Module 1

Introduction and purpose of The Due Diligence Framework, responsibilities and process.

1. The Due Diligence Framework is a powerful risk management tool that encompasses activities undertaken to assist the Senior Responsible Owner (SRO) of the programme in obtaining assurance of a potential delivery partner's capacity and capability to deliver DFID aid. In reviewing the partner's capacity, systems, policies and processes, the SRO will gain a much better understanding of the strengths, weaknesses and risks in working with that partner, leading to a more informed and better managed intervention. This assessment of delivery partner risk is in addition to the assurance given by the

Multilateral Aid Review which focusses on effectiveness and value for money of multilateral organisations.

2. The Framework provides DFID with a consistent approach for conducting Due Diligence during partner assessments and selection using an agreed set of guiding principles and assessment activities. These should be applied in a proportionate fashion taking account of the nature of the partner, the value and assessed risks of the planned intervention.

3. To improve accessibility, this guidance is presented in a segmented format with the core framework document covering the high level principles with supporting sections covering the key elements of the framework. In line with the Smart Rules, this approach is intended to help colleagues focus on the relevant issues at the relevant point in considering the assurance process. It recognises that one size does not fit all, empowering staff to decide on the level of detail required, which will be proportionate to the intervention and proposed partner.

4. This document:

- defines the design principles of the Framework,
- defines what Due Diligence, in the DFID context is,
- outlines the respective responsibilities of the SRO, Risk and Control Unit and the business area,
- identifies factors to be considered when determining a proportionate application of the framework, outlines processes to capture and share knowledge across DFID.

Where useful, these are amplified and expanded upon in supporting modules.

5. **SRO's** are responsible for:

- determining the scope and depth of the Due Diligence assessment as they are responsible for ensuring that they have sufficient assurance that the expenditure they approve will be correctly and appropriately applied for the purposes supported by the Business Case,
- ensuring all Due Diligence assessments are submitted to RiskandControl@dfid.gov.uk for publication on the central Due Diligence Register.

6. **Risk & Control Unit** is responsible for:

- maintaining the Due Diligence policy,
- preparing and disseminating supporting resource material,
- maintaining a Due Diligence Register of all assessments undertaken,
- create and maintain a Due Diligence Community of colleagues involved in or interested in Due Diligence,
- developing and providing training opportunities,
- providing support and advice on the Due Diligence framework.

7. The Framework is built upon 6 underpinning design principles:

Proportionality

The scope and depth of the assessment is proportionate to the risk and value of the proposal recognising the balance to be achieved between seeking assurance and the need to minimise unnecessary burden on delivery partners. Assessments should be designed on a case by case basis with scrutiny and energy targeted towards the pillars where risks are deemed the greatest.

Consistency of approach

Due Diligence will be applied consistently across DFID leading to increased comparability and quality of assessments.

Evidence based

Due Diligence assessments will be based on the best and most current, objective and verifiable information available.

SRO responsibility

SRO's remain responsible for ensuring that appropriate levels of assurance have been obtained on all aid expenditure.

Policy ownership

Risk & Control Unit is the Business Area responsible for the Due Diligence Framework and associated policies, guidance and support initiatives.

Knowledge sharing and co-ordination

Risk and Control Unit will maintain a centralised repository of Due Diligence assessments to create a knowledge bank for use across DFID. Assessments will remain valid for 3 years unless material changes have taken place within that timeframe.

8. The overarching principle is that, **before** working with any partner, we have a **reasonable level of assurance** that DFID aid will be correctly applied to achieve the desired objectives in the fashion agreed by the SRO.

9. However, given the wide range and complex nature of DFID's work, it is sensible to recognise that this must be applied on a case by case basis taking account of the context and the risks involved.

10. Therefore the general presumption is that Due Diligence is necessary before **all** interventions.

11. The **exceptions** to this general rule are when:

- the proposed intervention is a continuation of an existing programme (unless there has been a significant change in any factor) where existing programme management will monitor performance,
- a recent Due Diligence Assessment has been carried out on the proposed partner and where this assessment covers the partner's activities in a similar or related sphere of activity. Assessments have a lifespan of 3 years (unless there has been a significant change in any factor) and Spending Departments/SRO's can interrogate the Due Diligence Register for previous assessments,
- in the case of financial aid to a partner Government where assurance will be provided through an existing Fiduciary Risk Assessment,
- In the case of contractors and/or suppliers, where assurance will be provided through existing procurement processes.

12. As outlined below, Due Diligence is based on proportionality. This approach recognises that, for a variety of reasons either to do with the intervention itself of the proposed partner, a lower level of scrutiny may give sufficient assurance whilst more complex interventions will require more in depth scrutiny. Module 2 gives examples of risk factors to help SRO's assess the depth of assessment.

13. Reviewing implementing partners helps SRO's make evidence based assessments on the capacity and capability of existing and potential partners. It provides assurance that our aid will be effective in delivering the desired impacts and provides SRO's with fundamental evidence to support risk management, monitoring and evaluation of capacity improvements in our partners. In particular, it informs the production of the Project Risk Register maintained by Programme team.

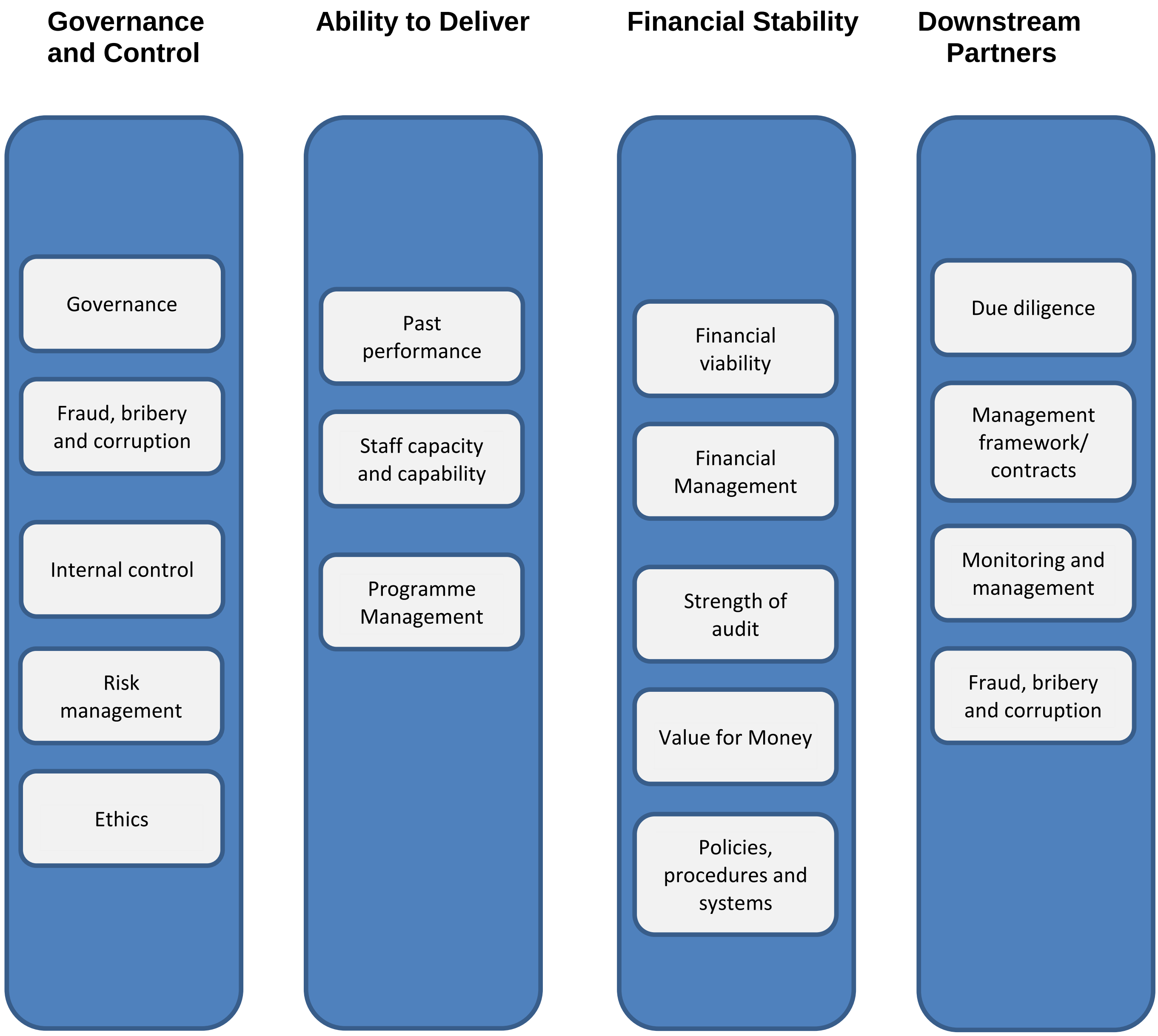
14. The process will provide an evidence based assessment of the risks involved in working with the potential partner and will inform the SRO on:

- whether funding should proceed, and
- if so, the extent to which capacity and capability building is required and what safeguards are needed and by when.

This latter output provides a valuable input to ongoing programme management and monitoring and project partners must be monitored closely to ensure that they address the identified improvements as required by the assessment report.

15. The scope of assessments can be grouped into **four broad pillars** that focus on the potential partner's capacity and capability to deliver our aid programmes.

Assessment Pillars



Modules 3 to 6 suggest the areas and typical questions which staff may wish to consider when undertaking the assessment.

16. Where appropriate and helpful, the programme team may find it useful to meet and interview representatives of the potential partner. Risk and Control Unit are available to give ad hoc advice on specific issues as required.

17. Assessments will usually begin with a desk based review and if deemed necessary by the SRO may be augmented with site visits and interviews with key personnel of the potential partner and/or relevant third parties.

