourcing approach not only provides you with all the support you need, but also when you need it. For example, if you just need someone two days a week, but you want these hours spread across the week, that's not a problem.

Reduce the burden on internal employees

Overloaded in-house teams often don't have the time to focus on labour-intensive management reporting activities. And, when people are overworked, the quality of output is often reduced. Should this happen with management accounting information, the results could be devastating.

What's more, management accounting is a highly skilled job, and many law firms' inhouse cashiering staff - however good they may be - just don't have the necessary experience and skills.

Using an experienced outsourcing supplier ensures you get access to all the accurate, high-quality data your firm needs.

But, the benefits don't just apply to your finance teams. Interviewing and assessing a candidates' integrity, experience and expertise is not straightforward for solicitors, as they attempt to assess cashiering or accounts applicants. As such, the recruitment process can be stressful - especially when you consider the consequences of hiring people who are not up to the job. By using an experienced outsourcing supplier, you will get access to recognised, certified expertise, while reducing the burden on your own staff. And, of course, outsourcing also removes the hassle of employee management.

Adapt and thrive in a changing marketplace

The legal market is in a state of flux. As such, access to accurate and reliable financial information is vital to ensure your firm can adapt and respond to any changes (while benefiting from a healthy cash flow). At the same time, consolidated and precise information can help your firm to develop more proactive strategies for business growth.

By partnering with a trusted management accounts expert, they will help you to access all the data and analysis you require to make informed, smart and strategic decisions. This won't just help you to adapt and thrive; it will also secure your long-term survival.

Free your solicitors to get on with what they do best

Trying to make sense of raw data can be tricky with nobody to turn to for advice. This can result in wasted time as you try to figure things out on your own.

Time is a precious resource which you need to spend wisely, and, the less time you spend earning fees, the less profitable your firm will be. You can't be an expert in everything, so it's essential to focus on your strengths.

With outsourced management accounts, your partners and fee earners can focus on what they do best (spending time with clients and making your firm money), while you rely on trusted experts to generate the information you need for future-planning and business improvement.

Just as important, by outsourcing your management accounts, the data you receive will be delivered in clear, concise packs, with visual representations such as graphs and charts showing trends and key discussion points. So, rather than having to wade through raw data, those running a firm can quickly get to grips with and focus on the key issues. This frees up even more time and energy.

Access to better quality data and insights

Basing decisions on incorrect data could have a devastating impact on your firm. Especially as management accountants don't just crunch numbers, they also work out where a business can maximise its growth. As such, you need the peace of mind that you are working with industry experts, with access to the best possible, accurate data and analysis.

A good management accounts partner (such as The Cashroom) won't just supply you with data. If you want, they can also form a crucial external part of your management team. They can meet with you and your partners to discuss results and interpret figures.

Reduce the compliance burden

It is critical from a compliance standpoint to ensure that any potential problems are flagged up as early as possible (e.g. credit risks and exposure). For example, you must notify the SRA promptly of:

- Serious financial difficulty
- Indicators of serious financial trouble (e.g. breach of bank covenants, inability to pay your professional indemnity insurance premium, rent, salaries, etc.)
- Should you become aware that it may not be financially viable for your business to continue trading (e.g. because of difficult trading conditions, poor cash flow, increasing overheads, loss of key staff or sources of revenue, etc.)
- Any serious issues identified as a result of your financial monitoring.

Failure to do this can have a devastating impact on your bottom line and your reputation.

Your outsourced management accounts partner can prepare tax and VAT returns to ensure you meet all regulatory requirement deadlines. But more than this, it will also provide all the data necessary to enable compliance with the SRA rules. At the same time, by actively monitoring your financial stability and viability, your outsourcer will help you to identify and mitigate any risks. Once armed with this information, you can take steps to address any issues.

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Challenges of outsourced management accounts (and how to overcome these)



The benefits to solicitors when using outsourced law firm management accounts are clear. But what are the challenges you will face?

Cost

Cost puts off some firms from outsourcing. Usually, because they misunderstand it to be an additional expense, rather than one of the most effective ways of saving money. Where management accounts are concerned, in many cases spending money can save/make you money.

