

Hedge Fund Audited Financial Statement Reviews During Operational Due Diligence

Investors are becoming increasingly aware of the importance of document reviews during the hedge fund operational due diligence process. One of the most important sets of documents that investors should collect, analyze and monitor are a hedge fund's audited financial statements. Audited financial statements provide a historical snapshot into the financial life of a hedge fund and can serve as a valuable source of information during the due diligence process. Before investing with any hedge fund manager, investors should take steps to analyze and understand the information contained in these documents. To fully capitalize on the information learned during a review of a hedge fund's audited financials, these reviews should be incorporated into the larger operational due diligence process. Corgentum's time-tested proprietary approach towards operational due diligence incorporates a detailed review of audited financial statements into our broader operational review process. Some key questions investors may want to consider when reviewing audited financial statements include:

- For how many years should you collect audited financial statements? Since inception?
- How do you analyze and track fund expenses? Are operational expense levels appropriate as compared to other *pari passu* funds?
- Are audits being completed according to previously established timelines or running late? How can you locate evidence of this?
- Does the auditor perform any additional audit, tax or testing services?
- How have the audited financials changed year over year?
- Has the fund's auditor remained consistent since inception? What about the primary office from which the audit is conducted?
- Does your review of the audited financial statements agree with both your review of other fund documentation (i.e. – offering memorandum, due diligence questionnaire) as well as manager statements?
- Have you been able to receive independent confirmation, either formally or informally, from the auditor that they indeed perform audit work for the fund(s) under review?
- Are all audits, including historical ones, on appropriate letterhead from the auditor?
- What is the nature of the relationship between the auditor and the fund administrator? Has the auditor visited the fund administrator's offices?
- How do you monitor things such as related party transactions and cash levels?
- Are there any related or affiliated funds audited financials which you should review even though you are not considering investing directly in these other funds?

Audited Financials Operational Due Diligence Review Considerations:

For More Information

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