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Operational Due Diligence

Pre-Acquisition Readiness Checklist

25 operational risks that financial and legal due diligence won’t reveal before completion

Operational risk rarely appears in the financial model — but it always appears after completion.

A practical checklist for M&A teams assessing operational risk before Day 1.

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Before you complete the deal, can you answer these questions?

Financial and legal due diligence confirm what exists on paper. They do not test whether the business can sustain performance once ownership changes.

Post-completion, governance changes. Reporting expectations tighten. Key people reassess their future. Systems are tested under integration pressure.

The question is not whether the business has been profitable — the question is whether it is operationally resilient.

Why operational due diligence matters

Operational risk is the single largest source of unplanned cost in the first 12 months after acquisition. Control gaps, key-person dependencies, undocumented processes, and weak governance structures do not appear in the financial model — but they drive real cost, delay, and disruption once the deal completes.

A structured operational review before completion gives the M&A team the ability to quantify these risks, negotiate appropriate deal protections, plan Day 1 integration priorities, and avoid the reactive firefighting that undermines value in the critical first year of ownership.

The cost of operational due diligence is a fraction of the exposure it identifies. A single undetected control gap — such as missing dual payment approval or no verification process for supplier bank detail changes — can result in losses that dwarf the cost of the review itself.

> These 25 questions are drawn from the full operational due diligence framework used in a structured review. They represent the most common areas where governance gaps, control weaknesses, and integration risks are identified in mid-market acquisitions.

Each question includes a brief explanation of why it matters. The full operational due diligence review covers significantly more ground — but if you can’t confidently answer these 25, the operational risk profile of the transaction is not yet understood.

The checklist covers seven workstreams

- **A** Governance & Accountability
- **B** Process Maturity & Documentation
- **C** Key Person & Knowledge Risk
- **D** Systems, Data & Integration Readiness
- **E** Internal Controls & Fraud Risk
- **F** Financial Reporting Discipline
- **G** Compliance & Regulatory Readiness

A Governance & Accountability

Decision rights, delegations, oversight, and operating cadence

QUESTION 01

If the founder or managing director left on Day 1 post-completion, who would run the business?

> **Why it matters:** If no one can answer this clearly, the buyer is acquiring an operator dependency, not a self-sustaining business. Every decision, relationship, and approval may flow through one person.

QUESTION 02

Is there a documented Delegations of Authority that defines who can approve what, up to what value?

> **Why it matters:** Without documented delegations, the buyer inherits a business where approval boundaries are undefined. This creates immediate governance risk and slows integration as every decision path must be rebuilt.

QUESTION 03

Does the business have a regular management meeting cadence with documented decisions and actions?

> **Why it matters:** A business with no operating cadence typically relies on ad hoc conversations and informal direction. Post-acquisition, the buyer has no governance infrastructure to plug into.

QUESTION 04

How are strategic and operational risks identified, assessed, and monitored?

> **Why it matters:** The absence of any risk framework — even an informal one — means the buyer is inheriting unknown exposures with no visibility until something goes wrong.

B Process Maturity & Documentation

Core process coverage, standard operating procedures, workarounds, and repeatability

QUESTION 05

Are the core finance and operational processes documented in standard operating procedures that are actually followed?

> **Why it matters:** Undocumented processes live in people’s heads. When those people leave, change roles, or are unavailable, the process stops. This is the single biggest driver of post-acquisition disruption.

QUESTION 06

How many critical processes rely on workarounds, manual spreadsheets, or offline steps outside the core system?

> **Why it matters:** Workarounds are invisible risks. They bypass controls, create data integrity issues, and break when systems change. Integration projects routinely stall when workarounds are discovered late.

QUESTION 07

Can the target produce a month-end close within 10 working days with a documented close checklist?

> **Why it matters:** Slow closes signal manual processes, reconciliation gaps, and reporting risk. The buyer's reporting deadlines will be tighter — a business that takes 18 days to close will not meet financial reporting deadlines.

QUESTION 08

Is there a purchase order discipline covering the majority of expenditure?

> **Why it matters:** No purchase order discipline means no commitment control, no three-way matching, and limited visibility of obligations until the invoice arrives. This drives budget overruns and accrual completeness risk.

C Key Person & Knowledge Risk

Single points of failure, cross-training depth, and retention exposure

QUESTION 09

Is there more than one person who can run payroll, process payments, and complete the month-end close?

> **Why it matters:** If a single person holds all three functions and they resign, fall ill, or are unavailable on Day 1, employees don't get paid, suppliers don't get paid, and the books don't close. This is the most common critical finding in mid-market acquisitions.

QUESTION 10

Which customer and supplier relationships are held by a single individual with no documented handover path?

> **Why it matters:** Relationship concentration is invisible in the financials. If a key account manager leaves post-completion, revenue that looked secure can walk out the door with them.

QUESTION 11

What cross-training or documentation exists to enable continuity if any key person is unavailable for 30 days?

