

Due Diligence Requirements

Applicant Guidelines

Introduction

As a condition of receiving a UK Aid Direct grant, all successful applications must cooperate with a due diligence assessment carried out by the Fund Manager.

Due diligence provides DFID with assurance over the risk of funding a project through the applicant organisation. It is however also intended to be a valuable resource available to the applicants themselves; the due diligence report provides prospective grant holders with an independent assessment of the systems and processes operating in the management of the grant. It can be used to provide valuable insight into areas for development and as a tool to build capacity and benefits from comparisons against best practice.

Due diligence is completed as the final stage in the application process prior to contracting and will only be carried out on applications approved by the Secretary of State. Organisations which are not approved at full application stage will not have to complete this assessment.

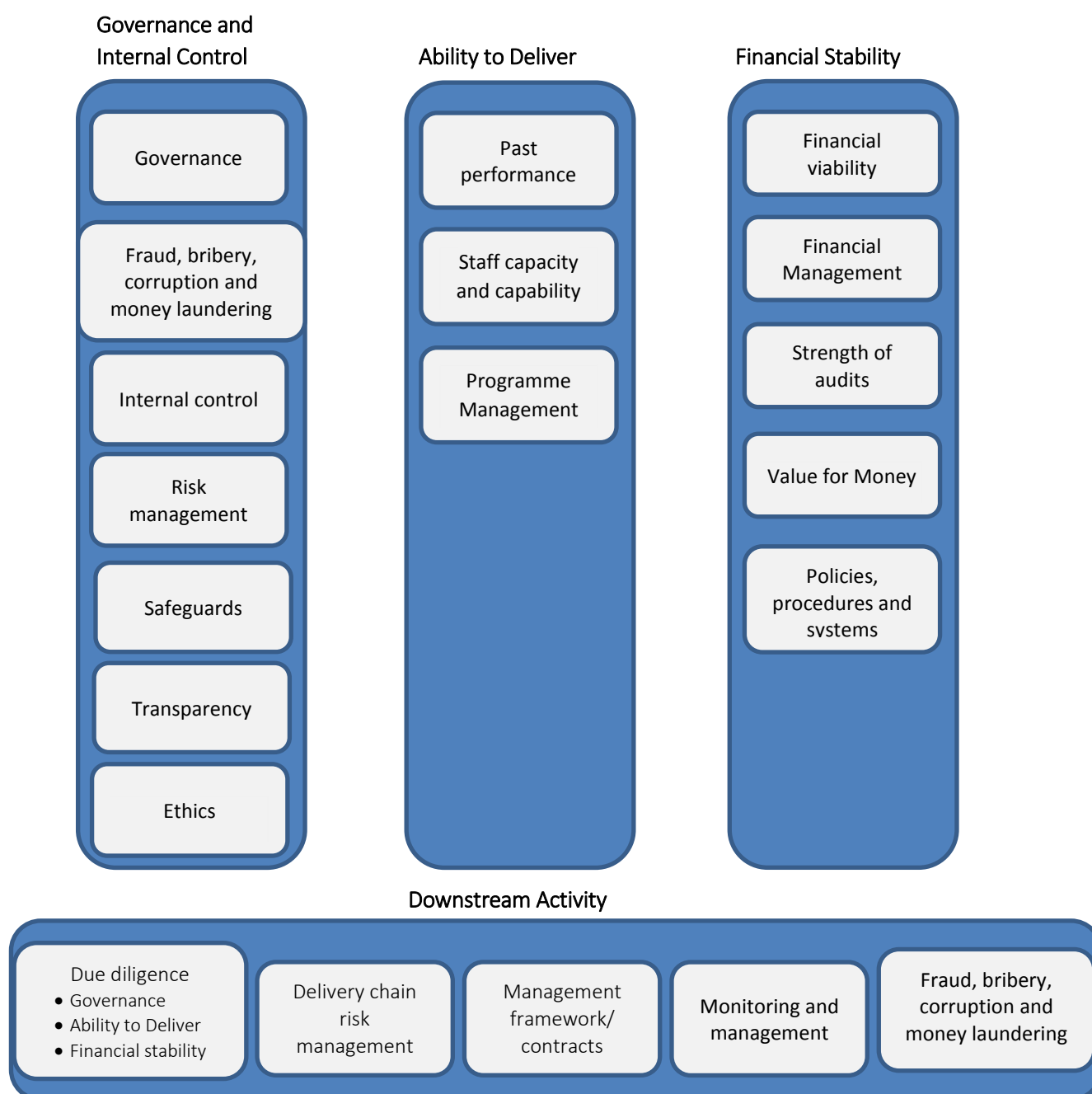
The purpose of this document is to inform applicants of the need for this process to be conducted and to provide details of the process to allow them to plan accordingly. **No immediate action is required from your organisation at this stage.**

