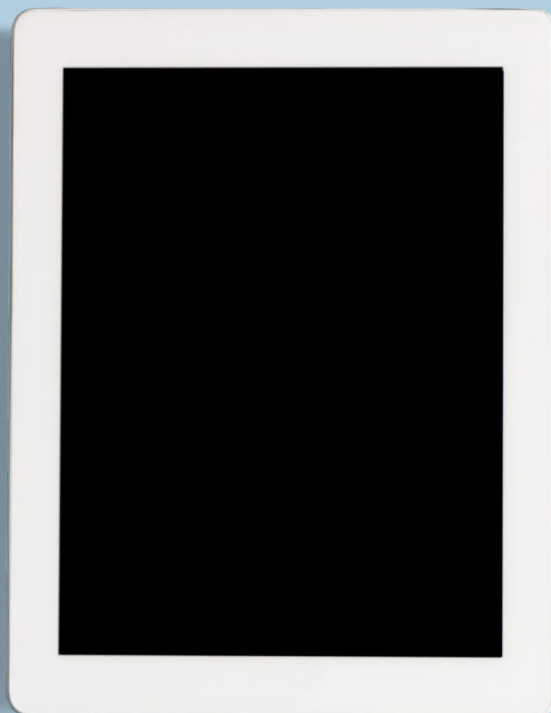# *Automating the accounting practice*

Automating the accounting practice

This brief, updated guide aims to help you seamlessly automate your practice – and in turn draw lessons to help your clients automate their businesses.

WHY AUTOMATE PROCESSES?

Automation is about taking advantage of new technologies to lower costs, improve efficiencies and reduce errors – but more importantly it is about taking the opportunity for accountants to reinforce their position as trusted advisers and business coaches, as they allow automation to take care of the lower-level compliance tasks, using this freed-up time to add more value to their clients.

Rekeying of data from one product into another is at best laborious and can also be extremely tedious. The transfer of data from accounts software to tax software originally involved consolidating figures and typing the data extracted from one package into another – in many cases this is now seamless and transferred at the press of a button. The output from any traditional accounting practice is generally the same – a set of accounts and/or a tax return. The route from start to end, though, can be very different now compared to the methods in use not that long ago.

Modern processing methods mean that existing staff can handle larger volumes and the old pyramid structure of staffing levels has flattened out dramatically. The challenge is to identify if output from one product is being rekeyed into another and finding solutions to avoid this. Automation is only the start of the revolution.

Common phrases now are artificial intelligence and machine learning, which are taking automation to a whole new level. By automating steps in your practice, this also provides valuable insights and practical experience into many tools that could also benefit many of your clients. This may be an additional chargeable service you can offer.

Note, however, that it is not possible in this short document to consider every possible aspect of internal processes.

BARRIERS TO OVERCOME

The ways of working with technology are different from the traditional ways and there will inevitably be a learning curve and a culture change needed for some.

Implementing any change in any system is always going to have issues and automation – taking away a manual process – means that those people who did the manual processing will no longer need to do that task. People are therefore likely to be the source of greatest resistance.

There are stock answers rolled out all the time when looking to change systems. 'The system is not broken – why does it need fixing?'; 'It doesn't take very long ...'; 'It will take me just as long to do ...'; 'Why incur extra cost?'; 'What will I do now?'

Some of those affected may relish the challenge presented or may have increased responsibility with a change in role – so it doesn't have to be bad news. They won't necessarily lose their jobs as a result. Involve them in the consultation process, explain how the automation process affects the business and go into the reasons why it is being implemented.

Some accounting practices have recognised the potential issues and brought in so-called change management consultants to ease the process.

TASKS TO BE AUTOMATED

Some of the major functional areas of the practice are now considered and we see how automation can affect these. An overview of the main processes is outlined in this guide. The preparation of accounts requires data from the client in the first place. Automation can be implemented in the practice for its own accounting records, bookkeeping can become a new cost-effective service offering to clients, and training and implementation of software and add-ons for clients is another potential revenue stream.

CLIENT ACCOUNTING AND BOOKKEEPING

The cloud has changed dramatically how the accounting firm can automate bookkeeping and accounting procedures. In an accounting practice bookkeeping was often regarded as unprofitable, labour intensive and costly. This may have been the case where it was necessary to dispense a staff member to work on site on a regular basis, with travel time and travel costs as an added overhead. Many practices now have a dedicated in-house team and are actively seeking this type of work. The in-house team may give the appearance of being in the accounting practice, but the work may be outsourced to places such as India, the Philippines or South Africa, or nearer to home to Northern Ireland.

