

Internal Audit of the
Hosting of Global Partnerships by UNICEF

APRIL 2023

Report 2023/06

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EXECUTIVE SUMMARY

The Office of Internal Audit and Investigations (OIAI) conducted an audit of the hosting of Global Partnerships by UNICEF to assess adequacy and effectiveness of relevant governance, risk management and control processes. The audit was conducted from November 2021 to March 2022, in accordance with the International Standards for the Professional Practice of Internal Auditing. It specifically reviewed the extent to which there are appropriate and functioning mechanisms in place to enable effective oversight and administration of the hosted partnerships by UNICEF Headquarters divisions.

Audits were conducted of four hosted partnerships and the results were presented in separate audit reports submitted to the Chairs of their Governing Boards and the UNICEF Executive Director. All agreed actions were addressed to the Governing Boards through their Secretariats.

UNICEF increasingly provides hosting services for global development partnerships, which involves acting as custodian and administrator of their financial resources and offering support for their administrative functions. As such, the auditing of all such entities and UNICEF's provision of hosting services is part of the OIAI workplan. The objectives of this audit were to: review the extent to which the hosted partnerships are managed in accordance with UNICEF rules, regulations, standard procedures and partnership arrangements; and assess the adequacy and effectiveness of the governance, risk management and control processes over the provision of hosting arrangements and services.

Overall Conclusion

Based on the audit work performed, OIAI concluded that the assessed governance, risk management or control processes were **Partially Satisfactory, Major Improvement Needed**, meaning that the weaknesses or deficiencies identified could have a materially negative impact on the performance of the audited entity, area, activity or process. (See the Appendix for [definitions of the conclusion ratings](#).)

	Satisfactory
	<i>Partially Satisfactory, Improvement Needed</i>
	<i>Partially Satisfactory, Major Improvement Needed</i>
	Unsatisfactory

Summary of Observations and Agreed Actions

The audit team made a number of observations related to the management of the key risks evaluated. In particular, OIAI noted:

- **Contribution agreements:** UNICEF managed contributions to the hosted partnerships based on the type of contribution. Direct contributions were controlled by standard contribution agreements that aimed to protect UNICEF in the event of fraud and misuse by the hosted partnership. For bilateral contributions received by UNICEF for the use on the partnerships, UNICEF did not put in place any specific protections for its fiduciary responsibilities. This exposes UNICEF to significant reputational risk.
- **Standard operating procedures for hosting services:** The standard operating procedures document developed in May 2021 was an internal document and was not considered binding by the hosted partnerships. As a result, the practices and guidance on UNICEF's hosting services were inadequate for the resolution of some potentially contentious issues around accountabilities, risk ownership, roles and responsibilities, and UNICEF did not adequately

manage its risks around the partnerships. There was no clear mechanism in place for the management of the potential reputation risk to UNICEF with respect to the hosted partnership staff who held UNICEF employment contracts but were not supervised by and did not report to UNICEF. While the employment contracts indicated those staff did not have all the benefits of UNICEF staff, they did not specifically set out whether and how UNICEF should enforce its staff rules and regulations with respect to the performance and behaviour of the hosted partnership staff.

- **Hosting agreement:** There was no formal instrument (referred to as hosting agreement) governing the relationship between UNICEF and the hosted partnerships. This impacted UNICEF’s ability to periodically assess the costs and benefits of hosting, which exposed the organization to the risks of loss and reputational damage.
- **Managing risks to UNICEF’s desired value:** UNICEF did not integrate risk management practices in its hosting arrangements; therefore, there was a risk that UNICEF may not be able to derive the benefits it desires from hosting partnerships.

The table below summarizes the key actions management has agreed to take to address the residual risks identified and the ratings of those risks and observations with respect to the assessed governance, risk management and control processes. (See the [definitions of the observation ratings](#) in the Appendix.)

Category of process	Area or Operation and Agreed Action	Rating
Governance	Standard operating procedures for hosting services (Observation 2): Review and revise the standard operating procedures as needed, ensuring they do not contradict existing practices and procedures and that they clearly describe the specific actions and processes commensurate with the risks that UNICEF is exposed to with respect to the hosting of the partnerships.	High
	Standard operating procedures for hosting services (Observation 2): Consider centralizing the coordination of all administrative support to hosted partnerships to increase efficiencies in administrative support services.	Medium
	Hosting agreements (Observation 3): Develop a hosting agreement template, ensuring it contains appropriate provisions commensurate with UNICEF accountabilities and the risks it assumes for hosting a partnership.	High
Risk management	Management of risks to UNICEF’s desired value (Observation 4): Set clear success/performance goals and metrics for UNICEF engagement in hosted partnerships and clarify who is ultimately responsible for managing and reporting on progress towards the achievements of those goals and metrics.	High
Control processes	Standard Contribution Agreements (Observation 1): Exclude the descriptions of hosting services from individual contribution agreements to minimize risks of inefficiencies related to the tailoring	Medium




	of services and the administration of each contribution agreement. Annex the hosting agreements describing its hosting services to each contribution agreement	
	Bilateral contributions (Observation 1): Put in place appropriate controls for hosted partnerships' utilization of bilateral contributions to manage risks of fraud, waste and abuse related to those contributions.	High
	Programmatic management (Observation 5): Put in place the expected life cycle and maturity stages of each hosted partnership and periodically manage and monitor the hosted partnerships performance against planned performance metrics. Review current hosted partnerships against established goals and metrics and financial thresholds and establish guidelines for coordinating the regional and country offices' activities with hosted partnerships.	Medium

Management is responsible for establishing and maintaining appropriate governance, risk management and control processes and implementing the actions agreed following this audit. The role of the OIAI is to provide an independent assessment of those governance, risk management and control processes.

