



BOARDWORKS

International

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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.

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:

Name of director	Special governance contribution, e.g. Chairperson, treasurer, financial skills etc. where relevant	Length of time on the board

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:

Policy	Yes	No
Board Role Description/Terms of Reference		
Board Code of Conduct and Good Practice		
Conflict of Interests Policy		
Board Member Induction Policy		
Chairperson Role Description		
Board/Director Professional Development Policy		
Annual Board Effectiveness Evaluation Policy		

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:

Name	Strong financial skills – Yes/No

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

- 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