INVESTMENT AUDIT IN THE PROVISION MANAGEMENT OF THE MERGERS AND ACQUISITIONS

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ABSTRACT
This research is relevant because mergers and acquisitions (M&A) is one of the most complex and risky types of business operations that require significant investments. An investment audit is an important part of the M&A process, which allows investors to assess the risks and benefits of investing in a particular company, and helps ensure that the M&A does not lead to unforeseen problems or financial losses. The main purpose of conducting research is to assess the potential returns and risks associated with investments in M&A, which is becoming an increasingly popular method of conducting business operations. Therefore, the importance of an investment audit in M&A assurance management is increasing, as it helps to reduce risks and ensure the successful execution of M&A.

Objectives: The purpose of the article is to discuss the further development of investment audit provisions and their impact on the results of the public interest enterprise.

Results: Conducting an investment audit is crucial in the provision management of mergers and acquisitions (M&A) to ensure effective decision-making and maximize returns. By conducting a comprehensive investment audit, acquirers can gain valuable insights into the target company's strengths, weaknesses, and growth potential, enabling them to make informed investment decisions, negotiate favorable terms, and develop integration strategies that enhance value creation and minimize risks. Ultimately, a thorough investment audit plays a pivotal role in the provision management of M&A by providing a solid foundation for successful post-merger integration and long-term business growth.

Conclusions: In addition to the direct audit of M&A operations, other types of audit can be conducted: legal audit; environmental audit; organizational audit; technological audit. In the face of various challenges confronting business leaders, M&A, especially portfolio optimization, will be a crucial tool for repositioning companies, driving growth, and achieving long-term sustainable outcomes.

Keywords: investment audit, M&A, enterprise of public interest, financial market.

JEL classification: Q01, Q56, M21, M40, M42, M49

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INTRODUCTION
The processes of globalization and international integration gave rise to transformational changes in the political, legal, and economic life of Ukraine. In modern economic conditions, the role of investments consists in attracting not only the necessary amounts of capital, but also modern technologies, management methods, and highly qualified personnel. Investing, as an economic concept, serves several critical functions that are essential for the advancement of any country's economy.
At both the macro and micro levels, investments are crucial for basic and expanded reproduction, structural changes, profit optimization, and, as a result, the resolution of many social issues. These processes require the formation of new approaches to the development of audit activity and the improvement of the quality of its results. When evaluating whether a company is worth investing in, various factors are considered, including the company's assets and financial potential, the likelihood of bankruptcy, its level of financial stability and ability to pay debts, how effectively it uses its cash flow, resources, and capital, its financial performance and profitability, and non-financial indicators of its operations. The investment audit is designed to identify and timely inform all interested parties about the real and objective picture of the company's financial condition, and the transparency of its business model, and to focus on existing and possible future economic and legal risks associated with the investment object.

Legislative separation and increased supervision of the category of enterprises of public interest are due to the need to ensure the economic stability of Ukraine, since it is precisely such enterprises that exert a significant influence on the economy, banking, and financial market. In turn, the insolvency of enterprises of public interest can cause significant financial losses to the real sector of the economy of Ukraine, shareholders, investors, and creditors, decrease the level of investment attractiveness, and attract foreign investments.

LITERATURE REVIEW

Investments are essential for reproduction, structural changes, profit optimization, and addressing social issues. To ensure effective investment management, it is crucial to develop new approaches to audit activity and enhance the quality of its results (Yankovyi et al., 2021). Investment audit serves the purpose of providing an accurate and objective assessment of a company's financial condition, transparency of its business model, and identification of existing and potential economic and legal risks associated with the investment object (Lazarova et al., 2023). While acknowledging the contributions of researchers to audit theory and methodology, it is important to prioritize obtaining timely management information. Therefore, improving the organizational and methodological aspects of investment audit within the M&A provision system becomes necessary.

