



Auditing reimaged

How AI and tech can transform finance

What if you could close your books in 24 hours and have them audited in just three days? Welcome to the future of finance. Finance and accounting functions have been subject to significant change over the years, primarily as the result of disruptive technologies. Emerging technologies such as blockchain and generative artificial intelligence have promised to revolutionize finance and accounting. However, the focus on these technologies has been largely on how they will change existing processes—either by augmenting or entirely overhauling them. These changes in process still tend to lead to the same outcomes.

As these technologies become more mainstream and we learn how best to incorporate them into existing practices, it is likely they will impact desired outcomes as well. In this piece, I explore what I anticipate for the future of finance. Some of these changes may, at this time, seem far-fetched. However, I truly believe we will see these changes come to fruition at some point in the future. I don't dare provide a timeline—thus increasing the chances of my predictions being correct!

Quicker close

For CFOs and controllers reading this header, you likely just rolled your eyes. Quicker close... really? Aren't we always talking about making the financial close quicker? This is often a focus of finance and accounting teams, but when I say quicker close, I mean a **really quick** close. I mean closing the books within a day—two days, tops. If I didn't lose you with my header, I likely just lost you.

Think about it—we live in a world that expects everything to be instantaneous. We get anxious when a web browser takes more than three seconds to load. We're unimpressed if we have to wait in line for our coffee, especially if we ordered it online. Why should financial reporting be different? The longer it takes us to close the books, the longer we must wait to use the best information available to us in making decisions—our most recent historical financial information.

So, how do we get here? If closing the books in more than two days is unacceptable, how do we speed up the close process, in most cases, by more than five times? To start, any entry that can be automated should be. Automated entries are not new and are already used significantly. For instance, depreciation entries are often automated. But are there certain manual entries that have yet to be automated that can be automated?

The only manual entries should be ones that require substantial judgment and that change often. And, even for those entries, as much pre-work should be done in advance of the period close. Agentic artificial intelligence (AI), which is viewed as the next breakthrough in AI and may also be able to automate entries considered more complex, refers to systems designed to operate autonomously with the capacity to make decisions, pursue goals, and take actions on behalf of users or themselves.

Many financial closes don't just rely on internal information but also rely on information provided from external parties. Investment pricing is often a great example. Many entities with substantial investment portfolios rely on third-party pricing sources. Thus, mark-to-market entries cannot be posted until the information is received from these third parties. However, as stakeholders start to expect a quicker close, third parties will also be pressured to meet these expedited timelines.

The use of generative artificial intelligence will also become essential in analyzing whether the books are complete. Preliminary financial information can be fed into generative artificial intelligence models to identify anomalies. This analysis can be done in a more traditional sense—variance and budget to actual analyses, for instance—with generative artificial intelligence quickly identifying variances that should be investigated further. However, this analysis can also be performed on a more granular level. Do you typically receive a monthly invoice from your utility company? Is that invoice missing from this month's financial close? Artificial intelligence will be able to quickly identify transactions that may be missing.

Quicker audit

If the books are being closed within one to two days, then that means audits should be completed sooner, too. Currently, some audits take more than four months before they are completed. Even the quickest of audits generally takes at least a month. Again, in our fast-paced world, how is this acceptable? We expect information to be at our fingertips; however, we're okay waiting a month or more for verified financial information? The audit of the future will take no more than a week, including the two days to close the books. Any auditors reading this article just raised their eyebrows. Impossible? Not quite. Here's how.

First and foremost, gone are the times of the rigid "interim" and "year-end" audit weeks. In the future, companies will be continuously audited—around the clock. Auditors will have direct access to their clients' accounting systems. "Audit bots" will be directly embedded into clients' accounting systems, continuously analyzing transactions that are posted, much in the way artificial intelligence will be essential in helping ensure a complete and accurate close. Anomalies will be kicked out by the audit bots, requiring audit teams to investigate these transactions further. More time will thus be dedicated to more complex transactions, most likely accounting estimates, which already tend to require the most audit work. However, emerging technologies will likely play a role in speeding up the audit process over accounting estimates as well.

As any auditor knows, half the battle of an audit is in preparing and/or reviewing the financial statements. The preparation of financial statements, including the footnote disclosures, will also be expedited via the use of technology, with most of the preparation becoming automated. An automated financial statement process will be imperative in order to meet the stringent one-week audit requirement.

Different audit opinions

Currently, under US Generally Accepted Auditing Standards (GAAS), every audit opinion reads the same. Although there are different opinions (i.e., unmodified, qualified, adverse), each opinion is identical. For instance, an unmodified opinion issued by one firm is the same as an unmodified opinion issued by another. US GAAS requires audit firms to obtain a reasonable level of assurance that the financial statements are free from material misstatements. Reasonable assurance is a high level of assurance, but not absolute assurance. Any auditor, and even those who have been subject to an audit, knows that not every audit is created the same. Audit firms have different approaches, and these approaches can vary drastically. But each approach still leads to the auditor obtaining an acceptable level of assurance—reasonable assurance.

