



## Blockchain, Accounting and Audit: What Accountants Need to Know

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Among the many disruptive technology trends impacting the way we do business, blockchain is one lesser known within the accounting community. However, given its potential impact, blockchain is certainly not a trend that accountants can afford to overlook any longer.

Defined as an open, distributed ledger, blockchain technology records and verifies transactions without any trusted central authority. The technology itself exists as a file that maintains a continuously growing list of ordered records called blocks. Each block contains a timestamp and a link to a previous block using a “fingerprint”. Blockchains are resistant to modification of data and cannot be altered retroactively.

While many of us associate blockchain with digital currency, like Bitcoin, its potential impact is much wider. From medical records to identity management to land rights and global trade, blockchain acts as an indispensable ledger — a central point of truth. Instead of companies keeping and reconciling records of the same transaction in their separate, privately managed databases, or ledgers, both sides of the transaction are recorded simultaneously in a shared ledger. Because of this capability, as well as its ability to record transactions in real-time, blockchain is poised to up-end traditional methods of invoicing, documentation, contracts, and payment processing for businesses and industries both large and small.

### Potential uses for blockchain in accounting and audit:

- Traceable audit trails
- Automated audit processes
- Authentication of transactions
- Tracking ownership of assets
- Development of “smart contracts”
- Registry and inventory system for any asset, ranging from raw materials to intellectual property

“In the future, virtually every function in the world of Financial Services will be displaced, disintermediated and decentralized,” said Ron Quaranta, Chairman of the

Wall Street Blockchain Alliance during an AICPA / CPA.com Executive Roundtable in February. “The internet gave us a powerful way to share and access information. Blockchain now gives us a powerful way to share and access value.”

## **Impact on Audit Practices**

Like most forms of technology, blockchain in accounting and audit greatly reduces the potential for errors when reconciling complex and disparate information from multiple sources. Further, accounting records are not alterable once committed under blockchain, even by the owners of the accounting system. Because every transaction is recorded and verified, the integrity of financial records is guaranteed. While impressive, this technology has the potential to greatly reduce or even eliminate the need for auditing resources—potentially disrupting the accounting profession as a whole.

“Our technology has finally caught up with our desire to transact, without the need to trust the other party, and without the need for an intermediary,” said Quaranta.

With such upheaval on the horizon, you’d think accountants would take note. However, in a recent survey conducted jointly by Thomson Reuters and the Chartered Institute of Management Accountants (CIMA), only 4% of respondents selected blockchain as the disruptor that will have a great impact on their business 25 years from now. We believe it may be even more disruptive to the profession than machine learning, which will have a substantial impact on the profession, and we also believe the impact will start to be felt within the next few years.

Given the consequences, accounting firms who rely heavily on their audit practice may want to think about cultivating and diversifying services and clientele. With Blockchain, is there even a need for audits in the future? As with all new and potentially disruptive technology, it’s important to understand the opportunities and consequences, as well as how your firm will move forward as adoption of advanced technologies, like blockchain, continue to accelerate.

## **Embracing Disruption**

While we cannot change the fact that technology is disrupting our profession, we can choose to embrace it and find new, value-added ways to serve our clients. The most successful firms are transforming by moving away from traditional compliance activities and towards strategic advisory roles focused on helping their clients run a better business, improve their personal financial situation, or assess the risks involved with making a change.

So, while blockchain in accounting and audit may not yet be felt, it’s never too soon to survey the technology landscape and adjust the strategy of your firm accordingly. In such a fast-paced technological environment, being informed and open to change is really the only way to remain successful.