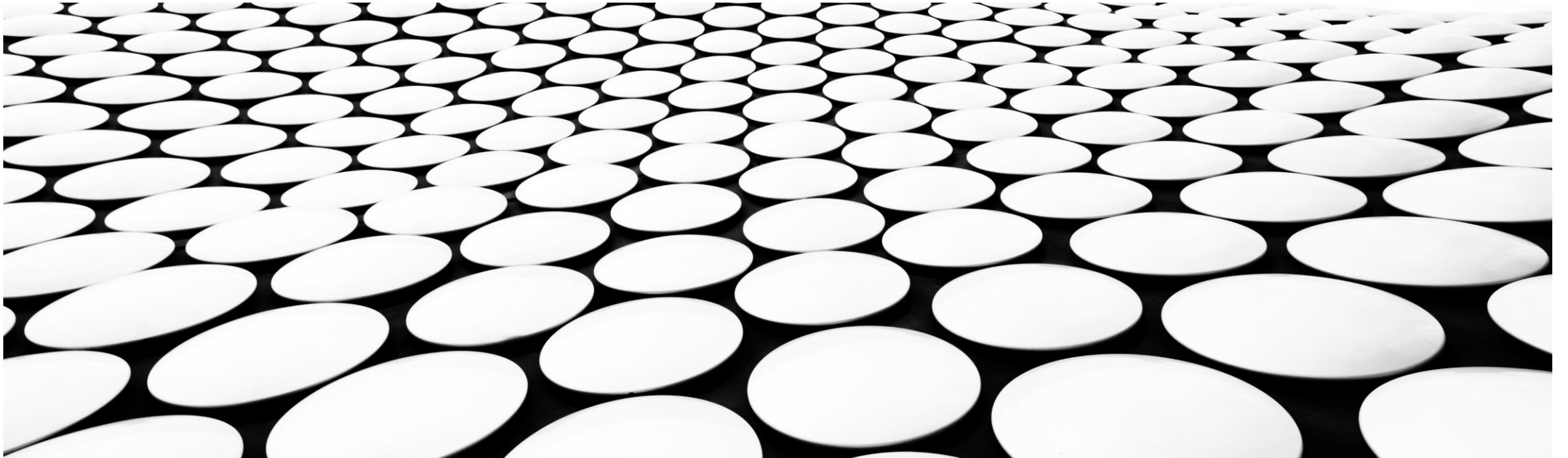

FINANCIAL DUE DILIGENCE – AN OVERVIEW

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WHAT IS FINANCIAL DUE DILIGENCE

Financial Due Diligence is the art and science of comprehensive evaluation of the financial health and hygiene of an organization and it is normally performed when a buyer wants to acquire an organization. It includes a complete investigation of the following related to the target entity:

- financial management system including the process of maintaining accounting records, compilation and reporting of financial numbers related to the capital structure, investments, assets and liabilities, revenue, and expense reporting of the organization,
- the pillars of the control environment and internal control process on which the edifice of financial management system rests,
- Risk management arising out of the business drivers which drive the historic and projected order book, sales revenue, cost structure, profitability, and projected cash flow analysis.

OBJECTIVES OF FINANCIAL DUE DILIGENCE

- Develop an in-depth understanding of the financial statements of the target entity,
- Unearth, the hidden liabilities that may be lurking behind the audited financial statements,
- Identify potential impairment losses that may arise in the tangible, intangible and financial assets of the target entity owing to the impact of the business environment, in which the target entity operates,
- External factors like the onset of COVID-19 pandemic on the future business of the target entity and its impact on the financial health including future cash flows of the target entity,
- Evaluate and identify possible weaknesses in the control environment of the organization which may trigger significant risks to the prospective financial situation of the target company,
- Come up with a credible valuation of the target entity based on the quality of the financial statements including future cash flows of the organization.
- Identify potential deal breakers related to the target entity which need to be flagged early enough for negotiation by both entities.

FUNDAMENTAL PRINCIPLES OF FINANCIAL DUE DILIGENCE

Independence

Prudence

Completeness

Materiality

Substance
over legal
form

METHODS OF FINANCIAL DUE DILIGENCE

The conventional methods of performing Financial Due Diligence would be:

- Analysis of the Financial Statements of the target organization,
- Analysis of the control environment and risk mitigation process within the organization,
- Interview of the stake holders including key employees of the organization,
- Analysis of the external business environment under which the target entity operates,
- Study of the business model of the target organization, the market within which it operates, the competition, and potential roadblocks that may arise in the future, that may adversely impact the future cash flows of the organization.



THANK YOU!