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5 TYPES OF DUE DILIGENCE SERVICES AND BENEFITS

Overview:

Due Diligence is the type reviewing engagement service which is normally performed the investigation to the target business, or companies related to business performance, liabilities, assets, financial statements, and others subject matters.

Due Diligence service are vary depending on the nature of engagement; however, there are five types of Due Diligence.

In this article, we will explain the basic concept of Due Diligence Service, the Top Five popular Due Diligence Service, Benefit of Due Diligence, who normally need that service, and finally who require this service.

The procedures to obtain that information are normally the analytical procedures, and inquiries. Yet, inquiries are mainly used in Due Diligence.

Due Diligent services are normally performed as the result of requesting by the companies or the investors who wish to acquire the target companies or who wish to do some future Business with the target companies. Most of the time, scopes of the services are identified in advance of service commencement.

Due Diligence report will list down the Assets, Liabilities, and Key Players (Mostly Top Managements) in the companies which are the care that most of the potential inventories need to take before making the decision whether to acquire or not.

Due Diligence also lists down the benefits that probably receive if the purchase takes place by identifying the value of the business being targeted.

The following are the key important points, we believe you should have known.

5 MOSTLY USE OF DUE DILIGENCE SERVICES:

There are many types of Due Diligence Services and they vary from one service to another. However, the following are the services that commonly request and provide:

FINANCIAL DUE DILIGENCE:

Normally when one company is targeted to be acquired by the potential investors or potential purchasing companies, the accurate value of that targeting company is the most concern.

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Financial Due Diligence answer investigators this question and set this answer as the primary objective of such kind engagements.

The main financial situations from the past few years to the next few subsequent years will be critically assessed and analyzed.

All the targeted company's assets and potential liabilities which might not be included in the company's Audited Financial Statements will carefully identify and review.

The main objective is to make sure that the potential investors will be able to quantify the assets and their values that they expected to receive after the acquisition.

Most of the potential investors do not want to bear the hidden liabilities of the targeted companies which are not disclosed in the Financial Statements; therefore, critical analysis and review of the potential hidden liabilities are part of the important task of the engagement.

Financial Due Diligence will not only assess and identify the assets and liabilities of the company but also provide the technical recommendation of cost-saving to the potential investors, future cash flow analytic.

Just Like others type of Due Diligence, Financial Due Diligence main procedures are mainly about the analytical and inquire as well as reviewing the Financial Documents.

OPERATIONAL AND IT DUE DILIGENCE:

So, the companies are running at its best to meet its objective, and it is quite vital to make sure the operations, as well as the current technology being used by the company, are operating efficiently and effectively.

The operational and IT Due Diligence will perform the critical review and assessment of these areas.

The engagement will be focused on the operational risks that associate with the targeted companies. This type of service normally provided by the expert team.

The engagement will provide the potential investors about operational aspects of the target company's business risks and opportunities which normally included the deferred investments in the target company's system as well as infrastructure, and the potential unrealistic improvement programs that might not benefit to the company in the future.

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The engagement service will also provide the practical cost savings opportunities and strategically working capital improvements as the result from detail assessments and technical analysis.

The door for this importance involved mainly with improvement in managing account receivables, strong control in accounts payable, professionally manage working capital and inventories.

Operational and IT Due Diligence also mainly involved in the assessment of the main Information Technology system that is used by the target company.

Most of the investors want to know and assess the capabilities of the information system and how it will help the target company improve the business. Such an engagement is done by an IT expert.

PEOPLE DUE DILIGENCE:

People working the target company are the main importance of assets and the main importance of liabilities.

So, the People Due Diligence involve with the studying of the old organizational structure and the new one which might be established if the acquisition is a success.

It also studies the employment contracts between the company and its employees, costs of terminations if any and potential benefits.

People due diligence is particularly important because some company like service, people are the most important assets.

REGULATORY DUE DILIGENCE:

Regulatory Due Diligence is one of the most important services among these five.

This engagement will conduct the independent review of the target company whether it currently complies all the regulatory requirements in the jurisdiction it is operating.

Well, the important thing is that if the company acquire the one that does not fully comply with the regulation and that un-compliance is not discovered yet, the potential debt might be bear by the future owner. That is why the regulatory due diligence is important.

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ENVIRONMENTAL DUE DILIGENCE:

Now the business needs to be run not only require complying with commercial law, and tax regulation, also the environmental law which might be enforced by a jurisdiction that those company operating in as well as an environmental pressure group.

Environmental Due Diligence will provide a critical and independent assessment whether the target company complies with the environmental policy or not.

If it does not comply, the quantification of those potential liabilities will be assessed and reported.

WHO NEED DUE DILIGENCE SERVICES?

Well, it depends. Why do we say this? Imagine, Due Diligence Services require at the time one company is being targeted by another and those prospective owners are interested in. So, it simply means at the time of negotiation.

So, at the time of negotiation, it is dependence on the result of negotiation. Sometimes, the potential investors are the one who requires these services, and they are the one who the accounting firm engaged with.

However, sometimes the targeting company want to show it transparency on the business transaction with its partners, the engagement is initiated by them with the accounting firm.

But, based on experiences, the result of most of the negotiation of acquisition, the targeted company is the one who engaged with an accounting firm and the one who mandatory need such kind of services are the potential investors as the benefits are run to them rather than the targeted company.

BENEFITS OF DUE DILIGENCE SERVICES

If you read from the beginning until this, you will note what is the potential benefit of Due Diligence Services.

The following are the summary of Due Diligence for Investors:

1. Good understanding of the target company's financial implication and problem both from the past few years and future. This is the most important points that most investors really want to know, and they always find the way to know.

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2. Understanding the Operational Nature, Potential Risks, and Potential Opportunity of the targeted company.

We hope this article provided you with a better understanding of Due Diligence, and if you have any questions regarding Due Diligence, please feel free to contact us.

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