18. Where necessary, and with the prior agreement of Risk & Control Unit, Due Diligence assessments can be **supported by contractors**. The Due Diligence Invitation to Tender Pack includes the ITT Instructions, ITT Cover Letter and the Standardised Terms of Reference, which can be found at the following link:

Due Diligence ITT Pack.vso

19. Module 7 provides advice on how to carry out a Due Diligence Assessment and includes a flowchart to outline the core process.

20. The primary purpose of the assessment is to give the SRO the required assurance needed to progress the intervention through the proposed partner. When appropriate, it will also highlight risks to be monitored and actions which should be progressed to mitigate risks. The Due Diligence report template can be accessed via inSight.

21. If risks and/or control weaknesses are found they must be clearly identified and documented within the Assessment Report using the critical/high/medium/low rating outlined in the report template. Remedial actions should be agreed with the potential partner and recorded in the MoU or specific partnership agreement agreement.

22. If critical weaknesses are identified, the SRO will need to make a decision on whether or not to proceed with the proposed funding. The rationale for the decision must be recorded as part of the SRO Comments section within the report.

23. The SRO must:

- use the Assessment Report to make a judgement on whether to proceed with the proposal,
- if proceeding, identify and record risk mitigation actions and timings required of the potential partner,
- include these requirements within the MoU or specific partnership agreement,
- use the Assessment Report as a baseline input to the programme management process,
- email a copy of the complete Assessment Report to RiskandControl@dfid.gov.uk which will be uploaded to the Due Diligence Register.

In line with the Smart Rules, it is the SRO's responsibility to review the content and quality of the assessment to enable them to make an informed decision on whether to proceed with the intervention or not. Once complete, the SRO will sign-off the assessment. For high value and high risk programmes, Risk and Control will (resources permitting) review the assessment and provide feedback.

24. A key outcome of the Due Diligence Framework must be improved knowledge and understanding of our partners and the nature and process of gaining assurance. To enable this Risk & Control Unit will maintain a **Due Diligence Register** recording set details of each assessment. Spending departments will be able to interrogate the register to source previous examples of relevant reports and contact points.

25. The Due Diligence Framework is effective from 1st January 2013. However, it is recognised that there are still elements of the framework to be developed and the framework will be subject to ongoing improvement and refinement. The Risk and Control Unit is undertaking a review of the framework, which is anticipated will be re-launching in 2014.

26. If you require any advice or assistance regarding the Framework please contact the Risk & Control Unit by e-mail RiskandControl@dfid.gov.uk

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Module 2

Risk Based Approach to Due Diligence

1. The Due Diligence Framework recognises that Spending Departments work with a wide variety of partners in a complex and ever changing environment. In line with the Smart Rules, the framework has been designed to be flexible, enabling SRO's to decide on the level of scrutiny required to provide comfort that DFID funding will be utilised for the purposes intended. As a result a one size fits all approach to Due Diligence is not appropriate. To manage this complexity the framework takes a risk based approach, focusing our efforts where they make the most impact.

2. This risk based approach requires Spending Departments/SRO's to make assessments of risk factors at various steps in the process. The responsibility for these judgements rests with the SRO as they have the best knowledge of the context and environment but Risk & Control Unit colleagues are available to discuss and advise if required.

3. The key decision points in the process which shape the nature of the assessment are:

    - has DFID previously worked with this partner? If yes, how successful was this intervention and did DFID have any concerns regarding them? and
    - what level of scrutiny is required to obtain sufficient comfort? What particular elements require closer scrutiny?
    - if working with a multilateral, at which level should the scrutiny be focused? Scrutiny of multilaterals is addressed in Module 9.

4. The attached matrix gives an indication of the areas to cover during your assessment, but it is recognised that this will depend upon the nature of the intervention and the nature of the prospective partner. Factors which influence this decision (and which may override the suggestions in the matrix) include:

- political sensitivity of the intervention,
- fragility of the environment,
- novelty of the intervention,
- previous experience of working with the partner,
- a move into a new area of operation for the partner,
- a significant change in the governance and control of the partner,
- current intelligence about the partner.

5. The other area which will typically require risk based judgement is identifying which areas of the assessment merit deeper scrutiny i.e. depending upon the circumstances and/or the prospective partner certain aspects may not require as much in depth scrutiny. For example, if planning to work with a well-established and known partner in an area that is new for that partner, the weight of the assessment might be more focussed on the Ability to Deliver Pillar than say the Governance and Control Pillar.

	Assessment Pillars																
	Governance and Control					**Ability to Deliver**			**Financial Stability**					**Downstream Partners**			
Assessment Activities / **Partner Types**	Governance	Fraud, Bribery and Corruption	Internal Control	Risk Management	Ethics	Past Performance	Staff Capacity and Capability	Programme Management	Financial Viability	Financial Management	Strength of Audit	VFM	Policies, Procedures and Systems	Due Diligence	Management Frameworks/Contracts	Monitoring and Management	Fraud, Bribery and Corruption
Non-Government and Civil Society Organisations	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Private Sector Organisations	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
UN Organisations	-	-	-	✓	-	✓	✓	✓	-	✓	✓	✓	-	✓	✓	✓	✓
World Bank and Regional Development Banks	-	✓	-	✓	✓	✓	✓	✓	-	✓	✓	✓	✓	✓	✓	✓	✓
Other Multilaterals	-	✓	-	✓	✓	✓	✓	✓	-	✓	✓	✓	✓	✓	✓	✓	✓
Other Donors and Trusts	✓	✓	-	-	-	-	-	-	-	-	-	-	-	✓	✓	✓	✓
Contractors	N/A- Contractors must be assessed by PrG. Please see FAQs.																
Partner Governments	N/A- Partner governments in receipt of financial aid must be assessed through a Fiduciary Risk Assessment (FRA)																

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Module 3

Assessing the Governance and Internal Control Pillar

Purpose

1. This pillar gives an overarching understanding of how the organisation is governed and controlled focussing on the legal structures and control structures. The assessment should look beyond what is set down on paper to try and gain a real picture of how the organisation actually operates and behaves.

2. Areas addressed include structure, purpose and objectives of the organisation, as well as policies and approaches to control risk and mitigate fraud and corruption. If the organisation is country based, relations and linkages with senior Government officials should be considered.

3. A number of **illustrative** questions is set out below to demonstrate the nature and breadth of issues that might be addressed. The list is not exhaustive and should be applied by taking account of the context and risk factors involved.

Key question

Who is responsible for decision making within the organisation, who are they accountable to and how does this accountability work in practice?

Governance

1. What is the legal basis for the organisation? How is it incorporated or registered?

2. Who appoints, regulates and provides oversight of the Executive?

3. What is the oversight structure and what is the evidence of its effective operation in recent times?

4. Is there an effectively operating Audit Committee? How often are meetings held? Are minutes produced? Is there evidence of actions being followed through?

5. Does the organisation employ an external auditor? Is there a transparent and competitive process for the selection of an external auditor and members of the Board/Audit Committee?

6. Does the organisation have a legal department? How is compliance with laws and regulations ensured e.g. bribery act? Staff should refer to DFID's bribery guidance

Fraud, bribery and corruption

1. Is there evidence of formal policies on fraud, bribery and corruption?

2. Is there regular communication and training on staff responsibilities in relation to reporting fraud, bribery and corruption?

3. Does the policy ensure that DFID is advised of all potential fraud against their funds?
4. Does the organisation have a whistleblowing hotline? Is it widely and effectively communicated?

5. Have any frauds been committed? How are they reported and what action is taken? Is there a zero tolerance approach to fraud?

Internal Control

1. Are there any observable weaknesses in internal controls?

2. Are there documented policies and procedures?

3. Is there evidence that these are being followed?

4. Is there adequate segregation of duties?

5. What level of delegation/autonomy does the relevant office have in relation to HQ?

6. How independent is the audit function?

Risk management

1. Is there a corporate level risk framework and associated policy? Is there a risk register that is regularly reviewed? Who reviews it and how often?

2. Is there a network of risk owners responsible for day to day management of risks? Is there a challenge process?

3. Is there an appropriate escalation process?

Ethics

1. What connections (if any) are there between senior members of the organisation and the Government or Politically Exposed Persons?[1]

2. Is there a published conflicts of interest policy? How are potential conflicts of interest registered and monitored?

3. Is there a published policy on gifts and hospitality?

4. Are there any open source materials highlighting concerns or negative reputational risks?

5. Are there any issues linked to the organisation which might be particularly controversial or pose reputational risks for DFID and how might these be tempered?

6. Are there any recurring issues that are continually brought up at Board meetings? Evidence of minutes?

7. Is the lifestyle of senior members of the organisation commensurate with their declared salary levels?

[1] Politically Exposed Persons are individuals who are or have been entrusted with prominent public functions, for example Heads of State or of government, senior politicians, senior government, judicial or military officials, senior executives of state owned corporations, important political party officials. The definition of PEPs is not intended to cover middle ranking or more junior individuals in the foregoing categories. Financial Action Task Force, *International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation*, February 2012.

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Module 4

Assessing the 'Ability to Deliver' Pillar

Purpose

1. This pillar gives us an understanding and assessment of the organisation's ability to deliver our aid programme and focusses on the strength of the various systems and staff capacity and capability.

2. It will include an assessment of the operational and commercial systems, processes and procedures, including compliance with relevant policies, laws and regulations. In particular it should focus on the efficiency and cost effectiveness of the procurement and logistics systems. Likewise, systems to monitor and report results and impact are particularly important to help us in ongoing monitoring and evaluation.

3. In looking at staff capacity and capability the assessment focuses on the knowledge and skills of key staff, as well as their ability to achieve any increase in scale or novelty required to deliver the project.

4. A number of **illustrative** questions is set out below to demonstrate the nature and breadth of issues that might be addressed. The list is not exhaustive and should be applied by taking account of the context and risk factors involved.

Key question

What is the capacity and capability of the organisation to deliver both the portfolio of projects (value and complexity) under its remit and the specific project under review?

