

Internal Audit of the  
**UNICEF INNOVATION FUND**

DECEMBER 2022

Report 2022/26

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# EXECUTIVE SUMMARY

The Office of Internal Audit and Investigations (OIAI) conducted an audit of the UNICEF Innovation Fund, covering the period from January 2021 to July 2022. The Innovation Fund receives funds earmarked by donors for the development of technologies and solutions through the Public Partnership Division. It provides those earmarked funds to entities in the private sector as well as to UNICEF country offices for the development of innovative solutions and technologies that have the potential to enhance the effective and efficient delivery of programmes. The overarching objective of the audit was to assess the adequacy and effectiveness of the controls over the funds received, selection of projects to receive funding, and implementation of the projects. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

## Overall Conclusion

Based on the audit work performed, OIAI concluded that the assessed governance, risk management and control processes were **Satisfactory**, meaning that the assessed governance, risk management or control processes were adequate and functioning well.

(See the Appendix for [definitions of the conclusion ratings](#).)

	<b>Satisfactory</b>
	Partially Satisfactory, Improvement Needed
	Partially Satisfactory, Significant Improvement Needed
	Unsatisfactory

## Summary of Observations and Agreed Actions

OIAI noted that controls were adequate and functioned well.

- **Selection of projects for funding:** OIAI found the design of selection of projects generally adequate to ensure available funds were allocated to the development of technologies and solutions relevant to UNICEF's global aim of ensuring that every child can survive, thrive, live, and learn in a safe, inclusive space. There were appropriate pre-defined criteria, which were found to be complied with for the sample of projects reviewed.
- **Monitoring of projects:** OIAI noted that there were adequate monitoring mechanisms in place for projects funded by the Innovation Fund. Each project had been monitored against the milestones, targets and success factors set out in the contracts with developers. Disbursements of funds were done as per the contracts, typically in four instalments, upon successful completion of achievement of set targets for a milestone. A review of available documentation on the reporting and monitoring of projects for a sample of 32 of the 62 projects funded during the audit period found that all reporting requirements had been met.
- **Fund management:** OIAI evaluated the controls around the disbursement of cryptocurrencies and found them to be adequate. The internal controls were put in place following adequate due diligence. OIAI also noted that developers were paid in cryptocurrency only if they required it and UNICEF had such currency in its inventory. OIAI noted that the cryptocurrencies received by the Innovation Fund were not traded or exchanged for other currencies. In OIAI's view, such practices tend to minimize organizational exposure to risks of loss related to exchange volatility.

# BACKGROUND AND CONTEXT

UNICEF launched the Innovation Fund in 2015. The CryptoFund, an integral part of Innovation Fund, was launched in October 2019 to provide donors the option of contributing crypto currencies to the Innovation Fund. The Innovation Fund is meant for investment in the development of open-source frontier technologies that have the potential to positively impact the lives of children globally. The aim is to make those technologies available to the public, ensuring fair, equitable, and open access to them by anyone who needs them. To qualify for investment, the technology must be relevant to UNICEF's global aim of ensuring that every child can survive, thrive, live, and learn in a safe, inclusive space. The Innovation Fund thus provides funding to developers of technologies in the private sector as well as to UNICEF country offices for the development of innovative solutions and technologies that have the potential to enhance the effective and efficient delivery of programmes.

To make the technologies available to the public, the Innovation Fund posts them on its website, the GitHub. As of November 2022, the Fund had posted 535 technologies on GitHub, which had a total of 5,670 users.

At the time of this audit in August 2022, the Innovation Fund had received a total US\$35 million, 2,527 Ethereum, and 8 BitCoin. The Innovation Fund makes a maximum US\$100,000 investment in the development of each technology after vetting a proposal against specific pre-defined criteria. Since it was established, the Innovation Fund received a total of 4,500 expressions of interest from potential developers, 479 proposals for seed stage investment from potential developers, 36 proposals for growth stage investment from developers who had been provided seed-stage investment, and 94 applications for funding from country offices. At the time of the audit, the Innovation Fund had invested approximately US\$11.27 million, 2,058 Ethereum, and 4.1 BitCoin in 147 projects.

