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# THE ROLE OF INTERNAL AUDIT IN THE MERGER AND ACQUISITION PROCESS TO PROVIDE ADDED VALUE : A CRITICAL REVIEW

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**ABSTRACT**

Purpose – This research focuses on how internal audit influences added value in the merger and acquisition (M&A) process. One of the internal audits provides value added by doing due process diligence For M&A transactions. The failure rate in creating value for companies and shareholders through M&A is still relatively high. Factors contributing to such failures include cultural differences between organizations, overly optimistic decisions based on market assessments, overestimating synergies, and inappropriate technology assessments. In overcoming these risks, the role of internal audit becomes crucial. This research underscores how internal audits can aid in recognizing and addressing the risks linked to M&A, particularly during the strategy, feasibility assessment, and results integration implementation phases.
Methodology – This research uses descriptive qualitative analysis methods
Findings – Research demonstrates that internal audit plays a vital role in guaranteeing the seamless operation of the M&A process. Internal audits help identify the various risks involved in the M&A process, from market and financial risks to legal and cultural risks. In addition, internal audits also provide recommendations for improvements needed to ensure that the M&A process runs according to the company's plans and goals. Thus, the contribution of internal audit is significant in ensuring the success of every M&A transaction carried out by the company.
Originality – This article comprehensively discusses internal audit activities in the M&A process so the internal audit activity can add value to the company.



## INTRODUCTION (First Heading)

Mergers and acquisitions(M&A) are when two companies merge, or one company buys another. In addition, the M&A process can be carried out for various strategic reasons, and the process involves different stages and complexity depending on the type of transaction. M&A represents a pathway for companies to achieve faster growth compared to organic business expansion and can serve as a means to enhance their global market presence and bolster competitiveness (SUI and PECULEA 2016). M&A activity worldwide has a large volume and value from several primary commodities such as coal, industrial metals, silver, lead, zinc, copper, steel, aluminum, and other materials. In 2018 (January to December), the total M&A transaction value for the coal and metals sector reached USD 60 billion, with the largest share in coal commodities and a transaction volume of 320 transactions (Ernst & Young 2019).

There are several benefits of M&A activities for companies, including getting cash flow quickly, getting funding easily, getting experienced employees, getting customers in a short time, getting mature operational and administrative systems, reducing the risk of business failure, saving time for entering new businesses, minimizing business risks, and more (Hariyani et al. 2011). These activities can be carried out domestically and abroad, involving minority shares or acquisitions that take over management control(Fariha, Hossain, and Ghosh 2022). Acquisitions made by local buyers domestically generally provide a higher success rate than foreign investors because they are more knowledgeable and more confident about all factors in the target asset (Malone and Ou 2008; Akram, Ramakrishnan, and Naveed 2023; Varshney 2024).

M&A is a corporate action involving investment on a large scale, with risks, especially regarding uncertainty in commodity prices in the market (Savolainen 2016; Manogna, Kulkarni, and Krishna 2024). So before M&A is carried out, due activities and due diligence must be done by the buyer. Due to this diligence, the buyer will determine the appropriate valuation method, and later, the company value will be handed over to the seller for further negotiations. The valuation methods between sellers and buyers can differ so that the resulting company value can differ significantly.

However, the M&A process often goes differently than expected and can pose risks for both parties, especially for shareholders (Rašković 2023; Thelisson 2023). These risks could include financial, operational failure, or even loss of value. However, mergers and acquisitions usually aim to create added value for the new company (DePamphilis 2018; Gulati and Garg 2024). On the other hand, the internal audit function initially aimed to ensure a company's compliance and internal controls have evolved to become more proactive and risk-based (Yousif and Mohamed 2022). Internal audit must be thoroughly involved in every stage of M&A and help the organization promptly identify possible challenges. M&A often carries high risks and only sometimes produces the expected profits. Even so, in the context of mergers and acquisitions, the role of internal audit still needs to be fully effective in managing emerging risks.

Internal audit involvement in the entire M&A transaction process is critical. Internal audit must assess how related parties in three lines of work work together, namely the operational line, supervision line, and internal audit line. Besides being an independent and objective assessor, internal audit has several roles in the M&A process. It enables it to provide in-depth insight to the board of directors and related audit committees, such as ensuring that all risks and issues are identified and managed correctly. Internal audit is also responsible for ensuring transparent governance and reporting on program activities and the progress achieved. Thus, the involvement of internal audits is critical in ensuring the success and effectiveness of M&A transactions and reducing risks that may arise during the process.

Internal audits can identify and highlight ambiguous objectives that may occur during the M&A process. Therefore, an internal audit is also responsible for identifying potential gaps or deficiencies in the strategic plan or synergies that have yet to be previously identified, which may hinder the overall success of the transaction. Internal audit responsibilities also include evaluating whether roles and responsibilities have been clearly defined among all parties involved in the M&A, including ensuring that the roles of each business line or function are well defined. Internal audit is also responsible for observing and raising concerns regarding organizational culture or behavior that may impact successful integration following an M&A. This includes observing values, norms, and practices that may conflict between the two merging entities.