Partnerships are core to all of UNICEF's programming, as they allow the organization to expand its reach, influence policies and programmes, and leverage resources for children's rights. UNICEF's 2022–2025 Strategic Plan places partnerships front and centre, as one of its nine change strategies. The change strategy on Partnerships and Engagement views brokering partnerships as critical to narrowing the projected gaps on progress towards achievement of the Sustainable Development Goals (SDGs) and shared objectives for children and young people.

The array of partnerships in which UNICEF engages includes global programme partners¹ (GPPs, or 'partnerships') such as Multi-Stakeholder Platforms (MSPs) and Pooled Funds ('Funds'). Currently, UNICEF hosts² four GPPs: Education Cannot Wait Fund (ECW), The Global Partnership and Fund to End Violence against Children (EVAC), Sanitation and Water for All (SWA) and The Education Outcomes Fund (EOF). These are described further in Table 1.

Table 1: Summary of UNICEF Hosted Partnerships

<p>Education Cannot Wait Fund (ECW)</p> <p>ECW aims to reach all crisis-affected children and youth with safe, free, quality education by 2030, which will help advance SDG 4 on quality education where it is most needed.</p> <p>Established at the World Humanitarian Summit in 2016, ECW was incubated within UNICEF and an autonomous secretariat was created in May 2017 following creation of a hosting statement in June 2016. As of March 2022, ECW had received US\$739 million from 24 donors, of which US\$548 million (74 per cent) had been disbursed to 238 grantees and US\$39 million (5 per cent) was allotted to the ECW Secretariat.</p>	
<p>The Global Partnership and Fund to End Violence against Children (EVAC)</p> <p>The EVAC partnership and fund is focused solely on SDG 16.2, which relates to ending all forms of violence against children by 2030, by generating evidence and increasing the impact of end violence programmes.</p> <p>Launched in July 2016, EVAC operated within UNICEF until a UNICEF note for the record was issued in August 2016, at which time an independent secretariat was created. As of March 2022, EVAC had received US\$123 million from 15 donors, of which US\$64 million (52 per cent) had been disbursed to 110 grantees and US\$27 million (22 per cent) had been allotted to the EVAC Secretariat.</p>	
<p>Sanitation and Water for All (SWA)</p> <p>The mission of the SWA partnership is to eliminate inequalities in realizing the human rights to water and sanitation by focusing on the hardest to reach, to support achievement of the United Nations SDG 6.</p> <p>Although the partnership was established in 2010, the SWA multi-stakeholder platform was only launched in 2018. SWA was located within UNICEF until its autonomous secretariat was created in June 2019 via a UNICEF decision memo. As of March 2022, SWA had received US\$19 million from 7 donors, of which US\$1 million (5 per cent) was disbursed to partners for staff who were not hosted by UNICEF and US\$8 million (42 per cent) was allotted to the SWA Secretariat.</p>	

¹ UNICEF's Global Programme Partnerships (GPPs) are inclusive and collaborative partnerships with shared values and vision and common goals, seeking to align policies and practices to mobilize funding and achieve knowledge and best practice sharing at global, regional, national, and local levels in direct support of UNICEF's mandate.

² A number of international organizations including UNDP, UNOPs, World Bank and World Food Programme currently host similar partnerships and funds.

The Education Outcomes Fund (EOF)

EOF's area of focus is to help achieve the United Nations SDG 4: inclusive and equitable quality education for all.

EOF was established in 2018. In May 2020, EOF's request that UNICEF host the fund was formally accepted. As of March 2022, EOF had received US\$6 million from 15 donors, of which US\$3 million (50 per cent) had been allotted to the EOF Secretariat. No funds had been distributed to grantees, as payments are only made after outcomes have been achieved.



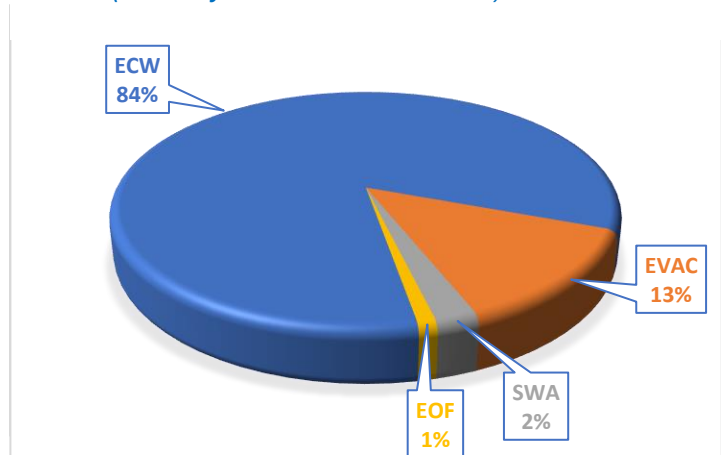
Beyond its accountability as the host, UNICEF has played a pivotal role in promoting and mobilizing resources for the progressive realization of child rights through its representation in partnerships in specific SDG goal areas. For example, UNICEF has representation on the Boards of all the partnerships it currently hosts. UNICEF also has representation on the Boards of the Global Partnership for Education and GAVI, the Vaccine Alliance.

