



Auditing Mergers and Acquisitions

Gregory Pilkinton, CIA

Tariq Khan, Attorney

Disclaimer:

- 1) The presenters do not work in the KBR IA dept.
- 2) Procedures do not include specifics regarding KBR past or future transactions
- 3) Topics covered are general and do not include procedures performed by KBR IA

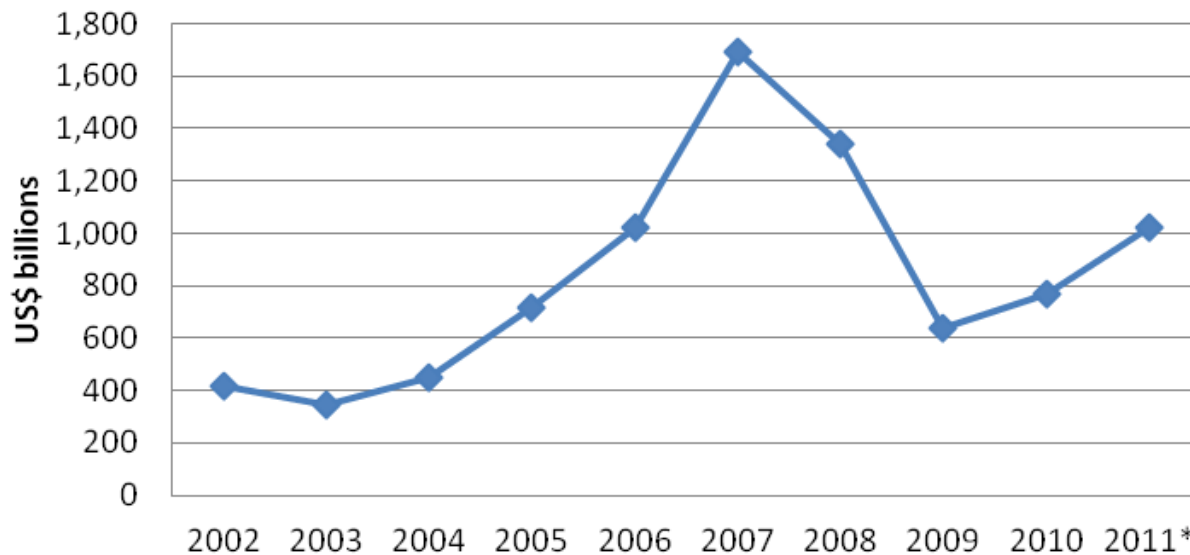
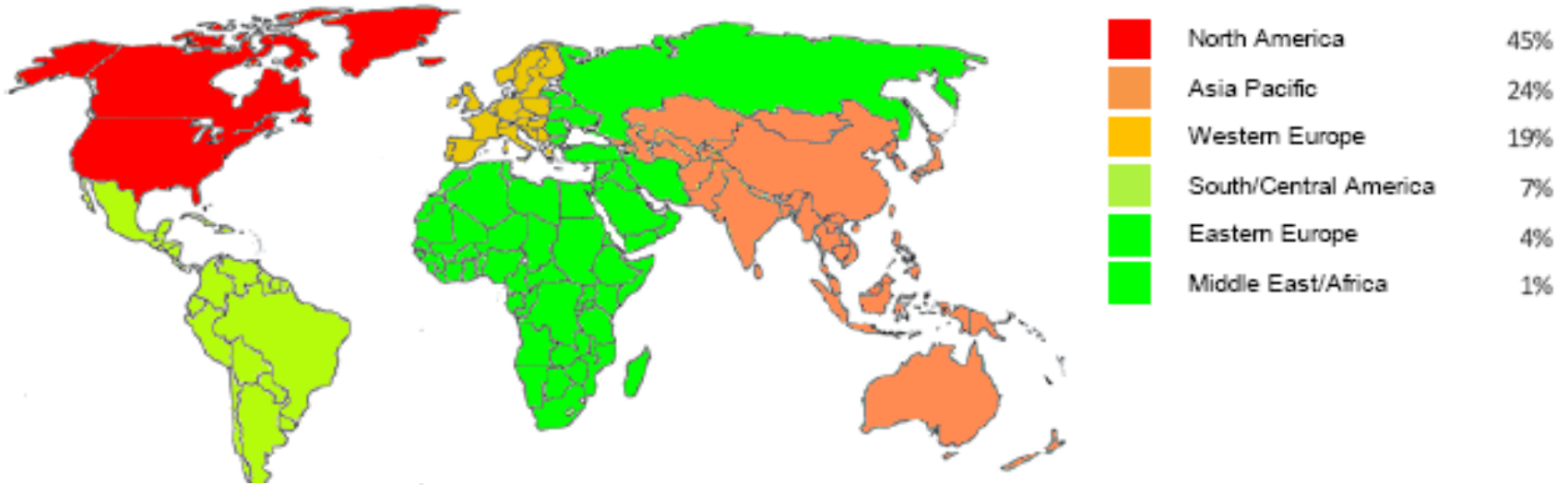
Agenda