Past performance

1. Have you worked with this organisation previously and if so how did they perform?

2. Were there any issues in that past experience that raised concerns?

3. Are you aware of concerns from any other donors?

4. What evidence can you draw from published reports by or on the organisation?

Staff capacity and capability

1. What is the capacity and capability of the senior management team within the organisation?

2. What is the capacity and capability of the staff directly involved with managing the finances of the organisation?

3. Can the organisation absorb the increased volume of activity associated with this grant?

4. What is the capacity and capability of the staff directly involved with the programme?

5. What additional capacity will be required to undertake this additional programme? How will this be secured and how quickly? Are there any concerns about the implementation timetable?

6. Are senior management positions characterised by high levels of staff turnover?

7. How are people recruited? Is there an open and transparent recruitment process?

8. What mechanisms are available to deal with poor performance?

9. Do managers exercise adequate supervision to ensure that officers to whom they have delegated responsibility are exercising adequate control?

10. Are job descriptions and relevant curriculum vitae available for all senior posts?

11. Is there effective leadership? How is it demonstrated?

12. Is there a formal pay scale and who agrees and reviews them?

13. If the organisation works with Children (up to 18 years old) or vulnerable adults does it have adequate policies and procedures to keep children and vulnerable adults safe?

Programme Management

1. Has the organisation implemented a DFID funded project in the past?

2. Has the organisation implemented this type of project in the past?

3. What is the risk assessment for this particular programme?

4. Have significant areas of risk been identified and how will these be mitigated?

5. What systems are in place to ensure regular monitoring and evaluation of the programme?

6. How is programme risk managed and monitored?

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Module 5

Assessing the Financial Stability Pillar

Purpose

1. This pillar gives us assurance on an organisation's stability and ability to correctly manage and account for aid monies.

2. To get this assurance, the assessment examines published accounts, sources and stability of funding and the management's ability to properly account for the organisation's monies in an open and transparent fashion. For more in depth assessments this will entail considering the systems in place and the reality of their operation.

External and internal audits will prove a useful resource, as will published finance procedures and manuals. Evidence of a commitment to demonstrate and enhance **Value for Money** will also be sought.

3. A number of illustrative questions is set out below to demonstrate the nature and breadth of issues that might be addressed. The list is not exhaustive and should be applied by taking account of the context and risk factors involved.

Key Question

Is the organisation in robust financial health? Is it currently able to effectively manage the delivery of the DFID Programme with a focus on delivering good **Value for Money** and will it continue to do so for the period of the programme?

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Financial viability

1. What is the underlying financial strength of the organisation? A useful training module for the interpretation of financial accounts can be found on the Civil Service learning website at https://civilservicelearning.civilservice.gov.uk/learning-opportunities/finance-skills-all-interpretation-accounts .

2. What do the most recent audited financial statements tell us? What are the levels of cash, debtors, creditors and other outstanding liabilities? Are there any significant trends in the last few years?

3. How is the organisation funded? Are these income streams sufficiently diverse and secure in the short to medium term? Is there over-reliance on DFID funds or other single source?

4. What level of funds is already committed? What are the levels of financial reserves and how have these been managed in the last three years?

Financial Management

1. Are appropriate cash balances held across the organisation? How long does it take for funds to flow to beneficiaries and direct implementers?

2. Is the latest budget available? Are variance reports regularly completed? How are major variances dealt with i.e. to bring them back on budget?

3. How regularly is financial information produced for management? Are financial transactions captured and recorded consistently across the organisation?

4. Can DFID funds be separately identified, monitored and reported?

Strength of audit

1. Are copies of recent external audit reports available? Have any audit reports been 'qualified'? What do management letters say? Is remedial action in place where necessary?

2. Is the Internal Audit Department operational and credible? Does it have a clear mandate, and sufficient budgetary independence? Is it fully resourced? What internal audit reports are available? Are findings agreed and acted upon?

3. Is there regular and effective reporting to an audit committee and the governing body?

Value for Money

1. What evidence is there that the organisation is pursuing Value for Money?

2. What financial information is publically available? Is this consistent with our transparency commitments?

3. What are the processes for monitoring and measuring performance and impact? Are there monitoring and evaluation policies, procedures and guidelines? Does the organisation undertake any impact measurement?

4. What evaluation, if any, is applied in the life of the project?

Policies, procedures and systems

1. Are the organisation's controls and financial systems robust and proportionate to the size of the organisation and budget?

2. Is there a finance manual which sets out financial procedures, including budget preparation and execution? How is compliance assessed?

3. How are banking transactions managed? Are bank statements available and are regular bank reconciliations undertaken? Is there clear segregation of duties between procurement, authorisation of supplier invoices and the authorisation of payment?

4. Are there satisfactory procedures to ensure that separate funding sources can be correctly managed and reported on?

5. What controls does the organisation have to avoid duplicate payments or paying ghost workers?

6. What is the level and extent of delegated authority across the organisation? Is it appropriate to the size of the organisation? How are funds authorised at different levels? What expenditure controls are in place? Are these updated regularly to reflect changes in personnel and/or roles and responsibilities?

7. Are transactions properly recorded and processed i.e. complete, accurate and valid?

8. Are assets properly safeguarded? Is there an assets register and how is it reconciled? Is there a disposals policy and is it followed?

9. Is there a policy covering foreign exchange?

10. What is the relationship between programme and administrative expenditure? How has this changed in the last three years?

11. What IT systems (Financial, Operational and HR) are used? Are the systems 'local' or are they part of a larger network?

12. Are policies and procedures in place to ensure a consistent application of systems across the organisation?

13. What are the systems of data storage and security? What are the Business Continuity Plans?

14. What management reports are published? Are exception reports regularly produced and acted upon?

15. Is there a Procurement policy and what does it say? Is it transparent and is it implemented?

16. Are effective procurement systems and processes in place (including evidence of understanding markets and sourcing effectively)? Is there sufficient capacity? (staffing, financial resources) and means to increase capacity if necessary?

17. Are there effective means of ensuring procurement is operated with transparency and probity, and means of investigating malpractice?

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Module 6

Assessing the Downstream Activity Pillar

Purpose

1. Assessing the organisation's capacity to properly monitor and control its downstream partners will often be the most difficult and important part of the assessment. Often the highest risks to DFID aid will be one step removed and the assessment will seek assurance that our partner has proper and sufficient systems in place to ensure that aid monies are correctly applied by their agents. This may include spot checks and site visits. As with other areas of the assessment, the scrutiny should go beyond written evidence to focus on actual fulfilment of control over delivery agents.

2. To achieve this we can examine how the partner organisation's systems and processes for assessing the capacity and capability of its delivery agents e.g. does it conduct its own form of Due Diligence, what are the processes in place for monitoring and assessing performance, what processes are in place to hold the agent to account?

3. A number of illustrative questions is set out below to demonstrate the nature and breadth of issues that might be addressed. The list is not exhaustive and should be applied by taking account of the context and risk factors involved.

Key Questions

Due diligence

1. Does the organisation have robust and transparent systems for selecting and assessing implementing partners? Are these systems documented?

2. Does the organisation proactively develop the capacity of its downstream delivery agents?

Management framework/contracts

1. Does the organisation have the capacity and capability to monitor the financial and operational performance of downstream partners?

2. What are the arrangements for ensuring external audit of downstream partners?

Monitoring and management

1. What capability and authority does the organisation have to monitor and manage the activities of implementing partners, including methods of responding to poor performance? This may include withholding funding and taking remedial action to improve performance of partners and/or of funded activities.

2. Can all funds transferred to the recipient organisation be fully accounted for and identified separately in financial statements?

3. Does the organisation have appropriate funding agreements with partners that can be used to hold partners to account? Do these include sanctions for non-delivery?

4. Is the organisation capable of ensuring that the control environment in downstream partners takes into account the requirements of UK and global legislation where appropriate e.g. the UK Bribery Act?

5. Does the organisation have the capability and resources to provide capacity building support to downstream partners if required? If not, how are these needs met?

Fraud, bribery and corruption

1. Is there a robust policy and process in place for reporting suspected fraud, bribery or corruption?

2. How is this policy communicated to downstream partners?

3. Is there any evidence that the process is used? Are funding partners advised of any fraud concerns?

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Module 7

Due Diligence Process map

The Due Diligence process is mapped out in the flow chart below. Due to the challenging environments DFID operate in, there may be exceptions to this typical flow and, if required, Risk & Control Unit are available to discuss those cases.

1. Individual assessment will vary on a case by case basis but the common starting point will be assessing what information is already available to you. Sources of information will include:

- Civil Society Department have conducted assessments on a wide range of NGOs. These can be found at: http://teamsite/sites/policydivision/CSD/Due%20Diligence/default.aspx
- the international divisions have completed more detailed fiduciary risk assessments of some multilaterals. The Fiduciary Risk Adviser