DFID's Due Diligence Framework

DFID has developed a standardised framework for completing due diligence and for fiduciary risk management. The due diligence processes completed by UK Aid Direct Fund Manager, are aligned with this framework. Due diligence must give DFID a reasonable level of assurance that grant funding will be correctly applied to achieve the desired objectives before engagement with an organisation.





Assessments under the framework consider 4 broad 'Pillars' covering topics: Governance & Internal Control, Ability to Deliver, Financial Stability, and Downstream Activity. The thematic areas covered under each of these headings are set out in the table below.

Figure 1: DFID's 4 pillar approach to due diligence



For each grant an assessment will be carried out by the Fund Manager covering all of these areas. Where weaknesses and development needs are identified they are assigned a risk level and action is recommended to mitigate against the risk. The risk levels are used in determining whether a grant can be taken forward for contracting or whether the risk to DFID funding is too great. The priority scale used in completing the assessments is set out below:

Figure 2: Priority ratings within DFID's due diligence framework

Priority		Definition
Critical		Weaknesses that pose unacceptable negative fiduciary and/or reputational risk to DFID and where necessary mitigating actions are either not possible or highly challenging for the Partner to implement.
High		Weaknesses that pose unacceptable negative fiduciary and/or reputational risk to DFID but where mitigating actions could be put in place to suitably reduce the risk to acceptable levels.
Medium		Findings that do not pose unacceptable negative fiduciary and/or reputational risk to DFID but which would be advisable for the Partner to address to improve their systems, processes or procedures.
Low		Findings that do not pose unacceptable negative fiduciary and/or reputational risk to DFID but which the Partner may wish to consider.

Due diligence process

Overview

There are 3 stages to the due diligence process used by UK Aid Direct:

- **Financial Due Diligence (FDD).** The FDD is conducted at the concept note stage. It involved a brief assessment of the information supplied with the concept note to verify that the organisation is suitable to manage a grant of this size, and that it meets financial eligibility requirements.
- **Integrity Due Diligence (IDD).** IDD is completed alongside full applications. It involves the analysis of data provided on key individuals, and the applicant organisation, in order to confirm that there is no history of money laundering, fraud bribery or corruption, sanctions, or other negative news stories.
- **Financial Management Assessment (FMA).** If applicants are successful with their full applications the final stage of due diligence is to complete an FMA. The FMA is the step in the process which directly requires the involvement and engagement of the applicant organisation. A brief guide to the process is set out below.

Financial Management Assessment (FMA)

The FMA provides a more in-depth insight into the governance of the organisation who will become grant holders.

Applicants will be contacted to inform them that their grant has been approved, and at the same time asked to make preparations for due diligence to take place. You will be asked to provide governance and financial documentation shortly after being contacted to allow the assessor to prepare and get context before the FMA takes place. A visit will be arranged to allow the assessor to make a site visit to your organisation. The site visit is likely to take 1-3 days, applicants will be required to ensure that facilities are available to allow a visit to take place and that key personnel are available for interview by the assessor. Following the site visit, it is likely that there will be some further follow-up questions to allow a final report to be completed.

Regardless of the outcome, your organisation will receive feedback on the findings of the due diligence. If the grant is approved to go forward then the key findings of the FMA will be included as special conditions to your grant agreement and the grant will be made contingent on meeting these special conditions.

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