



Investigative & Forensic Accountants

Forensic Due Diligence (FDD) Case Study II

Case II

Surgical and latex gloves manufacturing company WSM, owned by French entities, decided to dispose of their Malaysian operation to a well-established multinational company and a market leader of various types of gloves. A financial due diligence was done by one of the big accounting firms. Based on the adjustments as suggested in the DD reports, an intrinsic value was derived and a purchase consideration was determined. However, later on, the vendor company, based on insiders' information, decided to go for a forensic review and we were assigned to carry the mandate.

A systematic study of production and dispatches of gloves reflected that 60% of the gloves of the stock were too old to be accepted. Because of aging it did not meet meet the stringent conditions laid by the FDA for the US Market, especially for the stock of surgical and part-of-examination gloves. It was subsequently confirmed that previous auditors during their DD accepted the tags attached to each bags without examining the content and production-dispatch history for the last 18 months. This was an essential process and would have confirmed the aging of gloves. Auditors trusted management representation and confirmation rather than examining the history of inventory, its classification and physical appearance. This revelation ultimately resulted in a reduction of more than 3.5 million ringgit of the agreed value of the company.