

DUE DILIGENCE PROCESS INTERNAL CONTROL QUESTIONNAIRE

Introduction

The concept of synergy is that $2+2 = 5$. This principle is applied to mergers and acquisitions. The idea is that if 2 entities join together, the result should be greater than if they acted alone. There is no point having a merger or acquisition if $2 + 2 = 4$. One can look at a merger in the same way as one would look at a marriage.

For a merger to be successful, the due diligence audit has to be successful. The ICQ below is directed at auditing the due diligence process and is in effect a basic framework.

Question	Yes	No	N/A	Comments
The Due Diligence Team <ul style="list-style-type: none"> • Who are the due diligence team? • What is their current role in the purchaser's organization? • What authority do they have? • What will be the role of this team in the due diligence audit? 				
Issues <ul style="list-style-type: none"> • Are issues relating to contracts, property and cash flow considered? • Is cultural compatibility considered? 				
Difficult Vendor <ul style="list-style-type: none"> • Is the vendor evasive in the disclosure of information? • How does the due diligence team tackle this reluctance to disclose? • If the reason for evasiveness is confidentiality, what procedures do the due diligence team put in place to protect this information? • If disclosure of information is delayed, does the due diligence team question the integrity and accuracy of the information/data? 				
Why Merge? <ul style="list-style-type: none"> • What does the purchase hope to gain from the merger/acquisition? • Is cultural fit important? • If the answer is yes, why is this necessary? 				

Information				
<ul style="list-style-type: none"> • How is financial information provided by the vendor treated? • Is there a hidden reason in making the target organization attractive? 				
Advisers				
<ul style="list-style-type: none"> • Does the purchaser use external advisers to assist in the merger/acquisition process? 				
Integration				
<ul style="list-style-type: none"> • Who undertakes the integration of the 2 entities (both top-down and bottom-up)? 				
Value				
<ul style="list-style-type: none"> • How is information communicated on both sides of the 2 entities? • How is the corporate vision/mission statement and values communicated? • How is commitment ensured? • How does the organization tackle the possible issues of employees feeling undervalued? • How does the organization ensure that the best staff do not join rival organizations? 				

Conclusion

This ICQ has been written due to the fact that I have, in the past, been on the receiving end of a merger. In times of uncertainty, competitors will try and take away the “real assets” of a company – their employees. Don’t let it happen! Make sure your staff feel that they belong – like a rugby team with their jerseys on - all the same. They then have one goal – to score a try and have “A Will to Win” (Quote from a painting with an English Rugby Player who is running past a whole load of South African Rugby Players).

Jim Kaplan (the thread that holds all of Auditnet together) recently told me that change can be difficult, but it can present many opportunities. This is true of many mergers and acquisitions. Well Jim you are quite right and thank you for guidance. Just a note to say that Jim, you inspire me to aspire. If you hadn’t created Auditnet and the world’s “numero uno” knowledge management database, a lot of internal auditors wouldn’t have been brought together and no one would be sharing programs with each other and we’d all be stuck when we had to prepare for an audit!

At an ACCA Graduation Ceremony in Manchester, England in late 2001, the Director of Finance of the Morgan Motor Car Company in Malvern, gave a speech to all the ACCA passed finalists. He talked about making the most of the opportunities that present themselves. This can be related to the presentation of opportunities comment from Jim Kaplan. The acquirer needs to look at the opportunities and really look after the true assets of a company. It can be said that companies do not make the people, but rather the opposite, the people make the companies. This of course, depends on your matter of perspective.

Prepared by: _____
Date: _____
Reviewed by: _____
Date: _____

Further guidance on mergers and acquisitions can be obtained from David Smellie, a partner, within the Corporate Department of Davies Arnold Cooper (email address: dsmellie@dac.co.uk). Strategic Risk Magazine (www.strategicrisk.co.uk) has published this individual's article entitled "Stormy Courtships" in June 2000.