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Update on the Implementation of IFAD's Anti-Money Laundering and Countering the Financing of Terrorism Policy, and Controllership

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Abbreviations and acronyms

AML	anti-money laundering
AUO	Office of Audit and Oversight
CFT	countering the financing of terrorism
COSO	Committee of Sponsoring Organizations of the Treadway Commission
DoA	delegation of authority
FCD	Financial Controller's Division
HRD	Human Resources Division
ICF	Internal Control Framework
IDD	integrity due diligence
IFI	international financial institution
KYC	know-your-customer
RMO	Office of Enterprise Risk Management

Update on the Implementation of IFAD's Anti-Money Laundering and Countering the Financing of Terrorism Policy, and Controllership

I. Summary

A. Financial crime and controllership functions at IFAD

1. As IFAD's business model evolves to further support the transformation of rural livelihoods, the organization is increasingly undertaking decentralization, delegation of authority and engagement with the private sector. As a result, the risk profile and materiality of transactions is changing. It is important to mitigate these risks, particularly those associated with decentralization, in order to protect IFAD's clean audit opinion and ensure continued donor and stakeholder confidence.

2. Two ways in which IFAD manages such risks is by compliance with the Internal Control Framework (ICF) through the new controllership function, and compliance with the IFAD Anti-Money Laundering and Countering the Financing of Terrorism (AML-CFT) Policy through the new financial crime function.

3. These two Executive Board-approved policies are part of the overall IFAD Enterprise Risk Management Framework coordinated by the relevant responsible divisions, which coordinate implementation and the sharing of knowledge and experiences for a holistic approach in order to effect cultural change throughout the organization.

4. Following approval of the ICF and AML-CFT policies at the end of 2019, the two new functions were created by a President's Bulletin in 2020 and set up in the Financial Operations Department within the Financial Controller's Division (FCD). They have been staffed on a largely cost-neutral basis by repurposing existing posts.

5. The FCD controllership function is responsible for: (i) setting and assessing optimal controls across IFAD through data, tools and advice to adhere to the principles established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and the ICF, supporting business efficiency and clean external audit opinions; (ii) supporting and monitoring delegation of authority as the custodian; and (iii) supporting process efficiency through business process mapping and re-engineering.

6. The FCD financial crime function is responsible for: (i) conducting daily screening of vendor and partner master files for AML-CFT, sanctions and related risks as well as reporting; (ii) administering know-your-customer (KYC) processes; and (iii) leading IFAD's data protection and privacy processes.

7. Both functions have implemented a training programme to reach a large number of staff in support of a change in culture across the organization. In addition, they have implemented software solutions to ensure efficient processes and developed reporting of exceptions through IFAD's existing governance processes.

8. The purpose of this paper is to provide the Audit Committee with an overview of the progress made between 1 October 2020 and 30 September 2021 in the implementation of IFAD's AML-CFT policies approved by the Executive Board and the controllership function. The aim is to strengthen internal controls and safeguards against AML-CFT and related risks and to support clean external audit opinions and the continued achievement of IFAD's objectives.

II. Implementation and risk mitigation

A. Financial crime function

9. The IFAD AML-CFT Policy aims to ensure that integrity risks are identified, assessed and adequately mitigated by taking into account the nature, scale and complexity of the organization's activities. The aim is to prevent IFAD from conducting business with counterparties that are on the sanctions lists adopted or have been involved in money laundering, terrorism financing or related risks – and thereby reduce the organization's exposure to serious reputational damage, financial loss or legal liability.

10. As indicated, the financial crime function was created in 2020 within FCD to implement the AML-CFT Policy and coordinate all AML, CFT, sanctions and related activities of the Fund. In addition to using existing resources, one new staff post was created and an AML-CFT specialist was hired.

11. The financial crime function has three main aims: (i) conducting daily screening of vendor and partner master files for AML-CFT, sanctions and related risks as well as reporting; (ii) administering KYC processes; and (iii) leading IFAD's data protection and privacy processes.

