The corporate world is awash with merger and acquisition (M&A) activity as companies look to expand into new areas, diversify their product offerings, extend their territorial reach and use economies of scale to improve their bottom line. At the heart of any M&A transaction will be an accountant, but what does the M&A accountant do?

First, there is a significant amount of preparation, documentation and due diligence that goes into the merger and acquisition process. At the forefront of this will be the report and accounts – companies contemplating a potential purchase will want to know exactly how healthy the financial position of their future partner or target is.

This initial overview will help establish whether the merger or acquisition is worthwhile, financially secure and ultimately, a productive move.

From the acquirer's point of view, the M&A accountant effectively acts as financial translator, interpreting and explaining the accounts information of a target company to help them understand the financial position of their potential acquisition. A working knowledge of the corporate sector, relevant industry and territory in which the acquirer and target operate is essential.

Furthermore, if a transaction is taking place across jurisdictions, a comprehensive understanding of the International Financial Reporting Standards (IFRS) and Generally Accepted Accounting Principles (GAAP) in other jurisdictions is required.

From the target's perspective, the M&A accountant can assist in the preparation of the report and accounts, the presentation of financial explanations and the collation of any requisite information. Mergers and acquisitions can be highly complex and involve a variety of methods of accounting, all of which require specialist expertise.

Given the high values at stake how does the professional indemnity insurance (PII) market view this activity?

It is well known that the PII marketplace is undergoing significant change at the moment with decreased appetite for risk, increased premiums and some insurers withdrawing from the market altogether. With this change comes increased scrutiny as underwriters look to fully evaluate the exposures they are underwriting.

Certainly the spotlight has focused somewhat on those accountants carrying out M&A activity in recent months. This is primarily driven by claims data which has identified M&A advice as a high risk area and vulnerable to litigation.

Particular areas of concern include the following:

- transaction values/deal sizes
- whether M&A advice is typical for the practice or whether advice has been given as a one off. If a one off, it is important to detail why this was and the extra stages of risk management the practice went through
- names of the clients and the fees that were charged
- whether the practice specialises in a certain sector. If so, what this is and why. If not, what procedures are in place to ensure that the relevant experience/expertise is available?

- what advice is actually being given ie does this relate to due diligence or to simple forecasting and change management. It is important to demonstrate this precisely to an underwriter rather than just disclosing 'M&A' work
- how the M&A advice is managed internally. What risk management procedures are in place, how are these monitored and updated? Who is responsible for the sign off of the advice and what experience/qualifications do they have?
- whether there are any referral agreements in place, formal or informal. How are these managed and what is the volume of enquiry?

In light of the above, we typically see underwriters asking further questions and it is therefore important for a practice with any involvement in this type of work to fully articulate it when completing a renewal presentation. A proposal form alone is unlikely to be enough.

What are the common areas of claim and what are red flags for under-writers?

Like any accounting activity (eg audit, payroll, bookkeeping, etc.) there are certain areas where claims are more likely to occur. These in turn present red flags to insurers. Areas that readily re-occur with regard to M&A activity include:

- failure to identify financial problems within a target company
- negligent due diligence which causes a ripple effect through the transaction
- over/under valuation of shares based on the financial position of the target
- hidden liabilities becoming apparent after the transaction has completed
- the merger not bringing about the anticipated cost savings originally identified
- timing – if the deal does not go through on time this can have a knock-on effect and tax advantages may be lost.

Acquiring companies are most likely to be substantial organisations with deep pockets, and so the cost of a claim for insurers tends to be expensive. Moreover, it is not always the claim payment that insurers are nervous about; defence costs can also spiral quickly out of control.

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