

Due Diligence Checklist

When it comes to due diligence most buyers have a general idea of what to do and what they are looking for but very few fully appreciate its significance nor do they manage to cover all the necessary areas in depth.

As a general rule the more you delve the more chance you have of finding something untoward or gaining greater reassurance. Ultimately you have to arrive at a point where you are comfortable for the deal to proceed, satisfied that you have made all reasonable endeavours to protect your interest.

I've drawn up a checklist of the key areas that will affect the majority of practice sales but it should not be used as a definitive or exhaustive guide as each situation will be different. It is intended to give you comprehensive points of reference and put your mind into enquiry mode.

When it comes to contracts and legalities you are best protected by using a solicitor although it adds a lot of expense and delay, with added frustration often as a result of the accounting mindset and experience being quite different to the legal one.

Before you start, bear in mind by favourite professional mantra - *if it wasn't written down it didn't take place.*

Accounts

- Check both ledgers
- Check day books
- Look at drawings
- Are accounts up to date?
- Look at past 5 years for changes

Assets

- Who owns them?
- Where are they?
- Are they included in the sale?

Authority

- Are you dealing with the owner?
- If multiple owners who has authority?

Bank account(s)

- Are cash movements consistent with the accounts?

- Does the cashflow pattern make sense for this practice?
- Are there unusually large sums moving in either direction?

Billing cycle

- Are clients returning year on year?
- Are there a lot of new clients as yet not billed?
- Do billing intervals match work done?
- Is work one-off or recurring?
- Are jobs prepaid on a monthly basis?

Billing basis

- How are charges determined?
- Does the fee structure work for you?
- Are clients being under or over charged?
- Who is doing the work being charged?

Book debt

- Who is collecting it?
- Is it recoverable?
- Has it been increasing?

Cash

- Is all work being invoiced?

Chemistry

- Is there a working relationship with the seller?
- Do you trust the seller, now and for post-sale?
- Do you feel the seller has confidence in you?
- What is the seller's attitude towards the deal and towards you?

Client files

- Are the files well kept?
- Do you have full access to files?

Client mix

- Is the firm reliant on handful of large clients?
- Is the mix and profile to your liking?

Client lists

- Are they all being sold?
- Is the list well maintained?

- Do you want them all?
- Is there any reason for them not to stay?

Client numbers

- Has there been a noticeable increase in recent months?
- Has there been a noticeable decrease in recent months?
- Are there any trends in client numbers or movements?

Competition and threats

- Is the firm vulnerable in its locality?
- Is the firm vulnerable in its speciality?

Contracts binding firm

- What contractual obligations are binding on the buyer?

Desktop research

- Search online and offline about the firm and its principle(s)

Ethos of firm

- Do you like what the firm stands for?
- Do you approve of the ethics amongst staff, if discernible on visits?

Heads of terms match

- Does anything contradict or conflict with the heads of terms?

How are clients attracted

- Is there a formal marketing strategy?
- Will new clients still come after selling?

Limited company share sale

- Check articles
- Check statutory books
- Search at Companies House
- Ensure robust indemnities and warranties from sellers

Insurance

- Check claims history, actual or pending
- Is there currently a valid PI policy that is adequate?

Invoices

- Do invoices match the VAT return?
- Is all work on the time ledger invoiced or is WIP being accumulated or written off?

Intellectual property

- Check ownership of trade marks
- Use of trading name especially if it is the sellers personal name

- Which domain names and websites are included?

Key staff

- What is their attitude to the deal?
- Will they stay?
- Could they take clients?
- How dependent will you be on them?
- Will you require them all?

Leases

- How will leases be affected, whether for premises, software or equipment?
- What responsibilities do leases contain?

Liabilities

- Do they include private debt?
- What is their significance?

Liens

- Are there any claims or liens affecting client files?

Non-competing

- Find out the sellers intentions vis a vis remaining in the profession
- Make sure agreements are legally binding and enforceable

PAYE & Taxation

- Is everything up to date, both submissions and payments?

Post sale

- Clarify handover arrangements in advance
- If the seller is staying behind agree the relationship clearly and contractually

Practicing certificate

- Is it up current?
- Are there any disciplinary issues, historic or current?

Reason for sale

- Does the reason for sale make sense?
- Do the facts support the story?

Services offered

- Are all the services included in the sale?
- Are you able to offer all the current services?

Site visits

- Visit all premises
- Visit more than once
- Visit unannounced if possible or if concerned
- Keep your eyes and ears open when visiting
- Walk around and ask question of the seller and if possible the staff

Staff issues

- Do you know TUPE rules?
- Are there claims outstanding or pending?
- Are there potential claims in the pipeline?

Solicitor

- Is the seller using a solicitor?
- Is the seller happy with you using a solicitor?
- Are you aware of the risks of not using a solicitor?

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