12. On the function's first aim, as part of IFAD's commitments under the General Conditions for Agricultural Development Financing, the function's daily baseline checks seek to reduce the risk of IFAD inadvertently engaging with counterparties included on the sanctions list adopted or involved in money laundering, terrorist financing and related risks.

13. Pursuant to the AML-CFT Policy and taking into consideration leading practices at other international financial institutions (IFIs) and the recommendations of the AML-CFT intergovernmental body Financial Action Task Force, the function has adopted a risk-based approach, aligned with IFAD's standard enterprise risk management risk categories, in conducting integrity due diligence (IDD) on individuals and entities involved in all operations and activities financed and managed by IFAD.

14. The function assigns a risk assessment rating and recommendation to all counterparties (staff, consultants, suppliers, borrowers, grant recipients, investment and treasury trading counterparties and private sector entities), including standardized actions and escalations, in line with the IFAD Delegation of Authority (DoA) Framework. The risk categorization employs the standard IFAD four-point risk scale – high (red), substantive (orange), moderate (yellow) and low (green) and is based on general AML-CFT industry criteria. This entails applying the level or extent of IDD proportionate to the level of financial crime or integrity risk for each counterparty. As an example, at IFAD, private sector engagements are classified as potentially high risk.

15. Under FCD's vision to leverage digital technologies and automation to enhance its service delivery and business efficiency, the function has implemented Accuity's Firco Compliance Link, a leading financial crime software solution, which allows IFAD to screen 20,000 entities and individuals simultaneously. Screening covers all IFAD-financed and IFAD-managed operations and includes project and headquarters procurement, treasury trading counterparties and issuers, non-sovereign operations, private partnerships, persons travelling on IFAD business, and IFAD staff and consultants. Screening is performed against sanctions lists adopted by IFAD, as well as industry-standard AML-CFT databases containing watch lists, enforcement records and adverse media.

16. The software solution, which is interconnected with IFAD systems, allows all personnel to run on-demand ad hoc screening searches on potential counterparties and, through in-built workflow functionality, escalate any matches to the FCD

financial crime function for assessment. In addition to facilitating IDD at the onboarding stage, so that necessary checks are carried out before the start of a new relationship, the solution also, and crucially, leverages IFAD source systems and data to run checks automatically throughout the duration of the engagement, ensuring effective ongoing monitoring. A record of all screening conducted is maintained in the solution for full traceability and audit trail purposes. As an example of a business efficiency generated by the solution, there is no longer a need for staff in the Human Resources Division (HRD) to conduct manual screening checks when onboarding new consultants. Screening is now performed automatically through the solution and evidence of screening is captured in the audit trail.

17. Since January 2020, IFAD has screened 100 per cent of the individuals and companies in vendor and partner master files for sanctions. A small number of sanctioned counterparties were identified and deactivated. Given the organization's zero tolerance and low risk appetite for conducting activities with sanctioned parties, risks have been mitigated through this daily monitoring and deactivation.

18. Since January 2020, IFAD has conducted detailed AML-CFT and related risks due diligence assessments of a significant number of counterparties (IFAD staff, other personnel, suppliers, borrowers/recipients, investment and banking trading counterparties and private sector entities) using industry-standard databases. For the vast majority of counterparties (99.7 per cent) no adverse alerts were noted. Warning alerts, where there is no definitive conclusion or where there are certain less significant concerns that do not warrant curtailing a business relationship, totalled 0.2 per cent, and significant adverse alerts, where IFAD would normally curtail or not enter into a business relationship, totalled 0.1 per cent. The IFAD Controller is actively involved in all significant and warning alerts, and the Chief Financial Officer is made aware of all significant alerts. With the set-up of the new risk committees at IFAD, regular reporting will be provided to these committees as part of good governance practices. The screening and risk assessments will continue to be conducted daily.