Furthermore, internal audits are responsible for considering problems if the M&A program needs to be managed effectively. This includes ensuring that tracking synergies between the two entities occurs promptly and efficiently. Internal audit must also assess whether risks and issues arising during the M&A process have been identified and managed appropriately by the relevant parties. This includes an evaluation of the financial, operational, legal, and reputational risks that may arise during the integration of the two entities. For the M&A assessment process to be effective, internal auditors must have sufficient competence and experience to carry out M&A audits. If the internal audit function does not have the necessary skills, they should not carry out the work.

This research aims to focus on the role of internal audit in facing new challenges in the M&A

merger process, aiming to provide benefits or added value to the company. In modern business dynamics, the M&A process is increasingly complex and high-risk, including financial and operational risks and loss of value. In this context, internal audit faces new demands to become more proactive in identifying, managing, and minimizing these risks during the M&A process. Effective involvement in internal audit is critical in ensuring the success and effectiveness of M&A transactions and reducing potential risks. This research aims to understand more deeply how internal audits can provide added value in facing new dynamics in mergers and acquisitions.

## METHOD

This research adopts a critical review method to explore the relationship between three main topics: merger and acquisition (M&A), internal audit, and due diligence. In the first stage, to collect data, a detailed and systematic search was carried out on scientific articles, research reports, case studies, and other related literature relevant to these three topics. The collected data is then compiled and synthesized to provide a deep understanding of dynamics, trends, and best practices in the context of M&A, internal audit, and due diligence.

After the data was collected, a comprehensive analysis was carried out to explore the relationships between the three topics. The focus of the analysis is on the role and contribution of internal audit in the due diligence process related to M&A. This analysis includes an in-depth evaluation of how effective internal audit practices can identify potential risks, evaluate strengths and weaknesses in the target company's structure and operations, and provide strategic recommendations to minimize risk and increase value in M&A transactions.

Furthermore, this research seeks to comprehensively understand how the role of internal audit can provide significant added value in the M&A context. This includes disclosing how internal audit can assist in assessing asset quality, mitigating legal and compliance risks, and identifying efficient and effective integration opportunities after an M&A transaction is completed. Through this approach, the research aims to provide in-depth insight into how the existence and role of internal audit can be a critical factor in the success and sustainability of the M&A process in an increasingly complex and dynamic business environment.

***Theoritical Based***

A. Mergers and Acquisitions

According to various sources, there are several definitions of mergers and acquisitions (M&A). A merger occurs when one or more companies merge with another, and then the company disappears or no longer exists. At the same time, an acquisition is transferring share ownership in a company to another company, or, in other words, the buyer purchases the shares or assets of a company (Reed, Lajoux, and Nesvold 2007; Cosa, Pedro, and Urban 2023). According to Scott (2003), a merger is the combination or consolidation of two or more companies of the same or different sizes into one company. Investors who carry out a merger tend to maintain the trademark of the company they take over. In a merger, the company being taken over will no longer operate independently by the law (DePamphilis 2018). Meanwhile, an acquisition is an activity that buys assets or shares of a company; it can be all or part of the shares or only certain business divisions.

Snow (2011)expresses a slightly different definitionClick or tap here to enter text., stating that a merger is a combination of two or more companies where each merging company owns the same number of shares as the other and has a clear role in the new company. Meanwhile, an acquisition is when a company buys another company, business division, or other company assets. Corporate restructuring consists of operational and financial types (DePamphilis 2018). M&A is part of a friendly restructuring of branch operations or taking over without coercion. M&A is part of the company restructuring process, which can take the form of forward integration or backward integration (DePamphilis 2018). Suppose the company is mainly in the business of providing raw materials and operations. In that case, the company tries to control distribution channels and final products; then, the company is in the process of carrying out a forward merger integration. Moreover, vice versa, if the company's primary business is sales marketing or final product development, then the company tries to take over the availability of resources in the upstream process. The company carries out a backward merger integration.

M&A allows companies with good financial capabilities and leverage to grow. Through such endeavors, companies acquire direct or indirect access to cutting-edge knowledge, systems, technology, proficient management teams, and natural resources, enabling them to contribute to the business restructuring process. Consequently, this can furnish a competitive advantage for the company. Carry out the M&A process. In addition, according to Depamphilis (2018), M&A can also provide access to products and markets with lower development costs than having to start from scratch and reduce management time to do so. Suppose a company carries out M&A, especially for companies with financial strength exceeding other companies. In that case, the company will be able to create a new economic, social, and cultural environment faster and more significantly than its competitors so that, in the end, it can provide higher returns. Meaningful for investors conducting M&A.

Initially, M&A activity was primarily focused on assets that were considered undervalued or problematic so that when investors took over, there was an opportunity to develop them further for profit. However, later, M&A developed into a need for business consolidation and even gaining access to markets and products elsewhere. M&A can also be divided into two groups based on the nature of management or shareholder control (Snow 2011), namely;

1. Controls investment, which is an investment that allows the buyer to have control over the decisions made by the company. Control over these decisions can occur if buyers purchase more than 50% of the shares or less than 50%, but voting thresholds allow buyers to make decisions in almost all aspects.
2. A non-control investment or minority equity investmentis an investment that leaves the buyer unable to decide on almost any matter listed in the voting threshold. Generally, this occurs when the buyer purchases less than 50% of the shares.

