1. INTRODUCTION

The Due Diligence Framework (Framework) is an aid risk management tool to assess a potential delivery partner’s ability to deliver in line with the policy and legislative requirements of the Australian aid program. It responds to the Australian aid program’s reliance on partnerships and third party delivery mechanisms by better informing partner engagement.

The Framework provides a structured and consistent approach for the identification and assessment of implementing partner risk prior to entering into arrangements and providing funding.

The Framework formalises, strengthens and streamlines existing due diligence arrangements and applies to individuals, commercial contractors, private sector entities, multilateral organisations and development banks and civil and non-government organisations.

Key risks identified in the due diligence process need to be assessed, documented and monitored in line with the Aid Programming Guide, Chapter 8 Aid Risk Management.

1.1 OBJECTIVES

The key objectives of the Framework include:

- undertaking due diligence assessments in a consistent and pragmatic manner proportional to the risk of the investment
- strengthening risk management processes through identification and assessment of partner risks prior to selection and agreement finalisation
- assisting delegates to satisfy Public Governance, Performance and Accountability Act 2013 (PGPA Act) requirements by systematically identifying implementing partner risks and strengths prior to entering into agreements
- to support funding decisions to be transparent, robust and defensible

1.2 GUIDING PRINCIPLES

The operation of the Framework is guided by the following principles:

- **Proportionality** – the scope and depth of assessments are proportional to the risk and value of the proposal.
• **Minimum baseline assessment** – a minimum set of assessment criteria applies regardless of risk or value. Additional assessment criteria can be applied on a proportional basis.

• **Evidenced based assessment** - assessments will be based on the best available and most current, objective and verifiable information and where appropriate will draw on third party assessments.

• **Validity** – assessments will remain valid for up to three years.

• **Centralised coordination and storage** – centralised coordination and storage of assessments enables a repository of information available for DFAT.

• **Delegate responsibility** – the financial delegate remains responsible for ensuring appropriate due diligence activities have been undertaken, and will determine if any extra due diligence activities are required.

1.3 **KEY FEATURES**

The key features of the aid Due Diligence Assessment Process include:

• Financial delegates determine the scope and level (baseline, baseline plus or comprehensive) of the due diligence assessment undertaken.

• Assessment tools are available to support the conduct assessments.

• Environment Safeguards and Aid Risk Management Section (SRS) will centrally store due diligence assessment reports and make these available for use by program areas and decision makers.

• Baseline and Baseline Plus due diligence assessments will normally be completed by program, agreement or relationship managers and typically involve a desktop review to accomplish the assessment.

• Comprehensive due diligence assessments for some of our largest commercial partners are coordinated and managed by SRS.

• Due Diligence assessments will be undertaken online using the Assurance and Risk Management System (ARMS).

A risk-based approach is used to determine what level of due diligence is conducted. Generally, we need to focus on new partners or where the risk of using an existing partner has significantly changed. This may include when the partner is implementing higher value investments, the environment is higher risk, or where performance issues have been identified.

2. **WHEN TO CONDUCT A DUE DILIGENCE**

Financial delegates are ultimately accountable for risk management undertaken and the extent to which they apply due diligence prior to finalising an agreement.

The best time to apply due diligence will vary. In most cases due diligence assessments are envisaged to be commenced at the time a potential delivery partner is identified and to be **concluded prior to the delegate finalising the S.23 PGPA Act approval minute to commit and enter into an arrangement**.

Stand-alone due diligence assessments remain valid for a maximum of three years.
A delegate may determine an earlier re-assessment is required where circumstances indicate that:

- partner risks have not been properly identified
- events infer that partner risk control strategies are ineffective
- there is significant change in a partner’s circumstances such as a corporate restructure
- a shorter period between undertaking an assessment is deemed more appropriate.
3. DFAT DUE DILIGENCE PROCESSES

Due diligence occurs across the Australian aid program for a range of objectives and through various institutional capacity assessment processes including tender and grant evaluations, assessment of partner government systems, multilateral organisation performance assessments and the Australian NGO Accreditation process.

