



**International Federation of Red Cross
and Red Crescent Societies (IFRC), Geneva**

Independent Auditor's Report

To the Management of IFRC
On the IFRC's Financial Statements for the
Ethiopia Drought Emergency Appeal
(MDRET016)
for the period from 1 January 2018 to 31 March 2019



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Independent Auditor's Report on the IFRC's Financial Statements for the Ethiopia Drought Emergency Appeal (MDRET016) to the Management of

International Federation of Red Cross and Red Crescent Societies (IFRC), Geneva

Opinion

We have audited the accompanying grant financial statements for the Ethiopia Drought Emergency Appeal (MDRET016) of the International Federation of Red Cross and Red Crescent Societies ("IFRC"), which comprise the income and expenditure statement and notes to the financial statements, including a summary of significant accounting policies ('the financial statements') for the period from 1 January 2018 to 31 March 2019.

In our opinion, the accompanying financial statements Ethiopia Drought Emergency Appeal (MDRET016) for the period from 1 January 2018 to 31 March 2019 are prepared, in all material respects, in accordance with the IFRC accounting policies as described in the notes to the financial statements.

Basis of Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the IFRC in accordance with the requirements of the International Ethics Standards Board for Accountants (IESBA) Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter - Basis of Accounting

We draw attention to Notes 2 and 3 to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the IFRC to comply with the financial reporting provisions of the IFRC.

Responsibilities of the Management for the Financial Statements

The Management of the IFRC is responsible for the preparation of the financial statements in accordance with the basis of accounting described in the notes and for such internal control as Management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.



Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISAs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis of our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the IFRC's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.

We communicate with the Management and those charged with governance of IFRC regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG SA

Karina Vartanova
Licensed Audit Expert

Jordan Chassard

Geneva, 30 January 2020

Enclosure:

- Financial statements (income and expenditure statement and explanatory notes) for the period from 1 January 2018 to 31 March 2019

**INTERNATIONAL FEDERATION OF RED CROSS AND RED CRESCENT SOCIETIES
EMERGENCY APPEAL (MDRET016) – ETHIOPIA DROUGHT**

**INCOME AND EXPENDITURE STATEMENT
FOR THE PERIOD FROM 1 JANUARY 2018 TO 31 MARCH 2019**

		Period from 1-Jan-2018 to 31-Mar-2019	Period from 28-Dec-2015 to 31-Dec-2017
	Note	CHF	CHF
OPERATING INCOME			
Voluntary contributions	4	45,428	3,145,499
Donations	5	-	131,306
Total OPERATING INCOME		<u>45,428</u>	<u>3,276,805</u>
OPERATING EXPENDITURE			
Programmes and coordination: Humanitarian Response			
Employee benefits		98,291	649,113
Relief supplies, transportation and storage		10,258	1,018,363
Contributions to National Societies		727,029	-
Supplementary services cost recoveries		41,563	65,159
Other costs & allocations	6	<u>(119,803)</u>	<u>595,677</u>
Total direct costs		<u>757,338</u>	<u>2,328,312</u>
Indirect cost recovery		49,391	149,518
Pledge fees		10,848	21,477
Total OPERATING EXPENDITURE		<u>817,577</u>	<u>2,499,307</u>
NET (DEFICIT) / SURPLUS FROM OPERATING ACTIVITIES		<u>(772,149)</u>	<u>777,498</u>
Finance (expense) / income, net		<u>(2,520)</u>	<u>8,419</u>
NET (DEFICIT) / SURPLUS FOR THE PERIOD		<u>(774,669)</u>	<u>785,917</u>
FUNDS HELD FOR OPERATIONS			
Brought forward		785,917	-
Net (deficit) / surplus for the period		<u>(774,669)</u>	<u>785,917</u>
FUNDS HELD FOR OPERATIONS		<u>11,248</u>	<u>785,917</u>

The notes on pages 4 to 8 are an integral part of these Appeal Financial Statements.