A brief explanation of the voting threshold, which is the threshold for management and shareholder votes registered in the partnership agreement or shareholder agreement, which regulates matters or activities that must be approved by management or shareholders. Generally, this agreement will be agreed upon before the M&A occurs and signed after the agreement.

M&A can be divided into five groups based on the reasons for carrying out the corporate action(Hariyani et al. 2011; Agostini et al. 2023), namely:

1. Horizontal M&A is an M&A event that occurs in the same market or product.
2. Vertical M&A, namely M&A, occurs in upstream or downstream industries. Downstream is called forward or upward vertical integration, and upstream is called backward or downward vertical integration.
3. Conglomerate M&A is M&A in one or more companies in industries that are unrelated to each other.
4. Market expansion, namely M&A, to expand the marketing area.
5. Product expansion, namely M&A, is carried out to expand production lines in each company.

B. Internal Audit

As outlined by *the Institute of Internal Auditors* (IIA), an internal audit constitutes an unbiased and independent process that seeks to offer assurance and advisory services. These services are specifically crafted to add value and enhance the overall operations of an organization. (Insitute Internal Auditor 2022; Gleim Publications 2021). The primary aim of an internal audit is to assist organizations in attaining their objectives by utilizing a structured and disciplined methodology to assess and enhance the effectiveness of existing risk management, control, and governance procedures (Gleim Publications 2021; Insitute Internal Auditor 2022).

The Standard Glossary defines internal audit activities as a unit or group of consultants that offer independent and objective assurance and consulting services. These services are designed to augment value and enhance the operational efficiency of organizations. Internal audit activities are often referred to in the context *of governance, risk, and control* (GRC) because the services provided are in the form of assurance and consultation to evaluate and improve the effectiveness of GRC (Insitute Internal Auditor 2022).

Internal audits are conducted by professionals who deeply understand an organization's culture, systems, and business processes. Internal audit activities can be carried out by people within and outside the organization (for example, in collaboration or third parties). A practical internal auditor functions as the organization's conscience and advisor regarding operational efficiency and effectiveness of governance, risk, and control. Internal audit also provides education and recommendations to management and the board of directors (or other governance oversight bodies) to support organizations in achieving their goals and objectives. Internal auditors must demonstrate professionalism, objectivity, knowledge, integrity, and leadership (Insitute Internal Auditor 2022).

C. Due Diligence

Due diligence is a thorough process involving investigating and evaluating business opportunities within mergers and acquisitions. (Angwin 2001). Usually, due diligence occurs before a significant deal is made or after a deal is announced. Traditionally, due diligence involves reviewing and analyzing data and information regarding a business and generally covers aspects such as products, financial assets, business models, and technology, with most of the focus on legal and financial issues (Agata Stachowicz-Stanusch, 2009). Due diligence is the process of researching a company. Due function Diligence in the M&A process is to support the valuation process, provide weapons to negotiators, test the accuracy of representations and warranties in the merger agreement, fulfill disclosure requirements to investors, and provide information to post-merger integration planners.

The research conducted by Bruner (2004) discusses the key areas where the due investigation focuses due diligence must be provided. The primary consideration is the market, encompassing investigations into factors such as the size of the target market, the growth rate of specific segments, the existence of competing products or technologies, and the extent of government influence or control over the market. The second key area is customers. Research is conducted on the target's key customers, their purchasing criteria (price, quality, reliability), various customer channels, unmet needs, and whether changes in purchasing behavior are expected after the completion of the transaction. The third key area is competitors. Here, due diligence needs to focus on identifying the target's major competitors, the level of competition between competitors, competitors' strengths and weaknesses, whether there are barriers to entry for new competitors, and how competitors may try to exploit merger or integration problems to their advantage. The final area to focus on is culture and human resources (Bruner 2004). Research was conducted into critical people who should be retained, core competency areas that should be retained, and the feasibility of doing any of them. Due diligence should also determine whether there are significant cultural differences with the target, whether they could cause major defects or other productivity losses, and whether the organization is willing to resolve them and at what cost (Bhagwan, Grobbelaar, and Bam 2018).

Many of the deals that took place during the 1980s produced disappointing results. Shim (2012)suggests that part of the reason is that Limited diligence was conducted on the deal. Many of these companies find that the acquisition cost is different from what is paid for the company. However, everything is paid after the company has been purchased to fix problems that must be uncovered during the due process. diligence of transactions. Based on these findings, it is evident that due diligence constitutes a critical component of M&A transactions and can significantly impact the deal's success. Shim (2012) also discusses various issues during transactions that can hinder the due diligence rates. The identified issues were time constraints, cost constraints, and situational factors. Due diligence covers a variety of areas. Ideally, due to Thorough (Turuk and Moric Milovanovic 2020), diligence is carried out considering all aspects of the target business. These areas include but are not limited to, legal, accounting, tax, information technology, risk and insurance, environment, market presence and sales, operations, real and personal property, intellectual and intangible assets, finance, cross-border issues, organization and human resources, culture, and ethics (Bhagwan, Grobbelaar, and Bam 2018).