The changes have come about in being able to do a significant amount of the work in the office (or from home or indeed anywhere there is access to the internet) combined with technology developments and software that automates the processes.

The traditional role of a bookkeeper was to enter the transactions in the accounting records and, more specifically, the dedicated role of a purchase ledger clerk was to enter purchase invoices into day books and ledgers and match payments against those invoices.

The latter role can be fully automated, and the bookkeeping function also has many other areas of automation.

BANK FEEDS

Bank feeds are arguably the major step in automating record keeping and the biggest game changer in driving the move to cloud accounting, although bank feeds can now work with desktop software too. It has been possible for some time to download CSV files or QIF files from online banking, but these often required some Excel skills to manipulate the downloaded CSV files into the correct format. Manual intervention was then needed to import the files.

Having the data fed straight into the accounting records daily, or in some cases, in near real time, substantially reduces the keying necessary and practically eliminates errors in figures being

incorrectly entered. It is possible that the subsequent analysis may be to an incorrect expense coding, but that can generally be easily rectified.

The analysis can also be further automated by creating 'rules'. If the transaction contains certain words (eg, bank charges), it can be set to automatically code a transaction to the bank charges expense account every time those words appear in a transaction in the future.

FINAL ACCOUNTS PRODUCTION

The production of final accounts is one of the core functions in a general accounting practice and is usually one of the main outputs.

There are a few suppliers of commercial final accounts production software which are commonly used in practice, although some firms still rely on Excel or other spreadsheets for their final output to a client.

Before any accounts can be output, there need to be some figures input upon which to report.

There will be a variety of prime records that need to be entered. This may be direct entry from the client's bank statements and cheque books (though this is getting rarer thanks to automation). In many cases, clients have their own accounting software, and data can be extracted from that to populate the final accounts software. With Making Tax Digital for VAT in place, and Making Tax Digital for Income Tax coming soon, requiring quarterly reporting, this will fast become the norm.

Where bank statements are supplied to the practice in paper format, these can be scanned, uploaded to a data processor such as AutoEntry or Dext (previously Receipt Bank), where the data is both extracted and validated, then downloaded in a format ready to import into the final accounts software.

A direct link between the final accounts software and the client's bookkeeping software is another method of getting data in. As an example, Digita Accounts Production Advanced and BTC Software, to name just two, have two-way integration with Xero, with the ability to take data from Xero and push adjustments made in those products back into Xero. The direct link avoids having to manipulate any output from bookkeeping software, other than to map the codes from Xero to the corresponding accounting software code.

An alternative method of getting data into the final accounting software is by CSV import. This works by exporting a trial balance from the bookkeeping software, but often this also needs manipulation to the required format. The next stage is to map the accounting codes in the client software to the final accounts software. In the first year, this will take some time to do, but is still likely to be quicker than posting the transactions individually as there will be fewer keystrokes. This mapping document can be saved for future use and next year only any new codes will need to be mapped. The import can then be performed.

PURCHASE INVOICE PROCESSING

A significant amount of time can be spent inputting purchase invoices into accounting software. This is a hugely labour-intensive manual task, often keying in data that someone has already keyed to create the invoices in the first instance. While it may be possible to use some shortcuts to reduce the data entry, there is still a lot of data to process. Shortcuts include typing in perhaps the first three characters of a supplier code and the matches are then displayed, allowing the exact

match to be selected. It may also be possible to enter dates in a short format (eg, +14 for the due date being 14 days after the invoice date).

The big automation game changer in this area though is the ability to have the relevant data extracted automatically and then transferred directly into the accounting software.

What happens to invoices that are received electronically, like a PDF attachment to an email?

There is a strong possibility that these are printed out and passed for entry into the accounts software. Chances are that your clients work in this way too.

Dext, AutoEntry and HubDoc are three of the leading products in this workspace, although there are others.

There are various ways of getting documents into these products for processing: photographing the invoices/bills; scanning and uploading; Dext images or scans can be placed into a dedicated Dropbox folder which is scanned on a regular basis and data uploaded to Dext; there is a drag and drop facility on desktop-based versions; or invoices that are received via email either in electronic format or embedded in the text can simply be forwarded.