UNICEF's previous experience with hosted partnerships and funds includes hosting of GAVI (established as a successor to the Children's Vaccine Initiative) from July 1999 to December 2008, before GAVI became an autonomous entity.

According to UNICEF's transparency portal³, in the audit timeframe (January 2019 to March 2022), the total amount received by the four hosted partnerships was US\$620 million. (For the full period of UNICEF's hosting, from 2016 to March 2022, that total was US\$889 million.) Diagram 1 below illustrates the percentage of that total each hosted partnership and fund received during the audit period.

UNICEF operates as a fund custodian in compliance with its Financial Regulation and Rules Article V Special Accounts, which allows special (e.g., trust fund) accounts to be established by the Executive Board or by the Executive Director for particular purposes consistent with the policies, aims and activities of UNICEF. In UNICEF financial statements, UNICEF accounts for the hosted funds as an agent for them, meaning that the revenues and expenses of the hosted funds are not included as UNICEF revenue and expenses. UNICEF recognizes fees earned and shows the funds held on behalf of hosted funds as a liability, in line with International Public Sector Accounting Standards (IPSAS) requirements.

Diagram 1: Contributions received by UNICEF on behalf of the four audited hosted partnerships and funds (January 2019 to March 2022)



³ UNICEF's transparency portal is publicly available data that is advancing UNICEF's commitments to transparency and accountability to build a culture of open communication to deliver results for children.

AUDIT OBJECTIVES, SCOPE AND APPROACH

The objective of the audit was to assess the adequacy and effectiveness of the governance, risk management and control processes in the provision of hosting services to various global partnerships. The audit covered key areas identified during planning of the engagement, including strategic management and alignment and performance management.

The audit was conducted remotely from November 2021 to March 2022 in accordance with the International Standards for the Professional Practice of Internal Auditing. For audit testing, the audit covered the period of January 2019 to December 2021. Where relevant, transactions and events pertaining to other periods were reviewed.

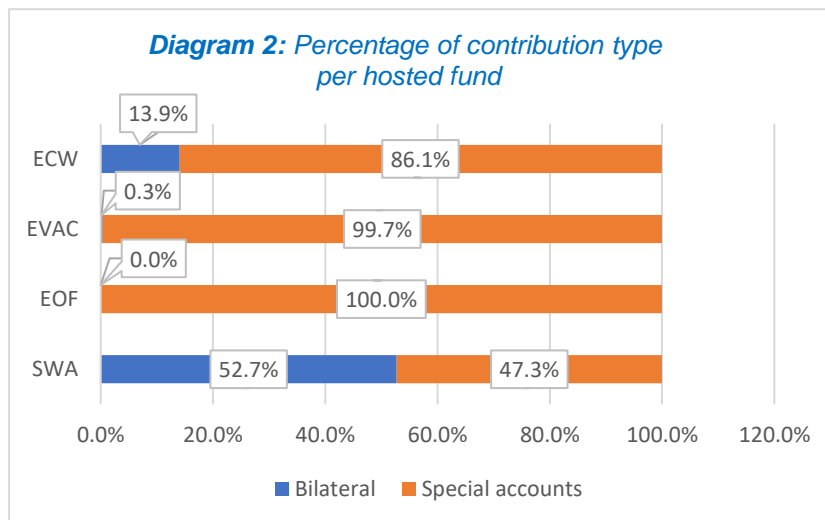
OBSERVATIONS AND MANAGEMENT ACTION PLAN

The key areas where actions are needed are summarized below.

1. Contribution agreements

High

Since 2019 UNICEF has administered almost US\$ 1 billion on behalf of the hosted partnerships. Those funds were administered under two modalities – 86 to 87 per cent was managed through the special trust funds established under Article V of the Financial Rule 105.1, and the remaining 13 to 14 per cent was received by UNICEF as bilateral funds to be used in support of the hosted partnerships. The audit team reviewed both modalities and noted the following:



Standard Contribution Agreements: According to data in the UNICEF Transparency Portal, as of August 2022, UNICEF received approximately US\$814.7 million (approximately 86 per cent of total contributions) through special accounts established for its hosted partnerships. The Standard Contribution Agreements (SCAs) for receipt of those contributions were signed by UNICEF on behalf of its hosted partnerships. The SCA sets out the terms, conditions, requirements and obligations of UNICEF and the partnership. It defines the framework for the management of the funds received on behalf of the partnerships and therefore protects UNICEF's reputation in the event of fraud, waste or abuse. The SCA requires that a secretariat be established to manage the day-to-day activities of the partnership in accordance with UNICEF's financial and administrative regulations. As required by the contribution agreements, UNICEF established special accounts where it held contributions received on behalf of the partnership's secretariats, for the day-to-day management of the partnerships' activities and resources. UNICEF only disbursed funds as directed by the partnerships.