19. On the FCD financial crime function's second aim, the function has established procedures and implemented industry-standard and IFI-aligned KYC processes to support enhanced IDD procedures for private sector engagements. These processes are adjusted depending on the nature of recipients and AML-CFT related risks. This includes administering KYC questionnaires and IDD checklists that incorporate detailed AML-CFT due diligence, completed by the FCD financial crime function as required.

20. IFAD has incorporated key clauses on AML-CFT and sanctions in negotiated borrowing and financing agreements, including supplementary funds agreements. AML-CFT processes have also been incorporated in IFAD documents such as the Framework for IFAD non-Sovereign Private Sector Operations, strategy for supplementary resources, environmental, social and corporate governance due diligence procedures, Green Climate Fund guidelines, the Integrated Borrowing Framework, letter to the borrower and IFAD's Investment Policy Statement.

21. FCD works closely with and shares findings with the Office of Audit and Oversight (AUO) as required and is working collaboratively with AUO on leveraging the software solution to support AUO's work. In addition, FCD works closely with the Office of Enterprise Risk Management (RMO), sharing results of assessments and consulting with RMO as required. Key risk indicators have been agreed with RMO for reporting on the Corporate Risk Dashboard to governing bodies and quarterly reporting to the relevant new risk committees is now taking place. FCD also works closely with the Office of the General Counsel and the Ethics Office as needed to share and exchange information to strengthen overall IFAD compliance with third-party due diligence checks.

B. Controllership function

22. The FCD controllership function was revised in 2020 to reduce decentralization and fraud risk and provide tools for IFAD offices, units and divisions to map, monitor, streamline and certify internal controls in business processes.

23. The controllership function has three main objectives: (i) set and assess optimal controls across IFAD through data, tools and advice to adhere with COSO guidance and the ICF, to support business efficiency and clean external audit opinions; (ii) support and monitor delegation of authority as the custodian; and (iii) support process efficiency through business process mapping and re-engineering.

24. The function prepares its annual workplan through a risk-based approach methodology supported by internal consultations to determine which IFAD offices, units and divisions it will conduct missions in, ensuring adequate coverage of the related typologies and geographies.

25. On its first objective, the FCD controllership function conducts missions to IFAD offices, units and divisions to assess optimal internal controls on six dimensions: (i) access rights and duties segregation; (ii) delegation or sub-delegation of authority; (iii) bank accounts and cash; (iv) project procurement fraud risk; (v) financial closures; and (vi) fraud risk in business processes. It coordinates with relevant headquarters divisions that may have certain responsibilities in the six dimensions.

26. During their missions, the FCD controllership team experts meet with senior IFAD office, unit and division staff to discuss areas for control risk, supporting mapping of business processes and identifying key controls and business process efficiency opportunities. The function provides updates on delegation of authority and areas where further support can be provided on delegation or sub-delegation, and provides data and new tools for staff to use. One example is a report of access rights by personnel in the office compared to requirements in the IFAD ICF, and another is a dashboard of key financial and budget data.

27. A control questionnaire is completed by the offices, units and divisions, identifying areas where exceptions to internal controls were noted and areas of risk for further review and assessment.

28. A business process mapping exercise is conducted for key business processes with finance and payments implications, where key controls are identified, and manual processes that could benefit from business process re-engineering are highlighted and improved where possible. In the past year, 57 business processes were mapped by the function and provided to the relevant offices.

29. Control testing performed includes, but is not limited to, a review of all relevant internal audit reports; other relevant external reports; all relevant internal dashboards; access rights of personnel; data from procurement systems on potential fraud; hosting agency relationship and reconciliations; petty cash register and, where relevant, bank accounts and reconciliations; financial crime (sanctions, anti-money laundering, counter-terrorism financing matters, anti-fraud indicators and related risk areas); data on consultants and other material expense line items; and other relevant information to corroborate and support findings.

30. A controller's scorecard (table 1) is prepared as an output of each mission, which is a financial health card for the IFAD office, unit or division on the six dimensions assessed.