Research on the challenging aspects of the business-service sector was conducted by both local and international scholars. Nazarova (2019) investigate investment activity in Ukraine and its impact on the national economy, studies aspects of improving the investment climate of Ukraine in the conditions of European integration, explore new opportunities for managing innovation and investment activities in entrepreneurship, emphasizes the management of risk situations in terms of increasing investment attractiveness and business security (Nazarova et al., 2019). Alimov (2023), Bedford (2023), Biraglia (2023), Chipriyanova et al. (2022), Dicu (2023), Hajjar (2023), Khan (2023), Kumar (2023), Dorokhova et al. (2023); Ma (2023), Nishihara (2023), Ortiz (2023), Rao (2023), Sterin (2023), Tang (2023), Dimitrov (2022), Yang (2023) investigate the impact of merger and acquisition processes on the competitiveness of enterprises. Komirna (2019) in the research emphasize investment audit. Nezhyyva (2018) examines the audit of merger
and acquisition operations. Without underestimating the contribution of scientists to the development of audit theory and methodology, taking into account the need to obtain management information in a timely manner, it should be noted that the general methodology of investment audit is relevant. Therefore, there is a need to improve the organizational and methodological provisions of investment audit in the system of provision of the M&A.

The purpose of the study is the further development of investment audit provisions and their impact on the results of the public interest enterprise in M&A.

METHODS

The information basis of the research is the study of official information and periodicals. The following methods were used in the research: analysis—for analysis trends of current investments state and M&A process, synthesis—posing a problem regarding the impact of digitalization and Internet connection on the achievement of investment and M&A audit; system analysis—to study investing trends and clarify audit procedures; graphic method—for objective display of research results.

RESULTS

The year 2023 is expected to be a difficult economic period for both businesses and consumers, with a significant decrease in purchasing power and an unstable interest rate environment that will further lower confidence. The global economic slowdown is a cause of concern, and even though there are positive developments, the future is highly uncertain. This uncertainty is compounded by the increasing geopolitical tensions, which could result in sudden economic shocks and significant changes in global trade patterns.

Experts predict that 2023 will be a year of overcoming challenges. According to Euromonitor (2023) investigation 79% of 1,209 cities across the world are forecast to record slower real disposable income growth year-on-year in 2023. Trends in the economy for 2023:

- the global economy is anticipated to experience a noteworthy deceleration in growth in the coming year, but there will be some encouraging signs in emerging markets. Although inflation is expected to decrease slightly, it will still remain at a high level;
- businesses are expected to confront a volatile and demanding commercial climate in the upcoming year due to multiple economic hurdles. Advanced economies are expected to witness a rise in unemployment rates again in 2023, following a historic low level in 2022, due to an economic downturn. Structural changes will persist, causing labor and skill shortages, which will maintain the tightness of labor markets;
- the year 2023 will see a decrease in urban consumer spending due to the impact of high inflation and economic instability. People will be compelled to allocate a greater proportion of their incomes towards necessities such as food and utilities, which will result in a decline in spending on leisure, recreation, and accommodation services. This situation will prove challenging for cities that depend heavily on such industries;
• the majority of commodity prices are predicted to decline further from their peak levels following the surge in demand after the pandemic and Russia's invasion of Ukraine. However, these forecasts carry several risks, such as a potential escalation of the conflict in Ukraine, imbalances in supply and demand, unfavorable weather conditions, and the possibility of energy prices fluctuating;

• the industrial sector is expected to face challenges in 2023 due to a deteriorating economic situation and energy price shocks. The growth of energy-intensive industries is predicted to slow down as a result. Nonetheless, the global manufacturing industry may find relief as supply chain problems are expected to lessen in 2023.

The world economy will be no longer the same as it was last year, and these permanent changes, are caused by global business challenges. This requires an adequate reaction from businesses to stay in the market. It is commonly believed that during an economic downturn, mergers, acquisitions, and other deals are likely to decrease significantly, especially after a period of high levels of M&A and large transaction values. The concerns about a sharp decline are understandable, as this has been the case during the Great Recession and the dot-com crash in the past. However, expectations of the demise of M&A may be overstated. Although there has been a decline in the number of mergers, acquisitions, and other deals, concerns that they will completely disappear like in previous economic downturns may be unfounded. This is because the current situation is different from previous cycles, with deals being separated from the wider economy. As a result, deals are expected to be more resilient and less likely to disappear.

