



Modernizing the exchange of secure documents



Market problem

Reliable financial and audit information is one of the foundations of capital markets. Emerging trends and market demands suggest the current process in the United States of exchanging private company sensitive information between CPA firms, clients, banks, investors and other entities is not working and needs to be dramatically improved.

Unlike the case with public companies, whose key data is accessible through the Securities and Exchange Commission's (SEC) Electronic Data Gathering, Analysis and Retrieval (EDGAR) system, there is no central repository for private company sensitive information in the United States. Many private businesses continue to rely on outdated and unsecured methods, such as traditional mail, hand delivery and email, to distribute financial statements, tax returns and other key documents. As a result, users of financial and related information cannot be certain if the documents they receive have been altered.

There are three trends causing lenders and investors to demand accurate, source-driven and verified financial information.

Key marketplace trends:

- Demand for authenticated information
- Digital transformation of financial services
- Compliance for private companies

In response to these market trends, CPA.com—an AICPA subsidiary— developed a dual-signature process that allows third-party apps like file-sharing platforms to verify that sensitive documents were created by accredited firms and remain unaltered. This white paper explores the market forces behind its development for private companies.



Canopy Financial: A cautionary tale

Canopy Financial Inc., a health-care technology company¹, is an example of the type of fraud occurring today due to the current private company information exchange processes.

The company had raised \$75 million in financing from venture capital and private equity firms that were impressed by the company's financial performance and market position. However, Canopy Financials' image of success was a fraud driven by two senior executives, who tricked investors into believing the company's financial results by providing fictitious audited financial statements under the letterhead of a Big Four accounting firm. Once the fraud was uncovered, the company filed for bankruptcy, leaving investors to incur millions of dollars in losses and causing great embarrassment for the private equity firm that managed the process.

The Canopy Financial case demonstrates a number of deficiencies in the current process for distributing private company financial information. Lenders and investors often rely on private companies to directly provide company financial data in formats that can be easily altered and are also unsecure. In this case, management provided a fictitious audit report and financial statements. Lenders and investors, in today's process, also have no way of verifying that the information has been provided by an appropriately licensed and peer-reviewed accounting firm.

The Canopy Financial executives were ultimately convicted and sentenced for perpetuating this fraud.

Trend I. Demand for authenticated information

Users of private company financial and other sensitive information are beginning to require validated sources of information to support their lending and investing decisions. Many large firms and banks have experienced the use of fraudulent private company audit reports and financial statements. There are a number of ways these private company fraudulent audit reports and financial statements are being produced.

Banks are clearly increasing their focus on the sources of data they receive. One additional driver of this is the role fraudulent individual tax returns provided directly

by individuals played in the consumer-mortgage crisis. Based on this, most banks prefer to use the IRS tax-transcript service to obtain business tax returns as part of their loan application process.

Fraud is driving an increasing reliance on IRS-source provided tax returns in the lending-decision process, despite more valuable information being available through CPA-prepared documents. It also clearly highlights the need for a source-validated means of obtaining private company information so the best available information is in the users' hands.

Trend II. Digital transformation of financial services

Digital transformation in the financial services market is well underway, with cloud-based platforms giving rise to new ways of managing financial data. More than \$28 billion was invested in the Fintech market in 2024, with an emphasis on artificial intelligence integration, scalable infrastructure, and continued reliance on source data to support defensible, real-time decision-making.

An example of this trend is the emergence of alternative lending platforms that digitize the complete lending process and today support close to 23 percent of the small-business loan market. As the avenues to access capital for private business continue to evolve, so too must the vehicles of exchange and communication surrounding source data being relied on by lenders and investors.

Trend III. Compliance for private companies

The regulatory and compliance environment has become far more complex for private businesses, their lenders and investors, and CPA firms servicing them. An example demonstrating the environment's growing complexity is a compliance requirement under the Dodd-Frank Custody Rule⁴, which requires private equity firms with more than \$150 million under management to ensure that their portfolio of private company auditors follow SEC independence rules or be subject to SEC inspections without notice. These SEC independence rules prohibit a CPA firm from assisting in the preparation of a client's financial statements which includes assembling of the financial statement.

The result is that the firm provides its audit report, in an unprotected format, to the client so that the client can attach the report to the company's financial statements. This creates a genuine control risk situation for the firm where the client may accidentally or intentionally attach the CPA firm's audit report to the wrong financial statements.

Types of fraud:

1

Management produces a fictitious audit report and financial statement using an existing CPA firms' letterhead and report language.

2

Management alters the information in an actual CPA firm provided audited financial statement.

3

Management creates a fictitious accounting firm or uses a firm that is not properly licensed.

Need for a new way to deliver private company documents

As previously discussed, traditional means of private company information exchange no longer meet marketplace demands. All parties involved in the information exchange stand to benefit from a modern, sophisticated system.

The new system should allow for verification that the firm who produced the document is properly licensed to generate that type of report; verification that the document has not been altered in transit; and elimination of the need for firms to send client documents to 3rd parties.