# AUDIT OBJECTIVES AND SCOPE

The overarching objective of the audit was to assess the adequacy and effectiveness of the Innovation Fund’s controls over the funds received, selection of projects to receive funding, and implementation of the projects. The key areas assessed were selected during the audit planning process based on an assessment of inherent risks.<sup>1</sup> The key risks evaluated are set out in the following table:

RISK AREA	KEY INHERENT RISKS EVALUATED DURING THE AUDIT
Fund management	Financial risks related to the use of crypto currencies: These include the risk that: UNICEF may not have enough cryptocurrency to meet its obligations; a change in regulations or legislation may affect the value of UNICEF crypto assets; and UNICEF suffers a financial loss due to differences between the accounting values and the prices effectively obtained in the trade.
Selection of projects	Funded projects may not have the potential to positively impact the lives of the most vulnerable children or UNICEF may be associated with entities that are associated with unethical behaviour and thus pose significant reputational risk to the Organization.
Monitoring of projects	Completed projects may not meet set quality standards, reducing UNICEF ability impact the lives of children globally through the investment. UNICEF may be unable to promptly identify bottlenecks and take remedial actions such as suspending further disbursement of funds.

The audit was conducted remotely from July to September 2022 in accordance with the International Standards for the Professional Practice of Internal Auditing. For the purpose of audit testing, the audit covered the period from January 2021 to July 2022. The audit covered a sample of 32 of the 62 projects funded during the audit period. The audit did not evaluate fundraising activities – these are under the purview of the Public Partnership Division, which has been separately audited in 2022 by OIAI. The audit involved a combination of methods, tools and techniques, including interviews, data analytics, document review, tests of transactions, and evaluations.

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<sup>1</sup> Inherent risk refers to the potential adverse event that could occur if management takes no actions, including internal control activities. The higher the likelihood of the event occurring and the more serious the impact would be should the adverse event occur, the stronger the need for adequate and effective risk management and control processes.

# OBSERVATIONS AND MANAGEMENT ACTION PLAN

## 1. Selection of projects for funding

*The selection process is key to the economical use of funding available and to ensure that funded technologies and solutions are relevant to UNICEF's global aim of ensuring that every child can survive, thrive, live, and learn in a safe, inclusive space. OIAI noted that the Office of Innovation pre-defined and used criteria that were adequate and appropriate for the identification and selection of entities for the development of technologies that are relevant to UNICEF's global aim.*

There were three stages of the selection process. The first stage involved the selection of entities that would be requested to submit proposals for further consideration by UNICEF. The second stage involved the selection of entities that would receive initial investments from the Innovation Fund. The third stage involved the selection of entities that would receive additional investments.

**Selection of projects for initial investment:** In the first stage of the selection process, the Office of Innovation requests entities to express interest via its website in submitting proposals for up to US\$100,000 in initial investment. It evaluates interested entities against pre-defined criteria. In the second stage, the Office of Innovation requests successful entities from the first stage to submit proposals that would be evaluated against additional pre-defined criteria. The aim of the initial investment is to identify prototypes of technologies that are promising in terms of their potential impact on the lives of children. During the audit period, the Office of Innovation invited 246 entities to submit proposals for initial investments. It selected and invested in 30 projects. OIAI's review of the available documentation on a sample of 15 funded projects noted that all of them successfully passed the initial stage of the selection process and satisfied the additional pre-defined criteria set out for the second stage. OIAI also noted that the projects that received initial investments satisfied the requirements for the investments.

**Selection of projects for additional investment:** In the third stage, the Office of Innovation evaluates funded projects against milestones, targets and success criteria it had pre-defined and set out in the contracts with the developers. It subsequently invites entities whose projects satisfy the evaluation criteria to submit proposals for additional funding. The aim of this stage of investment is to scale up and make publicly available prototypes of technologies considered promising in terms of their potential impact on the lives of children. OIAI did not evaluate the adequacy and appropriateness of the milestones, targets and success criteria. As expected, those milestones, targets and success criteria were determined by the Office of Innovation, the technical expertise within UNICEF for the developing technologies.

During the audit period, the Office of Innovation received 61 proposals for such additional funding. It approved and funded 22 of the proposals received. OIAI's review of the available documentation on a sample of 11 funded projects found that all of them pertained to proposals received from entities that had been appropriately evaluated and deemed to meet the criteria for the submission of proposals for additional investment. Specifically, OIAI noted that all proposals for growth stage investments were received from companies that had been shortlisted because they met the relevant criteria; all proposals were properly evaluated against the set criteria by the Innovation Team; and all companies that were approved to growth stage investments met all criteria for selection.

