The Role of Assurance in Equity Crowdfunding

Spark 2020

Evisa Bogdani, Monika Causholli*, W. Robert Knechel‡*
**University of Kentucky, ‡University of Florida*

Overview

We examine whether **assurance** facilitates capital formation in equity crowdfunding market.

Equity crowdfunding refers to the process of raising capital by selling securities through the internet to a large number of investors.

The SEC requires companies to disclose financial statements *but* allows to choose the **assurance level**: *certification by management, or an audit or review by an independent accountant.*

Main Findings

Startups that choose to hire **an independent CPA** :

- Are 81% more likely to achieve their target fundraising vs startups that only provide **management-certified** financial statements.
- Attract 81% more investors.
- Raise 69% more funds, over and above the target level.

Investors ***do not differentiate*** between companies that provide **reviews** relative to those that provide **audits.**

Results H1

Management Certification / CPA_Engagement

Success	Assurance
Pr_Success	0.594*
Amount of Funds	0.528***
Excess Funds	0.915**
Number of Investors	0.594***

Results H2

Audit vs Review

Variable	Review	Audit
Pr_Success	0.585*	0.753
Amount of Funds	0.508***	0.876***
Excess Funds	0.887***	1.387***
Number of Investors	0.549***	0.963***

Key Words: equity crowdfunding, assurance, audit, reviews, capital, startups, finance