A Due Diligence Assessment based on the Due Diligence Framework constitutes just one type of assessment to provide confidence in a potential aid delivery partner’s ability to deliver in line with the policy and legislative requirements of the Australian aid program.

Financial delegates are responsible for due diligence undertaken for any funding arrangement as well as its scope and depth – for example the decision between a baseline, baseline plus, or comprehensive assessment. Delegates should exercise judgement in how best to apply the Framework to their program context and circumstances.

A summary of the delivery partners and their Due Diligence Assessment requirements are in Table 1. These are also shown in a process map at Attachment A.

Table 1: Delivery partners Due Diligence Assessment requirements

<table>
<thead>
<tr>
<th>DELIVERY PARTNER</th>
<th>DUE DILIGENCE ASSESSMENT REQUIREMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial and Private Sector Partners</td>
<td>A due diligence assessment is required. Note: a baseline plus due diligence assessment is required for private sector partners.</td>
</tr>
<tr>
<td>Non-Government &amp; Civil Society Organisations</td>
<td>A due diligence assessment is required unless accredited under the Australian NGO Cooperation Program (ANCP). Direct Aid Program (DAP) partners are subject to due diligence assessments.</td>
</tr>
<tr>
<td>International &amp; Regional Organisations (e.g.: ASEAN, SPC, USP)</td>
<td>A due diligence assessment is required. In consultation with the S23 delegate, determine the scope of assessment considering the value of the funding arrangement and other relevant criteria including the delivery context, who the delivery partner will be working with and what they are being asked to do and how, what we know about the delivery partner and their ability to meet DFAT’s policy requirements.</td>
</tr>
<tr>
<td>Multilateral Organisations &amp; Development Banks</td>
<td>Baseline Plus due diligence assessment is required for multilateral organisations.</td>
</tr>
<tr>
<td>Bilateral Partners</td>
<td>A due diligence assessment is not required. Reviewed as part of regular formal and informal engagement.</td>
</tr>
<tr>
<td>Partner Governments</td>
<td>A due diligence assessment is not required. An assessment of national and sector-level public financial management and procurement systems must be undertaken.</td>
</tr>
<tr>
<td>Australian Government Agencies under the PGPA Act</td>
<td>A due diligence assessment is not required. Australian Government governance and accountability mechanisms apply</td>
</tr>
<tr>
<td>Australian Education Institutions (e.g.: Universities delivering Australian awards/scholarships)</td>
<td>A due diligence assessment is not required. Australian and State / Territory legal and policy compliance standards and accountability mechanisms apply.</td>
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</tbody>
</table>
3.1 DUE DILIGENCE FRAMEWORK ASSESSMENT TOOLS

Under the Due Diligence Framework delivery partners are assessed at the corporate governance level and the scope of assessments can be broadly categorised into four key pillars that focus on capacity of the delivery partner to comply with Australian aid program requirements.

Defined assessment criteria underpin the pillars. Assessment criteria reflect legislative requirements, areas of potential risk to the Australian aid program and its policy priorities. Assessments can be baseline, baseline plus or comprehensive.

Assessments are a pragmatic evaluation of the best available evidence including the Australian aid program’s existing information holdings, robust information already in the public domain, information provided by the partner for the purpose of the assessment, information reported to other Government agencies and departments and third party assessments (e.g. other donor assessments available to the Australian aid program).

Figure 1 illustrates how each of the due diligence assessment criteria are organised under each of the four pillars, and the specific criteria applied to a baseline, baseline plus and comprehensive due diligence assessment, respectively.