**INTERNATIONAL FEDERATION OF RED CROSS AND RED CRESCENT SOCIETIES
EMERGENCY APPEAL (MDRET016) – ETHIOPIA DROUGHT**

**NOTES TO THE APPEAL FINANCIAL STATEMENTS
FOR THE PERIOD FROM 1 JANUARY 2018 TO 31 MARCH 2019**

1. Activities

Founded in 1919, the International Federation of Red Cross and Red Crescent Societies (IFRC) is a membership organisation comprising 192 member Red Cross and Red Crescent societies governed by a Governing Board and with management support provided by a Secretariat with more than 60 delegations strategically located to support activities around the world. The Secretariat headquarters' address is 17, Chemin des Crêts, Petit-Saconnex, 1209 Geneva, Switzerland.

The IFRC's mission is to improve the lives of vulnerable people by mobilizing the power of humanity. Working through its 192 member National Societies, the IFRC acts before, during and after disasters and health emergencies to meet the needs and improve the lives of vulnerable people. It does so with impartiality as to nationality, race, gender, religious beliefs, class and political opinions.

The IFRC coordinates international support for large-scale disasters and health crises, strengthens the capacities and leadership of its member National Societies, and acts at the international level to raise resources and persuade decision makers to act at all times in the interests of vulnerable people.

Guided by *Strategy 2020* – a collective plan of action for the IFRC and its member National Societies to tackle the major humanitarian and development challenges of this decade – the IFRC is committed to 'saving lives and changing minds'.

On 27 December 2015, following erratic weather conditions and needs related to drought, the IFRC allocated CHF 181,521 from the Disaster Relief Emergency Fund (DREF) to support the Ethiopia Red Cross Society (ERCS) in responding to immediate needs. On 28 December 2015, the IFRC launched an Emergency Appeal seeking CHF 2.2 million in order to support the ERCS to deliver assistance and support to a total of 7,000 people over 12 months.

In March 2018, the Emergency Appeal was revised to CHF 6.1 million to support 50,000 families until 31 October 2018 with a focus on health, water, sanitation and hygiene (WASH), livelihoods, nutrition, and food security. In September 2018, the final operations update was issued and the timeframe was extended until 31 December 2018. The final report was issued on 30 September 2019.

The financial statements presented comprise the Income and Expenditure Statement and supporting notes of the Ethiopia Drought Emergency Appeal, and are hereto referred to as the Appeal Financial Statements.

2. Basis of accounting

The Appeal Financial Statements are presented in Swiss Francs and have been prepared using the accrual basis of accounting, under which, the effects of transactions and other events are recognised when they occur (and not as cash or its equivalent is received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate.

The information contained herein has been extracted from the Consolidated Financial Statements of the IFRC which are prepared in accordance with International Financial Reporting Standards (IFRS).

The Consolidated Financial Statements present operating expenditure by function (see note 3.3(a)). All operating expenditure included within the Ethiopia Drought Emergency Appeal is classified under the Humanitarian Response functional category. For information purposes, the Income and Expenditure Statement provides further analysis of operating expenditure.

3. Significant accounting policies

3.1 Foreign currency transactions

The presentation and functional currency of the IFRC is the Swiss Franc, as operating cash flows are primarily denominated in, and influenced by, the Swiss Franc. The IFRC's operations are not concentrated in any one economic environment, but appeals, including the Ethiopia Drought Emergency Appeal, are always launched in Swiss Francs and expenditure is budgeted and managed in Swiss Francs. Foreign currency transactions are translated into Swiss Francs using rates which approximate to the rates prevailing on the dates of the transactions.

**INTERNATIONAL FEDERATION OF RED CROSS AND RED CRESCENT SOCIETIES
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3. Significant accounting policies (continued)

3.2 Income

Income comprises voluntary contributions from member National Societies and donations from donors.