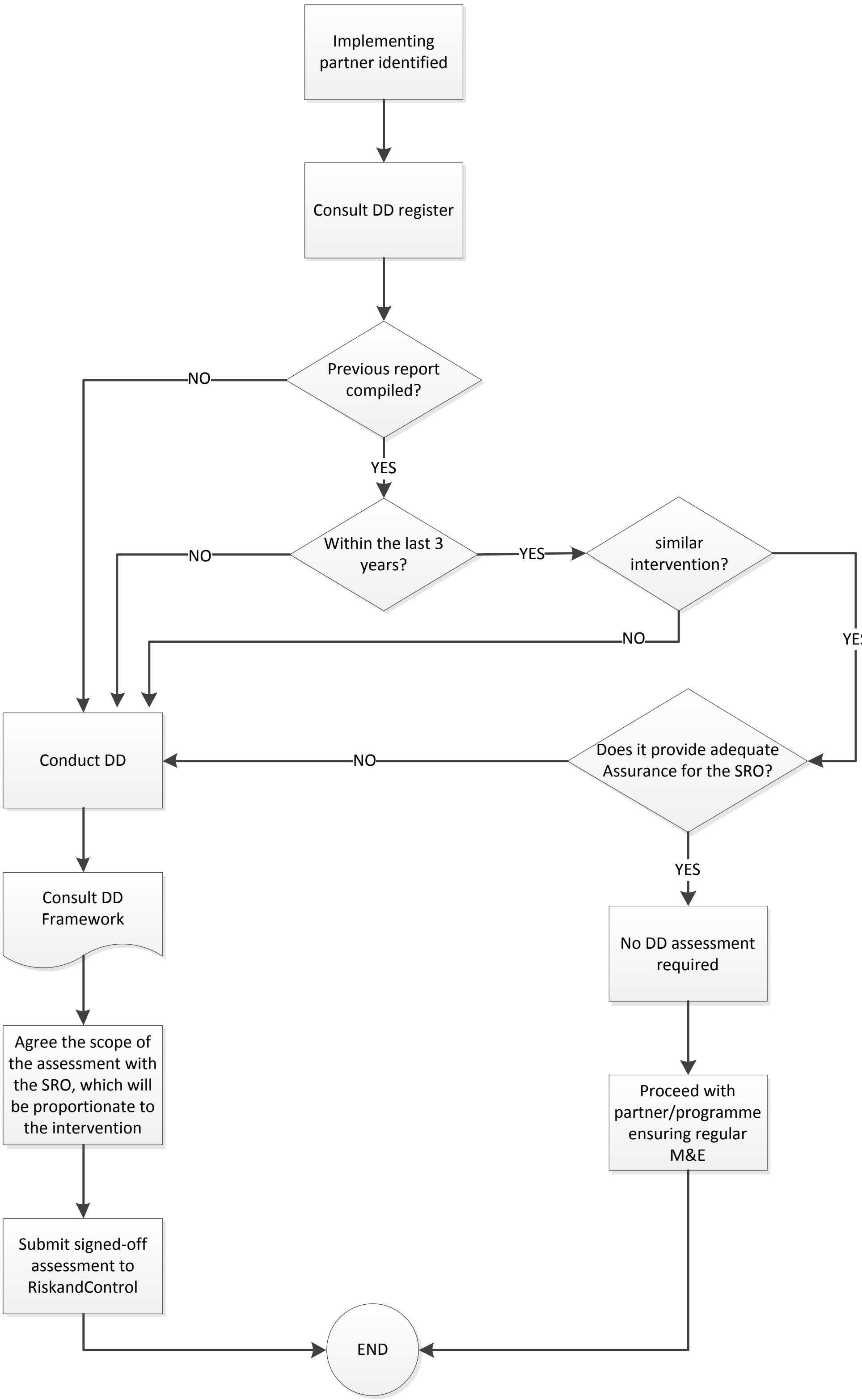
in International Finance can provide details of recent assessments. In the case of a multilateral programme in a country, this information should be used in conjunction with appropriate information about the country and the sector concerned,

- Due Diligence assessments done by other donors,
- multilateral organisations allocate, disburse and account for their resources (including their policies for financial accountability and oversight) through their Board. DFID staff can place reliance on the evidence in those assessments,
- the Counter Fraud and Whistleblowing Unit,
- open source material e.g. internet searches, published reports etc.

2. This initial review of existing material should provide a sound platform from which to assess the scope and depth of assessment to be carried out on the prospective partner.

3. If deemed necessary by the SRO, an assessment may include meeting with the potential partner where the value of the proposed intervention is high; it's a new partner DFID are considering working with or concerns have been previously raised about the partner. These visits will help in giving assurance that the systems documented are actually implemented and complied with.

Due Diligence Process Flowchart



4. Any recommendations for improvement highlighted during the assessment should be communicated to the potential partner and, if accepted, recorded in the MoU or binding agreement.

5. These agreed recommendations should include timescales and responsible owners. These details should also be embedded within the Project Plan and monitored and reported upon as part of the regular risk and programme management process.

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Module 8

Counter Terrorism Financing

This module must be read in conjunction with the due diligence framework. It contains additional advice and guidance specifically relating to organisations that work in environments where terrorist organisations are know or thought to operate.

Background

DFID promotes development in the poorest countries around the world and our scale up in some of the more challenging contexts means we are working in areas where known terrorist organisations operate. There is an increasing risk that DFID resources could be diverted for use by terrorist organisations.

If there was to be a proven case of aid funds being associated with terrorist activity, not only would aid not reach those in need, this could contravene counter-terrorism laws. DFID's reputation would also be adversely affected and our ability to continue working in specific areas or with some governments compromised.

Enhanced due diligence

We adopt a risk based approach to all areas of our work. This means identifying organisations and individuals we work with, that may present a greater risk because of the context in which they operate, or the entities which they have dealings with. By managing risks e.g. counter terrorism financing, we minimise the potential for contravening UK and international law; UK taxpayers funds being diverted and potentially having an adverse effect on DFID's reputation.

In addition to the checks identified in module 3 to 9 of the due diligence framework, there are some enhanced checks that can be undertaken to minimise the potential for funds being associated with terrorist organisations.

It is the SRO's responsibility to ensure that sufficient due diligence is undertaken on organisations.

Factors to consider

The country context. Where known terrorist organisations or known affiliates operate in the country this can be considered a high risk.

The status of the implementing partner. The credibility of the partner and their ability to deliver DFID's intervention without funds being diverted.

Downstream partners. Assurance from the controls and reporting mechanisms implemented by partners when assessing the credibility of downstream partners and any links to terrorist organisations/individuals.

Partners Obligation. DFID's partners must have appropriate controls and policies in place to ensure they comply with UK legislation and do not engage in any financial or other transaction with an individual or organisation that is involved in terrorist activities.

When assessing partner's policies and procedures you should consider:

Awareness: Partners must ensure that their members of staff have a good level of awareness of the risk of terrorist financing and the requirements to report any suspicion of terrorist financing immediately to DFID. A high level of awareness is most important for members of staff who are involved in financial transactions or in carrying or distributing cash, goods or food aid.

Identification: Partners must ensure they have appropriate systems and procedures in place to enable staff to identify potential links to terrorist organisations.

Reporting: Partners must ensure that reporting systems are in place and understood by staff so that any belief or suspicion of terrorist financing can be reported immediately to DFID's SRO for that particular programme.

Key Risks to consider

Areas to be reviewed	Key risks	Key actions/sample questions

Governance and Control	• The organisation or person(s) associated with it (including trustees) either have direct links or affiliation with terrorist organisations. These individuals may also publicly espouses views that endorse the actions/ideology of proscribed terrorist groups.
	• The organisation promotes causes and/or carries out activities in support of terrorist groups
	• DFID inadvertently directly funds organisations who have been infiltrated or have links with terrorist groups
	• DFID local implementing partner is being used to launder money for terrorist organisations
		~~Lists~~
		
		• Conduct checks on implementing partner (including trustees and senior members of staff) against:
		  ◦ Home Office Proscribed Organisations List: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/324603/20140627-List_of_Proscribed_organisations_WEBSITE_final.pdf
		  ◦ HM Treasury Designated Organisations and Individuals (Consolidated) List http://hmt-sanctions.s3.amazonaws.com/sanctionsconlist.htm
		  ◦ 'World Check' (Further guidance will follow) (which screens all government lists, enforcement lists and public court records. The check is against 20 different risk categories, including money laundering, terrorism financing, varieties of financial fraud, human, arms, drug and weapons proliferation, as well as Politically Exposed Persons (PEP), their family members and close associates
		  ◦ Know Your Partner (Further guidance will follow) (Screen individuals through Know your Partner. Details of individuals are provided to the National Crime Agency for checking against records held by themselves and other intelligence and security agencies).
		
		• Keep abreast of local and international news
		
		• Undertake open source checks against partner/supplier details on local news websites, internet search engines etc.
		
		HMG's intelligence information is key source. If you have the security clearance to read this material then you should ensure that you do so. However, most people will not have the necessary clearance. Heads of Offices should take appropriate measures to ensure that intelligence information has been consulted before funding is approved
		
		• How does the organisation ensure compliance with laws and regulations?
		
		• Focus on risk management and how the organisation manages the risks involved in the context they are working in.
		
		• What internal controls/reporting mechanism does the organisation have for identifying and reporting diversion

		of funds to terrorist organisations? • Ensure implementing partners are aware of the UK's policy on kidnap for ransom and that implementing partners who pay ransoms will have their funding withdrawn by DFID and may face prosecution under the Terrorism Act 2000. Any payment of a ransom to a terrorist organisation would contravene TACT, TAFA and potentially sanctions legislation.
Ability to Deliver	• Terrorist groups extract informal payments from DFID funded implementing partners to allow access, ensure protection etc. This includes explicit payments knowingly made or payments made to de-facto authorities, such as local taxes, who may be terrorist organisations • Goods in kind (eg: food, agricultural inputs) etc do not reach intended beneficiaries in areas controlled by proscribed terrorist groups • Proscribed terrorist groups seize at gunpoint UK aid/ or assets	• Review turnover and supervision of staff • Ascertain how the programme is to be managed • Review where the programme is being delivered and perceived risks • Has there been any previous problems when delivering in that specific region? • Is there a risk of UK aid/ funds being diverted?
Financial Stability	• Funds being used to support terrorist organisation • Organisation pays ransom for staff kidnapped	• Review financial accounts for any unexplained balance transfers • Review the details disclosed within the notes of the annual accounts • Obtain an explanation for any assets being written-off before the end of it's useful economic life • Does the partner have an asset disposal policy? • Obtain a list of all sources of income

		HMG's policy on kidnap for ransom is that it will not make substantive concessions to terrorist organisations. This includes ransom payments, prisoner releases, and a change of HMG policy.
Downstream Partners	• Local implementing partners of organisations DFID funds have links/ infiltrated by terrorist organisations	• How does the organisation ensure that its implementing partners have no links to terrorist organisations? • How does it monitor this? • What reporting mechanisms are in place? • How are implementing partners informed of their requirements in relation to UK counter terrorism legislation?

Contact details for Risk & Control Unit

9. If you require any advice or assistance regarding the Framework please contact the Risk & Control Unit by e-mail RiskandControl@dfid.gov.uk

This e-mail address is monitored daily and we will respond to your initial contact within 5 working days.