> **Why it matters:** Cross-training is the difference between a manageable absence and an operational shutdown. If the answer is nothing, the buyer is acquiring a business that cannot tolerate normal staff turnover.

D Systems, Data & Integration Readiness

System landscape, data quality, licence constraints, and integration path

QUESTION 12

What is the full systems landscape — and which systems have change-of-control or licence transfer restrictions?

> **Why it matters:** Change-of-control clauses in software licences can force renegotiation, migration, or termination post-acquisition. These constraints directly affect integration timelines and cost.

QUESTION 13

Can the business produce reliable management reporting from its systems — or does reporting depend on offline spreadsheets?

> **Why it matters:** Spreadsheet-dependent reporting breaks under new ownership. Data integrity, version control, and auditability are all compromised. The buyer will need to invest in reporting infrastructure.

QUESTION 14

What is the state of master data quality — specifically supplier records, customer records, and the chart of accounts?

> **Why it matters:** Duplicate suppliers create payment risk and spend visibility gaps. Poor customer data undermines credit management. A messy chart of accounts delays financial reporting integration by months.

QUESTION 15

What is the cyber resilience posture — multi-factor authentication, backup testing, access reviews, and incident history?

> **Why it matters:** A business with weak cyber controls becomes the buyer's weakest link. Post-acquisition, any breach becomes the buyer's problem — reputational, operational, and financial.

E Internal Controls & Fraud Risk

Payment controls, supplier master controls, segregation of duties, and fraud exposure

QUESTION 16

Does the banking platform require dual approval for all payments?

> **Why it matters:** Single-signatory banking is one of the highest-risk control gaps in mid-market acquisitions. One compromised credential or one dishonest actor can drain the operating accounts with no second check.

QUESTION 17

When a supplier requests a change to their bank details, is there a verified call-back process before the change is made?

> **Why it matters:** Business email compromise targeting supplier bank details is the most common fraud vector in mid-market businesses. Without call-back verification, a single fraudulent email can redirect payments permanently.

QUESTION 18

Can the same person create a supplier, enter an invoice, and approve a payment?

> **Why it matters:** This is the textbook segregation of duties failure. It creates a direct path for fictitious supplier fraud — one of the most damaging internal fraud scenarios — and is often the first thing an auditor will test.

QUESTION 19

Who is authorised to enter into contracts on behalf of the business, and are signed agreements stored centrally?

> **Why it matters:** Unclear contracting authority means the buyer may inherit commitments they didn't know existed. Without a central contract repository, due diligence itself is incomplete.

F Financial Reporting Discipline

Close speed, reconciliation discipline, evidence retention, and audit readiness

QUESTION 20

Are all key balance sheet accounts reconciled monthly — and are those reconciliations reviewed by someone independent?

> **Why it matters:** Unreconciled balance sheet accounts hide errors, omissions, and sometimes fraud. If reconciliations are not performed or not reviewed, the integrity of the financial position is unverified.

QUESTION 21

Does the fixed asset register reconcile to the general ledger, and when was the last physical verification of assets?

> **Why it matters:** A disconnected asset register means the buyer does not know what physical assets actually exist, their condition, or their true value. Ghost assets inflate the balance sheet; unrecorded assets create insurance gaps.

QUESTION 22

What recurring audit findings exist, and what remediation is underway?

> **Why it matters:** Repeat audit findings signal systemic issues that management has not prioritised. The buyer inherits both the findings and the remediation burden — and often the same auditor relationship.

G Compliance & Regulatory Readiness

Obligations register, workplace health and safety, payroll compliance, insurance, and environmental posture

QUESTION 23

Does the business maintain a register of its regulatory obligations — licences, permits, and compliance requirements — and are any at risk on change of control?

> **Why it matters:** Regulatory obligations that require consent or re-application on change of control can delay or block completion. An undocumented obligations register means the buyer is flying blind on compliance.

QUESTION 24

Is the business confident that employee award classifications and pay rates are correct across all roles?

> **Why it matters:** Since 1 January 2025, intentional underpayment of wages is a criminal offence under Australian law — formally known as wage theft. Directors and officers face personal liability, including fines and up to 10 years imprisonment. Misclassification and incorrect rates can result in back-payment claims stretching back six years, and the acquiring entity's directors assume this exposure from Day 1.

QUESTION 25

What is the work health and safety incident history, and is there an active safety management system in place?

> **Why it matters:** WHS incidents and an absent safety framework expose the buyer to prosecution risk under harmonised WHS laws. Directors of the acquiring entity can be personally liable from Day 1.

What comes next?

If more than a handful of these questions cannot be answered confidently, operational risk is not yet understood.

A structured operational due diligence review — scaled to the size and complexity of the transaction — provides clarity on governance gaps, control exposure, integration effort, and cost before the deal completes.

The earlier this clarity exists, the more leverage the M&A team retains.

A short discovery call can confirm whether this review is appropriate for your transaction.

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