Carrying out Due Diligence Prior to Joining a Board

Joining a board can and should be a positive and rewarding experience but it also brings with it some risks. Even assuming that there will be personal compatibility and a sharing of common concerns and interests centred around the organisation, there is still the matter of becoming an effective member of the board as a group. Group processes and dynamics can prove difficult to manage and be part of with people often acting ‘out of character’ when in a group setting. Joining a group can pose a wide range of personal risks. Then there is the matter of decision-making and loyalty to board decisions once reached, even if there is individual disagreement, what risks could be associated with that? And to top off what would be a long list of risks, is the ultimate directorship risk, that every director is jointly and severally liable for the actions and decisions of the board.

It becomes imperative therefore that prior to joining a board, a prospective director carries out their own due diligence process to gather as much information about the board, its processes, commitments and its members as can reasonably be gained. With such knowledge acquired and considered, the decision whether or not to join can be made with some assurance about what the newcomer is letting himself or herself in for.

What is Due Diligence?

Due diligence is the process by which an individual or a company gathers vital business information about another company or organisation they intend to purchase, merge with or, in the case of this article, join as a director.

It is our experience that few directors intending to join a not-for-profit board carry out any form of due diligence. Many corporate directors routinely use such a process.

The following Due Diligence Checklist provides the intending director with a set of questions that, when answered, will provide data essential for helping the intending director to determine whether or not the board is safe to join. The checklist focuses on many of the primary areas of organisational risk, at least those over which the organisation and the board can exercise a reasonable measure of control.

Questions 1 – 65 should be filled in by the board. The intending director should complete Questions 66 – 72.

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Structural

1. The organisation is incorporated as:
   - An incorporated association
   - A company limited by guarantee
   - Other, please specify

2. The Constitution/Articles were last reviewed:
   - In the last year
   - 1 – 5 years ago
   - 6 – 10 years ago
   - More than 10 years ago

3. Composition of board:

<table>
<thead>
<tr>
<th>Name of director</th>
<th>Special governance contribution, e.g. Chairperson, treasurer, financial skills etc. where relevant</th>
<th>Length of time on the board</th>
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4. There is a Director Retirement/Term in Office policy. Yes No

5. The maximum term in office a director can hold is _____ yrs

6. The board has a set of Governance Policies that make clear the board’s and individual director’s role and responsibilities; specifically:

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<thead>
<tr>
<th>Policy</th>
<th>Yes</th>
<th>No</th>
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<tbody>
<tr>
<td>Board Role Description/Terms of Reference</td>
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<tr>
<td>Board Code of Conduct and Good Practice</td>
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<td>Conflict of Interests Policy</td>
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<td>Board Member Induction Policy</td>
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<tr>
<td>Chairperson Role Description</td>
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<tr>
<td>Board/Director Professional Development Policy</td>
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<td>Annual Board Effectiveness Evaluation Policy</td>
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7. There is a clearly defined CEO Instrument of Delegation or policy that makes clear the nature and extent of the board’s delegation to the CEO.
   - Yes
   - No

8. There is adequate directors’ liability insurance.
   - Yes
   - No
   - Size of cover $____________

9. Have there been any legal claims against the organisation in the last 3 years or are there any outstanding or pending claims that may result in board liability?
   - Yes
   - No – Type of claim and outcome/impending claim

10. The CEO is a voting board member. Yes No

11. Do any board members provide services to the organisation Yes No
Who? ____________________ What services?_______________________

12. There is a procedure for removing directors for non-performance or any other reason?
   Yes    No

13. Directors are paid.
   Yes    No    If so, how much? _________ How often? _________

   On what basis? meeting by meeting    annual payment

14. The board has the following committees:
   - Audit Committee
   - CEO Remuneration and Performance Committee
   - Other – please specify
     - __________________________
     - __________________________

15. New directors are provided with a formal induction to the board and to the organisation.
   Yes    No

16. There is a Directors' Resource book/manual containing documentation appropriate to the role.
   Yes    No

17. The board has a written code of ethical practice and monitors its and its members' actions against this at least annually    Yes    No

Financial

18. The organisation’s cash position over the previous 13 months has generally been:
   - Very sound and predictable
   - Generally sound but not always predictable
   - Not very sound but predictable
   - Not very sound and unpredictable
   - Very unsound
   - Threatening to our financial viability

19. The CEO regularly presents cash flow analysis and forecasts to the board.    Yes    No

20. The organisation is confident, based on regularly reviewed financial data, that it can meet all of its debts and liabilities, including contingent liabilities, as they fall due, within the coming 12 months.    Yes    No

21. Long-term borrowings, e.g. mortgages over buildings, are adequately secured?
    Yes    No

22. The board has an Audit Committee.    Yes    No (If 'No', go on to number 25)

   Its members are:

<table>
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<tr>
<th>Name</th>
<th>Strong financial skills – Yes/No</th>
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23. The Audit Committee meets and carries out its duties:
   - Once a year
   - Twice a year
   - Three times or more a year

24. During the last two years, the Audit Committee has expressed concern to the board about financial matters, e.g. state of finances management:
   - Never
   - Once or twice
Many times

25. The organisation’s external auditor is ________________

26. Do they provide other general consulting services to the organisation?  Yes  No

27. Length of this relationship ___________

28. The organisation has an independent external financial advisor.  Yes  No

29. The organisation has an internal audit programme.  Yes  No

30. The CEO has clearly stated financial delegation and limitations documented in a policy or in some special document.  Yes  No

31. The board is satisfied that it has sound financial systems.  Yes  No

32. There are board-developed financial policies in key areas such as Remuneration and Benefits, Financial Management, Protection of Assets, Financial Reporting.