## RESULT

This Evidence from several studies in the United States, United Kingdom, and other countries shows a high failure rate in creating value for companies and shareholders through mergers and acquisitions. Several factors can explain the reasons for this trend. The first factor is that cultural differences between the merged entities often create complex barriers. This can result in a cultural mismatch that harms productivity and collaboration (Zaheer, Schomaker, and Genc 2003; Kovela et al. 2023). The second factor is that when the acquiring entity has a weak core business, the acquisition can be a tool to divert attention from more fundamental internal problems (Very 1993). Then the next factor is that decisions based on overly optimistic assessments of market potential can lead to inefficient resource allocation and unrealistic strategies (Dierickx and Koza 1991). The fourth factor, namely, overestimating synergies, often results in unrealistic expectations and difficulties integrating different operations (Boardman and Vining 1996). The fifth factor is that inappropriate technology assessment can result in a gap between expectations and reality, especially regarding system and infrastructure integration (Cheah, Bellavitis, and Muscio 2021). The sixth factor is the inability to carry out adequate assessment (*due diligence*) regarding the potential and risks of an acquisition, which can result in inappropriate decisions and disappointment for shareholders (King, Bauer, and Schriber 2018). Apart from that, a further factor is the clash of management styles and egos between the leadership team and employees of the merged entity, which often disrupts the integration process and hinders operational continuity (Weisbach 1995; Lane, Cannella, and Lubatkin 1998; Datta 1991). Then the eighth factor is that offers that are too high often create excessive financial pressure and make it difficult to achieve the expected results (Choi and Lee 1991; Cheah, Bellavitis, and Muscio 2021). The final factor is that poor post-merger integration can lead to operational chaos, loss of key talent, and loss of valuable business opportunities. (Galpin and Robinson 1997)Thus, these nine factors contribute the most to the high failure rate in creating value through mergers and acquisitions in various markets and countries.

Table 1. Categories and Types of Risk When Carrying Out M&A

| Risk Category | Types of Risk |
|---|---|
| MarketRisk | Poorsalesprojections<br>Marketshareshrinks<br>Losingmarketshare<br>Increase in interestrates |
| Technology Risk | Softwarelicense<br>Incompatiblehardware and softwaresystems<br>Data security<br>Data integrity |
| Human Resources Risk | Culturaldifferences<br>Benefits/payscale<br>labor union<br>Jobsecurity |
| Internal ControlRisk | Withoutcontrol<br>Nopolicies/procedures<br>Inadequatedivision of tasks<br>Incompatibility of internal controlstructures |
| Financial Risk | Offersthat are toohigh<br>Accounting irregularities<br>Unrecordedobligations<br>Overvaluedassets |
| Legal Risk | Productresponsibility |

| | |
|---|---|
| | Antitrustissues<br>Environmentalproblems<br>Patent/copyright/trademark |
| CorporateImageRisk | Brand image<br>Hostile merger and acquisitionprocesses<br>Possibletermination of employment<br>Unhealthyproduct |
| CulturalRisk | Company culture<br>Incompatiblecultures<br>Perception of qualityproduction<br>Maintenance of keypersonnel |
| RegulatoryRisk | Lack of familiarity in theindustry<br>History of regulatoryviolations<br>The target orpartyacquiringorbeingacquiredishighlyregulated.<br>Acquiring a publiccompany |

So that all these risks can be minimized, the role of internal audit is vital. The importance of the internal audit activity lies in its ability to provide objective assurance and helpful advice to the board of directors regarding the effectiveness of the risk management process and how to manage and control these risks. Building and implementing an effective risk management process is crucial for all companies. Internal audit has a key role in ensuring organizational risk control and governance. The latest Standards for the Professional Practice of Internal Audit underscore the importance of embracing a more transparent risk-based approach to conducting internal audits. It is also consistent with the current definition of internal audit (Insitute Internal Auditor 2022) as an autonomous and impartial assurance and consulting endeavor.

Several vital points that must be understood and carried out by the internal audit division during the M&A process are as follows:

1. Ensure the internal audit division is involved at every stage of the M&A; this stage is a critical emerging risk.
2. Share the approach with the audit committee early to validate the required assurance.
3. Adjust the approach to ensure timely insight disclosure.
4. Consider an advisor/observer role alongside further formal assurance work.
5. Ensure the internal audit division evaluates the effectiveness of programs and individual activities.
6. Adequately resources where the audit plan needs to adapt and change.

Risk-based internal audits begin by considering the organization's business objectives and then focus on risks identified by management (Insitute Internal Auditor 2022; Hock et al. 2019). The role of internal audit in this approach is to review existing risk management processes (instead of solely internal controls) to reduce those risks to a level acceptable to the board of directors (risk appetite).

Company management has operational responsibility in identifying risks, while the role of the board of directors is to ensure that the risk management process has been appropriately implemented and obtain adequate assurance from management, internal audit, or other functions that the process is effective. Risk management includes identifying and assessing key risks and designing and implementing processes to manage these risks to a level acceptable to the board of directors.