Module 9

Multilateral Organisations

This module must be read in-conjunction with the overall guidance. It contains additional advice and guidance specifically related to multilateral organisations. It is not intended as, and cannot be used as a stand-alone document.

Multilaterals are global organisations and are an essential part of the international system for development and humanitarian aid. They provide specialist technical expertise, set standards and deliver aid on a large scale and can be grouped into three broad types; International Financial Institutions, UN and Commonwealth agencies and Global Funds. Examples of multilaterals include UNDP, UNICEF, WFP, World Bank and GAVI. A full list of those reviewed in the MAR can be found at appendix 1.

Why is Due Diligence different for multilaterals?
Due Diligence has been designed as a programme/project-centric tool. Its purpose is to assess the ability of the preferred partner to deliver a specific

DFID project or programme of work. It identifies the risks associated with delivery by that partner across the four pillars of the due diligence framework. This will assist in ensuring that DFID interventions are implemented as effectively and efficiently as possible. Due Diligence assessments (DDA) are required for each aid intervention (including trust funds). The level of detail required for each assessment will be dependent on the sums and risks involved.

Multilateral organisations differ from Civil Society or Non-Governmental Organisations as they generally combine a headquarters function with offices operating in a large number of countries. It is inefficient and burdensome for both the multilateral organisation and DFID to conduct a full review of all the pillars for each project/programme when so much of the material to be covered will be consistent across the organisation. DFID has devised a two-tiered approach to undertaking due diligence of multilaterals, consisting of central assessments and project due diligence assessments.

The Central assessment will enable DFID to build an understanding of the core policies and processes of the multilateral organisation which can then be used to support due diligence work prior to an aid intervention. It will remain valid for three years, unless any significant changes occur in the interim which necessitate an earlier revision.

Who is responsible for Due Diligence in multilaterals?
The Central assessment will be prepared by DFID's institutional leads with support from Risk and Control.

Spending Departments and Country Office staff will be responsible for delivering project or programme-specific Due Diligence assessments, in-line with the framework. These assessments focus on the delivery arm of the multilateral responsible for the particular intervention. This might be the country office of that multilateral, a global trust fund, or unit at headquarters.

If you are considering using a multilateral organisation as a delivery partner you should check whether it has been subject to a Central assessment and whether any relevant project or programme specific due diligence assessments have been undertaken on the country office or headquarters entity. This can be done by referring to the Fiduciary Risk team site page (http://cw-insight/Teamsites/ts-68/SitePages/Home.aspx) where copies of assessments will be maintained. You should also alert the appropriate institutional lead before you contact the local office of the multilateral.

What if the project/programme is being run from the corporate headquarters of the multilateral?
This is particularly relevant for World Bank Trust Funds but will apply in other instances too. In these circumstances a programme manager should still undertake a due diligence assessment on the trust fund or unit at headquarters drawing on the information contained in the central assessment for that multilateral and focusing on any bespoke governance or management

arrangements in place for that programme, as well as the capacity and capability of the organisation to deliver that particular intervention.

What happens if a Central Assessment has not been undertaken for the multilateral organisation I am assessing?
You should refer to the Fiduciary Risk teamsite page to find out when the Central assessment is due to be completed. In undertaking the due diligence assessment you should focus on the capacity, delivery and management factors of the local office in relation to delivering your project. Programme teams/SRO's do not have to appraise central systems and policies. For multilaterals with which we have a significant number of financial relationships, institutional leads will undertake central assurance assessments. These will provide basic information on central systems and policies which can help programme managers decide what additional due diligence is required for individual programmes.

What about Global Funds and Partnerships, eg GFATM, GAVI and Global Facility for Disaster Resilience and Recovery?
Global Funds and Partnerships will use the standard 4 pillar assessment model to undertake Central Assurance assessments. As these types of development interventions do not have a "multi-bi" component, there should be no need to carry out country level due diligence. We recognise that Global Funds generally deliver through other multilateral organisations such as the WB or UNOPS, it is for the institutional leads to ensure that each Global Fund has the mechanisms in place to assess their downstream partners. Central assessments should be undertaken for Global Funds as part of the business case process when funding agreements are being re-negotiated.

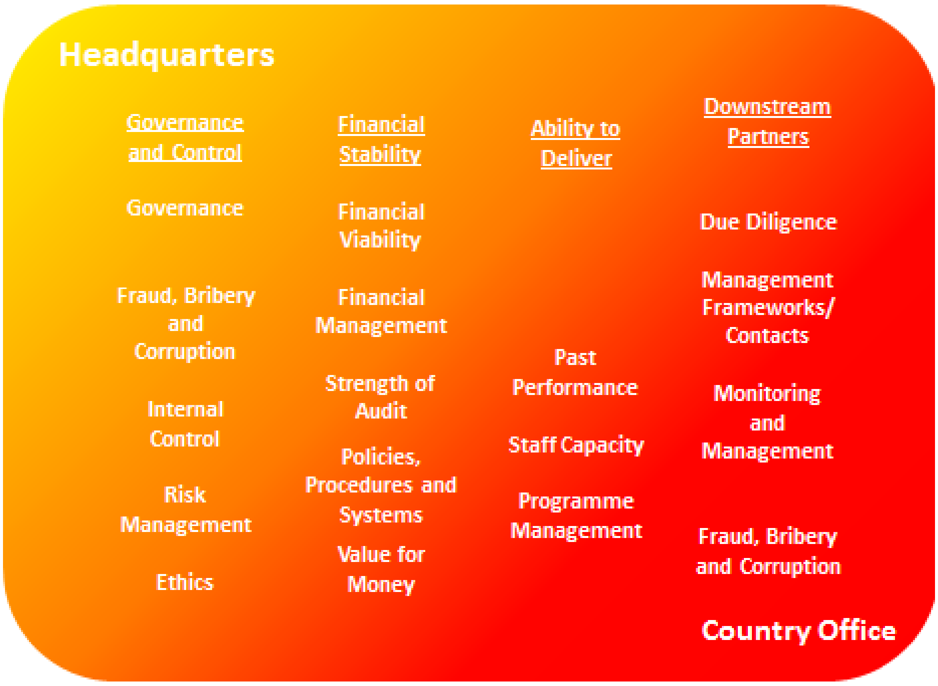
SECTION 1
Building a holistic understanding of the risks and issues in delivering aid interventions.

1.1 Central Assessments and Due Diligence Assessments
Through completing a Central assessment **and** a project /programme specific Due Diligence assessment DFID will build a holistic understanding of the risks and issues in the delivery of the aid intervention (appendix 2).

The Central assessment will map and gain an understanding of the common core/corporate processes which will be applied by the multilateral organisation across all of its operations.

Due Diligence assessments on projects/ programmes will then consider the local or programme specific context, explore how the common processes are applied and examine the capacity and capability to deliver the aid intervention and any project-specific risks that this will create.

The diagram below gives an indicative overview of the relationship between the Central Assurance assessments and Due Diligence assessments.



The themes under governance and financial stability will tend to fall more logically to the corporate body of the delivery partner. The ability to deliver and downstream delivery themes will tend to be more focussed on the local delivery part of the organisation.

The Multilateral Effectiveness Department has developed a teamsite (http://cw-insight/Teamsites/ts-68/SitePages/Home.aspx) to direct you to existing information on multilaterals such as MOPAN assessments which you may wish to consult.

1.2 Central Assessments

The Central assessment will give a high level understanding of the organisation's corporate policies and systems as well as an understanding of the process and controls through which the central corporate function monitors performance and ensures compliance with those systems.

Understanding of the central policies and mechanisms enables DFID staff to undertake a proportionally lighter and more focussed approach to Due Diligence before engaging with a multilateral partner for specific activities.

1.2.1Core processes

The Central assessment will combine desk-based research and discussions with representatives of the multilateral organisation. The core -processes and systems which should be considered include:

- a factual contextual overview of the organisation,
- the delegated authority framework between the central core and country representation,
- financial policies and process,
- HR and recruitment,
- risk management,

- reporting and monitoring frameworks,
- Internal / External Audit and review,
- fraud management policies and processes,
- integration/compatibility of IT systems.

In addition to the above it is essential to gain an understanding as to how the corporate headquarters ensures that these processes are applied systematically and diligently throughout its representative offices.

For each pillar the Institutional lead should focus on the higher risk areas for their multilateral organisation, and select the most relevant elements and questions from the indicative lists provided (Annex A).

SECTION 2

KEY ISSUES FOR UNDERTAKING DUE DILIGENCE ASSESSMENTS WHEN WORKING WITH MULTILATERAL ORGANISATIONS AND INTERNATIONAL FINANCIAL INSTITUTIONS

Taken together with the Central assessments, the project/programme-specific Due Diligence assessment will give the spending department, and the SRO in particular, a well-rounded understanding of the capacity and capability of the local delivery arm of the multilateral agency to deliver the proposed programme or project.

Although the Programme team preparing the Due Diligence assessment will consider compliance with the multilateral organisations corporate policies, the primary focus is on the Ability to Deliver and Downstream Partners pillars of the framework.

2.1 Multilateral organisations due diligence approach

Due diligence assessments focus on the programme or project but it is recognised that lines between programme capacity and office capacity can become blurred. It’s important to recognise the issues and areas already addressed by the central assessment. Going over these again will not add any value and will consume your resource and that of the multilateral organisation. If in doubt about the scope discuss the issue with the institutional lead.

In the absence of a Central assessment, programme teams/SRO’s should focus on the capacity, delivery and management factors of the local office in relation to delivering the project. Programme teams do not have to appraise central systems and policies. Assessments should be proportionate and context specific.

A process map for Due Diligence assessments can be found in module 7 of the framework. You should notify the institutional lead about any planned assessments and copy final reports to them and Risk and Control.

Illustrative questions for Project Due Diligence assessments of the unit or local office of the multilateral responsible for managing the DFID intervention (In addition to those in framework modules) can be found in Annex A.