In its review of SCAs, the audit team noted several provisions related to hosting services that could be better defined in hosting agreements and UNICEF standard operating procedures. This would limit the need to tailor hosting services for each contribution received. It also would minimize inefficiencies in UNICEF services and significantly, it would help ensure that accountabilities of Division of Financial and Administrative Management (DFAM), Division of Human Resources (DHR), Programme Group, partnership secretariats, and grantees are clearly and consistently defined. Examples of such provisions include the requirement for UNICEF to ensure the partnerships comply with its rules and regulations and that UNICEF provide tools to the partnerships for their management of funds disbursed by UNICEF.

Hosting partnerships, using the SCAs, created a need for UNICEF to provide additional services, that were not always defined in its standard operating procedures. When that occurs, there is a risk of inefficiencies in negotiating and administering contribution agreements. The audit team's review of a sample of 22 agreements active at the time of the audit found inconsistencies in terms of UNICEF obligations. For example, while some agreements specifically state that UNICEF will

have no responsibility, fiduciary or otherwise, for the use of the funds by third parties or for activities carried out by third parties, other agreements do not. While some agreements include provisions on ethical conduct of the grantees, others do not. OIAI did note that some of the agreements established after May 2021 were based on a standard template and had fewer inconsistencies and that more recent contribution agreements described in detail some hosting services.

Bilateral contributions: UNICEF also received bilateral contributions on behalf of its hosted partnerships. According to data in the UNICEF Transparency Portal, as of August 2022, UNICEF received approximately US\$128.9 million in bilateral contributions, representing approximately 14 per cent of total contributions received on behalf of the partnerships. Bilateral contributions were typically earmarked for hosted partnerships by the donors in their contributions to UNICEF. Therefore, no specific agreements were established to govern the management of contributions and it was expected that UNICEF would apply the same controls used for its own revenue. These include controls whereby UNICEF only disburses funds to civil society organizations (CSOs) and vendors based on valid contracts established following a robust procurement process or based on valid evidence of the receipt of supplies and services.

However, UNICEF was disbursing bilateral contributions based solely on instructions from the hosted partnerships, after which UNICEF did not undertake, or require the partnerships to undertake, typical assurance and risk management activities such as examination of evidence for the use of funds as intended. In the absence of appropriate controls, UNICEF was exposed to significant reputational risk in the event of fraud, waste or abuse related to funds disbursed by UNICEF but ultimately handled by a Fund. OIAI noted that the partnerships were channelling their disbursement requests through the Programme Group, which then authorized the payments to be made by the Global Shared Services Centre as instructed by the partnerships.

At the time of this audit report, there was a balance of approximately US\$2 million from bilateral contributions received. OIAI does not see a compelling need to apply new controls and procedures for those residual funds, as a break in practice could be disruptive. That being said, UNICEF continues to accept new bilateral contributions, and the decision-making process and modality for accepting and controlling them has not been defined.

AGREED ACTION

The Comptroller should, in consultation with the Legal Office, consider excluding the descriptions of hosting services from the Standard Contribution Agreements to minimize risks of inefficiencies related to the tailoring of services and the administration of each contribution agreement. Instead, the hosting agreements (see Observation 3 below) describing its hosting services could be annexed to each contribution agreement.

Staff Responsible: Comptroller and Director, Division of Financial and Administrative Management and Chief Legal Counsel and Director, Legal Office.

Implementation Date: Following finalization of the hosting agreement.

AGREED ACTION

The Programme Group and Public Partnership Division agree to define the decision-making process and modality for the exceptional acceptance of bilateral contributions. The

Programme Group agrees to define measures and controls that are commensurate with risks entailed in the disbursement and use of each bilateral contribution.

Staff Responsible: Programme Group Director and Director of Public Partnerships Division

Implementation Date: 30 June 2024

2. Standard operating procedures for hosting services

High

The audit team's review of the hosting services of other international organizations showed, in all cases, that there were clear processes and procedures for the provision of the services. Those processes and procedures were found to contribute to effective resolution of complex issues around accountabilities, risk ownership, roles and responsibilities of the hosted partnerships and of the hosts' financial and administrative decisions and processes.

In May 2021, UNICEF developed internal Standard Operating Procedure (SOP) to formalize and update existing practices and guidance on its hosting services. While the SOP included some of the good practices that were found in the hosting agreements of benchmarked organizations, in certain cases, they were inadequate for the resolution of some potentially contentious issues around accountabilities, risk ownership, roles and responsibilities of hosted partnerships and UNICEF. This was mainly because the SOP were internal to UNICEF and the hosted partnerships did not consider them as binding. Although UNICEF considered the SOP as binding on the partnerships and noncompliance with them would constitute grounds for UNICEF to terminate its relationship with a partner, OIAI found no evidence that the partnerships had been consulted on this issue, and they told OIAI that they were informed but not consulted in developing the SOP.

OIAI also noted the following regarding the scope and contents of SOPs:

Changes in duty station of staff: The audit team found numerous instances where duty stations of staff were changed without consultation with UNICEF. Such changes have security and cost implications for which UNICEF shares responsibility as host and given that the staff serve under UNICEF contracts. Changes in staff duty stations typically require approval of the regional director or DED Management.