A risk-based internal audit assesses how well an organization identifies and manages vital threats to achieve its objectives. Such an approach allows internal audit to assure an organization's board of directors and audit committee, at least once a year, that there is an effective overall process for identifying and managing key risks. It is important to note that careful consideration is required in acquiring the knowledge and skills necessary to perform this type of internal audit, as well as requiring a deep understanding of risk management processes, tools, and techniques, along with relying on basic internal audit skills in communication, interviewing, and objective analysis.

Another essential factor of the risk-based philosophy is the corporate risk management framework initiated by *the Committee of Sponsoring Organization on the Treadway Commission* (COSO) to develop a conceptually robust framework that provides integrated principles and common terminology. The fundamental principle of enterprise risk management is that every entity aims to deliver value to its stakeholders and encounters uncertainty and risk to pursue its objectives. Conversely, management needs to decide the level of uncertainty the entity is willing to tolerate to enhance stakeholder value.

Internal auditors play a crucial role in appraising the effectiveness of the company's risk management processes and suggesting improvements where necessary. The scope of internal audits must include control and risk management systems, including evaluation of reporting reliability, review of operational effectiveness and efficiency, and compliance with established laws and regulations. While the internal audit function is not primarily tasked with establishing or maintaining enterprise risk management, internal auditors are crucial in aiding management and the audit committee. They do so by monitoring, testing, evaluating, reporting, and recommending enhancements to the sufficiency and efficiency of the enterprise's risk management processes.

Although many articles discuss the issue of mergers and acquisitions, more research is needed on the contribution of internal audits at various stages of the merger. According to Leung et al. (2011), The internal audit function holds significant potential to enhance management quality throughout the acquisition process and deliver services that can influence an organization's profitability. This potential depends on two main factors, namely organizational status and knowledge. Regarding the initial matter, the internal audit's capacity to contribute to the acquisition process hinges on the extent of the department's examination, the resources at its disposal, and its authority to access records and personnel. The internal audit function should also play an active role in assessing systems within the acquired company and establishing controls by the parent company over the activities of its subsidiaries. The second problem concerns knowledge and understanding the advantages and disadvantages of the party acquiring the pre-acquisition stage. During this stage, the possibilities for conducting reviews are limited but can provide tangible benefits to the organization. The contribution of internal auditors at this stage is relatively moderate, although they can have a broader role (Selim, Sudarsanam, and Lavine 2002). This happens because companies often focus on acquisitions and consider integration and audits. The role of internal audit fluctuates across various stages in the M&A process. The pre-acquisition stage is when review possibilities are limited but can benefit the organization. Additionally, efforts are required to establish effective control over the new entity in the post-acquisition stage.

The M&A process involves three key stages that are important. The first stage is the strategy stage, where the company determines the objectives and reasons behind the merger or acquisition. Once the strategy is determined, the feasibility assessment and negotiation stages become the main focus. The company evaluates the target's financial, operational, and strategic aspects in this section. This stage also involves negotiations on the price and terms of the transaction. In addition, the company also prepared plans for the first day of integration and developed a target operational model. Lastly, the integration execution stage occurs after the transaction is approved. The company implements an integration plan in this stage, combining the two merged entities' operations, systems, and organizational cultures to achieve the desired synergies and efficiencies (Flanagan, Kreuze, and Smith 2004). M&A often fails to achieve the value anticipated by an organization's stakeholders. Internal audit must pay attention to the risks involved in each stage of M&A, including failure to reduce post-merger or acquisition costs, overestimation of synergies that are not achieved, inadequate feasibility assessments prior to the transaction, cultural differences between the organizations involved, planning immaturity before the transaction, poor technology evaluation, disruption during the transaction, failure to achieve a fully integrated end state, and a tax structure that is not optimized after the transaction(Drogalas et al. 2012)

According to Tang dan Karim (2019), in the pre-acquisition stage, an internal audit may review the candidate and begin an initial review of its control environment. In this review, the internal auditor must consider the candidate's potential suitability. The likelihood of achieving a successful business combination can be assessed in three ways: business suitability, financial suitability, and organizational suitability. Purchasing an existing business provides an opportunity but is also a high-risk strategy. Although acquisition decisions can be accompanied by speed and uncertainty, internal audits should strive to be involved early on. Once an acquisition strategy is established, the value of the audit review will increase if the findings are tailored to the company's preparations for diversification. Half the journey is over if the suitable systems, structures, and control environment are in place. Traditionally, the internal auditor's contribution to the merger is more significant at the due stage post-acquisition Selim et al. (2002)diligence and integration. They observed that internal auditors' participation at these stages was relatively high. Additionally, Davison (2001) suggests that most auditors who participated in a survey conducted by the Institute of Internal Auditors (1998) stated they only perform due testing and diligence regarding new merger activities.