I like to think of reasonable assurance on a spectrum, with an audit in conformity with US GAAS meeting at least the low end of the reasonable assurance spectrum. However, some audit firms do more audit work than others, or their audit procedures are more effective than those performed by other audit firms. For these firms, they are on the higher end of the reasonable assurance spectrum, but it still results in the same audit opinion being issued. However, as technology inserts itself more into audit procedures, this spectrum continues to widen, with some firms having the capability to inch farther along the spectrum, getting closer to absolute assurance.

I want to make it clear: I think we are far from achieving the ability to obtain absolute assurance as an auditor. And if an audit opinion were ever proposed that claims absolute assurance, lawyers would probably fight it until they were blue in the face. But, as the reasonable assurance spectrum widens, it begs the question: Is only having one audit opinion appropriate? Don't get me wrong—having one opinion is super convenient. It's easy for stakeholders to understand. But let's say two audit firms audit the same company—one uses sample testing while the other uses full population testing. They both issue an unmodified audit opinion. As a user of that opinion, aren't you more confident in the opinion of the latter audit firm? Wouldn't these different audit approaches be useful to know about?

The future of audit will include different audit opinions depending on the audit approach taken by the audit firm. This will give clients more to shop around for when looking for an audit firm, as there will be a distinct difference between the services offered. Some companies may be fine with the lower level of reasonable assurance that is currently the norm, or they may not be equipped to handle a more in-depth audit. As time goes on, markets will expect the higher level of reasonable assurance. What should we call this new level of assurance? 'Higher assurance than reasonable, but still not absolute?' That's a bit of a mouthful.

Different opinions may also be desirable depending on the circumstances and the information being audited. Similar to how quarterly financial information of public companies is currently reviewed rather than audited, a lower level of assurance may be desirable for interim financial information. This lower level of assurance will be more accessible, extending beyond public companies, and will thus become the norm—gone will be the times of "unaudited" financial information. For example, an opinion on a company's monthly financial information may be given, with certain transactions having been carved out from the opinion (likely those transactions that are more complex, such as accounting estimates). Since auditors will have a direct feed into clients' accounting systems and will be continuously auditing, these opinions will be given quickly, possibly even at the same time the books are closed.

Financial statement overhaul

When you think about it, the modern-day financial statement is fairly archaic-looking. Financial statements can be upwards of 40-50 pages of numbers and text. I have never seen a set of financial statements prepared under US GAAS contain even a chart. To make matters worse, all of this information is static—just sitting on the page or web browser.

The "next gen" financial statement will be dynamic and full of visuals, bringing the company's story to life. It will still contain the same information—balance sheet, income statement, statement of cash flow, etc. These statements will be accompanied by dynamic graphs and charts, allowing users to visualize company trends. Trend analysis will become more apparent as financial information within the financial statements will be expanded from the typical two years of information to, at a minimum, five years of information.

Disclosures will still be an integral part of financial statements, but will also become dynamic. Rather than having a long list of disclosures following the face of the financial statements, the disclosures will be embedded within the face of the financial statements. Disclosures can be accessed by hovering over the amount within the face of the financial statements it is related to. As an example, if a user hovers over a company's lease liability on the balance sheet, the lease disclosure will pop up and future maturities will be presented as a bar chart rather than a table.

Ratio analysis will likely still be crucial for financial statement users, whether it be investment or credit analysts. So, don't fret, the visualization of the financial statements will not replace the underlying financial information, only accompany it. The underlying financial data will still be accessible and thus available to users to do with it what they wish.

Recently, there has been dialogue about non-GAAP (Generally Accepted Accounting Principles) financial measures and whether some of these measures should be codified within GAAP. I am less convinced that ratios will become a required part of financial statements. This is simply because there are so many variations to how ratios can be calculated. Most analysts have preferred methods for calculating them. Debt agreements can also require ratios, often used in debt covenants, to be calculated in a certain manner. Therefore, if the financial information is already available, it begs the question: Why should ratios be a required part of the financial statements?—especially if the way they are calculated might not be the preference for all analysts.

More than just financial information

Yes... another eye roll from the finance folks. I get it—you have enough going on. But now that you're likely closing the books more than five times faster, what are you going to do with all your free time? I've heard some say that efficiency will lead to better work-life balance. I don't buy that for a moment. There is always more to do. CFOs will become more like COOs, except I like to think of these transformed CFOs as CSOOs—Chief Super Operating Officers. Equipped with their strong financial background and a deep understanding of the finances of the company, which requires one to understand nearly every facet of the company, CFOs (or now CSOOs—yes, I know this title likely won't stick) will be in a position to be the chief strategist for their organization. We've already started to see this happen, but it will become increasingly prominent. And the quicker close will allow these individuals to have their most valuable decision-making ammunition—historical financial information—available sooner, making this information that much more valuable.

And yes—our roles will extend beyond just financial information. For instance, environmental, social, and governance (ESG) information will become more mainstream, whether due to regulation or market pressures. The focus of ESG conversations to date has primarily been on the E in environmental. Within the E alone is a plethora of new information that will need to be gathered and accounted for. The S and G also have their own troves of information that have yet to be touched. Someone will have to own this information—who better than the CFO?

Buckle up—we're in for a wild road in the future—whenever that may be. I'd love to hear your thoughts on my future of finance. Are any of my ideas too outlandish? What have I missed? Please let me know! Most importantly—I look forward to accompanying you on this journey. We all have a crucial role to play in shaping the future of finance!

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