Figure 1 Due diligence pillars

3.2 BASELINE DUE DILIGENCE ASSESSMENT

A Baseline Due Diligence Assessment addresses the eight assessment criteria and is typically conducted by program, agreement or relationship managers as a desktop review. This assessment is adaptable to allow additional criteria to be assessed where there is any area of particular concern or a potential safeguard risk. The assessment involves completing a Baseline Assessment in ARMS. The assessment is adaptable to allow additional criteria to be assessed where there is a need.
3.3 BASELINE PLUS DUE DILIGENCE ASSESSMENT

Any due diligence assessment can include additional criteria, however, the Baseline Plus Assessment applies to both multilateral organisations and private entities. It includes the baseline assessment criteria in addition to two further assessment criteria. These criteria are environmental safeguards, and national interest elements such as reputation and social responsibility for private entities and transparency and branding for multilateral organisations. Baseline Plus Due Diligence Assessments are to be conducted for proposed private sector and multilateral delivery partners – including but not limited to entities that the aid program has not partnered with before.

A private sector delivery partner is defined as a for-profit business that is not owned or operated by the government or part of the voluntary sector (such as a non-government organisation).

The Australian aid program is increasing its engagement with a broader range of delivery partners – including those in the private sector beyond traditional managing contractor entities. If program managers are considering partnering with a private sector partner that the Australian aid program has had limited or no experience working with before, it is important to understand the entities’ ability and willingness to meet the policy priorities and requirements of the Australian Aid Program.

Baseline Plus assessments will be completed by program, agreement or relationship managers. The assessment involves completing the Baseline Plus Assessment in ARMS. This assessment is adaptable to allow additional criteria to be assessed where additional risks with the organisation or investment may have been identified.

3.4 COMPREHENSIVE DUE DILIGENCE ASSESSMENT

Comprehensive due assessments address all twenty assessment criteria, including the baseline assessment criteria in greater depth.

Comprehensive assessments are generally conducted with contractor support using the comprehensive assessment tools and guidance (located on the Due Diligence Intranet Page). Due diligence contractor support is available from the Due Diligence and Accreditation Assessor Panel and through contacting due.diligence@dfat.gov.au.

Given the level of detail and information required to accomplish this type of assessment, the delivery partner is often required to respond to information requests with more frequency during the assessment process. Further, the findings and conclusions of the assessment are discussed and fact checked with the delivery partner prior to the finalisation of the report.

The financial delegate is responsible for determining if a comprehensive assessment is required. The decision about a baseline, baseline plus or comprehensive due diligence assessment needs to be proportional to the risk of the investment and our knowledge about the performance of the proposed implementing partner.

When making this determination the delegate will consider relevant factors including:

- current knowledge of the partner;
- the value and risk of the proposed investment / initiative; and
- partner type.

The financial value of the assessment is one consideration, and if it is significant this alone may warrant a comprehensive due diligence assessment. However, other relevant criteria to be considered include the delivery context, who the delivery partner will be working with and what they are being asked to do and how, what we know about the delivery partner and their ability to meet the requirements of Australian government policy, and the degree of public interest the investment may attract.
3.5 A NOTE ON PROPORTIONALITY

As has been discussed above, the scope of the due diligence assessment is to be proportional to the overall risk of the investment. The S23 delegate responsible for approving the investment is also responsible for determining the scope of the due diligence assessment. Unless it is specified that a delivery partner is not subject to DFAT’s Due Diligence Assessment Process (as per Table 1) then due diligence requirements apply to all proposed delivery partners; this includes commercial and private sector entities, non-government and civil society organisations, and multilateral organisations.

Generally, criteria that help us understand the overall risk associated with an investment involve consideration of the following:

- Our prior experience of working with, and knowledge of, the proposed delivery partner’s performance. In other words, what do we know of this delivery partner’s ability to meet our policy requirements and their record of performance?
- The level of complexity associated with the investment accomplishing its objectives. This takes into consideration the operating environment including political context as well as the complexity of the investment design itself.
- The level of exposure, political and reputational risk associated with the investment.
- The financial value of the investment.

