TEMPLATE

BUYING A BUSINESS DUE DILIGENCE CHECKLIST

A practical, fully interactive due diligence framework for entrepreneurs and business owners in South Africa evaluating the purchase of an existing business. Use this document to audit systemic legal, tax, and operational liabilities, validate real value, and safeguard your growth capital.

1. BUSINESS OVERVIEW & STRATEGIC FIT

- [ ] **Nature of the business and core activities**
  Define the exact operational model, current value proposition, industry market share, and primary revenue-generating activities within the South African market.
- [ ] **Reason for sale**
  Investigate the authentic underlying catalyst for selling (e.g., local economic challenges, emigration, retirement, partner disputes, or unresolvable operational bottlenecks).
- [ ] **Years in operation**
  Trace the business timeline, brand goodwill history, regulatory maturity, and historical resilience across local market cycles.
- [ ] **Profitability status**
  Confirm whether the entity is legitimately solvent, cash-flow positive, breaking even, or operating under a structural net loss framework disguised by owner add-backs.
- [ ] **Ownership structure**
  Map out the complete current equity architecture, detailing share splits, ultimate beneficial owners (UBOs), and direct or indirect holding company parameters.
- [ ] **Any disputes between owners**
  Examine and declare any active, historical, or threatened friction between existing partners, shareholders, or founding family members.

2. LEGAL & STATUTORY COMPLIANCE

- [ ] **CIPC registration status** COMPANIES ACT
  Verify corporate standing directly on the CIPC portal. Ensure it is fully active and not undergoing administrative deregistration for failing to file annual returns.

- [ ] **Company documents and shareholding**
  Review foundational records: certified CoR14.3 (Registration Certificate), historical CoR39s (Director details), the valid Memorandum of Incorporation (MOI), physical Share Register, and issued Share Certificates.

- [ ] **Licences and permits**
  Audit all regulatory trading certificates, sector licences (e.g., Liquor Boards, Municipal Health, NCR certificates), environmental permits), municipal zoning clearances, and operational approvals.

- [ ] **Legal disputes**
  Investigate all active, pending, or threatened civil litigation and consumer claims via the NCC (National Consumer Commission), intellectual property suits, or open court orders against the entity.

- [ ] **Contract validity and transferability**
  Analyse all major customer, supplier, and dealer contracts. Expose hidden "Change of Control" clauses that trigger termination rights upon sale.

- [ ] **Competition Commission thresholds** COMPETITION ACT
  Calculate combined asset value/turnover thresholds of both parties under the Competition Act to determine if the deal requires mandatory merger notifications before transaction execution.

3. FINANCIAL DUE DILIGENCE & LEDGER INTEGRITY

- [ ] **2–3 years financial statements**
  Analyse full historical Audited Financial Statements (AFS) or Independent Review reports. Validate trends across top-line revenues and net margins.

- [ ] **Management accounts (6–12 months)**
  Examine current month-on-month management accounts to evaluate run-rate performance, seasonal cash fluctuations, and post-balance sheet events.

- [ ] **Revenue trends and margins**
  Calculate Gross Profit and Net Profit margin trends. Isolate one-off spikes, irregular revenues, or artificial margin inflation by current owners.

- [ ] **Cash flow analysis**
  Trace actual cash conversion cycles, operational cash generation, working capital needs, and debtor collection profiles vs creditor pay terms.

- [ ] **Debt and liabilities**
  Quantify all interest-bearing debt, banking facilities, commercial overdraft terms, shareholder loans, contingent pass-through obligations, and historical trade lines.

- [ ] **SARS tax compliance link**
  Verify overall exposure matching between commercial books and tax returns to avoid inheritance of unrecorded state audit penalties at the standard flat corporate rate of 27%.

4. TAX COMPLIANCE & SARS STANDINGS

- [ ] **Tax clearance certificate** SARS
  Request the latest SARS Tax Compliance Status (TCS) PIN to independently verify live standing across all core tax accounts on e-Filing.

- [ ] **VAT returns up to date**
  Audit historical VAT201 return submissions, input tax claims, and payment receipts. Note the current standard 15% VAT rate and matching updated registration rules (increased to R2.3m turnover threshold).

- [ ] **PAYE, UIF, SDL compliance**
  Review monthly EMP201 statements and bi-annual EMP501 employer reconciliation returns to verify absolute payroll tax clearance (PAYE, 1% employee/1% employer UIF contribution split, 1% SDL where applicable).

- [ ] **Income tax filings**
  Reconcile submitted historical corporate ITR14 tax returns against actual matching ITA34 assessments issued by SARS, alongside provisional tax returns (IRP6).

- [ ] **Any audits or disputes**
  Check for any active SARS audits, official letters of inquiry, administrative non-compliance penalties, or unresolved formal notices of objection.

- [ ] **Section 103(2) tax loss verification** INCOME TAX ACT
  Audit historical business losses to verify that continuation of underlying trade rules matches parameters, neutralising SARS' anti-avoidance disallowance risk for tax loss utilisation.

5. ASSET VERIFICATION & INVENTORY VALUATION

- [ ] **List of physical assets**
  Obtain the full registered Fixed Asset Register (FAR) detailing baseline historical costs, depreciation profiles, and current book valuations.