Termination of partnerships: The contribution agreements that UNICEF signed with donors on behalf of the partnerships contained different timelines for winding up the related special accounts that UNICEF established in its accounting system. Some agreements referred to a 90-day notice period. Another referred to a six-month notice period and stated that the special account would wind up and be closed five years after it was established. The 2021 SOP merely stated that if a hosted fund was considered to be in non-compliance with UNICEF's Regulations and Procedures, including the SOP, UNICEF might consider discontinuing the hosting relationship. Neither the contributions agreements nor the May 2021 SOP clearly stated how separation and termination would be processed within UNICEF.

Coordination of programmatic activities: The SOPs do not address how UNICEF should plan, coordinate, manage and report on its programmatic activities within the partnerships to ensure alignment of the partnerships with UNICEF strategic objectives. In this regard, OIAI noted that several programmatic units at UNICEF Headquarters as well as in country offices were directly or indirectly contributing to the programmes of the hosted partnerships.

Coordination of administrative activities: With many UNICEF divisions and offices providing support to and interacting with the hosted partnerships, the Fund Support Unit (FSO) in the Division of Financial and Administrative Management (DFAM), as Administrative Agent, could be the appropriate authority within UNICEF for the coordination of administrative matters with respect to the hosted partnerships. However, several administrative matters such as those related to the duty stations of the partnerships and post adjustments of staff had been approved by different UNICEF divisions without input from or consultation with the FSO. This meant that actions sometimes did not comply with UNICEF procedures. This occurred mainly because the FSO unit was not adequately resourced. Additionally, each of the partnerships had its own financial and administrative support staff that were challenged by the fragmented and inefficient approach to how UNICEF was handling their request. Other international organizations that provide hosting services have dedicated offices that provide all administrative and financial services to their hosted partnerships. DFAM stated that the current structure of FSO is in line with its current role and function, the size of the portfolio and support received from other sections related to human resources management, travel, procurement and other related issues. DFAM also stated that any changes in service delivery take into consideration existing structures within UNICEF, including shared services and hosted funds' operational support services of DFAM, Division of Human Resources and Programme Group, and Global Shared Services Centre.

OIAI recognizes that many of the elements of the SOPs will inform the individual hosting agreements and vice versa. Therefore, issues in this observation and in observation 3 on hosting agreements should be considered together.

AGREED ACTION

The Deputy Executive Director (DED) Programmes, in consultation with the DED Management, DED Partnership and the Legal Office, agrees to review and as needed, revise the standard operating procedures, ensuring they do not contradict existing practices and procedures and that they clearly describe the specific actions and processes that are commensurate with the risks that UNICEF is exposed to with respect to the hosting of the partnerships. The revised SOP should serve as the preeminent tools for managing risks around contribution agreements, continuing engagement with the partnerships, changes in duty station of staff, programmatic and administrative accountabilities and reporting, and staff performance and behaviour.

Staff Responsible: Deputy Director, Programme Group

Implementation Date: 30 September 2023

AGREED ACTION

To increase efficiencies in administrative support services, the DED Management, in consultation with the DED Programmes and DHR, agrees to consider centralizing the coordination of all administrative support to hosted partnerships. This may be accomplished by assessing how different UNICEF initiatives related to shared services and the services provided to hosted partnerships can be incorporated in global shared services. It may also be achieved by re-defining the roles and responsibilities of and adequately resourcing the existing FSO and empowering it as the authority and focal point within UNICEF for the coordination of administrative support to hosted partnerships.

Staff Responsible: Deputy Director, Financial Reporting and Grant Management, DFAM

Implementation Date: March 2024

3. Hosting agreements

High

There was no formal instrument (referred to as hosting agreement) governing the relationship between UNICEF and the hosted partnerships. This impacted UNICEF's ability to periodically assess the costs and benefits of hosting, which exposed the organization to the risks of loss and reputational damage.

In the audits of the individual hosted partnerships, OIAI noted that the lack of formal hosting agreements created ambiguities in accountabilities, coordination with UNICEF decentralized structures and cost recovery. In general, the governance documents of UNICEF hosted partnerships defined and delineated the roles, responsibilities and accountabilities of the governance bodies but they were not meant to govern the relationship between UNICEF and the partnerships. Therefore, they do not reflect UNICEF-specific requirements. Similarly, the contribution agreements that UNICEF signs with donors on behalf of the partnerships were not meant to govern the relationship between UNICEF and the partnerships. In May 2021, UNICEF developed standard operating procedures that require the establishment of formal hosting agreements. Those agreements were still being prepared at the time of this audit. The audit team noted the following matters that could be considered in finalizing the hosting agreement template:

UNICEF's role in financial and administrative management decisions: As the host, UNICEF is exposed to significant reputational risks, but UNICEF currently has a limited role in decisions that impact the hosting services. For each partnership, such decisions fall within the purview of a governing body in which UNICEF has one vote. This authority is not commensurate with the risks that UNICEF assumes as host. The audit team noted a number of instances where decisions that impacted UNICEF administratively were made by the hosted partnerships' Steering Committees despite UNICEF's objections. This could be corrected by including requirements in a memorandum of understanding and standard operating procedures for UNICEF's approval of any recommendations or documents that impact UNICEF administratively as host prior to their presentation to the hosted organization's governing body for decision.