(a) Voluntary contributions and donations

Voluntary contributions and donations are identified according to the level of earmarking. National Societies and donors can earmark contributions for use in field operations at the appeal, programme, project or sub-project level. Such earmarked contributions are fully under the control of the IFRC, and, unless they are also subject to specific contractual obligations or earmarked for use in a future period (see paragraph below), are recognised in the Income and Expenditure Statement when pledged. At the end of the accounting period, unspent earmarked contributions are included in Funds held for operations.

Government grants and contributions that are based on contracts for specific projects, akin to government grants, are recognised as expenditure is incurred and contractual obligations are fulfilled. The IFRC typically receives such contributions from diplomatic missions, United Nations (UN) agencies, European Community Humanitarian Office (ECHO) and other government agencies such as the United States Agency for International Development (USAID). Amounts received, but not recognised, are deferred for recognition in future periods as expenditure is incurred and contractual obligations are fulfilled. Government grants that are not for specific projects but are earmarked at appeal level are recognised when a confirmed written pledge has been received from the donor.

Contributions and donations that are subject to specific contractual obligations or earmarked for use in a future period are not fully under control of the IFRC. Donations that are subject to specific contractual obligations are recognised in income as expenditure is incurred and contractual obligations are fulfilled, similar to government grants. Amounts received, but not recognised, are deferred for recognition in future periods as expenditure is incurred and contractual obligations are fulfilled. Contributions and donations which are earmarked for use in a future period are deferred for recognition in income in the future period for which they are earmarked.

The IFRC sometimes agrees with a contributing National Society or other donor that the value of a confirmed written pledge previously received shall be changed - either increased or decreased. Such changes are recognised as additions to, or reductions of, income, during the period in which the change was agreed. The IFRC is not able to evaluate the potential impact of such changes on voluntary contribution and donation income reported in these Appeal Financial Statements.

3.3 Expenditure

(a) Functional expenditure categories

All IFRC expenditure is classified under functional expense categories that aggregate costs related to each category. Expenditure incurred as part of the Ethiopia Drought Emergency Appeal activities is classified under the Programmes and coordination: Humanitarian response functional expense category. This functional expense category comprises: Coordination during the immediate response phase of disasters and crises, which require international assistance to ensure adequate resources are available to meet the needs of disaster affected people.

(b) Costing principles

The costing principle of the IFRC is one of full cost recovery, therefore each appeal, including the Ethiopia Drought Emergency Appeal, includes all associated direct costs, indirect costs and pledge fees.

Direct costs

Direct costs are those costs that can be readily and specifically identified with a particular project or service. Direct costs include employee benefits such as salary and benefit costs of international delegates and national staff.

In keeping with the IFRC's principle of full cost recovery, costs are recovered from operations for specific services provided in addition to the essential services funded by indirect cost recovery (below). Such recoveries include specific logistics services recoveries based on the value of procurement services provided, global fleet services including provision of the vehicle rental scheme and country level services related to the basic costs of having a presence (an IFRC office) in a given country.

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3. Significant accounting policies (continued)

Indirect costs

The direct costs of programmes and services are subject to 6.5% indirect cost recovery to fund the costs of providing indirect support services, essential to the success of operations. Such indirect support services include management and leadership, information and communication technology and professional and services functions in the areas of programme quality, reporting, resource mobilisation, finance, information technology and human resources.

Pledge fees

Costs are incurred to meet specific donor requirements. These requirements may include the tracking of expenses where a donation has been given for a specific activity or needs to be spent within a specific timeframe, or requires customised financial and / or narrative reports. Pledge fees are charged to donations to cover the costs associated with meeting these specific donor requirements.

(c) Working with National Society partners

In implementing its activities in the ordinary course of its business, the IFRC advances funds to member Red Cross and Red Crescent National Societies. Two mechanisms are used to advance funds to member National Societies for the implementation of activities – cash working advances and cash contributions.