Advancements in technology allow us to address the following:



Liability exposure

Reduce risk through utilization of digital signatures in existing workflows to maintain privacy defense.

A major risk to private businesses and CPA firms is that they may unintentionally find themselves in a privacy relationship with lenders or investors, such as private equity firms who reach out to the firm to verify the authenticity of an audit report or financial document.

In many cases, this type of contact can create greater potential exposure for the business.

A modern system should prevent the creation of a privacy relationship, and the legal issues that can follow by eliminating the need for lenders and investors to contact a firm since the information source and the report have been digitally signed to confirm the document was created by a legitimate accounting firm and the file has not been altered since having been signed by the firm.

By ensuring the delivery of unaltered information, the system serves as a barrier to lawsuits, which can arise when a fraudster alters or forges an audit report or referenced financial statements. Without the system, firms will continue to be required to defend the firm's brand and reputation in cases involving fictitious users of the firm's letterhead.



CPA firm validation

Validate CPA firm licensure and other professional requirements.

CPA firms authorized to issue audit and review reports must adhere to a number of stringent professional requirements. These requirements include, though are not limited to, maintaining firm licensure with their State Board of Accountancy and where required, participating in a peer review program.

To ensure that CPAs who are providing sensitive information are adhering to professional standards, a modern system should be able to validate CPA firms' licensure and, where required, verify that they are current in their relevant peer-review commitments.



Source confirmation and document authentication

Confirm the original source of uploaded documents and ensure that documents being exchanged are authentic and unaltered.

To address fraud associated with private companies or other third parties falsifying a CPA firm's report, a modern system should allow recipients to trust the source and the document, which is now achievable via digital certificates.

Financial technology momentum in the lending process

Digital signatures provide reassurance of document authenticity.

Digital signatures use cryptographic techniques to verify the authenticity and integrity of a document. When applied to a source document, they confirm that the content has not been altered and that it originates from a trusted sender – making them a reliable tool for ensuring document integrity and compliance.

- A 3rd party authorized by CPA.com verifies that the firm has the proper credentials to produce certain types of financial reports and digitally signs the document. If the digital certificate is intact, the document was created by a legitimate accounting firm.
- The document is digitally signed either by the firm or by a partner of the firm. If the digital certificate is intact, the file has not been altered since having been signed by the firm.

Road to transformational change

Today's capital markets demand accurate and timely financial information, yet widespread uncertainty, inefficiency and risk plague the antiquated access and exchange processes for the financial information of private companies. In addition to capital-market concerns, a concerted focus on information authentication, sophisticated digital platforms and more complex compliance requirements have combined to create a perfect storm that surrounds the need for a better authentication system for private company information.

To modernize the approach to secure file sharing and report validation, CPA.com is partnering with third-parties to integrate a double-signature validation tool without the need for a clearinghouse. The first partnership is with Circit, a leading provider of PBC and confirmation services. Through Circit, firms will be able to embed and encrypt a RIVIO badge into sensitive documents that certifies the firm has gone through the AICPA's Peer Review process.

Firms will then be able to share these documents with clients through their preferred means. Clients will be able to forward these documents to third parties such as banks, investors, or regulators.

As long as the digital signatures remain intact, recipients will have proof that:

The documents have not been altered from the versions that the accounting firm originally created

The documents were issued by a legitimate firm with the appropriate level of Peer Review.

Footnotes

1. <https://archives.fbi.gov/archives/chicago/press-releases>
2. [Fintech funding falls in 2024, but mega rounds show tentative signs of optimism | S&P Globalhttps://www.forbes.com/advisor/business-loans/small-business-loan-statistics/](https://www.forbes.com/advisor/business-loans/small-business-loan-statistics/)
3. <https://www.mccarter.com/insights/private-equity-sec-custody-rule-one-size-does-not-fit-all/>
4. <https://www.cbh.com/globalassets/guidance-pdfs/sec-auditor-independence-rules-for-private-equity-funds-7391657672.pdf>

About CPA.com

CPA.com is the trusted partner in accounting and finance transformation, enabling firms and finance teams to evolve and innovate across audit, tax and advisory services. It delivers leading-edge strategies, resources and technologies to help firms and finance teams of all sizes stay ahead of a rapidly changing marketplace, deliver more value to clients, and position for long-term success. CPA.com is an affiliate of the American Institute of CPAs (AICPA). For more information, visit [CPA.com](https://cpa.com).

About RIVIO

RIVIO, a service of CPA.com, an AICPA company, enables a secure exchange of financial documents using digital signatures, ensuring information originates from an authenticated source. Through RIVIO, CPA firms embed a verified badge and digital signature to confirm the firm's licensing status and protect documents from alteration in transit. As long as the digital signatures remain intact, the firm can distribute the document to clients through third-party applications. The result is a trusted, tamper-evident record that instills confidence across all parties.

RIVIO was commercially launched into the marketplace in May 2016. RIVIO is an acronym for: Repository of Intelligent Validated Inputs and Outputs. Learn more at [RIVIO.com](https://rivio.com).

