

FINANCIAL DUE DILIGENCE CHECKLIST



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GENERAL

- All internal accounting acts reviewed (accounting policies etc.)
- Audit reports reviewed
- Auditor management letter points reviewed
- Tax authorities findings reviewed
- Compare official financials and reports for management
- Findings of other external financial or tax consultants reviewed
- Review business plan and budget
- Business understanding: review main processes : sales, purchase etc.

ANALYTICAL PROCEDURES

- Actual vs comparable period figures differences investigated
- Review of key ratio numbers and changes in ratio numbers
- Net working capital reviewed
- Budget achievements reviewed and differences investigated
- Review monthly movement in sold quantities, revenues and margins
- EBITDA adjustments review and check
- Quality of earnings report checked
- Cash flow statement calculation and verified
- Net profit margins and EBITDA margins reviewed
- Compare official financials with management reports

INTERNAL CONTROLS

- Review competences, processes, controls in accounting sector
- Review competences, processes, controls in controlling sector
- Review competences, processes, controls in tax department
- Review of automatic internal controls
- Test how is internal controls is performing
- Review of monthly / annual closing procedures

PROPERTY PLANT, EQUIPMENT AND IP

- Ownership documentation reviewed (eg. Title deeds)
- Useful life for all IP and PPE item groups reviewed
- Variance between tax and accounting depreciation rates explained
- Movement in IP and PPE balances explained
- PPE and IP registers reconciled with GL accounts
- Check weather GAAP is applied when PPE or IP is acquired (test)
- Check weather GAAP is applied when PPE or IP is sold (simple test)
- Review useful life for all IP and PPE item groups
- Is there PPE or IP impairment indicators?
- Check capital gains/ losses if any

INVESTMENT IN ASSOCIATES AND SHARES

- Investment in associates reconciled with associate's equity
- Purchase agreements reviewed
- Check how well associates is operating, is there impairment needed?
- Valuation of shares listed on stocks is properly done
- Check capital gains/ losses if any

INVENTORIES

- Inventory structure analyzed (raw materials, WIP, FG)
- Annually / monthly movement in stock reviewed and explained
- Days inventory outstanding (DIO) reviewed and explained
- Inventory cost and recognition is aligned with GAAP/IAS
- Review the results of annual stock inventory
- Shortages, write-offs and surpluses verified and explained
- Inventory register reconciled with GL accounts
- Stock ageing structure analyzed
- Cost vs Net realizable value compared

ACCOUNT RECEIVABLES

- Annually / monthly movement in AR balance reviewed and explained
- Customer list per sales and balances prepared and reviewed
- Ageing structure / overdue list of AR prepared and analyzed
- Check how much AR balances is reconciled with debtors
- AR sub-ledger reconciled with AR general ledger accounts
- Movement of AR impairments and reversals prepared and reviewed
- Main customers credit rating and liquidity checked
- Collection / credit risks identified and explained
- Days sales outstanding (DSO) reviewed and explained
- AP provision analyzed and explained

REVENUES

- Revenues structure analyzed (per product, categories, business units etc.)
- Annually / monthly movement in revenues reviewed and explained
- Main customers' contract reviewed and aligned with associated revenues
- Gross margin analysis done: movement in GM, GM per products etc..
- Discounts to customers recognized in appropriate reporting period
- Revenues reconciled with sales reports for management
- Sales actual vs budget vs. LY analysis performed

LOANS AND INTEREST EXPENSE

- Creditor list per funding amount and balance prepared and analyzed
- Loan balances reconciled payment plans - loan schedules
- Loan agreements, mortgages and other debt documents reviewed
- Interest expenses properly accrued based on payment plans
- Short term vs. Long term liabilities presented in line with payment plans
- Net Financial Position calculated
- Debt to equity ratio calculated and analyzed
- Debt to EBITDA ratio and Income Coverage Ratio checked
- Debts covenants evaluated

ACCOUNT PAYABLES

- Annually / monthly movement in AP balance reviewed and explained
- Supplier list per purchase value and balance prepared and reviewed
- Ageing structure / overdue list of AP prepared and analyzed
- Check how much AP balances is reconciled with debtors
- AP subleader reconciled with AP general ledger accounts
- Consider reasons if due liabilities is not paid - (impact on NWC)
- Days payables outstanding (DPO) reviewed and explained

COMMITMENTS AND CONTINGENCIES

- Litigations and litigations risks reviewed
- Assumptions of debt litigations reviewed
- Contracts that involve payments exceeding material amounts reviewed
- Calculation of potential liabilities based on current contracts
- Check procedures that company apply when approve material contracts
- List of guarantees reviewed
- Check environmental commitments, liabilities, or contingencies.
- Interview key stakeholders to gain insights into contingencies

HEADCOUNT AND SALARIES

- Management labor agreements reviewed
- Typical employee labor agreement checked
- Cost of salaries matches with the amounts in agreement
- All bonuses and benefits properly accrued
- Annually / monthly movements in salaries balance reviewed and explained
- Average monthly salaries analyzed
- Ratio salaries in revenues reviewed during periods
- Short-term and long-term employee benefits check

OPERATING EXPENSES OPEX

- OPEX structure analyzed
- Recurring operating expenses matches with agreements
- OPEX variance identified and explained
- Ratio OPEX in revenues calculated and reviewed during periods
- Prepaid expenses accrual checked
- Check the accruals for undeceived bills and other provisions
- Main supplier contracts reviewed, key elements reflected in financials
- COGS share in revenue: changes considered and explained
- Insurance agreement reviewed

EQUIRY AND OTHER LIABILITIES

- Subscribed equity reconciled with official business register
- Retained earnings / accumulated loss matches with balance sheet data
- Statement of changes in equity reviewed
- Reserves examination if any
- Review of liabilities for taxes, customs and other admin fees
- Professional fees expense examined

INTERCOMPANY

- Understand the position of Company in the Group of related parties
- All related parties identified
- IC agreements examined
- IC transaction reviewed
- Verify if the IC pricing is aligned with market pricing
- Analyze financial benefits and risks from IC transactions
- Analyze transfer pricing files