Due Diligence for Directors

Guidance questions for a due diligence process for a new co-operative director

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CO-OPERATIVES UK

Due Diligence for Directors

Directors of co-operatives are required to exercise reasonable care, skill and diligence. This guidance note follows the recommendations set out in the FRC Guidance on Board Effectiveness.

A prospective director (whether elected or appointed) should undertake his/her own thorough examination of the co-operative to satisfy themselves that it is an organisation in which they can have faith and in which they will be well suited to working, and being involved, with.

The following questions are not intended to be exhaustive, but are intended to be a basis for the pre-election/appointment due diligence process that all co-operative directors should undertake. They are taken from the Institute of Chartered Secretaries and Administrators' UK Guidance Notes and Best Practice Guides.

Questions for Potential Directors to ask

The business

- ☐ What is the co-operative's current financial position and what has its financial track record been over the last three years?
- ☐ What is the exact nature and extent of the co-operative's business activities?
- ☐ What is the co-operative's competitive position and market share in its main business areas?
- ☐ What is the co-operative's strategy and vision?
- ☐ What are the key issues being faced by the board of directors at the moment?

Governance

- ☐ What record does the co-operative have on corporate governance issues?
- ☐ Does the co-operative have sound and effective systems of internal control?
- ☐ What is the size and structure of the board and any board committees?
- ☐ Does the co-operative comply, or explain non-compliance with any appropriate codes of governance?
- ☐ How well does the co-operative articulate its position on governance in the annual report?
- ☐ What governance challenges has the charity dealt with in the last two years?
- ☐ What is the relationship like between the board and the chief executive, the secretary, and the management team?
- ☐ What is the co-operative's attitude towards, and engagement with, its members?
- ☐ Is there a strong board culture that supports high standards of behaviour both within and outside of the boardroom?

The role of the director

- ☐ If the society is not performing particularly well is there the potential to turn it around and does the proposed director have the time, desires and capability to make a positive impact?
- ☐ Is the proposed director satisfied that the size, structure and composition of the board will enable them to make an effective contribution?
- ☐ Would accepting the directorship put the proposed director in a position of having a conflict of interest?
- ☐ Does the proposed director have the necessary knowledge, skills, experience and time to make a positive contribution to the board of this co-operative?
- ☐ Is there a culture of mutual respect and trust amongst the directors?
- ☐ Will I the proposed director be provided with sufficient training to enable them to perform their role to the best of their ability?

Risk management

- ☐ Is there anything about the nature and extent of the co-operative's business activities that would cause the proposed director concern both in terms of risk and personal and ethical consideration?
- ☐ Is any material litigation presently being undertaken or threatened, either by the co-operative or against it?
- ☐ Is the proposed director satisfied that the internal regulation of the co-operative is sound and that it operates effectively within its stated corporate governance framework?
- ☐ What insurance cover is available to directors and what is the co-operative's policy on indemnifying directors?
- ☐ What professional advice is available to directors to enable them to carry out their duties?

Operational matters

- ☐ Has adequate thought been given to the board's decision-making processes?
- ☐ Do board papers provide high quality information, at a time far enough in advance of the meetings, to enable informed debate and high-quality decision-making?
- ☐ Does the board agenda focus on the right things? Have you seen the schedule of matters reserved for the board's decision?
- ☐ Are committee meetings structured so that there is sufficient time to allow a report to be submitted to the board meeting and is adequate time allowed in board meetings to discuss committee matters?
- ☐ Are the ICA Co-operative Values & Principles embedded in the decision making and operational processes of the co-operative?

Essential reading

This is part of a series of resources making up the **Directors Toolkit** accessed via **www.thehive.coop/governance**

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