Thanks to this expected resilience, prepared corporate and private investors will not have to completely retreat in this downturn. As our research shows, organizations that make deals during a recession can actually outperform their peers in the industry. Such statistics prove that businesses need other decisions on how to grow, and M&A could be a nice solution in this case (Fig. 1).

![Mergers & Acquisitions in the world](source: developed by the authors on the basis of PwC (2023).)
Global merger and acquisition activity saw a decrease in both volumes and values in 2022, following a record-breaking year in 2021. The decline was gradual, with each quarter reporting a lower deal activity than the previous one, as economic headwinds persisted. Although 2022's M&A levels were lower than in 2021, they remained higher than pre-pandemic levels. In the second half of 2022, there was a sharper decline in deal volumes and values, with reductions of 25% and 51%, respectively, compared to the same period in the previous year. However, there were differences in trends across countries and regions, indicating that investors are seeking new opportunities and growth in alternative markets.

Mergers and acquisitions in the Asia Pacific region experienced a decline in deal volumes by 23% and deal values by 33% between 2021 and 2022. The primary cause of this decline was China's pandemic-related challenges and weaker demand for exports, resulting in a decrease of 46% in deal volumes and 35% in deal values. As a result, companies are shifting their focus to other countries in Southeast Asia, India, and Japan for investment opportunities. India has become a more appealing investment destination, surpassing Japan and South Korea in deal values to rank second in the region after China.

Despite the challenges posed by the rise in energy costs and a decrease in investor confidence, M&A activity in Europe, the Middle East, and Africa (EMEA) fared relatively well. The region saw a decline in deal volumes and values of 12% and 37%, respectively, from 2021 to 2022. Nonetheless, with a total of 20,000 deals in 2022, the region's overall activity remained 17% higher than pre-pandemic levels in 2019.

M&A activity in the Americas saw a decrease in both deal volumes and values by 17% and 40% respectively, from 2021 to 2022 due to various factors such as macroeconomic, regulatory, and geopolitical factors. The decline was most evident in the value of deals, with the number of US mega deals falling by almost half from 81 to 42 in 2022. Furthermore, the decline was even more pronounced in the second half of the year, with only 16 mega deals compared to 26 in the first half of 2022.

With the beginning of 2023, investors are exercising caution in light of global economic uncertainties and mounting interest rates. In addition, challenges such as supply chain disruptions, geopolitical tensions, and heightened regulatory scrutiny are also contributing to their apprehension. Despite these challenges, the current market conditions present an opportunity for buyers to make profitable M&A deals. Contrary to common belief, making deals during a downturn can result in significant growth and returns. Lower valuations, reduced competition, and new distressed assets in the market can all work in favor of buyers. As a result, C-suite executives and boards are advised to consider M&A as a strategic option to stay competitive, and some have already begun taking advantage of these opportunities.

In a mid-year update for 2022, Euromonitor provided recommendations for how deal makers can overcome stakeholder concerns and build trust to close deals in the current climate. Our suggestions included emphasizing the benefits of M&A for long-term growth, expanding due diligence efforts, and taking advantage of the recent reset in asset valuations.

Despite the concerns about economic risk and potential recessions, it's important for boards to recognize the potential of strategic M&A for sustained growth and transformation.
Failing to take action could lead to missed opportunities and increased shareholder activism. Corporate players in particular should take action now, as the current market environment presents both challenges and opportunities for M&A activity. However, it's difficult to predict how long this favorable environment will last, so deal-makers must act swiftly and confidently. In this dynamic landscape, it's essential for deal-makers to be nimble and adaptable to successfully navigate the challenges ahead. So audit is the one instrument that could ensure M&A deals with such uncertainty.

In periods of instability, it's crucial for businesses to practice financial prudence and conduct strategic evaluations of their operations. As CEOs re-evaluate their portfolio in relation to their fundamental strategy, they must determine whether to continue investing in peripheral or slow-growing areas. If such assets are targeted for sale, it will release funds to invest in more promising opportunities and create buying prospects for others. That these assessments of strategies could also lead to an increase in divestment by big companies, who want to improve their flexibility and efficiency in distributing sustainable capital.