Potential conflict of interest: UNICEF has several roles in the hosted partnerships, including as fund custodian and administrator, partnership host, implementing agency (grantee) and, in some cases, member of the governing board. UNICEF also directly receives funds on behalf the partnerships and accounts for those funds as its revenue. (As of August 2022, UNICEF had received approximately 14 per cent of the US\$943.6 million received by UNICEF on behalf the partnerships as bilateral funds recorded as its revenue.) In those roles, UNICEF bilaterally negotiated funding for the partnerships, signed contribution agreements on behalf of the partnerships, and acted as fiduciary, grantee and disbursement agent for the partnerships. At the time of the audit, UNICEF had not clarified how it would manage the risk of conflict of interest created by those potentially incompatible roles. In benchmarked organizations, potential conflicts of interest were dealt with in the hosting agreements with the partnerships.

Reporting lines and staff management: While hosted partnership staff were granted UNICEF contracts, the governance documents for some of the partnerships required that the performance of staff be evaluated by the chairperson of the partnership's Steering Committee. Thus, in practice, the partnership staff reported to the governing bodies of the partnerships. OIAI noted that in all four hosted partnerships, the chairpersons of the Steering Committees undertook the performance evaluation of heads of the partnerships secretariats, with limited interaction with the designated UNICEF staff. OIAI also noted that the governance documents of hosted partnerships describe the hiring processes for the heads of their Secretariats; however, those documents do

not articulate the termination processes for that position. In the benchmarked organizations, the hiring, performance evaluations and termination of the heads of secretariats are undertaken by the chairpersons in consultation with the host organizations. This process should be made clear in the UNICEF hosting agreement, particularly with regard to the head of the hosted partnership. UNICEF attempted to adjust the reporting lines and staff management arrangements through the SOP issued in May 2021. However, as stated above, there was no evidence that the partners had been consulted when the SOP were being developed and they did not consider them binding.

Costing of hosting service: The audit team noted that while the benchmark organizations retain at least 7 to 12 per cent of contributions received on behalf of their hosted funds and partnerships, during the period audited, UNICEF withheld an administrative fee of 1 per cent of the contribution. In three instances, 7 per cent of the indirect costs of the grantees was recovered through programme support costs. In one instance (EOF), only the 1 per cent administrative fee was mentioned in the standard cooperation agreement. This disparity would suggest that UNICEF's hosted partnerships expect few services or lower quality of services, but that was not the case. With such a small administrative fee, there was a risk of UNICEF doing very little to effectively protect its reputation and safeguard its values. There was also a risk of UNICEF deploying its own resources to bolster partnerships that appear to be in direct competition with UNICEF for resources. OIAI notes that beginning in 2022 UNICEF increased the cost of hosting services to 9 per cent, excluding personnel costs. Both the hosting agreement and the standard cooperation agreement could include the percentage that will be retained for programme support costs.

Hidden costs: The audit team noted that there were many other divisions and offices across UNICEF that were providing support beyond the specific services outlined in the SOP. These included employer contributions to staff pension contributions, insurance premiums and staff assessments. The audit team did not see any charge back or recovery process related to those liabilities typically funded by UNICEF. While UNICEF receives a modest fee of 1 per cent of contributions received on behalf of the partnerships, those fees are meant defray the costs of specific services provided by UNICEF and not to finance the direct cost of the partnerships. The hosting agreement could include the percentage that will be retained for programme support costs.

In addition to the services specified in the SOP, Headquarters divisions and offices as well as UNICEF regional and country offices have allocated resources to hosted partnerships. For example, regional and country offices organized and facilitated meetings and processed travels relating to hosted partnerships. The audit team noted the Memorandums of Understanding in other international organizations clearly articulate how and when decentralised structures should be used and how to deal with any in-kind contributions. This was not case for UNICEF's hosted partnerships. There was no process for recording, tracking, accounting, reporting and possibly recovering the associated costs of services provided to hosted partnerships across the organization. This could be corrected by including appropriate requirements in hosting agreements and SOP.

It is important to note that while there may be a standard hosting agreement template for hosted partnerships, there still may be differences in certain exemptions or clauses due to the specificities of each individual hosted partnership and the requirements of its main contributors. To allow for such flexibility, there should be set tolerances for deviations from the template. Any variations that are not within the set tolerance levels should be approved by the Deputy Executive Director.

AGREED ACTION

The Deputy Executive Direction (DED), programmes and DED Management, in consultation with the Legal Office, agrees to develop a hosting agreement template, ensuring it contains appropriate provisions that are commensurate with UNICEF accountabilities as well as the risks it assumes for hosting the partnership. The template should require the Deputy/Executive Director's approval of any hosting agreement, The Deputy/Executive Director also should approve any significant deviations from the agreement template. When developing the template, consideration should be given to:

- (i) Setting out the relevant governance arrangements, including roles, responsibilities and accountabilities of UNICEF at all levels and the partnership for all relevant aspects of a partnership's work and financial and administrative decisions.
- (ii) Clarifying ownership of specific risks and hosting services including, but not limited to, services specified in the Standard Operating Procedure, services provided by divisions and offices across UNICEF as well as those reflected in the Standard Contribution Agreement.
- (iii) Reporting lines and staff management, including the separation or termination process for the head of the hosted partnership.
- (iv) Potential conflict of interest.
- (v) Costing of hosting services.