A. Strategy Stage (when the organization has identified the desired corporate targets)

There will generally be sensitivity at this stage around information sharing due to potential sensitivities in the market, and executive management will be anxious that transactions should not be slowed down. It is critical that internal auditors have visibility at this early stage and possibly be involved as advisors (Tang and Karim 2019; Goodwin-Stewart and Kent 2006). With the audit team uniquely positioned to have a holistic view of the organization and not be emotionally attached to transactions (objectives), they can challenge the business to ensure that all risks and issues have been considered with targets and, where necessary, further investigated and understood as part of feasibility assessment (Zain 2022). Additionally, if the acquisition is cross-border, an internal audit may challenge whether the appropriate skills are involved to consider additional risks. Management may be unrealistic, too optimistic, or too narrow. Internal audits can help objectively determine what events or circumstances may be obstacles to achieving the corporate goals and positive synergies identified as part of the M&A. Organizations often vastly underestimate the amount of time and resources required for M&A projects, consider auditing resource plans and especially how and when third parties are used and how these are monitored to ensure the program of activities is delivered as agreed. As a practical matter, relevant audit team members will likely be bound by confidentiality agreements (Kravet, McVay, and Weber 2018; Sterin 2020). They must obtain all necessary information about transactions and corporate objectives or strategies. Suppose the internal audit only receives some of the information. In that case, the audit team cannot effectively assess the possible control environment and whether all risks and issues have been considered.

The early stages of M&A can be considered a relatively short time frame, so ensuring all risks and issues are considered is critical (Sterin 2020). This may create friction where management is concerned that internal audits could disrupt the process. Make sure to be completely clear about timelines and share any concerns in real-time to ensure these are managed proactively (Lindow and Race 2002). Audit team members verbalize periodically to the working group/executive committee and then summarize all the key messages in a memo. The key is ensuring every concern is shared in real-time so everyone can consider and address it adequately.

B. Feasibility/acquisition assessment stage and integration planning readiness.

The feasibility of the acquisition assessment stage and initial integration readiness/integration planning are crucial phases in the M&A process. Acquisition target companies are often reluctant to disclose confidential information to buyers who may be competitors (Becker and Schmid 2020). Alternatively, such companies prefer to use the services of third-party consultants who have signed confidentiality agreements to manage the flow of information carefully and confidentially (Soltanizadeh et al. 2016). The role of internal audit is vital in assuring the smooth running of the M&A process, including selecting and using appropriate expert advisors (Leung, Cooper, and Perera 2011). Internal audit is also responsible for ensuring a comprehensive risk assessment, covering strategic, operational, financial, and regulatory/complaint risks. Furthermore, at this stage, businesses will usually start collaborating to develop the desired operational model after the merger or acquisition occurs (Drogalas et al. 2012). Internal audit must pay attention to this process to ensure that all risks, including data transfer risks and cultural differences, are correctly accounted for.

In addition, internal audits must also coordinate with audit teams from both organizations to develop optimal target operational models (Gleim Publications 2021). Initial integration preparation is essential. Internal audits should ensure that clear lines of responsibility, adequate focus, critical action lists, communications plans, and disaster recovery plans are adequately prepared for the new organization (David 2017). Thus, internal audits act as advisors and critical monitors in ensuring the success of the M&A process and practical integration.

C. The execution stage of the integration results that have been determined

In the context of the importance and extent of change occurring during the integration stage of M&A, a steering group at the board level will likely be established, as well as multiple working groups to support delivery (Flanagan, Kreuze, and Smith 2004). Internal audits must integrate within the integration governance framework by observing workflows, attending steering committees, and having regular meetings with program managers. In the early stages, it is essential to ensure that the newly formed organization has formulated a clear strategy and a well-defined set of objectives for the audit committee; with board direction, M&A is likely to succeed (Kravet et al., 2018; Sterin 2020). Internal audit needs to ensure the availability of the following:

1. Clear goals
2. Target operational model in the final state
3. Map business processes to achieve goals with workflows
4. Alignment with the broader risk management framework
5. Clarity on how the three lines will support integration
6. Sector-specific arrangements such as financial services and donations, which include charity requirements.

For the integration program itself, ongoing assurance includes:

1. Proper governance of integration programs
2. Clear goals and understanding of the critical path
3. Accurate management information and reporting
4. Dependency identification and tracking
5. Criteria for deciding to continue ( *Go* ) or not to continue ( *No -Go* )
6. Escalation of significant delays
7. A clear resource plan includes dependencies on third parties
8. A well-defined communication strategy for both internal and external stakeholders is essential
9. Approval process for changes to program scope
10. Risk and issue identification and tracking, escalation, and management
11. Synergy and cost management process
12. Appropriate early warning indicators of impact on day-to-day business

Internal audit must also ensure that all dependencies between technology systems, organizational changes, and process changes have been identified and understood (Garud and Nayyar 1994). All synergies should be mapped into work streams, with clear linkages on how these will be developed. Ongoing synergy audits can ensure how the organization plans to deliver through monitoring and ultimately realizing synergy goals (Henrique et al., 2014). Organizations need robust critical performance and risk indicators to manage integration success and monitor its impact on the business and broader culture. Internal audits can ensure that management sets up the right quantitative and qualitative indicators to measure what is happening successfully (Yudianto et al. 2021). The role of the second line is also essential, so such reviews should consider how they independently assess and comment on integration program risks and issues.