Companies may sometimes identify underperforming assets as part of their portfolio optimization to prepare for future growth or to withstand economic challenges. In such instances, corporations usually take actions to improve their sales and customer base, minimize expenses, and enhance their liquidity and working capital management. In light of potential economic downturns, several big corporations have recently announced cost-cutting measures, such as job cuts, while also planning new investments in other sectors.

There are some fields to focus on for business in M&A deals that require special M&A investments audit:

1. **M&A deal deep dive.** CEOs need to acknowledge that achieving transformation solely through organic methods may not be possible. The question arises as to whether the company can adapt quickly enough to achieve the necessary growth. M&A presents an opportunity to answer this question by providing the necessary speed. However, it is essential to consider how stakeholders will perceive the deal. CEOs can enhance the deal's story and win over hesitant stakeholders by emphasizing its potential game-changing strategic benefits. This includes assessing whether the deal will help the company gain new markets, customers, or products, accelerate digitalization, outcompete rivals, or improve the company's long-term positioning (Nowak et al., 2021).

2. **Source of financing.** As the cost of borrowing rises and financing becomes more challenging to obtain, resourceful investors will find alternative approaches to complete deals. Private equity firms are recognized for their creative financing approaches, which involve various funding structures like term loans, seller notes, consortium deals with sovereign wealth funds, and all-equity financing to fund major deals. In addition, demonstrating the potential impact and benefits of environmental, social, and governance (ESG) practices can help secure financing and create value. Companies can benefit from sustainability-linked loans and green, social, and transition bonds, which offer favorable financial terms and may come with government incentives and tax credits for renewable and sustainable energy initiatives that can improve a company's financial performance.
3. Use lower appraisals. There has been a rise in restructuring globally, and if the present economic challenges persist in 2023, the trend may intensify, resulting in more restructuring and distressed M&A activity. Due to cautious VC funding, some early-stage businesses may have to sell if they can't secure additional financing or face down rounds. This, along with a slow IPOs market, may create opportunities for corporate players to invest in or acquire innovative tech companies or other capabilities at a more reasonable valuation. Although private company valuations are taking longer to adjust, that deal-making will rise as sentiment shifts from a seller's to a buyer's market.

4. Seek sources of growth in other markets. Inflation, interest rates, and recession fears have different impacts on various countries and regions. India was an exception in 2022 as its economy grew and M&A activity increased by 16%, leading to a 35% surge in deal values, hitting a record high. Investors who can detect opportunities and growth in other markets could potentially gain better returns. Moreover, the strong US dollar makes international deals more appealing, particularly for buyers who use US dollars as their currency.

5. Staff strategy. PwC's research indicates that workforce strategy is being transformed by several factors, including specialization, scarcity, and competition for talent. As the workforce has a direct impact on business performance, it is critical for all deals to consider the importance of the human element. Companies must carefully consider aspects such as recruiting, motivating, and retaining staff, as well as managing employee compensation and benefits to control the future cost structure. This is particularly important in light of talent shortages and wage inflation pressures. In addition to traditional recruiting methods, companies may need to acquire talent through "acquire-hiring" to rapidly drive growth. Throughout these strategies, transparent communication with employees is critical to obtain their support and trust, and to ensure success after the deal is completed.

6. Due diligence strategy. It is important to create different models for different scenarios to improve confidence in predicting future outcomes. There are several factors that can impact cash flow, including inflation, expectations of a recession or slower growth, foreign exchange fluctuations, and ESG concerns. This can make valuations, modeling, and building business cases for investment more complex. It is recommended to conduct a wider range of sensitivity analyses to test assumptions and prepare for expected and unexpected events.

7. Extra value sources. CEOs who are open to taking bold actions and embracing innovative strategies have a chance to make a significant impact on their business's transformation journey. By looking beyond traditional approaches and considering the potential benefits and challenges of new initiatives, they can implement a range of strategies that will support value creation. Some of these include adopting innovative digital business models and distribution channels, using cloud technology to enhance agility and operational excellence, leveraging data to drive decision-making, restructuring supply chains, prioritizing partnerships and collaboration, and exploring opportunities to optimize tax efficiency (Kvach et al., 2020; Mikhno et al., 2022).
The ongoing uncertain market conditions have affected M&A professionals differently, resulting in both benefits and difficulties depending on their unique M&A strategies. Here is PwC’s (2023) perspective on how different players are expected to respond in 2023:

1. **Corporates.** In the current market, companies with cash reserves and growth goals are in a favorable position, especially if their operations align with the target company. The trend of divesting assets is on the rise, and many companies are feeling the pressure to reduce debt and become more flexible, leading them to reassess their portfolios.