Table 1
Controller's scorecard

	Internal control dimensions	Rating
Field office or division: internal controls in place	1. Access rights and duties segregation	
	2. Delegation and sub-delegation	
	3. Bank accounts, cash and assets safeguarding	
	4. Project procurement fraud risk	
	5. Financial closures	
	6. Fraud risk in business processes	
Overall internal controls score for office or division		

	No major control weaknesses or efficiency issues – no action required
	Some control weaknesses or efficiency issues requiring an action plan to remedy (up to 12 months)
	Significant control weaknesses or efficiency issues requiring an action plan to remedy (two to six months)

31. Where control weaknesses are noted, an action plan is prepared by the office, unit or division with an agreed indicative timeline for implementation and follow-up by the FCD controllership function as required.

32. A certification on internal controls is signed digitally by the head of office or unit or the division director, confirming that an adequate internal control system and control environment are in place.

33. The FCD controllership function has launched a software solution known as TeamMate+ Controls for all of the above activities, ensuring a digital approach to missions, documentation, reporting and certifications.

34. With the recent launch of the new process during the second and third quarters of 2021, missions have been conducted (virtually) at the Viet Nam Hub, Sudan Country Office and Peru Country Office. Missions at the South Africa Hub and Egypt Hub are now under way, and an additional five offices are planned for completion by year-end 2021. Of the three completed missions, two were rated green overall with some areas for improvement and one yellow with some areas for improvement. Actions have been taken to address all yellow items.

35. Over 300 access rights have been tested in the year in key financial systems, and 17.8 per cent were noted for improvements to ensure compliance with the ICF, which were subsequently implemented and risks mitigated.

36. On its second objective, the FCD controllership function is the new custodian of the IFAD Accountability Framework and the IFAD Delegation of Authority Framework. The new Accountability Framework and DoA Framework provide more delegation of authority to IFAD staff globally in order to empower staff, with a particular emphasis on decentralized offices, while enhancing accountability obligations. This new role emanated from the work done by the DoA working group comprising four key divisions: FCD, the Office of the General Counsel, the Change Delivery and Innovation Unit, and the Office of the President and Vice-President.

37. As a result of the DoA exercise, over 40 new or revised delegations of authority were issued in President's Bulletin PB/2021/03 in five areas: (i) procurement; (ii) human resources; (iii) field operations; (iv) governance and protocol; and (v) budget and finance, thus increasing DoA across IFAD.

38. The FCD controllership function created a one-stop document consisting of the Accountability Framework and DoA Framework and DoA table of authorities, which

is a "living document" updated monthly after due process is followed, for ease of access by all IFAD personnel. New tools such as digital e-forms were created to request the addition, modification or interpretation of DoAs which are then transmitted automatically to the relevant divisions for rapid response. A summary of all changes approved is also issued on the Intranet site and available for viewing by all IFAD personnel.

39.   Enhancing accountability is done through an annual certification by all delegees and sub-delegees who attest to appropriate and effective disposition of all DoAs entrusted to them. An online training programme is being developed by the function, with support from HRD and an external provider, which is expected to be launched in the first quarter of 2022. In addition, extensive communication and presentations are being made across all divisions.

40.   On its third objective, the function reviews mapped business processes and identifies areas where manual processes would benefit from digitization and either supports implementation or highlights areas for further investment in automated tools and dashboards.

III. Training and culture

41.   Launched in 2020, FCD's internal controls risk and financial crime training programme, supported financially by HRD and conducted in partnership with the Chartered Institute of Public Finance and Accountancy, has successfully trained over 110 personnel in support of a culture of enhanced internal control and awareness of financial crime.

42.   New software solutions, digital e-forms, Intranet communications, blogs, attendance at staff meetings and online training comprise a holistic approach to support a strong culture of controls at IFAD.

IV. Monitoring and reporting

43.   Transactions categorized as substantial or high risk are escalated to the IFAD Controller, and the Chief Financial Officer is kept informed. With the establishment of the new IFAD risk committees, exceptions are being reported to the relevant risk committee in consultation with RMO as required. Certain key risk indicators are also reported in the revised Corporate Risk Dashboard to governing bodies.