Staff Responsible: Chief Legal Counsel and Director, Legal Office

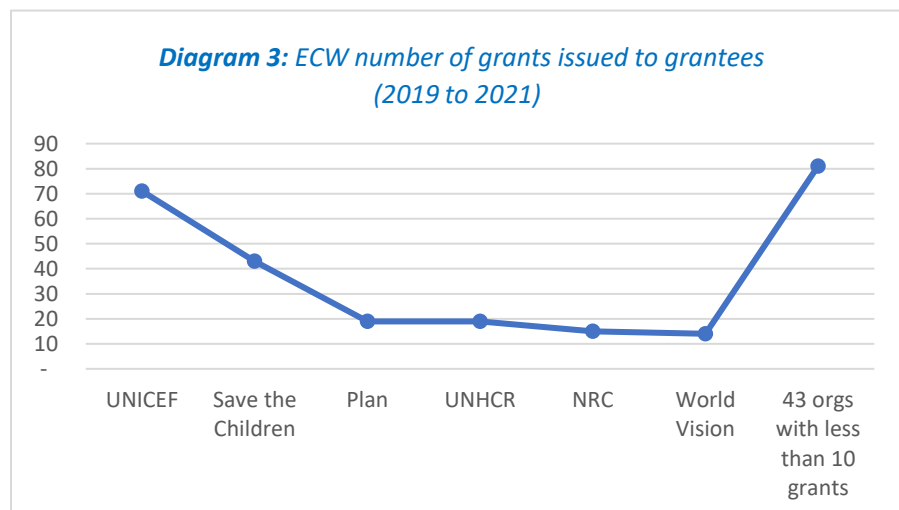
Implementation Date: 30 June 2023

4. Managing risks to UNICEF's desired value

High

UNICEF did not integrate risk management practices in its hosting arrangements; therefore, there was a risk that UNICEF may not be able to derive the benefits it desires from hosting partnerships.

OIAI noted that UNICEF was indeed benefitting financially from some of the hosted partnerships is not in doubt. For example, as shown in diagram 3, UNICEF received 71 of the 262 grants (27 per cent) made by the Education Cannot Wait Fund from 2019 to 2021.



The audit team noted that UNICEF was represented in the high-level governing bodies of the hosted partnership by individual programme sections of the Programme Group. Those bodies

were responsible for enhancing and protecting the values of the partnership and the those of its individual members.

However, there is less clarity on what success meant and how it was expected to measured with respect to the following objectives of UNICEF’s hosting of partnerships identified by OIAI during discussions:

- lead and support actions towards the achievement of the SDGs
- become a key player in the coordination of partnerships and programmes around specific child-focused thematic priorities/challenges beyond the UN
- increase funding and advocacy to help accelerate UNICEF’s results for children
- increase influence in the sectors
- increase sector coordination.

These objectives are generally similar and complementary. Nevertheless, there is a need to formalize them in appropriate internal documents to ensure consistency in understanding and sharper organizational focus on specific activities that would enable UNICEF to derive the value it desires from hosting a partnership.

In OIAI’s view, those objectives need to be formalized in appropriate internal documents to ensure consistency in understanding across the Organization and sharper focus on specific activities that would enable UNICEF to derive the value it desires from hosting a partnership.

Benchmarked international organizations do have systems of measurement that they use to assess the value added and benefits of hosted partnerships to the achievement of strategy objectives and the efficiency of their hosting services. For UNICEF, this was not case. There was no requirement for any monitoring or reporting with respect to the hosting arrangements for UNICEF’s specific purposes. The absence of those arrangements raises questions about whether UNICEF is deriving any value from deploying its resources to the arrangements and whether it is undermining achievement of its strategic objectives by supporting potential competitors for influence and donor resources.

The audit team noted the need for further action beyond the requirement of the 2021 SOP that a risk assessment should be undertaken to support any UNICEF decision to accept hosting a partnership.

Integrating risk management in its hosting strategy would help UNICEF focus on what matters most and accelerate realization of desired value. In addition to prioritizing risk assessment when deciding whether to host a partnership, there is a compelling need for ongoing management of risks once a hosting partnership is in place. The risk environment constantly evolves as an organization works to attain its objectives. Therefore, it is important that the UNICEF adequate manage risks that may impact achievemnt of UNICEF’s objectives for hosting of the partnerships.

AGREED ACTION

The Deputy Executive Director (DED), Programmes to, in consultation with DED Management, agrees to:

- (i) Set clear success/performance goals and metrics for UNICEF engagement in hosted partnerships across relevant divisions and offices, as well as clarify who is ultimately responsible for managing and reporting on progress towards the achievements of those goals and metrics.

- (ii) Ensure there is cross divisional (hosting arrangement) coordination structure, with clear roles and responsibilities, periodically aligns priorities, reviews progress made and institutes any course corrections.
- (iii) Ensuring that formal risk management is embedded in the hosting arrangement and services.

Staff Responsible: Deputy Director, Programme Group
Implementation Date: 30 September 2023

5. Programmatic management

Medium

There was no formal coordinating mechanism for UNICEF's hosting activities. Weak programmatic coordination may result in UNICEF not realizing the synergies of collaborating with hosted partnerships on specific challenges and may increase the risk that the benefits of the partnerships is not fully realized.