   Yes  No

33. These policies are reviewed by the board:
   ❑ Annually
   ❑ Once every two years
   ❑ Less frequently than every two years
   ❑ Never

34. The CEO’s financial reporting to the board is:
   ❑ Comprehensive and typically meets all the board’s requirements
   ❑ Could be improved
   ❑ Unsatisfactory at this stage

35. Typical financial reports to the board include: (tick more than one if appropriate)
   ❑ Summary and analysis of the current financial position
   ❑ Balance sheet and P & L account to date
   ❑ Comparisons with previous year’s accounts and reports
   ❑ Financial ratio reports against board determined benchmarks
   ❑ Trend charts
   ❑ Narrative/written interpretation as appropriate
   ❑ A budget report to date

36. The organisation’s banker is ________________

37. The organisation has reserves that are secured.  Yes  No

38. The board has an Investments Policy with level of risk stated.  Yes  No

39. The board has an overdraft arrangement with the bank.  Yes  No

40. The overdraft is used:
   ❑ Rarely
   ❑ Occasionally
   ❑ Regularly

41. The organisation’s cheques are signed by:
   ❑ The CEO and one or more designated staff members
   ❑ The CEO and one or more designated directors
   ❑ Only designated directors

42. The following have authority to purchase major capital items:
   ❑ The CEO but only within budgeted parameters
   ❑ The CEO at his/her discretion
   ❑ The CEO only with approval of the board
43. Day-to-day financial management is carried out by:
   - The CEO
   - A dedicated financial manager
   - An external (outsourced) agent

44. Financial reports for the last two years are enclosed.  Yes  No

Assets

45. The board has a Protection of Assets Policy.  Yes  No

46. It was last reviewed:
   - Within the last year
   - Within the last 2 years
   - More than 2 years ago

47. What are the main asset categories and what are their asset values?

Board Meetings

48. Board meetings are held:
   - Monthly
   - Bi-monthly
   - Four times a year
   - Less than four times a year

49. A typical board meeting lasts for:
   - 1 hour or less
   - 1 – 2 hours
   - 2 – 3 hours
   - More than 3 hours
   - More than 5 hours

50. What other expectations are there of a director, e.g. committee membership?

51. The focus of board meetings is on: (tick more than one if relevant)
   - Financial monitoring and CEO reporting
   - Operational decision-making
   - A mix of monitoring (compliance and strategic) and strategic discussions
   - Mostly strategic matters
   - Policy making and review
   - Discussing operational matters/concerns with the CEO and giving approval for action

52. The average attendance by directors at board meetings is:
   - Always 100%
   - Most directors attend most meetings
   - There are always a few absent
   - Some directors are regular non-attenders

53. The agenda is developed by:
   - The board as a whole
   - The CEO
   - The CEO in partnership with the Chairperson
   - The Chairperson
54. Board papers, including all relevant papers and reports, are sent to directors at least a week in advance of board meetings:
   - Always
   - Mostly
   - Only sometimes

**Strategic Plan**

55. The company has a strategic plan/corporate plan.  
   Yes   No

56. If Yes, it was last reviewed:
   - Within the last year
   -Within the last two years
   - More than two years ago

57. The status of achievement of the strategic goals in the plan is:
   - Most goals are mostly achieved
   - Some are achieved, a few not yet achieved
   - The plan is too new for any assessment of achievements
   - We have struggled to achieve our goals

58. The CEO reports on the achievement of the strategic goals:
   - At every board meeting
   - At least twice a year
   - Annually
   - Never

59. The board holds an annual or bi-annual strategic retreat:  
   Yes   No

**CEO/Personnel**

60. The qualifications and experience of the CEO are: (list)
   __________________________________________________________
   __________________________________________________________

61. He/she has been in the role: _______ (length of time)

62. The board carries out a structured appraisal of the CEO’s performance.  
   Yes   No

63. If so, this takes place:
   - Once a year
   - Twice a year
   - More than twice a year

64. Who does this? _____________________

65. The board has the following governance-level personnel operational policies: (tick all that apply)
   - Appointment/recruitment procedures and criteria for senior staff
   - Occupational Health and Safety
   - Internal grievance processes
   - Senior staff succession planning.

**Personal Commitment (intending director)**

66. I am satisfied that I have all the information I need before accepting/declining directorship of this board.  
   Yes   No
67. I am fully aware of my potential legal liabilities as a director.  Yes  No
68. I believe that I will be able to work constructively with this board and this organisation.
   Yes  No
69. I am satisfied that the organisation has a sound reputation in the community.
   Yes  No
70. I am satisfied with the abilities of the Chairperson.  Yes  No
71. I am sure that I have time to make the level of commitment required to be an effective director on this board.  Yes  No
72. I will accept the invitation to join the board.  Yes  No