

Will Blockchain Render Accountants Irrelevant?

The ability to record everything accurately, may make them surplus to requirements

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By James Oviden, about mid-2017

In Luca Pacioli's 'The Collected Knowledge of Arithmetic, Geometry, Proportion and Proportionality', published in 1494, he outlined the basics of accounting - the double entry accounting system, debits and credits, and the trial balance. Since Pachouli, little has changed. Technology has evolved from paper to digital ledgers and automation has advanced, enabling accountants to get the job done faster, reduce the margin of error, and find and correct mistakes more easily, but otherwise it is fundamentally the same.

Now, however, we have blockchain, a technology with the potential to completely revolutionize accounting. As buzzwords go, it's up there with the most hyped, and although it has been touted as the next big thing in a wide range of industries, few have any real idea of exactly how they are going to use it. This is less so the case in accountancy, where there is a far clearer path to widespread adoption.

Blockchain is a decentralized, distributed ledger of transactions in which all participants can log, view, and monitor an identical copy in real-time. The ledger is neither owned nor controlled by one party, rather control of the network is distributed among the network's users. This means that all changes have to be confirmed by all parties and records can never be altered or destroyed, rendering it far more secure than other systems. The implications of this for both payments and audit trails, and therefore accountants, are profound. Blockchain accounting could help dramatically slash the cost of accounting, auditing, and compliance by all but eliminating the need for any bookkeepers or auditors.

Hywel Ball, UK head of audit at EY, for one, has noted the possible ramifications this has for internal finance functions, arguing that, 'Accountants do a lot of transaction processing, reconciliation and control, and that could change significantly if this technology gets adopted on a widespread basis. The cost savings that the banks are looking at are huge, and most of that saving is people who do the back office, so whether you view those as accountants or ledgers, there's a degree of challenge to those in the accounting profession who work in finance functions.'

The most obvious place it will have an impact is auditing

, as blockchain essentially fills the precise function of the auditor - to provide an opinion on the reasonableness and accuracy of a company's financial statements. All transactions could be logged

on an internal blockchain and recorded centrally. These transactions have already been confirmed as true and accurate because both parties have already agreed on them, so having another third party such as an auditor to re-confirm these transactions would be pointless. The role of the auditor is, therefore, at the very least greatly reduced. At worst, it is eliminated entirely.

This solves a number of problems, particularly around trust. It prevents the company's management cooking the books to fool the auditor. It also ends the conflicts of interest that arise when auditors are collecting fees from clients while simultaneously conducting audits on them, which provides real motivation to exaggerate how good the numbers are in order to retain high-paying clients. Blockchain also greatly reduces the opportunities for errors that can arise when reconciling complex and disparate information from multiple sources and the natural problems that arise from human error.

Given the potential for blockchain to be exceptionally disruptive for the big 4 accounting firms - Deloitte, Ernst & Young, KPMG and PwC - all of whom make much of their money from auditing, what is surprising is the time and money they are already investing into researching the technology's potential. Deloitte has already developed over 30 blockchain-related prototypes and in January 2017 opened a new blockchain lab in New York City's financial district, with a dedicated team of more than 20 blockchain developers and designers.

While its potential appears clear, and likely worrying for many in the accountancy industry, there is still skepticism. Despite his acceptance of its impact, Hywel Ball raises a number of questions, noting, 'Would we have to audit the chain itself or would we audit transactions? How much would we have to understand the advanced technology in the blockchain to audit the start and the end of the chain? Do we have to rely on the blockchain's auditors? People are just starting to think about that now.' There is also the issue of regulation, with regulators yet to properly understand what their role is in a decentralized technology and set out a real framework. All told, there is still much to be done. Eric Piscini, a principal with Deloitte Consulting, has called 2017 a 'make or break' year for blockchain technology, but research is only in its infancy and it will likely be a decade before it reaches widespread adoption. Only then will we know where accountants and auditors stand.

Comments



[Blake Oliver](#)

This is such a ridiculous statement: "... blockchain essentially fills the precise function of the auditor - to provide an opinion on the reasonableness and accuracy of a company's financial statements." All the blockchain does is verify that a transfer of funds has taken place. Like a bank reconciliation. At this point, it doesn't tell us anything else. And I doubt it ever will, since what company will want the details of every transaction available to the public? The function of an auditor goes far beyond simply verifying the existence of transactions. The higher purpose of an auditor is to attest to the proper classification of those transactions. And blockchain isn't going to be much help there.

While i agree that statement is not very correct blockchains built on tech like Ethereum do allow smart contract processing and can contain much more value (in information terms) than just verifying a transaction. That's the ham-handed example used in today's accounting circles because a) it's understandable and b) it's happening now.

Eventually blockchains will be able to verify transact / monetary obligations as well as be able to define, or kick off additional processes (again with immutability) and daisy chain that together to paint a more complete picture of a complex or nuanced transaction expressed as a functional piece of software. As someone who built an auditing product (and who is a technologist, not an accountant) i can see how SmartContract technologies can provide a major disruption to audit in more ways than doc. verification or triple entry accounting. Sadly i don't see many accountants who share my opinion.



• [Jose Paul Martin](#)

James, interesting article - I can tell you this, since I've been studying blockchain since its inception. It is not just accountants, but banks as well. A transparent ledger relieves the need for a cross check, and yes possibly making accountants redundant. Furthermore, because of the nature of blockchain - it is easier to track down a fraudulent transaction. Take the case of the recent SWIFT hack, it took months for them to open up about it, vs. the DAO hack.