Programme oversight: A review of the objectives of the hosted partnerships shows that some of them have goals and/or priority actions that overlap with those of UNICEF. This is not an issue, as the purpose of Multi-Sector Platforms and Pooled Funds is to bring together the perspectives and funds of various stakeholders in a structured manner to find and fund solutions for common challenges. For UNICEF, although there were different divisions involved in providing the hosting services and managing the arrangements, discussions among them only took place on occasion. Responsibility for management and monitoring of the hosted partnerships was with the individual programme sections who also represented UNICEF in the hosted partnerships' governing bodies. Cross-divisional meetings on how the hosting strategy was being implemented or agreements on how to address any challenges were not planned or intentional. The lack of regular coordination across divisions and/or sections could shift the focus of staff involved from strategic goals to managing the day-to-day, non-strategic tasks of the hosted partnerships. If not managed properly, this can lead to cannibalization, duplication of effort and/or confusion among stakeholders.

Three of the four hosted partnerships were incubated or formed within UNICEF before they became autonomous. The pathway to autonomy was not always well structured and this fed into how the hosted arrangement operated. There were legacy funds (bi-lateral) given to UNICEF for use by the hosted partnership that UNICEF was obliged to manage and for which the organization was accountable to the donor but was not in full control. Lack of clear firewalls between the hosted partnership, its governing body and the programme sections can impede UNICEF's ability to objectively oversee the performance of the hosted partnership.

Partnership life cycles and performance: In addition to the need for metrics on performance, the audit team also noted a need for clarity on the life cycle/maturity level of a partnership, as performance measurement would depend on the relevant stage of maturity. For the three hosted partnerships that were incubated/started in UNICEF, it was not clear which stage of development they were in when they became autonomous and at what point they would be mature. Similarly, EOF, which was established outside of UNICEF, also should have its performance judged based on where it is in a fund's life cycle to ensure UNICEF assesses and manages the relationship with the partnership appropriately.

The 2021 SOP has guidelines on financial thresholds, which it notes must hold for a minimum duration of five years of operational activities. Those guidelines state that financial and secretariat hosting will be extended to medium to large multi-donor trust funds with an expected contribution of more than US\$20 million per year. Currently, only one hosted partnership exceeds that financial threshold. The SOP also provides for financial hosting for small multi-donor trust funds with expected contributions of US\$10 million per year. None of the three remaining hosted partnerships met that threshold. OIAI recognizes that there may be an overwhelming strategic reason for engaging or continuing with a hosted partnership even if it does not meet the 2021 SOP financial thresholds. In such cases, either tolerance limits should be established, or formal exceptions should be granted by the Executive Office.

The audit team found that the lack of expected performance metrics to assess value added was compounded by the fact that most of the governing bodies of the hosted partnerships had not mandated a periodic review or evaluation of progress on objectives. Two of the hosted partnerships had evaluations or business reviews performed, but it is not clear whether UNICEF took this into consideration.

Coordination with UNICEF’s decentralized structure: Excluding representation on the governing bodies of the hosted partnerships, different UNICEF Headquarters divisions/sections allocated varying resources to managing the hosted partner relations. The audit team was informed that the amount of time spent by programme section staff in managing the partnerships varied from 30 per cent to 60 per cent. It would be difficult to indicate whether the time spent was excessive or insufficient, as the amount of time spent appeared to be defined more by the partnership’s needs and wants rather than by an assessment by UNICEF of the types and extent of interaction necessary to make progress on UNICEF’s priorities. There were no guidelines for coordinating the regional and country activities with hosted partnerships. For partnerships that were incubated in UNICEF, that separation was even more blurred. UNICEF Country Offices, and sometimes Regional Offices, regularly set up focal points for the hosted partnerships, spent time and resources organizing meetings, conferences and travel, and undertook certain non-grant related activities on their behalf. Neither UNICEF nor the hosted partnerships kept a tally of such contributions.

AGREED ACTION

The Programme Group Director agrees to:

- (i) Put in place the expected life cycle and maturity stages of each hosted partnership and periodically manage and monitor the hosted partnership’s performance, including the results of any independent evaluations and reviews, against planned performance metrics
- (ii) Review current hosted partnerships against established goals and metrics and financial thresholds, taking into consideration the maturity stage of the partnership and any tolerance limits set by UNICEF management
- (iii) Establish guidelines for coordinating the UNICEF regional and country offices’ activities with hosted partnerships and ensure the periodic assessment of the relevance and extent of tasks being performed by programme personnel for the hosted partnerships.

Staff Responsible: Programme Group Deputy Director and Programme Group Leadership Team Programme Manager

Implementation Date: 30 September 2023

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:

Low	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.
Medium	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.
High	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:

Satisfactory		The assessed governance, risk management or control processes were adequate and functioning well.
Partially Satisfactory, Improvement Needed		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.
Partially Satisfactory, Major Improvement Needed		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.
Unsatisfactory		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.

Office of Internal Audit and Investigations

3 United Nations Plaza, East 44th St.
New York, NY 10017
www.unicef.org/auditandinvestigation