Once processed, the data is sent to the accounting software products, together with an image of the original invoice/bill. Having that image readily available is a huge benefit-no need to go hunting in filing cabinets or in-trays for the paper version!

EXPENSE PROCESSING

Closely allied to purchase invoice processing is expense processing. There are various methodologies and products that can be used to record expenses. Excel seems to be a firm favourite still, and frequently people can be seen processing their expenses via Excel while travelling on the train.

Some online software products have their own expenses modules, with varying degrees of sophistication, but there are also dedicated expenses software products, providing enhanced features and functionality, which then link direct to the accounting packages. Dext, mentioned above in conjunction with purchase invoices, can handle expenses too.

The ability to simply snap a receipt on a mobile device and have it automatically coded up and passed into the accounts software for approval etc. ensures accuracy and saves time.

Another way of dealing with expenses is to provide staff with a prepaid debit card. With features such as auto-topups, customisable budgets and spending rules, and automated entry into the accounting system, these can remove the need for 'petty cash' and all the risks associated. Soldo and Pleo are two (of many) in this arena.

BUSINESS TRAVEL

Also allied to expenses is mileage for business travel. Tripcatcher is one product that deals with both the mileage recording and the VAT aspects. The petrol element of the mileage rate can potentially change every three months, and Tripcatcher deals with the VAT element reclaimable automatically.

The service also has a mobile phone app with GPS tracking – so clicking the button at the start and end of a journey records the mileage. Alternatively, the start and end point are shown on a map and the distance calculated. It can also simply be manually entered (the same as on the desktop version).

Tripcatcher has integration into products such as Dext and Xero, ultimately ending up in the accounting records without any manual input.

PAYING THE BILLS (AND WAGES)

Bills need to be paid! Do you still put cheques in the post … or logon to online banking and laboriously search for a supplier name and then type in the amounts to be paid? Paying of suppliers can now be automated directly from within accounting software. As usual, there are several companies that offer such facilities – Credec being one. This creates a 'virtual' bank account in the accounts software and supplier invoices are marked as being paid from this account. The payments software scans the entries in that bank account at selected intervals and either makes the payments by BACS or through a slightly different routine via Faster Payments.

Wages and PAYE can also be paid through Credec by creating a payments file which is uploaded to their website.

SALES INVOICE AUTOMATION

Invoices can be time-consuming to produce and send out. The use of standard text as far as possible can help, in association with the use of 'product codes' in accounting software. The short code PTAX could be selected which would populate the invoice with, for example: 'Preparing your tax return for the year ended 5 April 20xx and submission to HMRC.'

It may also be possible to copy a previous invoice and amend the text as necessary, rather than rekey everything from scratch.

As more and more practices move to regular monthly billing, make use of the recurring invoices feature in the accounting software. A recurring invoice could automatically be generated on, say, 25th of a month.

A big step forward in the automation process is to fire an invoice out to the customer as soon as it is produced. What is the alternative? Print it out, place in an envelope and take to the post box. The latter has direct costs and manual processes associated with it; sending by email is a button click.

A further way of sending invoices and which will likely become increasingly common in the future is to send it direct from the practice accounting software to the customer's accounting software, where it appears in the purchase section for the customer to action/approve without having to rekey any of the data.

CASH COLLECTION

It is also possible to automate many aspects of the sales cycle, which has the benefits of getting cash into the bank much more quickly. Cash is king and money in the bank is far better than money tied up in debtors or work in progress.

So how can cash collection be automated?

A payment service such as Stripe or PayPal can be used to collect funds and customers can click on a 'pay now' button embedded onto invoices emailed out. The customer enters their credit card details and the bill is paid.

The 'pay now' button is still reliant on the customer choosing when to pay as opposed to having control over when payment is made. Direct debit is therefore the recommended method of controlling payment.

GoCardless is a business that has significantly disturbed the traditional methods of putting direct debits in place and it is now possible to both set up the ability to implement direct debits and collect payments from customers in just a few minutes.

This can be automated even further so that the sales ledger is interrogated on a regular basis to ascertain the invoice due dates, then the direct debit is automatically invoked to collect the amounts due. The process is therefore:

Step 1 – Send out recurring invoices automatically by email (some monthly, some quarterly)

Step 2 – Direct debit software interrogates the sales ledger and identifies the due date

Step 3 – Sums due are collected by direct debit on the due date

Step 4 – The receipt is automatically matched and recorded against the invoices in the accounting software

Step 5 – The direct debit charges are automatically posted to the relevant expense account

Step 6 – The bank feed picks up the bank transaction and posts it to the relevant bank account

A complete sales and collection cycle that is totally automated.