2. **Private equity.** Over the past few years, private equity has invested a lot of capital, accounting for more than 40% of deal values in 2022, which has significantly affected the M&A market. In the current scenario, PEs will be looking for new opportunities and focusing on creating value in their existing portfolio companies through optimization, build-ups, and divestitures. Even with the difficulties in securing financing through leveraged loan markets and high-interest rates, private equity firms have persisted in their fundraising efforts, resulting in a global dry powder reserve of approximately US$2.4tn. Some of the biggest PE funds have raised credit funds, which will allow them to explore new transaction avenues in a difficult financing market.

3. **SPACs.** Special purpose acquisition companies (SPACs) have faced significant challenges and are likely to face even more in the future. In 2022, there were only 85 SPAC IPOs, raising approximately $12bn, a drastic decline from the more than 600 SPAC IPOs that raised over $144bn in 2021. Factors such as SEC regulations, underwhelming post-IPO performance, and difficulties in securing PIPE funding have led to high redemption rates, lower de-SPAC merger activity, and even the cancellation of several previously agreed-upon SPAC deals.

4. **Credit funds and private markets capital.** Credit funds will continue to gain ground as banks attempt to minimize their exposure to riskier industries. Although they may partner together to execute larger transactions, they will have a more significant impact on the middle market. Their lending will be crucial in supplying essential liquidity to the leveraged loan market, which will effectively stabilize the M&A market.

5. **Venture capital.** Due to investors' decreased appetite for risky investments and the need to reassess valuations, early-stage companies may face difficulties obtaining additional funding, leading to potential distress. As a result, corporate players and PEs may have the opportunity to acquire such companies. However, climate tech investment is expected to remain strong, with the State of Climate Tech 2022 report by PwC indicating that while VC investments in climate tech have contracted, the decline is less drastic. Over one-quarter of all VC funding is going towards climate technology, with a focus on emission-reducing technologies.

Making M&A a deal in an uncertain economic climate can be intimidating. However, the belief that acquisitions are not feasible during a downturn is outdated. Businesses that use past successful practices, combined with an understanding of the current business climate, can achieve significant success in generating value.

**CONCLUSIONS**
The audit involves evaluating the financial and operational aspects of the target company, assessing its market position, identifying potential synergies, and estimating the risks and benefits associated with the investment. The audit should encompass various factors such as financial statements, cash flow analysis, asset valuation, debt and equity structure, customer base, intellectual property rights, regulatory compliance, and cultural fit. In investigation conclusion there is need to outline, in addition to the direct audit of M&A operations, other types of audit can be conducted: legal audit (examination of agreements for compliance with current legislation); environmental audit (the process of environmental audit involves a well-documented and independent system for evaluating the subject matter, which includes the impartial collection and evaluation of evidence to determine whether specified activities, measures, conditions, environmental management systems, and related information comply with Ukrainian legislation on environmental protection and other relevant criteria for environmental audit); organizational audit (assessment of the compliance of the structural and personnel potential of the organization with its goals and development strategy for the purpose of preparing and making strategic decisions for the future); technological audit (verification of technological processes, methods, techniques and procedures used in the organization in order to assess their effectiveness).

In 2023 CEOs are expected to focus on mergers and acquisitions to transform and add value to their companies. However, the possibility of an impending recession has deal makers closely monitoring the US Federal Reserve and its plans for interest rate hikes. The announcement of the end of interest rate hikes by the Fed will bring stability and certainty to the market, resulting in an uptick in M&A activity, especially for private equity firms. In the face of various challenges confronting business leaders, M&A, especially portfolio optimization, will be a crucial tool for repositioning companies, driving growth, and achieving long-term sustainable outcomes.

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