2.2 International Financial Institutions

The Due Diligence Framework recognises that funds operate in a centralised framework of systems and policies. This may provide a sufficient level of assurance in some cases. However it is also recognised that implementation is often subject to locally specific factors. This is particularly true for those funds which implement using recipient country systems (e.g. the International Fund for Agricultural Development), where additional assessment will generally be required.

It should be noted that despite our general confidence in International Financial Institutions, locally specific factors can have significant impact on Funds' performance. A local Due Diligence assessment will be an important part of the Business Case process. Where doubts exist about any aspect of a Fund's construction, Programme teams/SRO's are strongly advised to assess them at the due diligence stage, and to consult IFID.

3.1 Illustrative questions for International Financial Institutions can be found at annex A. The questions are indicative (as indeed are those in the Due Diligence Framework) and programme teams/SRO's should not feel limited by them.

Contact details for Risk & Control Unit

4. If you require any advice or assistance regarding the Framework please contact the Risk & Control Unit by e-mail RiskandControl@DFID.gov.uk

This e-mail address is monitored daily and we will respond to your initial contact within 5 working days.

Annex A					
Pillars	**Topics**	**Sample Questions**	CA	Local DD	TF
Governance and control	Governance	• A high-level contextual understanding of the multilateral organisation; recording the structure and operation of its main decision-making and governing bodies. It should reflect how DFID (and/or UK) is represented in these structures?	√		
		• What is the balance between local accountability and referral to corporate headquarters? • What is the manner and degree of delegation to local delivery offices? • How does the corporate headquarters ensure that policies are adhered to by the local offices?	√		

		• What local governance arrangements are in place for the local office / programme? Who will be responsible for overseeing each element of the grant?
		  ○ If they are not based locally, will they be able to provide adequate oversight remotely?
		  ○ How will communication take place between the recipient and the Task Team Leader(especially important if TTL is not based in country)/project manager?
		  ○ Is there surge capacity if project implementation goes off track?
		  ○ Are there adequate systems to anticipate projects going off track?
				√	√

		• If there is a steering committee (SC) to approve new grants and monitor portfolio performance:
		  ○ Does the SC have clear ToRs?
		  ○ Is there a secretariat with sufficient capacity to support the SC?
		  ○ Is it clear what information the SC can expect from the Secretariat and how frequently?
		• Are processes in place to action local weaknesses identified through internal control mechanisms such as audits?
					√

Annex A					
Pillars	**Topics**	**Sample Questions**	CA	Local DD	TF
	Risk management	• How is risk managed in the organisation? • What are the risk management escalation procedures from country offices? • Do risk registers for country offices exist and how often are they reviewed at headquarters?	√		
		• Is there a local risk register? • Have tolerances been defined for the country context? • Does grant design include inbuilt and adequate risk assessment and are there robust mechanisms to monitor risk?		√	√
	Internal controls	• Are processes in place to action local weaknesses identified through internal control mechanisms such as audits? • Have published audits of the local office / unit / programme identified weaknesses? • What action has been taken to address any recommendations?	√	√	√
	Fraud, bribery and corruption	• How is fraud, bribery and corruption managed in the organisation? • Do programme staff / staff in country possess a satisfactory awareness of fraud, corruption and whistleblowing policies and the hotline? • Have they received training?	√	√	
		• Is there evidence of zero tolerance and robust reporting in country/unit? • Have there been cases in country/on the programme before? • How were they handled?		√	
		• Does the fund require specific anti-corruption and counter fraud measures, in addition to the Bank's standard systems?			√
	Ethics	• Are conflicts of interest being appropriately managed locally? • Is there a local conflict of interest register? • Is there a local gift and hospitality register?		√	√
Ability to deliver	Past performance	• What is the past performance of the multilateral?	√		

Annex A					
Pillars	**Topics**	**Sample Questions**	CA	Local DD	TF
		• What were the findings of the Multilateral Aid Review with regard to performance? • If there has been analysis of portfolio performance, what are its findings (e.g. what has recent experience been in the delivery of DFID programmes)? • Is there any relevant information from other donors? • How do country offices provide headquarters with monitoring and performance updates? • Has the agency experienced major fraud or losses in the last 3 years? If so, how has it responded and with what success in recovering losses?			
		• What is the experience of the local office /unit/Task Team Leader in managing similar initiatives of this scale, including delivering value for money? • Have issues occurred in the past? • Have other donors raised concerns?		√	√
		• Is the local office / unit focusing on areas of comparative advantage for the organisation? • Is the proposed intervention aligned to these areas?		√	
	Staff capacity and capability	• Are effective central policies in place governing recruitment and human resources? • Do these policies create a framework for recruiting the right people (e.g. is the process open and transparent), in a timely manner?	√		
		• Are there vacancies at the local office / unit? • Are sufficient technical advisory staff in place? • Does the local office / unit have a strong management team in place? • Can the organisation provide information on how many staff, and of what seniority, will be engaged in the programme? • Are good programme / project personnel in place?		√	

Annex A					
Pillars	**Topics**	**Sample Questions**	CA	Local DD	TF
		• If there are gaps how quickly, and by what means, will any necessary additional capacity be secured?			
		• Where different unit(s) / parts of the local office need to work closely together to deliver the project, is team-working strong enough to achieve this?		√	
		• Do key programme / project staff have relevant skills in forecasting, reporting, monitoring etc, or, where there are gaps, are there credible plans in place to fill them?		√	
		• Can the Bank provide information on how many staff, and of what seniority, will be engaged on the Fund? This includes at the level of each project, the Secretariat, and AAA (analytical & advisory) support			√
	Programme management	• Is there a clear results framework? • Is this fully aligned with the DFID logframe? • Are targets realistic?		√	
		• What systems are in place to ensure regular monitoring and evaluation of the programme? • Do / will they spend sufficient time in the field to assess results? • How is programme risk managed and monitored? • Have significant risks been identified and how will these be mitigated?		√	
		• Is the Fund using standard IDA/IBRD project reporting arrangements? • Is there a clear results framework? Is this fully aligned with the DFID logframe and is this reflected in the Fund Administrative Agreement?			√
Financial stability	Financial management	• What is the spread of DFID engagement with the organisation? What is our funding pattern over the last 3 years? • Do we core fund or has our funding been limited to programme or project specific funding? • Are we a major funder of the multilateral? • Does HMG fund through other sources?	√		

Annex A					
Pillars	**Topics**	**Sample Questions**	CA	Local DD	TF
		• What is our experience of funding the multilateral over the last 3 years? • Have payments been smoothly processed? • Have there been any anomalies in our financial relationship? • Are IT and financial controls systems integrated (between headquarters and the country office)?	√		
		• What financial data will be shared with DFID and how frequently?		√	√
		• Are there plans for additional external audits, as well as the Bank's annual single audit of Trust Funds? • Does the Bank plan any exemptions to its standard procurement procedures under this Fund (for example under special rules for Fragile States)? • Can the Bank provide a summary of anticipated administrative expenditures in order to justify the proposed Fund management charge?			√
	Value for money	• What evidence for the unit / in country is there of the unit / local office delivering / pursuing value for money (e.g. fee levels, cost comparators)? • Is the total of project costs accounted for by overheads reasonable?		√	
		• Are the Bank's proposed charges in line with those of other organisations, eg UN agencies and private management agents?			√
	Policies, procedures and systems	• Are there any exemptions to standard financial management and procurement policies foreseen? • Have problems in the unit / at the local country office been identified in these areas in the past?		√	
	Transparency	• What is the disclosure policy in case of allegations of fraud or corruption?	√		√
Downstream partners	Due diligence	• What policies for engaging and managing downstream partners does the organisation have?	√		