- Planning
 - Team Composition
 - Interviews
 - Risk Assessment
 - Scope Adjustment
- Pre-Acquisition
 - Support to M&A team
 - Successful Integration Recommendations
- Post Acquisition
 - 6-months post
 - 12-months post
- Wrap-up

Note: Practice Advisory references are in ()

M&A Statistics

Heat Map: Q3 2011 Volume by Region



Ref:

<http://www.oecd.org/dataoecd/26/23/48946357.pdf>

Planning

- Team Composition
 - Skills Required (ref. 2030-1)
 - Scope of audit (ref. 2210-1)
 - Resources (ref. 2230-1)
 - Supervision (ref. 2340-1)
 - Proficiency (ref. 1210-1)
 - Independence, Objectivity (ref. 1120-1)
 - International considerations
 - Regulatory Compliance (ref. 2100-5)
 - May require different scope
 - External resource needs (ref. 1210.A1-1)
 - Coordination (ref. 2050-1,2)
 - International considerations
 - Translators
 - Lawyers

Planning

- Interviews of key personnel
 - Company M&A employees
 - Business Unit leadership
 - Assigned subject matter experts
 - Employees with past experience
 - External resources
- Past documentation, web searches, etc.

Planning

- Risk Assessment (ref. 2210.A1-1)
 - Based on interviews / past company experience
 - Ranked by significance / likelihood
 - Additional international considerations
 - Anti-corruption
 - Import/Export compliance
 - Data
 - Currency
 - Third Party Relationships



Risk Assessment
Sample

Planning

- Scope Adjustment (ref. 2240.A1-1)
 - Resource constraints
 - People
 - Time
 - Management requests
- Develop Audit Program
- Management Buy-in

Pre-Acquisition

- Support to M&A Team
 - Review timeline and adherence
 - Interview key players
 - Review due diligence
 - Identify business risk
 - International considerations
 - » Halliburton had to maneuver, Lockheed withdrew
 - Review legal and regulatory issues
 - International considerations
 - Identify Gaps
 - Received / Not received
 - What was learned / Not learned

Pre-Acquisition

- Support to M&A Team (con't)
 - Understand the assumptions, proposed synergies
 - Accounting / tax / systems integration
 - International considerations, including data handling
 - Review implementation strategies
 - International considerations
 - Review corporate culture attributes
 - International considerations, including aligning regulatory outlook
 - Assess the role / performance of external resources

Pre-Acquisition

- Support to M&A Team (con't)
 - Ensure critical issues have been captured / monitored
 - International considerations
 - Determine how to monitor
 - Periodicity
- Successful integration recommendations

Post-Acquisition

- 6-months Post
 - Interview key players
 - Use pre-acquisition audit results to risk assess the post
 - Review integration timeline and progress
 - International considerations, including allowing for reporting time lags
 - Define areas left to be integrated
 - International considerations, including allowing for integration time lags
 - Determine escrow usage / uncovered future concerns
 - Assess the role / performance of external resources
 - Develop a lessons-learned list

Post-Acquisition

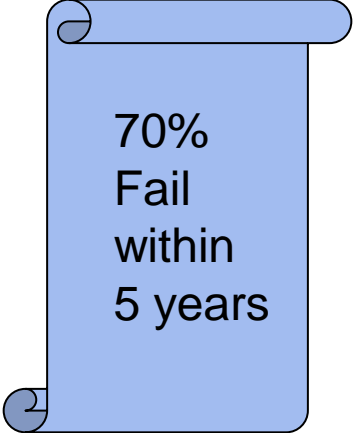
- 12-months Post
 - Interview key players in the value realization process
 - International considerations
 - Review assumptions / synergies / original business objectives
 - Perform a gap analysis of what has or has not been realized (cost and revenue synergies)
 - International considerations
 - Determine areas left to integrate
 - International considerations
 - Determine what human capital has been lost
 - Determine what information has been given to key stakeholders (e.g., Board, Executives)
 - International considerations, including what must be given under FCPA in light of data privacy issues
 - Develop a lessons-learned list

Reporting

- Brief Intro / Background
- Scope / Objective
- Executive Summary / Conclusion
- Key Lessons Learned Listing
- Individual Lessons Learned Discussion
 - General
 - Separated by timeline (e.g., Due Diligence, Integration)
 - Separated by Department (e.g., HR, A&F)
- Concerns going forward
- Acknowledgement

Primary Causes of M&A Failure

- Culture differences
- Poor planning
- A weak core business of the acquirer
- Large target size (e.g., more than 10%)
- Overly optimistic appraisal of market potential
- Overestimation of synergies
- Poor technology assessment
- Inadequate due diligence by buyer or seller
- Clashing management styles and egos
- Inability to forecast realistically
- Overbidding
- Poor post-merger integration



70%
Fail
within
5 years

Wrap-up / Questions

Gregory Pilkinton, CIA

Tariq Khan, Attorney