DEBT CHASING

Accounting software may have a feature to automatically follow up specific unpaid invoices after a certain time had elapsed. There are, however, other third-party add-ins which offer greater degrees of sophistication and functionality in being able to send automated reminders. There is also the ability to tailor the message based on the age of the debt.

There are several products offering such functionality – Chaser and Satago to name just two.

FUNDING

The COVID-19 pandemic led to a variety of rescue packages and loans, and cashflow was critical. The levels of automation in products now are such that, by linking to accounts software, lenders can obtain data they require and can instantly match up to a range of possible lenders. Fluidly is one such company. This company, as do others such as Satago, also offer finance on book debts – all of which can be applied for within their platforms.

PERSONAL AND CORPORATE TAX

Though the linking of the self-assessment tax return to the accounts software has already been alluded to, the calculation of liabilities through the tax software is another example of automation that will long have been taken for granted. While there is an Office of Tax Simplification, there are still many complicated areas of legislation in the UK tax system, and the actual tax calculation can be very complex. This is a prime example of daily use of automation. When was the last time you manually calculated a tax liability in detail?

MAKING TAX DIGITAL

Making Tax Digital for VAT has been in place for some time now, and the next stage of implementation, for both VAT and income tax is fast approaching, if the proposed timescale is adhered to. A pilot scheme for MTD for Income Tax is already up and running. This will change the tax preparation landscape dramatically. Software houses are working to ensure the data supplied to HMRC and appearing in individuals' tax accounts will also be populated into the tax software. This will include items such as PAYE earnings and tax deducted, pensions and other sources of income. This will take away a lot of the manual entry that historically was required. It is possible to link to HMRC systems and import PAYE earnings and tax deducted into personal tax software. Refer to the ICAEW MTD hub at icaew.com/mtd for more information.

DIVIDEND CALCULATIONS

As yet, there is no announcement about dividends feeding in automatically to the personal tax accounts. An optional module in Digita Personal Tax is the dividend feed. This is a database of the dividends and interest paid by quoted companies. By entering the number of shares held, it calculates the expected dividend.

While not foolproof, as there may be shares acquired or sold during the period, it does eliminate a lot of the data input associated with the entry of figures into tax software.

TAX CHECKER

Within Digita Personal Tax there is a (basic) tax awareness checker. This flags up a few of the possible tax planning opportunities, elections or allowances that may be available, based on entries on the tax return.

BUSINESS REPORTING TOOLS

For many people, pictures convey messages more succinctly than pages of figures. Graphs and charts require underlying data to be able to illustrate the position though. The data may come out of the accounts directly, or it may be able to be extracted in a suitable format.

However, there may be a degree of manipulation necessary or rekeying of data. What if the data could be updated on a regular basis – automatically of course – and then the reports generated/refreshed based on these figures?

There has been, and continues to be, a surge of products in this arena. While accounting software will have inbuilt reports and possibly a report generator to design your own, products such as

SyftAnalytics, Futrli and Spotlight Reporting take these to a new level of both functionality and visualisation.

ACCOUNTING DATA QUALITY

While highly appealing visuals can be produced quickly and easily, the underyling figures have to make sense. Just because the debits and credits on a trial balance agree does not mean the figures on the various nominal accounts are correct. Does the VAT balance agree to the VAT return? Does the PAYE balance agree to what was subsequently paid? Does the Net Pay Control have a zero balance? Does the opening capital balance agree to last year's closing capital balance?

It can be time consuming to review these areas and more, but many can be automated. Xavier Analytics gives a practice dashboard view of linked clients showing client metrics such as those listed above, as well as other invaluable statistics and figures eg, XYZ Ltd has debtors of £250k+, of which £90k is over three months old, 300 invoices outstanding and debtor days of 120. Could you possibly help this client? There are a few clues above.

The General Health Score calculated by the product also gives an indication of the underlying quality of the record.

PAYROLL

The payroll arena is a prime area for automation of many of the functions. This is also an area in the practice that is often left to its own devices. It is recommended you spend some time in the payroll department and really see what goes on!