When looking at the issue of cost, it's vital to look at the value outsourced management accounts can bring to a business. For example, the ability to identify:

- Which matters generate the most revenue
- Which matters bring in money quickly (and thus support your cash flow while you pursue more profitable work)
- Any work that is not profitable for your firm
- Where you are spending money, and if this is providing the necessary ROI
- New markets and or areas that are ripe for growth.

Crucially, the efficiencies an outsourcer can introduce due to their understanding of best practice (from working with so many different firms) will also lead to more streamlined processes and additional cost savings.

Any firm seeking to outsource should get a quote from a few companies to find the most competitive. But a word of warning; it's not just about going with the cheapest option. It's vital you choose an outsourcer with experience in the legal sector, and who understands the challenges, market and regulations you face.

Data security

Data breaches and cyber attacks are never out of the headlines. The progression of technology has enabled criminals to become far more cunning when looking to exploit businesses. The legal sector has become a particular target for cyber criminals due to the vast sums of money transacted each day. In particular, traditional forms of online communication, like emails, are coming under intense scrutiny as phishing attacks and technological weaknesses make these vulnerable. Today, cyber crime is costing law firms millions each year.

As a result, it is essential that law firms ensure that their due diligence and compliance policies are up to date. And that they have the necessary processes and security in place to protect client money and personal data.

While some firms are worried that putting their valuable data and finances in the hands of a third-party increases the risk, the opposite is true. In most cases, an outsourced partner will have invested heavily in security measures such as encryption, firewalls, password protection, physical data centre anti-intrusion systems, software updates and back-up procedures. With stringent checks, balances and technology in place, it can be hard for law firms to ensure the same level of protection as an outsourced expert. The Cashroom uses their secure Cashroom Portal to communicate with their clients, taking email risk away and increasing visibility of workflows and workloads for both the client and The Cashroom.

Concerns about a lack of control

Some firms worry that by outsourcing, they will somehow lose control over what is going on. However, the opposite is usually the case. Especially when it comes to management accounts. Clients tell us time and again that, when working with The Cashroom, they gain a better understanding of what is going on with access to better, more transparent information and insights.

Likewise, some law firms are concerned that managing a third-party could be just as complicated as looking after in-house staff. But the right outsourced legal accounts management partner will remove the burden.

What's more, you shouldn't need new IT, or be forced to learn how to use a new system. For example, The Cashroom has a system-agnostic approach, meaning that a firm need not change its system before benefiting from our services. Instead, we access the accounts part of your existing practice management system, extracting the data we need, to provide you with high-quality management accounts. And of course, we do this while meeting all the proper data protection and confidentiality requirements.

Another common fear is that a firm will be stuck with a service provider, either due to stringent contracts or concerns about professional behaviour on separation.

However, if you choose a partner who uses your systems rather than enforcing their own, it should be easy to take back control and revoke access whenever you want.

That being said, we always recommend due diligence before signing any agreement. For example, ask if the outsourcer will provide a reference from a firm which no longer uses their services. You should also establish a plan for end-of-contract.

Fear of change

Change can be risky. So, you need to be confident that any effort you put in will be worth it? Of course, in law, as in life, there are no guarantees, but the law is not just a profession; it is also a business. As such, it is vital to keep moving forward.

With a wealth of benefits to be had, not taking the leap could mean that your competitors get ahead while you stagnate.

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Things to consider before you appoint an outsourced management accounts service



As with any investment, there are some things to consider before handing over your hard-earned budget. Here are just some of the things you should ask your preferred management accounts provider.

Who will oversee your accounts?

Will it be a dedicated, experienced individual? Does the outsourcer have strength in depth to ensure holidays and sickness are covered? At The Cashroom, you will have a small focused team of key people who will support you. You will get to know your team very quickly and build a relationship with them. You can pick up the phone or email these people at any point.

Are they legal experts?

It's vital that any outsourced business you appoint has a firm grasp of accounts and regulations specifically in the legal sector. It must also have staff with appropriate qualifications (CA and CIMA qualified chartered accountants) and an in-depth understanding of the SRA Handbook, SRA Accounts Rules, and other guidelines.

Can you get a reference from other customers?

A few positive words from another happy customer can put your mind at rest and give you confidence in your decision.

Here are some of the lovely things our clients have said about us.