**Selection of country offices' proposed projects:** The Office of Innovation receives requests from UNICEF country offices for funding innovative projects. During the audit period, the Office of Innovation received 18 applications from country offices for funding of innovative projects. It

approved and funded 10 of the proposals received. OIAI's review of the available documentation on the selection of a sample of six funded projects found that all of them satisfied the pre-defined criteria for funding.

## 2. Monitoring of projects

OIAI noted that there were adequate monitoring mechanisms in place for projects funded by the Innovation Fund. Each project had been monitored against the milestones, targets and success factors that had been pre-defined and set out in the contracts with developers by the Office of Innovation, which has the technical expertise within UNICEF for the developing technologies. Disbursements of funds were made as per the contracts, typically in four instalments, upon successful completion of set targets for a milestone. A review of available documentation on the reporting and monitoring of projects for a sample of 32 of the 62 projects funded during the audit period found that all reporting requirements had been met.

## 3. Fund management

*Controls around the disbursement of cryptocurrencies were generally adequate and complied with existing practices on the use of cryptocurrencies. They were considered appropriate for the management of UNICEF exposure to risks related to the lack of enough cryptocurrency to meet its obligations; change in regulations or legislation around cryptocurrencies; and differences between the accounting values and the prices effectively obtained in the trade of cryptocurrencies.*

OIAI evaluated the controls around the disbursement of cryptocurrencies and found them to be adequate. The internal controls were put in place following a diligence that involved the advice of subject-matter experts, the Division of Financial and Administrative Management (DFAM) and the Information Communication and Technology Division (ICTD). All wallets provided by developers that wish to be paid in cryptocurrencies were appropriately verified before disbursements were made. Transfers or disbursements of cryptocurrencies were subjected to appropriate controls designed to ensure payments were made to intended recipients. OIAI reviewed available documentation for a sample of 16 of 30 wallet verifications and found that they complied with established controls.

Regarding other risk of loss related to use of cryptocurrencies, OIAI noted that developers were paid in cryptocurrency only if they required them and UNICEF had such currencies in its inventory. The cryptocurrencies received by the Innovation Fund were not traded or exchanged for other currencies. UNICEF did not use other currencies such as United States dollars to settle commitments that were denominated in cryptocurrency. Such practices tend to minimize organizational exposure to risks of loss related to the lack of enough cryptocurrency to meet obligations; a change in regulations or legislation; and differences between the accounting values and the prices effectively obtained in the trade of cryptocurrencies.

# APPENDIX





## Definitions of Audit Observation Ratings

To assist management in prioritizing the actions arising from the audit, OIAI ascribes a rating to each audit observation based on the potential consequence or residual risks to the audited entity, area, activity or process, or to UNICEF as a whole. Individual observations are rated as follows:

<b>Low</b>	The observation concerns a potential opportunity for improvement in the assessed governance, risk management or control processes. Low-priority observations are reported to management during the audit but are not included in the audit report. Action in response to the observation is desirable.
<b>Medium</b>	The observation relates to a weakness or deficiency in the assessed governance, risk management or control processes that requires resolution within a reasonable period of time to avoid adverse consequences for the audited entity, area, activity or process.
<b>High</b>	The observation concerns a fundamental weakness or deficiency in the assessed governance, risk management or control processes that requires prompt/immediate resolution to avoid severe/major adverse consequences for the audited entity, area, activity or process, or for UNICEF as a whole.

## Definitions of Overall Audit Conclusions

The above ratings of audit observations are then used to support an overall audit conclusion for the area under review, as follows:

<b>Satisfactory</b>		The assessed governance, risk management or control processes were adequate and functioning well.
<b>Partially Satisfactory, Improvement Needed</b>		The assessed governance, risk management or control processes were generally adequate and functioning but needed improvement. The weaknesses or deficiencies identified were unlikely to have a materially negative impact on the performance of the audited entity, area, activity or process.
<b>Partially Satisfactory, Major Improvement Needed</b>		The assessed governance, risk management or control processes needed major improvement. The weaknesses or deficiencies identified could have a materially negative impact on the performance of the audited entity, area, activity or process.
<b>Unsatisfactory</b>		The assessed governance, risk management or control processes were not adequately established or not functioning well. The weaknesses or deficiencies identified could have a severely negative impact on the performance of the audited entity, area, activity or process.



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