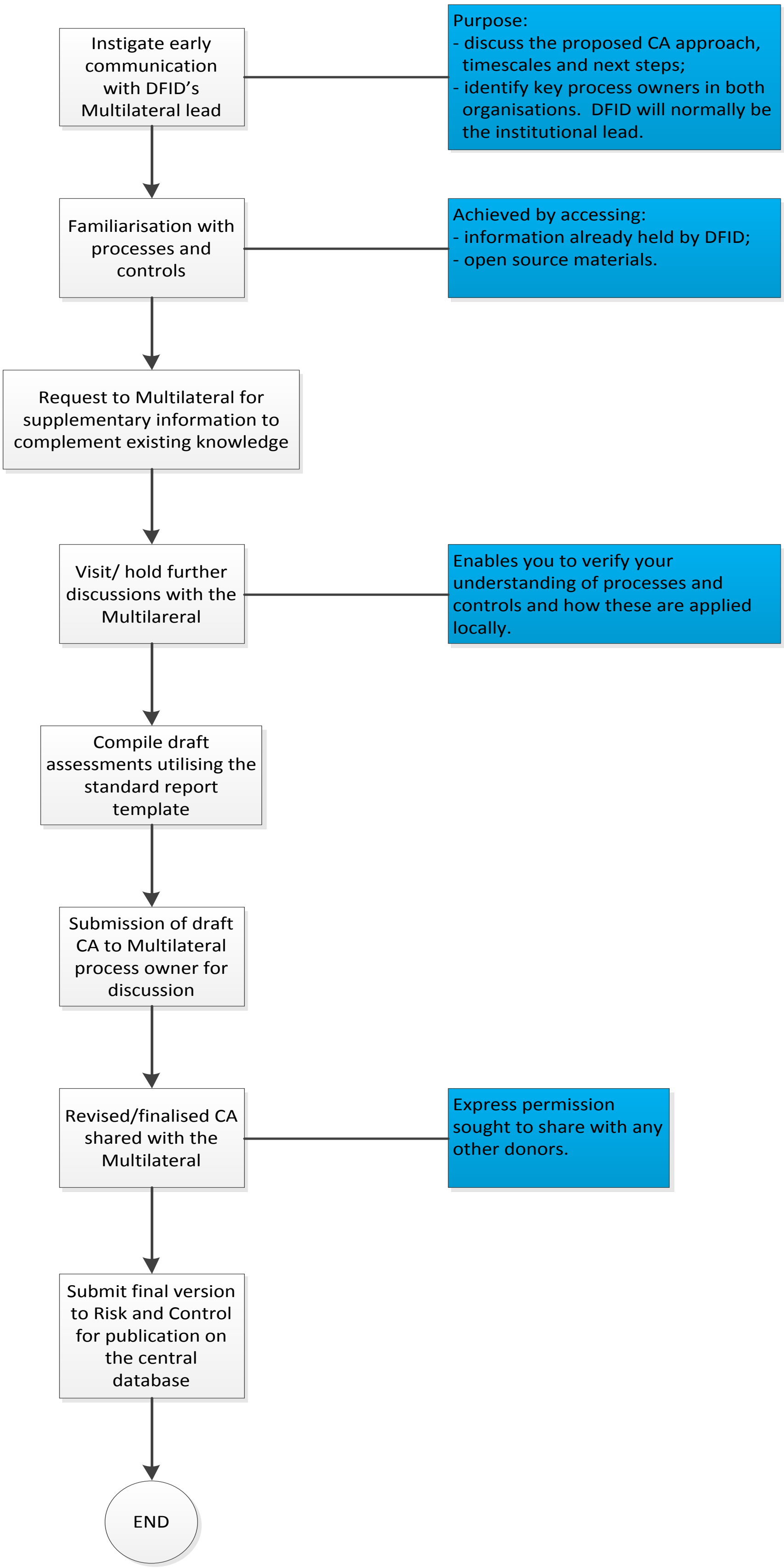
Annex A					
Pillars	**Topics**	**Sample Questions**	CA	Local DD	TF
		• Are there standard agreements with partners and monitoring arrangements? • How does the headquarters gain assurance that country offices are using corporate policies correctly?			
		• What policies and procedures does the organisation have for undertaking its own capacity assessments of recipient governments? What prerequisites (such as policies, systems, recovery mechanisms within the recipient government) does it have in place to ensure appropriate use of, and reporting against loans or grants by recipient governments? • What means of redress does it have if problems arise or expenditure cannot be satisfactorily accounted for?	√		
		• Does the unit / country office have robust and transparent systems in place at the local level for selecting and assessing implementing partners? Are they operational (e.g. have relevant assessments been undertaken, assurance plans prepared?)		√	
		• Has the downstream partner previous experience of working with the organisation? • Has the organisation's due diligence on their downstream partners raised any concerns and have these been discussed with donors?		√	
		• Are contingencies in place if capacity of downstream partners to implement is lower than expected?		√	
		• Does the recipient have previous experience of managing World Bank grants? • Has the Bank's due diligence on the recipient raised any concerns and have these been discussed with donors? • Are any contingencies in place if recipient capacity to implement is lower than expected?			√

Annex A					
Pillars	**Topics**	**Sample Questions**	CA	Local DD	TF
	Management framework / contracts, Monitoring and Management	• What is the local capacity and capability to monitor the financial and operational performance of downstream partners? • What are the arrangements for ensuring external audit?	√	√	
	Fraud, bribery and corruption	• Is there evidence of the communication of fraud, bribery and corruption policies and procedures to downstream partners? How are such policies enforced?	√	√	

Appendix 1 Organisations/Funds included in the Multilateral Aid Review

- The African Development Fund (AfDF)
- The Asian Development Fund (AsDF)
- The Caribbean Development Bank (CDB)
- Central Emergency Response Fund (CERF)
- The Climate Investment Funds (CIFs)
- The Development Programmes of the Commonwealth Secretariat (CommSec)
- European Commission Budget (EC'ion Budget)
- European Development Fund (EDF)
- European Bank for Reconstruction and Development (EBRD)
- Food and Agriculture Organisation (FAO)
- The Education for All - Fast-track Initiative (FTI)
- The Global Alliance for Vaccines and Immunisation (GAVI)
- Global Environment Facility (GEF)
- The Global Fund to Fight AIDS, TB and Malaria (GFATM)
- Global Facility for Disaster Reduction and Recovery (GFDRR)
- European Commission Humanitarian Aid and Civil Protection (ECHO)
- Inter-American Development Bank (IADB)
- International Committee of the Red Cross (ICRC)
- International Development Association (IDA)
- International Fund for Agricultural Development (IFAD)
- International Federation of Red Cross and Red Crescent Societies (IFRC)
- International Finance Corporation (IFC)
- International Labour Organisation (ILO)
- International Organisation for Migration (IOM)
- Office of the High Commissioner for Human Rights (OHCHR)
- United Nations Peacebuilding Fund (PBF)
- The Private Infrastructure Development Group (PIDG)
- United Nations Human Settlements Programme (UN-HABITAT)
- Joint United Nations Programme on HIV/AIDS (UNAIDS)
- United Nations Development Programme (UNDP)
- United Nations Educational, Scientific and Cultural Organisation (UNESCO)
- United Nations Environment Programme (UNEP)
- Expanded Delivering as One Funding Window for the achievement of the MDGs (EFW)
- United Nations Population Fund (UNFPA)
- United Nations High Commission for Refugees (UNHCR)
- United Nations Children's Fund (UNICEF)
- United Nations Industrial Development Organization (UNIDO)
- United Nations Development Fund for Women (UNIFEM)
- The United Nations International Strategy for Disaster Reduction (UNISDR)
- UNITAID
- United Nations Office for the Coordination of Humanitarian Affairs (OCHA)
- World Food Programme (WFP)
- World Health Organisation (WHO)

Appendix 2 Central Assessment Process Map


Instigate early communication with DFID's Multilateral lead
Purpose:
- discuss the proposed CA approach, timescales and next steps;
- identify key process owners in both organisations. DFID will normally be the institutional lead.
Familiarisation with processes and controls
Achieved by accessing:
- information already held by DFID;
- open source materials.
Request to Multilateral for supplementary information to complement existing knowledge
Visit/ hold further discussions with the Multilareral
Enables you to verify your understanding of processes and controls and how these are applied locally.
Compile draft assessments utilising the standard report template
Submission of draft CA to Multilateral process owner for discussion
Revised/finalised CA shared with the Multilateral
Express permission sought to share with any other donors.
Submit final version to Risk and Control for publication on the central database
END

Module 10

This module must be read in conjunction with the overall guidance. It contains additional advice and guidance specifically related to private sector organisations. It is not intended as, and cannot be used as a standalone document.

Delivery through Private Sector Organisations

1. There has been limited Due Diligence performed on private sector organisations (referred to as organisations) based on the revised guidance and we (FCPD, International Finance and Private Sector Dept) would appreciate feedback on as and when this guidance is trialled more widely. The Due Diligence assessment and risk analysis should focus on DFID's relationship with the organisation whom we propose to enter into contract/agreement with. It will be for that organisation to ensure adequate arrangements further down the delivery chain and DFID's Due Diligence should seek assurance on these arrangements.

Pre-funding Due Diligence should focus on:

- risk assessment, i.e. review of the management and mitigation of the risks on delivering the programme and arising under the agreement with DFID's direct private sector organisations. Due Diligence should consider whether the private sector organisation has performed Due Diligence on sub-contractors and has passed appropriate obligations down the supply chain.

- forming an opinion on whether the proposed private sector organisation demonstrates both the capacity and the capability to deliver the obligations under the agreement, for example
  - the outputs/outcomes both to the overall programme finish date and to interim milestone target dates,
  - the overall cost and milestone payment profile,
  - the specified quality/approval standards.

Potential Risk Areas

- Failure to successfully design, manage and deliver the intervention and outcomes to the standards required,
- Allegations of corruption,
- Failure to disclose information later discovered,
- Unusual payment arrangements/ requests,
- Failure to carry out Due Diligence on intermediaries.

Additional Due Diligence Assessment Areas To Consider

Areas to be reviewed		Key actions/sample questions	What to look out for
Governance & Control	Governance	• Ascertain the precise identity of the entity DFID is proposing to enter into agreement with. Nature of organisation (eg public company, private company, LLP, charity etc) and ownership • If the organisation is a member of a group of companies ascertain whether the company is the most appropriate in the group. • Review the organisation DFID is proposing to enter into agreement with (e.g. refer to Companies House and Charity Commission England and Wales and Office of the Scottish Charity Regulator websites, board minutes if available, annual report and accounts, press information) • Check organisation is not on sanctions lists of ineligible firms(WB) • Review composition of board of directors and reporting committees (audit etc) • Review credit checks e.g. Dun & Bradstreet reports. • Operating to any relevant Quality Assurance or ISO standards (such as ISO 9001) • Consider organisation's risk management policies and procedures, including whether tolerances (risk appetite) has been defined. • Review risk assessments performed at different levels eg Group, organisational, programme. • Ascertain what group/corporate/entity risks may exists that may threaten satisfactory performance on the programme to be undertaken for DFID.	No evidence of governance policies or responsible individuals. E.g Disclosure requirements of Companies Act, and general availability of information on corporate governance and projects. Consider using Dun and Bradstreet in

	Risk Management	• Review anti-fraud policies and procedures eg: ○ stated zero tolerance and robust reporting ○ conflict of interest policies ○ code of conduct. • Do the financial accounts identify any weaknesses in internal control?	higher risk cases
	Fraud, Bribery and Corruption		Identify whether companies have or are intending to seek this certification British Standard on Anti-Bribery

	Internal Controls		
Ability to Deliver	Past Performance Programme Management	• Has the organisation prepared an operational plan demonstrating how it will deliver the deliverables required under the scope of work to agreed schedule, quality and cost? • Does this an operational plan identify actions to be taken in the event of delay etc and provide confidence that programme objectives will be delivered? • Review PCRs, ARs on projects managed or delivered by the same organisation. • Review previous Due Diligence reports • Review third party information on organisation and reports of previous delivery. • Is the plan aligned with development objectives, ie designed to deliver programme outcomes? • Do past reports on delivery of aid outcomes indicate organisation will deliver on this programme? • Have arrangements been put in place for business continuity? • Ascertain responsibilities and systems for project reporting. • Are systems capable of project reporting? • Consider whether format and frequency of information to be produced for different stakeholders (donors/management etc.) on project is adequate and appropriate and will inform decision making.	