Working advances to National Societies

The IFRC provides cash working advances to National Societies for them to implement activities on behalf of the IFRC. An expense is recognised for the value of working advances which has not been reported on by the recipient National Societies and is recorded in Operating expenditure – Other costs & allocations. When recipient National Societies report on their use of the funds, this expense is reclassified according to its nature.

Contributions to National Societies

The IFRC makes cash contributions to fund the activities of member National Societies. Such contributions are recognised as operational expenditure as they are incurred.

3.4 Finance (expense) / income, net

Exchange gains and losses resulting from the settlement of foreign currency transactions and from translation are included under Finance (expense) / income, net, in the Income and Expenditure Statement, with the exception of realised exchange gains and losses on voluntary contributions, which are included under Voluntary contributions.

3.5 Funds held for operations

The cumulative excess of income received over operating expenditure incurred is recorded as Funds held for operations. In the event that the funds cannot be spent, the IFRC obtains agreement from the donors to reallocate the unspent funds for a different use, or reimburses them to the donors. The balance of funds at the end of the appeal will be carried forward to the 2019 Operational Plan for Ethiopia, as disclosed in the final appeal report.

The IFRC DREF is a source of un-earmarked money created by IFRC to ensure that immediate financial support is available for Red Cross Red Crescent responses to emergencies. The DREF allocation of CHF 181,521 was fully reimbursed by the end of the appeal.

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4. Voluntary contributions

	Period from 1-Jan-2018 to 31-Mar-2019	Period from 28-Dec-2015 to 31-Dec-2017
Cash	TOTAL	TOTAL
CHF	CHF	CHF
American Red Cross	-	148,075
Australian Red Cross	-	186,281
Austrian Red Cross (from Austrian Government)	1,573	340,946
British Red Cross	-	639,747
Canadian Red Cross Society	-	49,323
China Red Cross, Hong Kong branch	-	25,404
Danish Red Cross	-	40,094
Danish Red Cross (from Danish Government)	-	140,099
Finnish Red Cross	-	56,739
Finnish Red Cross (from Finnish Government)	-	459,072
Italian Red Cross	-	108,750
Japanese Red Cross Society	-	43,830
Netherlands Red Cross	-	76,368
Netherlands Red Cross (from Netherlands Government)	-	470,380
New Zealand Red Cross	43,855	-
Red Crescent Society of the Islamic Republic of Iran	-	30,000
Singapore Red Cross Society	-	19,967
Swedish Red Cross	-	229,540
Swiss Red Cross	-	80,884
	<u>45,428</u>	<u>3,145,499</u>

The Cash column includes movements in outstanding pledges; gains and losses from revaluation of outstanding foreign currency pledges during the period (see note 3.4).

5. Donation

	Period from 1-Jan-2018 to 31-Mar-2019	28-Dec-2015 to 31-Dec- 2017
	TOTAL	TOTAL
	CHF	CHF
United States Government - USAID	-	132,580
Other donors (including online donations and those with contributions less than CHF 10,000)	-	(1,274)
	<u>-</u>	<u>131,306</u>

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6. Other costs and allocations

	Period from 1-Jan-2018 to 31-Mar-2019	Period from 28-Dec-2015 to 31-Dec-2017
	CHF	CHF
Administration, office and general	15,498	121,824
Consultancy fees	(162)	246
Information	(3,196)	17,807
Travel	16,985	111,436
Vehicles and equipment	7,482	31,583
Workshops & training	(35,951)	85,387
Other costs and allocations	<u>(120,459)</u>	<u>227,394</u>
	<u>(119,803)</u>	<u>595,677</u>

Included within Other Costs and allocations is a reversal of working advances not yet reported by National Society amounting to CHF 148,824 (2017: provision for working advance not yet reported was CHF 164,316). In the period from 1 January 2018 to 31 March 2019, the IFRC reclassified CHF 44,503 from Workshops & training to Provision for operations, included within Other costs and allocations.