

Chapter - 17 "Due Diligence, Investigation and Forensic Accounting"

(A) Due Diligence:

Example.

Investor -

ABC Ltd.

X (P) Ltd.

Employee

(P&M) - 7-8 yr old

(L&B) - costly Area.

Product (X)

R.M. 'Y'

Acquisition is advisable or not?

Target -

R.M. - A

Product (Y)

90% → ABC Ltd.

New Plant -
(Y)

→ Operational

→ Price

→ financial

↓

→ Taxation

→ legal

→ Info. system

→ Environmental

→ Employee

Overall due diligence

(financial and Non-financial)

Financial due diligence

- Along Policies.

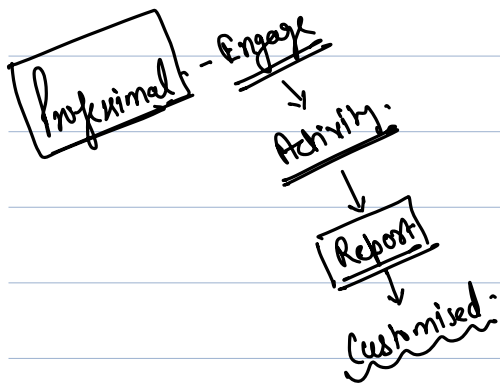
- Review of f.s.

- Taxation

- Cash flows

- financial projections.

+ Operational
+ St. Compliance
+ Mngt | Admn.



(Conclusive nature of Evidence)

- Detailed Examination

Investigative Skills.

Q.1. What is due diligence. Explain briefly the areas in which due diligence activity can take place.

C, F, T, E, IS, L, P

- Imp
- Topics -
- (i) Areas where due diligence can take place.
 - (ii) Examples of hidden liabilities
 - (iii) " " overvalued asset.
 - (iv) Examination of cash flows
 - (v) Contents of due diligence report

(B) Investigation: Systematic, Critical and Special Examination of records of a Entity for a specific purpose.

Examples: Investigation of frauds

" " " " on behalf of banks

" " " " incoming partners

Audit vs. Investigation:

- Steps in Investigation:
- (a) Determination of Objective and scope of Engagement
 - (b) Draft a detailed written Investigation Programme.
 - (c) Perform the procedures as stated in the Programme so as to collect the conclusive evidences connected with the subject matter.
 - (d) Do Careful analysis and correlation of facts and figures for arriving at a conclusion.
 - (e) Reporting of findings.