

## **What is Investigative Due Diligence?**

### **Case study:**

A private equity fund considering investing in a Sri Lankan tea plantation called Kroll to investigate the plantation and its promoters to ensure that there is no history of fraud, and that they operate in a compliant and ethical manner. Kroll identifies that the tea plantation and the individuals associated with it do not exist and concludes that the entire issue is an elaborate fraud.

In a typical M&A transaction, the investor will approach the due diligence process from the following three different perspectives: (1) legal; (2) financial; and (3) investigative. Legal and financial due diligence have much in common. In particular, they are both document-intensive and they both rely on information provided by the target. Investigative due diligence differs from legal and financial due diligence in two very important respects: Content and Methodology

### **Content**

Combining public record research and human source inquiries investigative, due diligence aims to seek out information on issues such as management backgrounds, competing bidders, company reputations, ethical track records, regulatory compliance, market conditions, hidden interests, environmental liabilities and non-disclosure of material facts. Focus is also placed on trying to detect material facts that have not been disclosed to the potential investor.

### **Methodology**

Intelligence gathered by investigative experts is derived independently from public and proprietary sources but most importantly, human source inquiries. Discreet human source inquiry is critical and also the most challenging part of investigative due diligence. By discreetly and skillfully interviewing sources who are familiar with the subjects in different contexts and capacities, useful information that is not reflected in the public domain can be obtained, however care must be taken to ensure the investigations are conducted in adherence with local privacy laws.

To ensure optimal benefits from the source inquiries, it is important to perform such inquiries only after having adequately profiled the subject through desktop and public records research. This profile should then generate necessary leads and potential sources, as well as appropriate questions to ask.

Intelligence from investigative due diligence can make or break a transaction. Experienced and successful investors place a great deal of importance on investigative due diligence and conduct it early in the deal process, before significant time and effort has been invested in the transaction.

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