



Due Diligence & Collaborative Working

What is due diligence?

Collaborative working is all about finding friends to work with for mutual benefit and advantage.

Generally, when organisations create new working friendships they check each other out. Due diligence describes the steps an organisation should take to assure themselves that risks have been discussed and mitigated before entering into a collaborative working arrangement.

The steps you take to assure yourself should be appropriate to the scale of the collaborative project you are developing. As a general rule of thumb if you are considering a project which could equate to 25% of your existing size, then most aspects of a due diligence exercise are worth considering.¹

Why is it important?

Organisation A and B have known each other for a long time. They work really well together and decided to collaborate to deliver a public sector contract. There is no need to check each other out as they trust each other. Organisation A gets into difficulties early on into the contract and has closed suddenly because of financial pressures. Organisation B are now left holding the can for delivering the contract are now in danger of closing themselves. There are outstanding liabilities and debts owing and the Charity Commission are now asking the Trustees what they did to ensure due diligence before they collaborated?

Some charities that work in Consortia to deliver public services do not check the financial health of their fellow consortia members and do not discuss the potential risks of Consortium working at board level. SCVO advises that you conduct due diligence to ensure your organisation is ready to work collaboratively and has checked out the risks collaboration poses.

Who is responsible for due diligence?

If you are a Registered Charity then Trustees hold responsibility for conducting due diligence before entering into a collaborative working arrangement under their **Duty of Prudence** and **Duty of Care**.² Otherwise your board or management committee hold responsibility for the collaborative working decisions you decide to embark upon.

What do we need to do?

It very much depends on what type of organisation you are and if you are incorporated or unincorporated. However, to avoid confusion SCVO suggests **all organisations** planning to work collaboratively consider the following steps:

Step 1 – all organisations ask the following questions of their board/committee:

- What are we hoping the collaboration will achieve?
- Is collaborating the best way to achieve the aim?

- Who proposed the idea and do they have a vested interest?
- Does the collaborative project fit within your organisations charitable objects?
- Does the governing document contain a power allowing us to establish, support and co-operate, join or merge with others to further our objects?
- Does the plan for collaborative working fit with our strategic vision, values and current priorities?
- Are the requests for funds to support the collaborative project an appropriate use of charitable funds?

Step 2 – registered charities (and incorporated bodies)

After asking initial questions and resolving any outstanding issues, the due diligence for collaborative working can extend into the following areas:

1. Financial
2. Legal
3. Strategic and operational

SCVO strongly advises Registered Charities to carry out investigation into the areas listed above and conduct a **risk assessment** and **due diligence** report. We have a range of practical tools and information on how these areas can be evidenced to share with organisations which can be adapted to suit the level of collaboration. SCVO asks organisations to consider professional services where appropriate to make sure the exercise is carried out robustly, e.g. legal and financial services.

Step 3 – check out your potential partners

SCVO advises you find out more about your potential partners and that a system is developed to collate all relevant information for review by all boards involved in the collaboration. You might decide to make sure the sharing of this type of information is covered by a confidentiality agreement for your Consortium. You can also do a search for information about prospective partners online at Companies House and with the Charity Commission.

Most incorporated organisations should have the necessary board/staff skills and expertise to carry out due diligence work. However, SCVO recognises there might not be time or capacity to undertake the work. It may be more appropriate to split the due diligence work between your staff/trustees and professional advisers. Where SCVO is supporting the formation of a collaborative project it will guide and advise organisations on what to consider about due diligence and offer practical solutions wherever possible.

Further support and information:

Charity Commission
 Tel: 0845 300 0218
 Web: www.charity-commission.gov.uk
 SCVO (Martin Drayton, Collaborative Projects Officer)
 Tel: 0121 525 1127 Email: martind@scvo.info

Companies House
 Tel: 0303 1234 500
 Web: www.companieshouse.gov.uk

¹ Source: Due Diligence Demystified, NCVO (2006)

² Source: CC3 - The Essential Trustee: What you need to know, Charity Commission (2008)