How does data come in? No doubt a variety of ways, such as post, telephone, fax (still?) or email. You name it and at least one probably payroll probably comes in that format. If the client is trained properly in the first instance and is supplied with a pre-defined spreadsheet template for completion before sending it to you, the information can be imported directly into the payroll software; no rekeying of data and reducing the risk of error.

Various products can be used to record time and attendance and these hours can then be imported directly into payroll software. Some payroll products have a time entry area on a mobile app for staff to input their working hours.

How are payslips distributed? Historically, they would have been printed (on at least two-part and possibly three-part stationery) using a dot matrix printer. One copy would be sent to the client and the other would be kept in the office.

Does this still happen?

AUTOMATING PAYSLIP DISTRIBUTION

The impact of the General Data Protection Regulation has a bearing on all areas of communication, not least in the payroll arena.

Many software packages allow the emailing of payslips to employees – but are they actually sent out as a secure password protected PDF file? Emailing payslips avoids the need for printing,

effectively cutting out several extra steps, and also helps the practice and the client protect and secure personal data.

Increasingly popular is the ability to upload the payroll data to an employee portal – each employee having their own portal with password access. PayDashBoard offers this as a payroll agnostic service if the payroll software does not have its own self-service portal.

Payroll information needs to be entered into the accounting records. If the payroll is fully integrated with the accounts software, it is likely these entries will be imported automatically and seamlessly. It will be necessary to set up the relevant accounting codes in the payroll software, but once done, the process is automated. If the payroll is not integrated, a journal is likely to be the most common method. It is preferable for this to be in a format where it can be imported into the accounts, rather than the data having to be rekeyed.

MANAGING DOCUMENTS AND WORKFLOW

The accounting practice has long been associated with paper files and the associated costs of production of these files. Direct costs include printer toner, paper, folders, files, binders, and more. Storage costs include items such as filing cabinets and room use/hire.

Document management systems (such as Docusoft OneView) can reduce both types of cost substantially, and this is another area where automation can significantly improve efficiencies. Outlook or other email is often a silo of information, not accessible by others. By saving emails into a document management system, the emails are available to everyone (with the relevant permissions). Scanning incoming post or saving any internally-generated document is also immediately available to anyone. Workflows can be set up to flag documents as being for action by a member of staff, but others for information – a process which can be fully automated.

Use of an associated online portal allows two-way transmission of files securely, and allows for electronic approvals of tax returns, accounts or indeed, any other document that needs to be 'signed'.

BENEFITS OF AUTOMATION

The key benefits potentially obtained from automation are therefore:

- a more motivated and happier workplace – mundane and boring data entry eliminated;

- cost savings – less staff needed to do the same amount of work;

- improved efficiencies – less manual input prone to error;

- improved service to clients; and

- the ability to deliver additional higher value advisory services to clients – easier with up-to-date data.

CONCLUSION

This short publication provides just a taster of various options and tools available to automate your practice. Automation will not work without buy-in from everyone and there will no doubt be resistance, both to the processes and the change. Once this has been overcome, however, the productivity gains will be substantial. What's more, when you have seen the benefits in your own practice, you are ready to roll them out to other businesses – your clients.

- Assess your existing processes throughout the firm and identify areas where data is rekeyed and where automation could possibly be implemented – why are we doing it this way?

- Ensure staff are aware of the plans to automate, are involved in the implementation if possible, and explain the benefits of using automation

- Identify software products and tools that can automate the identified processes

- Identify a 'champion' to make things happen, implement the automation and train staff

- Identify the clients that could possibly benefit from automation of their processes using the products and methodologies implemented in your own practice

- Regularly review your processes, client base and service offerings to identify new opportunities to automate your practice

RESOURCES

ICAEW Technology pages - icaew.com/technology

ICAEW MTD hub - icaew.com/MTD

SYSTEMS MENTIONED IN THIS GUIDE

AutoEntry – autoentry.com

Chaser – chaserhq.com

Dext – Dext.com

Docusoft – docusoft.net

Fluidly – fluidly.com

Futrli – futrli.com

GoCardless – gocardless.com

PayDashBoard – paydashboard.com

Pleo – pleo.io

Satago – satago.com

Soldo – soldo.com

Spotlight Reporting – spotlightreporting.com

Syft Analytics – syftanalytics.com

TripCatcher – tripcatcherapp.com

Xavier Analytics – Xavier-analytics.com