They (The Cashroom) have delivered exceptional service with a real personal touch, saving us money but delivering a quality finance function which suits our forward-thinking approach to the provision of legal services to our clients.

Gareth Jones, Practice Manager, Easthams Solicitors Limited

The Cashroom has definitely been a good business move, not only because of efficiency but also in relation to compliance which can be daunting at times.

Susan Ayre, Partner at Simon A Holt & Co

The Cashroom offer an invaluable service for any solicitor's firm. Their approach is efficient, professional and responsive. They have allowed us to deal with rapid growth by taking on all accounts functionality.

Alexis Brassey, Managing Partner and Notary Public, Cavendish Legal Group



How will they support you?

What services do they offer and do these meet your needs? For example, our Management Accounts service includes:

- Monthly or quarterly management information produced within a few days of the period end
- Commentary and advice on monthly performance
- Annual budgets and cashflow projections
- Monitoring actual results against budgets and projections
- Fee and performance analysis
- Monitoring capital and current accounts
- Meeting with partners to discuss results and interpret figures
- Preparation for year-end accounts
- Advice in respect of VAT, employee benefits, employee bonuses, P11Ds etc
- Preparing projections to assist with funding applications.

Our reports are provided in an easy to read format, with the data translated into handy visual representations, and added commentary around the results.

Do they offer any other outsourced services?

Could they be a 'one-stop-shop'? There are benefits of simplifying supplier management. For example, you could use one partner to look after your management accounts, legal cashing and payroll services.

What data security processes do they have in place?

Using an outsourcing partner without robust security measures can pose serious GDPR, hacking and compliance risks. For example, financial and personal information sent through word processing documents and email could be easily intercepted and used by unscrupulous cyber criminals.

At The Cashroom, we have tested our security measures by employing a specialist firm of "ethical hackers" to help review and improve all aspects of our data security, as part of our Cyber Essentials Plus accreditation. Of course, we also have robust confidentiality processes in place to ensure that confidential client information is protected as per the SRA code.

More than that, we have also developed an online portal to help minimise the risk of email fraud, allowing internal and external stakeholders to communicate and share information in confidence. All exchanges are secure with access restricted to authorised individuals.

How else can they help you?

As well as looking at the standard services your outsourced partner provides, you should also look for the value add. What makes them different and how else can they help your firm?

For example, at The Cashroom, we know that traditional communication methods create a myriad of opportunities for messages to become lost or severely delayed. It is all too easy to mislay or overlook an email. Busy practitioners working on legal services are also bombarded with communications, meaning vital tasks could be held up. Similarly, sending an email request to an outsourcer can mean that your firm's request is buried within the work of their other clients. This could slow down important transactions and reduce efficiency.

At The Cashroom we developed an online portal to solve this problem. Each request that is made - both internally and externally - is unique to the business. All tasks also have an automated workflow, ensuring that deadlines are adhered to, and communication is clear for all concerned.

07

Why work with The Cashroom?



First and foremost, we supply high calibre, qualified people who are experts in management accounts. This means that we don't just provide you with all the data and analysis your firm needs, we also take the time to understand your business and what you want to achieve. This enables us to tailor our reports to your needs and objectives. Ultimately, it's about helping you to improve the performance of all aspects of your business.

Adding value every step of the way, we also:

- Work with your existing IT systems and processes
- Use an innovative online portal to keep you secure and boost efficiency
- Have a robust approach to data security and protection from cyber criminals
- Have trained lawyers on our team and board members who were previously managing partners of their own firms (along with a chartered accountant)
- Understand what it takes to run a successful legal business. And we share all this knowledge and expertise with you
- Provide legal cashing and payroll services in addition to management accounts
- Do all this for a fixed monthly fee, so you stay in control of your cash flow.



Conclusion

Today, our outsourced management accounts product is arming firms with all the intelligent data, trending and analysis they need to adapt, thrive and grow in a challenging legal landscape. So much so that the question isn't can you afford to invest in outsourced management accounts, but can you afford not to?

To find out more about how outsourced law firm management accounts can help your firm to flourish, contact Alex Holt alex.holt@thecashroom.co.uk or take a look at our services page on our website www.thecashroom.co.uk



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Specialist Accounting for Law Firms