For example, an investment of moderate value involving a delivery partner we have worked with before may still present significant potential risk. This may be because the investment design and the context in which it is being delivered are complex. Similarly, a low value investment with a delivery partner we have limited experience and understanding of – for example a local civil society organisation - may also present significant reputational risks if we do not apply a method to understand that organisation’s credentials and ability to meet DFAT’s policy requirements.

4. DUE DILIGENCE REPORTS AND APPROVAL

Many due diligence assessment processes will require material to be obtained in-confidence from implementing partners for the purposes of undertaking the due diligence assessment. Accordingly, assessment reports are to have a minimum classification of ‘Official’ and are not intended for external distribution.

4.1 SAMPLE REPORTS

Examples of completed baseline assessment reports are located on the Due Diligence Intranet Page to assist assessing officers and reviewing delegates.

4.2 CENTRAL STORAGE AND USE OF EXISTING REPORTS

The Due Diligence Register should be examined before commencing any due diligence assessment process to avoid potential assessment duplication. If a current assessment report exists, they may be downloaded from ARMS or email due.diligence@dfat.gov.au with the details of the report and reason for requesting a copy.

Due Diligence assessments should be conducted using the ARMS. The Baseline Due Diligence Operational Procedures will guide you through how to conduct a due diligence assessment. Instructions on using ARMS can be found in the task cards on the due diligence page on the intranet.

Original Due Diligence Reports and supporting material should be stored by the area conducting the assessment on EDRMS and relevant partner or initiative files.
4.3 ROLES AND RESPONSIBILITIES

**Program, Agreement or Relationship Managers** - must undertake due diligence appropriate to their proposed funding arrangement.

**PGPA Financial Delegates** - the financial delegate is responsible for due diligence undertaken for any funding arrangement as well as its scope and depth. Where assessments reveal partner risks an informed decision can be made by financial delegates as to:

- whether or not to proceed with the partner, and
- how identified risks will be treated and monitored.

Depending on assessment findings, the delegate may decide that the risks of partnering with a particular entity are too significant to be managed and it is not possible to work with this partner at the time.

In the instance that the delegate considers the due diligence assessment to support partnering with a particular entity, the Approval to Commit and Enter into an Arrangement Minute must reflect the delegate’s acknowledgement of:

- the completion of a due diligence assessment and its findings;
- any identified risks and proposed treatment and monitoring options.

Figure 2 below outlines the due diligence workflow and decision process.
**What are the Due Diligence Requirements?**

<table>
<thead>
<tr>
<th>Type of partner</th>
<th>Requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multilateral Organisation and Development Banks</td>
<td>Is there a current due diligence assessment?</td>
</tr>
<tr>
<td>INGO/NGOs/CSOs Including DAP</td>
<td>Is there a current due diligence assessment?</td>
</tr>
<tr>
<td>Regional Intergovernmental Organisations eg: ASEAN, SPC, ULP</td>
<td>Is there a current due diligence assessment?</td>
</tr>
<tr>
<td>Partner Government</td>
<td>Is there an ANS?</td>
</tr>
<tr>
<td>Commercial and Private Sector Partners</td>
<td>Is there a current due diligence assessment?</td>
</tr>
<tr>
<td>Bilateral Partner</td>
<td>Is there a current due diligence assessment?</td>
</tr>
<tr>
<td>Australian Government Agency</td>
<td>Is there a current due diligence assessment?</td>
</tr>
<tr>
<td>Australian Education Institution</td>
<td>Is there a current due diligence assessment?</td>
</tr>
</tbody>
</table>

**Baseline Due Diligence**

- No DD Australian Government requirements apply
  - No further requirements unless there is a specific concern or known issue
  - Speak to SRS

**Baseline Due Diligence plus Branding and Transparency criteria**

- Reviewed as part of regular formal and informal engagement
  - ANS – Assessment of National Systems
  - ANCP – Australian NGO Cooperation Program

**High risk, high value, high sensitivity**

- Ensure risks identified in DD assessment are managed through contract requirements and relevant controls/treatments

**Note:** Due Diligence assessments are current for 3 years