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Internal audit's role in mergers and acquisitions

Internal audit megatrends | 5x5: Insights and actions

Internal controls and audits often tend to be an afterthought during mergers and acquisitions (M&A) and divestitures. This can result in sub-optimal internal control programs, leading to increased compliance and remediation efforts and costs. While often not one of the foremost considerations during the initial days of any M&A or divestiture transaction, internal audit teams should be brought in as soon as a decision is made to acquire or divest. This early onboarding of internal audit enables early identification and evaluation of integration or separation risks presented for each transaction and enables strategizing for a seamless transition on financial reporting, regulatory compliance, and operational risk matters.

This quick summary provides insights and actions you can take to unlock the value of internal audit's role in M&A transactions.

5 insights you should know

Effective and uninterrupted compliance through transition requires **upfront planning by bringing in internal audit early to understand the transaction** and identify and evaluate transitory risks, minimizing redundancies and inefficiencies in compliance programs post-transaction.

Communicating the deal synergy/dis-synergy strategy and assumptions to internal audit **enables up-front risk identification** and development of a pragmatic compliance strategy.

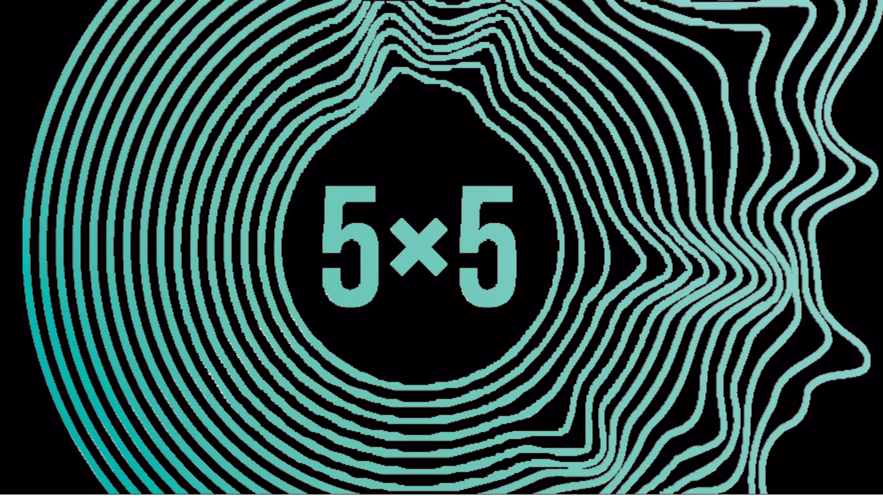
Internal audit can **assist and provide early insights to key stakeholders into potential risks and challenges presented by the transaction**, which can drive improved risk and success in realizing transaction objectives.

Upfront focus and investment on internal controls and compliance have helped **drive greater standardization,** providing immediate efficiencies and creating a logical path to **drive future finance/technology transformation initiatives with ease.**

Evaluating **the timing of the transaction enables understanding of the lead time** available to meet compliance requirements and in the **development of a robust roadmap.**

5 actions you can take

1. Engage with your internal audit team to **develop an approach to integrate them into M&A transactions early on**, set clear expectations, and a plan to build requisite skills if needed.
2. Develop a comprehensive yet **agile approach to internal audit supporting M&A transaction needs that incorporates all aspects of transitions in people, process, and technology** (including service providers).
3. Embed **the compliance strategy** development, roadmap, and timeline as a **critical step within your organization's M&A process.**
4. Assess transaction timing and develop a **clear timeline for financial reporting and regulatory compliance** based on consideration of the latest **SEC guidelines and regulatory requirements** applicable to your industry.
5. Engage with the **external audit team to align on strategy and timeline** to avoid any late surprises to the compliance program.



Opportunities for Internal Audit to Engage:

- Assisting with development of the day one readiness plan.
- Development of post transaction ICFR readiness roadmap activities and timelines.
- Internal controls over discontinued operations calculations and reporting.
- Reviews of Transition Services Agreements (TSA) process and IT integrations/separation.
- Conduct reviews of the due-diligence process and synergy tracking (post transaction assessments).
- Due diligence on select areas such as compliance, process, internal controls, etc.

For more information, or to explore additional insights, visit:
[M&A Trends Survey: The future of M&A]

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