If the target organization does not have a detailed information technology (IT) systems map of its environment during the acquisition phase, this can result in integration challenges. Internal audit can assist in advisory and assurance depending on the risk maturity of the IT function. In the early stages of integration, internal audits can ensure effective management of critical third-party arrangements (Flanagan, Kreuze, and Smith 2004). M&A can create overlapping services and add complexity to existing contractual arrangements. Internal audit can also help ensure that "lessons learned" and reporting exercises are undertaken and, where appropriate, incorporated into the broader integration program. The final part of the process, the internal audit, can consider whether real-time assurance is required for individual high-risk activity areas, especially where data is transferred (Kravet, McVay, and Weber 2018).

Internal auditors involved in the merger process need to pay serious attention. *Due diligence* can differentiate between M&A success and failure (Chambers and Odar 2015). However, the internal audit literature regarding due diligence is quite rare, and the existing literature is only concerned with due diligence related to business partnerships (Applegate 1998; Ferramosca et al. 2017). Given the limited time and unfamiliarity with the business, there is a risk of overlooking key business risks, significant control weaknesses, and potential fraudulent financial reporting before finalizing an acquisition agreement. IBM is developing the comprehensive M&A integration strategy analyzed below, which involves internal audit as a critical integration team member (Kazakova et al., 2020). It consists of four stages:

1. Establish business resource teams and generate collaboration among M&A stakeholders.
2. We are doing duets due diligence pre-acquisition.
3. Develop post-acquisition integration strategies.
4. We are doing duets post-acquisition diligence.

Post-acquisition management and integration have been called the most important, albeit challenging, tasks (Jones 1982). The key to success is implementing adequate controls while motivating management to maximize performance. The internal audit function can profoundly impact the development of more efficient post-acquisition management skills by endorsing effective control techniques and implementing measures to ensure high motivation levels among individuals. In addition, internal audit reports presented to senior management and the board of directors can warn company directors of the dangers that lurk if the company needs to be more thorough in its post-acquisition management (Cook 1993).

In an acquisition scenario, conducting a 'current state assessment' of the business processes of both the acquiring and acquired companies stands out as one of the most valuable actions that an internal audit can undertake. Additionally, audits can assist in post-merger implementation by helping plan integration efforts and, in addition to all financial and physical integration plans, developing separate human resource and cultural integration plans (Davison 2001). At this critical stage, the recipient company needs to establish a combined organization that can provide strategic results, synergies, and added value, taking into account that during the post-acquisition stage, the combined organization must have the ability to overcome all difficulties and obstacles with clear objectives, communication plans, and good benchmarks, and so on. This period is also a time of great uncertainty for all employees, and therefore, a good integration plan must include strong communication channels to facilitate and smooth the integration process.

The initial diagnosis of the subsidiary should address three key control areas, and the internal audit team should have the authority to require the subsidiary to meet the parent company's standards if necessary. This diagnosis can be divided into two phases. The first phase concerns establishing control over the subsidiary through reporting systems, structures, and people. The second phase analyzes the possibility of extracting synergies through operational audits of asset use, economy, and efficiency, and finally, compares results with the original strategy and reviews the effects of integration on products and communications. The case study of California Federal Bank exemplifies a compelling illustration of risk-based internal audit practices and the evolution of traditional audit techniques during a merger. As outlined in the case study, California Federal Bank aimed to position itself as a leading financial institution on the West Coast (Lindow and Race 2002). This strategic vision necessitated multiple acquisitions, integrations, and the introduction of new business lines and products. Effectively navigating the risks inherent in these transformations is paramount to achieving success.

To detect risk areas and consistently monitor the company's risk profile, the internal audit department must shift away from its traditional role, which often involves checklist activities, and instead prioritize corporate and business unit risk management objectives, strategies, and processes. In order to achieve this restructuring, the steps that internal audit can take are as follows:

1. Describes internal control
2. Follow practice best, like supervising business activities and critical performance, collaborating with other risk management functions, designing audit plans based on key risks, and being involved in project technology.
3. He was involved in the management process losses, lending automation, fund transfers, and other processes.
4. Designing strategies such as gathering diverse expertise within the audit team, ensuring auditors continually update risk assessments and monitor risk indicators on an ongoing basis, and establishing team communication strategies and reporting formats.
5. They are shaping team service clients.
6. Give service and present results findings.
7. Reach award

Internal audit can facilitated meetings between the merging parts, leading to a redesigned loan funding process using more automation and increasing cost savings. The internal audit team also attends meetings between the subsidiary's underwriting and loan servicing groups, participates in discussions, and reviews reports.

Conversely, as the scope of responsibilities for internal auditors widens, the increased focus on the definition of consulting activities within internal audit has raised fresh questions and concerns regarding the capacity of internal auditors to maintain independence and objectivity in their roles. Brody dan Lowe (2000) examines whether internal auditors' assessments depend on the role of the company involved (buyer or seller) in an acquisition. The results show that the company's role in the negotiation process influences judgments. This suggests that internal auditors tend to take positions that align with their company's best interests (Drogalas et al. 2012; Flanagan, Kreuze, and Smith 2004).

In this context, it is essential to understand that when audit teams are integrated into various other business functions and adopt more innovative approaches, they can increase value by providing more proactive and effective audit services and strengthening the company's risk management strategy. Internal auditors are anticipated to assume a progressively significant role in risk management in an era characterized by heightened scrutiny from investors, regulators, and the media.