	Staff capacity and capability	• Has the organisation prepared a clear resourcing plan for the proposed programme? • What flexibility is there in the resource plan to cope with extra work, programme dela. • Does this resourcing plan (and other operational plans, capacity reports etc) provide evidence of adequate resources planned and also of availability of resource? Are resources to be deployed of the appropriate grade, experience and expertise?	
Financial Stability	Financial viability Financial Management	• Obtain and review financial information of organisation for the last three financial years (if available). • If a UK company, check organisation is up to date on filing accounts and annual return. • Consider robustness of organisations current and forecast cash situation, reviewing gearing ratios, cashflow including sensitivity analysis if available. • Review any contingent liabilities and any pension liabilities in the accounts – can the entity afford to fund such liabilities? • Review limits of liability • Consider insurance cover available against requirements	Civil Service training on interpretation of financial accounts

	Strength of Audit Value for Money	• Are external audits free from “qualifications” on financial accounts • Are systems subject to internal audit? • Acceptability of proposed fee levels through benchmarking (cost comparators). • Review integrity between cash flow and project programme (eg project milestones, acceptability of payment milestone acceptability criteria and milestone certification procedures). • Review contractor termination and replacement scenarios and cash flow and programme sensitivities. • Policies and practices on transparency.	Consider level of awareness of public sector spending. What may be acceptable in a private sector context could result in reputational risks to DFID.

Downstream Assessment	Due Diligence Management Framework/contracts	• Policies and practices • Risk assessments • Ongoing monitoring • Due Diligence performed by Private Sector Organisations on their subcontractors. • What reliance is placed on sub-contractors? • Pass down of responsibilities for delivery under contract, anti-corruption etc.	Consider confirming existence of key third party agreements and whether clauses are appropriate. DFID's Due Diligence should seek assurance on these arrangements.

Contact details

2. If you require any advice or assistance regarding the Framework please contact the Risk & Control Unit by e-mail RiskandControl@dfid.gov.uk

This e-mail address is monitored daily and we will attempt to respond to your initial contact within 2 working days.

Please contact Private Sector Department - Gerard Kelly or International Finance - Anne Burns for advice or information on Private Sector Organisations.

Module 11

Frequently asked questions

When should I do Due Diligence?

Is there a monetary threshold for applying Due Diligence to partners?

At the moment there is no minimum threshold for undertaking Due Diligence. Most third party organisations will require an assessment (please see Module 1 for exceptions). The assessment needs to be proportionate and will be influenced by the value of the intervention and the assessment of risk. This in turn will be influenced by the complexity, novelty and contentiousness of the intervention.

Is a Due Diligence assessment required on suppliers/contractors who have competitively secured a contract?

All organisations which compete for work undertake a pre-qualification questionnaire together with a further assessment if they are short listed. Over time the further work that is undertaken at the short listing stage will be comparable to the Due Diligence that will be completed on a similar organisation. The difference is that the tendering work relies on self-disclosure rather than an independent assessment undertaken by DFID or one of its agents. In most cases contractors will not require a Due Diligence assessment but DFID still needs to reserve the right to validate the self-assessment and ask further questions if necessary. This will ensure that all entities are assessed by a similar standard.

What about the private sector?

The overarching Due Diligence principles set out here will apply to any assessment of a private sector partner. Further guidance will be developed by Private Sector Department (PSD) which will complement the information set out in Module 9. In the meantime assessments should draw on the existing guidance and consult PSD directly.

An assessment has been made of a comparable organisation in a separate country. Do I have to do a further Due Diligence assessment?

Yes, the Due Diligence assessment tests whether the particular organisation has the capacity and capability to operate in a specific country and sector context. It is not possible to fully rely on the merits of its operation in a different place because the country context, personnel and systems will need to be verified. That said a positive Due Diligence report from a comparable programme will enable us to evaluate the risks more clearly and speed up the decision making process.

What if we are being asked to fund a new entity?

A new entity with no track records presents an increased set of risks which need to be factored into our judgement. We can only make an assessment on the information we have, so careful attention will need to be made against the viability and robustness of plans and budgets and their underlying assumptions. There are examples of where new and innovative programmes have been linked with more established organisations that will assist with programme management. While this will come with an increased cost it may provide sufficient assurance for the programme to be viable.

Timing and Length of Assessments

How can I avoid designing a programme and at the last minute finding out that the relevant implementing partner does not meet DFID's Due Diligence requirements?

The basic programme design will have been covered in the Business Case which would have considered whether there were any difficulties in obtaining implementing partners. Planning ahead, being clear on the capability required and ensuring that sufficient time is built in to cover any remedial action will be important to avoid any unforeseen and last minute delays.

The How to Note on Writing a Business Plan guidance requires that an assessment is made of financial risk and fraud in the Finance Case. If the partner is known and is a fundamental part of the appraisal of the Business Case as a whole, then the Due Diligence guidance set out here is directly relevant. If the choice of partner or partners follows the approval of the business case then the Due Diligence assessment will follow. The critical issue is ensuring that the implementation timeline for all interventions includes sufficient time to undertake all the relevant stages.

We are already part way through a programme of support to a partner. Do we need to undertake a Due Diligence assessment now?

Generally no. Due Diligence assessments are designed to assist in making a decision before entering into a partnership however on occasion it may be appropriate to carry out an assessment on an existing partner.

When might I be required to carry out Due Diligence on an existing partner?

If a further injection of funds is being contemplated. Specifically when this is likely to increase the value of the contribution or level of risk, for example an expansion of the programme into a new area.

How long does the Due Diligence process take?

Assessments will vary on a case by case basis and are influenced by a number of factors including the level of assessment required to provide the SRO with an appropriate level of comfort prior to funding. Consideration should also be given to the resources committed to carry out the assessment.

What happens if things change e.g. the partner's position, the country context? Does Due Diligence need to be reviewed or updated?

If the change is material in nature or size you should consider revisiting the assessment.

Making a Decision

Who checks that an organisation meets the standard?

Funding decisions will continue to be made by SRO's. They will also be responsible for ensuring that a Due Diligence assessment has taken place on the prospective partner. Where an assessment requires a further judgement in terms of whether and how much remedial work is required, SRO's should consult with the Divisional Accountant or relevant finance staff who will be able to assist with the assessment. However the ultimate judgement and responsibility resides with the SRO.

What happens if a Due Diligence assessment is satisfactory at a Headquarters level but unsatisfactory at a local level?

Due Diligence has to be applied in the relevant context. If funds are being channelled through a local partner then it is the assessment of the local partner that is important. It may be that the processes and systems work more effectively and smoothly at the Headquarters level but it is the practical application of control and the assessment of risk in each location which is important. The onus lies with the respective agency to ensure that standards are applied consistently throughout their organisation.

What happens if I undertake a Due Diligence assessment and then the organisation commits fraud?

The assessment is intended to give assurance. It is not a guarantee that DFID's aid is managed properly and applied as intended. As long as DFID staff have been diligent and made their best efforts to secure reasonable and appropriate levels of assurance, they will have fulfilled their duty of care to the taxpayer.   Any suspicion of fraud at any point in the lifecycle of the project should be reported at the earliest opportunity to the Counter Fraud and Whistleblowing Unit.

What should I do if the assessment identifies weaknesses or poor controls?

The assessment may flag areas of weakness or poor control but it should also highlight remedial actions, timescales and owners. Programme teams/SRO's should ensure that remedial actions are agreed and built into the MoU and monitor progress as part of normal ongoing risk and programme management.

What should I do if the assessment identifies lots of weak and critical areas, but there is no alternative partner to fund?

This is a matter of judgement for the SRO and will involve an assessment of the balance between risks to the department against the potential impact of the intervention. If a decision is taken to proceed, the Programme team/SRO should ensure that remedial actions are agreed and built into the MoU etc.

Humanitarian Contexts

How will Due Diligence be applied in humanitarian contexts?

Discussions are on-going to see how best to approach this, but we will look to ensure that key partners undergo some form of Due Diligence assessment as part of their pre-qualification. This will mean that we will already have Due Diligence in place for most of our key partners and where there are choices to be made about the use of a new partner; judgement will need to be exercised on the balance of risk and return.

Sharing Information

Is there a procedure for sharing reports with other organisations?

This is an important area which Risk & Control Unit are exploring with other donors.

Am I able to rely on assessments completed by other donors?

SRO's should exercise judgement in considering the utility of assessments conducted by other donors. Care should be taken to ensure that it is an assessment of the partner and not the programme. Factors to consider include the currency and scope of the assessment as well as the overall quality of the assessment findings.

What happens if our assessment contradicts someone else's?

The Programme team/SRO should examine the assessments to determine if there are any material factors which have changed between the two assessments which might have resulted in this difference. DFID reports will take prevalence over externally produced reports.

Budgeting and Costing

What is the average cost of contracting a provider?

This will be determined on a case by case basis but Risk & Control Unit can give indicative guidance on the costs of previous assessments.

Should Due Diligence assessments be funded by admin or programme budgets?

The assessment is carried out on potential delivery partner to deliver a specific programme. The costs of the assessment should be associated with the programme.

Training

What training will we get in carrying out Due Diligence assessments?

Risk & Control Unit will develop a range of training opportunities designed to cover general and specific user requirements.

Help and Support

What help is there to undertake a Due Diligence assessment?

Risk and Due Diligence Managers are available to advise programme teams/SRO's on a breadth of issues covered by the framework.

When required there are contingency arrangements to engage external contractors.

Contact details for Risk & Control Unit

If you require any advice or assistance regarding the Framework please contact the Risk & Control Unit by e-mail RiskandControl@dfid.gov.uk

This e-mail address is monitored daily and we will attempt to respond to your initial contact within 2 working days.