- [ ] **Ownership verification**
  Validate actual title deeds for properties and e-Natis registries for fleet vehicles, and ensure no active General Notarial Bonds or Special Notarial Bonds tie up assets via a Deeds Office search.

- [ ] **Equipment condition**
  Conduct physical engineering inspections of machinery and plant equipment to identify hidden defects, wear, or immediate capital replacement needs.

- [ ] **Inventory valuation**
  Review the pricing approach for stock (e.g., FIFO, weighted average). Isolate dead, slow-moving, obsolete, or physically damaged components.

- [ ] **Stock control systems**
  Evaluate the underlying inventory tracking software, warehousing workflows, shrink parameters, and historical count variance reports.

6. CUSTOMERS & REVENUE STABILITY

- [ ] **Top customers breakdown**
  Analyse a detailed customer ledger breakdown to map out key relationships and baseline revenue-contributing accounts.
- [ ] **Customer concentration risk**
  Determine if a disproportionate share of revenue (e.g., >15-20%) depends on a single customer or centralised group of clients.
- [ ] **Key contracts review**
  Assess formal agreements with key clients, tracking exact remaining timelines, pricing terms, service commitments, and renewal clauses.
- [ ] **Retention rates**
  Review historical customer attrition, recurring contract renewal success rates, and customer lifetime value metrics.
- [ ] **Sales pipeline**
  Evaluate prospective new opportunities, unfulfilled quotes, qualified leads, and future revenue visibility.

7. EMPLOYEES & HUMAN CAPITAL

- [ ] **Employment contracts** LRA / BCEA
  Review explicit written agreements for all active personnel, checking exact salary components, leave logs, and local restraint-of-trade terms. Note structural transfer provisions under Section 197 of the Labour Relations Act (LRA).
- [ ] **Labour law compliance**
  Ensure complete operational alignment with the Basic Conditions of Employment Act (BCEA) and applicable regional/sector Bargaining Council Main Agreements.
- [ ] **Key staff retention**
  Identify critical technical personnel or key managers and assess risk profiles regarding potential flight or operational disruption post-sale.
- [ ] **UIF & payroll compliance**
  Confirmformal registrations and payments with the Department of Employment and Labour, including annual workplace injury returns and an active COIDA Letter of Good Standing.
- [ ] **Labour disputes**
  Trace historical or current employee grievances, active trade union actions, and outstanding cases open with the CCMA or Labour Court.
- [ ] **Medical aid & pension fund harmonisation** LRA
  Map out existing corporate provident/retirement structures and medical aid scheme subsidies to arrange comparable alignment platforms as legally mandated by LRA guidelines.

8. OPERATIONS & INFRASTRUCTURE

- [ ] **Business processes**
  Audited the daily standard operating procedures (SOPs), workflow manuals, quality-control frameworks, and delivery mechanisms.

- [ ] **Operational systems**
  Inspect core supporting technology, software tools, CRM packages, computing hardware setups, and data handling processes in line with the Protection of Personal Information Act (POPIA).

- [ ] **Supplier stability & B-BBEE profiles**
  Analyse risk exposures regarding specific supply chain routes, alternative component channels, import constraints, and vendor credit parameters. Check B-BBEE verification certificate parameters of critical suppliers.

- [ ] **Lease agreements**
  Examine current commercial real estate lease frameworks, evaluating base rental paths, local escalation rates (typically 6-9% in SA), renewal options, and tenant deposits.

- [ ] **Scalability**
  Determine capacity thresholds for current operational resources to expand without requiring sudden capital equipment spikes.

9. STRATEGIC RISK ASSESSMENT

- [ ] **Industry risks**
  Evaluate the impact of local macroeconomic trends, evolving national industry regulations, regional shifts, and threat levels from new market entrants.

- [ ] **Financial risks**
  Identify exposures related to bad-debt provisions, rising operational overheads, local interest rate sensitivity (Prime Lending Rate), and unexpected cash shortfall triggers.

- [ ] **Operational & Utility risks** INFRASTRUCTURE
  Assess exposure to local utility structural interruptions (including municipal water or grid infrastructure reliability), backup power / solar backup configurations, generator asset depreciation, and continuous raw material access.

- [ ] **Legal & Regulatory risks**
  Map out vulnerability areas concerning statutory non-compliance, regulatory change, intellectual property leakage, or contractual vulnerability.

- [ ] **Reputation risks**
  Review market sentiment, online presence, brand history, customer reviews, and general public standing across local operating channels.

10. FINAL VERIFICATION & TRANSACTION CLOSE

- [ ] **Independent review completed**
  Ensure formal external sign-offs are in place from specialized corporate accountants, forensic auditors, or independent business analysts.
- [ ] **Legal due diligence completed**
  Confirm that commercial attorneys have completed a full review of company files, share titles, structural contracts, and risk parameters in line with local statutory rules.
- [ ] **Contracts signed**
  Verify execution parameters for the final Sale of Business Agreement or Share Purchase Agreement (SPA), ensuring all suspensive conditions are met.
- [ ] **Transition plan agreed**
  Confirm a structured handover window detailing active handovers from previous ownership, customer introductions, and operational systems training.