## CONCLUSION

Internal audit indeed holds a significant role in delivering added value to the company throughout the M&A process. Numerous studies from the United States, United Kingdom, and other countries show high failure rates in creating value through M&A, with factors such as cultural differences, overly optimistic market assessments, overestimation of synergies, and the inability to conduct adequate valuations being the leading causes. Failure. Therefore, the role of internal audit is becoming increasingly important in identifying, evaluating, and managing the risks associated with the M&A process.

Internal audits can provide objective assurance and helpful advice to the board of directors regarding the effectiveness of the risk management process and how to manage and control these risks. In practice, risk-based internal audit focuses on reviewing an organization's risk management processes to reduce those risks to a level acceptable to the board of directors. Internal audit also assumes a crucial role in ensuring the smooth and effective execution of the post-M&A integration process, which involves integrating systems, infrastructure, and company culture.

During the pre-acquisition stage, an internal audit may be involved in assessing potential candidates, conducting an initial review of its control environment, and evaluating the potential suitability of candidates. This helps identify risks that may arise during the acquisition process and prepare strategies to manage them effectively. An internal audit ensures a comprehensive risk assessment at the feasibility assessment and negotiation stage, including strategic, operational, financial, and regulatory risks.

Internal audits play an essential role in providing added value from the due diligence process in M&A. The importance of the internal audit activity lies in its ability to provide objective assurance and helpful advice to the board of directors regarding the effectiveness of the risk management process and how to manage and control those risks. Building and implementing an effective risk management process is crucial for all companies. Internal audits play a key role in ensuring organizational risk control and good governance. The latest Standards for the Professional Practice of Internal Audit emphasize the importance of adopting a more transparent, risk-based approach to conducting internal audits. It is also consistent with the current definition of internal audit as an autonomous and impartial assurance and consulting effort. Several essential points that must be understood and implemented by the internal audit division during the M&A process include:

1. Ensure the internal audit division is involved in every stage of M&A; This stage is a risk that appears critically.
2. Share the approach with the audit committee early to validate the required assurance.
3. Adjust the approach to ensure timely insight disclosure.
4. Consider an advisor/observer role alongside further formal assurance work.
5. Ensure that the internal audit division evaluates the effectiveness of individual programs and activities.
6. Ensure adequate resources where the audit plan needs to adapt and change.

A risk-based internal audit begins by considering the organization's business objectives and then focuses on risks identified by management. The role of internal audit in this approach is to review existing risk management processes to reduce these risks to a level acceptable to the board of directors (risk appetite). Company management has operational responsibility in identifying risks, while the role of the board of directors is to ensure that the risk management process has been implemented appropriately and obtain adequate assurance from management, internal audit, or other functions that the process is effective. Internal audit should also ensure that all dependencies between technology systems, organizational changes, and process changes have been identified and understood. All synergies must be mapped into work streams, with clear linkages on how these will be developed. Ongoing synergy audits can ascertain how the organization plans to deliver through monitoring and ultimately achieving synergy goals. Organizations need robust critical performance and risk indicators to manage integration success and monitor its impact on the business and broader culture. Internal audits can ensure that management sets up the right quantitative and qualitative indicators to measure the success of what is happening.

***Suggestion***

From the discussions that have been carried out, practical and theoretical suggestions can be given to improve the merger and acquisition (M&A) process in companies. Practically speaking, it is recommended that companies engage in internal audits from the early stages of the M&A process to identify risks, evaluate feasibility, and plan post-acquisition integration more effectively. The internal audit team also needs to thoroughly review potential candidates, including a review of their internal controls and risk management processes to reduce uncertainty and identify potential issues before the acquisition process occurs. Conducting a thorough risk assessment covering strategic, operational, financial, and regulatory risks was emphasized as crucial for crafting an effective risk management strategy during the M&A process. During the integration execution phase, the internal audit must also closely monitor the implementation of the integration plan to ensure that the necessary changes are implemented smoothly and according to the previously established plan.

Meanwhile, suggestions from a theoretical perspective require further research regarding best practices in integrating internal audits into the M&A process to increase success and create added value for the company. The development of more sophisticated and focused risk evaluation methods is also needed to assess the risks associated with the M&A process more effectively. In addition, integrating risk management principles into all stages of the M&A process is also emphasized as necessary. Another theoretical proposal advocates for organizations to integrate risk management as a fundamental component of their M&A strategy rather than treating it solely as a distinct activity. By applying the practical and theoretical advice from the article, companies can increase their chances of success in the M&A process and achieve their strategic goals more effectively.

Future research should be more in-depth regarding the impact of internal audit integration in the M&A process on the company's long-term performance. The focus may include analysis across industries and company scales to understand how the effectiveness of integrating internal audit impacts value, profitability, and long-term growth. It is also necessary to examine the factors that influence the success of internal audit integration, such as organizational culture, management policies, and leadership characteristics. New technologies such as artificial intelligence, big data analytics, and blockchain can also be explored to improve the efficiency and effectiveness of the M&A process.

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