

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

Independent Auditor's Report

On the IFRC's Financial Statements for the
Horn of Africa – Exceptional Food Security Crisis
Appeal (MDR64003)
for the year ended 31 December 2010



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Independent Auditor's Report

Horn of Africa – Exceptional Food Security Crisis Appeal (MDR64003) of the International Federation of Red Cross and Red Crescent Societies (IFRC)

We have audited the accompanying financial statements (income and expenditure statement and related notes) of the Horn of Africa – Exceptional Food Security Crisis Appeal (MDR64003) of the International Federation of Red Cross and Red Crescent Societies ("IFRC") for the year ended 31 December 2010.

Management's Responsibility for the Financial Statements

These financial statements are the responsibility of the IFRC's management. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion of these financials statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements 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 entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



*Horn of Africa – Exceptional Food Security Crisis Appeal (MDR64003)
of the International Federation of Red Cross and Red Crescent Societies (IFRC)*

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the income and expenditure for the year ended 31 December 2010 and have been prepared, in all material respects in accordance with the IFRC accounting policies, as described in the notes to the accompanying financial statements.

KPMG SA

Pierre-Henri Pigeon
*Licensed Audit Expert
Auditor in Charge*

Christine Fox

Geneva, 10 November 2011

Enclosure:

- Income and expenditure statement and related notes.

**INTERNATIONAL FEDERATION OF RED CROSS AND RED CRESCENT SOCIETIES
EMERGENCY APPEAL (MDR64003) – HORN OF AFRICA: EXCEPTIONAL FOOD SECURITY CRISIS**

**INCOME AND EXPENDITURE STATEMENT
FOR THE PERIOD ENDED 31 DECEMBER**

INCOME	Note	Year Ended 31-Dec-10 CHF	Period from 11-Dec-08 to 31-Dec-09 CHF
Voluntary contributions	2.3 & 3	2,582,868	9,633,966
Finance income, net	2.2	5,022	80,452
Total INCOME		2,587,890	9,714,418
OPERATING EXPENDITURE			
Supplies		55,835	2,526,025
Vehicles and equipment		(374)	52,440
Transport and storage	2.5	29,400	311,838
Personnel expenditure	2.6	371,417	874,275
Workshops and training		2,330	3,357
Travel		19,588	105,762
Information & public relations		41,789	14,031
Office costs		38,609	89,739
Communications		13,511	34,668
Legal, professional and consultancy fees		28,131	311,425
Other general expenses		1,677	2,260
Contributions to national societies	6 (b)	2,380,168	3,597,298
Programme and services support recovery	4	187,634	600,097
Services and recoveries	5	(91)	94,532
Provisions for operations	6 (a)	(37,237)	37,427
Total OPERATING EXPENDITURE		3,132,387	8,655,174
RESULT FOR THE PERIOD		(544,497)	1,059,244
FUNDS HELD FOR OPERATIONS			
	2.4		
Brought forward		968,985	39,741
Reimbursement to IFRC DREF fund		-	(130,000)
Result for the period		(544,497)	1,059,244
FUNDS HELD FOR OPERATIONS		424,488	968,985

The notes on pages 2 to 6 are an integral part of these Appeal Financial Statements.

**INTERNATIONAL FEDERATION OF RED CROSS AND RED CRESCENT SOCIETIES
EMERGENCY APPEAL (MDR64003) – HORN OF AFRICA: EXCEPTIONAL FOOD SECURITY CRISIS**

**NOTES TO THE APPEAL FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2010**

1. Activities

Founded in 1919, the International Federation of Red Cross and Red Crescent Societies (IFRC) is a membership organisation comprising 186 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, Geneva, Switzerland.

The IFRC's mission is to improve the lives of vulnerable people by mobilizing the power of humanity. Its principal activities include:

- promoting individual and community humanitarian principles and values
- responding to disasters by providing assistance to vulnerable people, from refugees to victims of natural disasters;
- disaster preparedness activities which aim to make National Societies and communities more aware of the risks they face, how to reduce their vulnerability, and how to cope when disaster strikes;
- health and community care activities to enable communities to reduce their vulnerability to disease, and prepare for and respond to public health crises;
- guiding and supporting the development of National Societies to enable them to fulfil their responsibilities in providing humanitarian services in their own countries.

Responding to reports of increasing levels of hardship for millions of people in the Horn of Africa region, the IFRC and a number of national societies undertook a multi-disciplinary assessment mission in November 2008, in order to confirm the extent and scale of the reported food crisis situation. Based on the assessment results, a robust food relief and recovery response plan was developed, with a focus on meeting the immediate needs while appropriate medium to longer-term recovery and risk reduction (capacity building) interventions developed. An Emergency Appeal presented the provisional findings of the assessment, and the outlined a preliminary plan of action to be adjusted in response to the evolving situation on the ground.

Populations, in large areas of Kenya and the Horn of Africa, were identified as facing an exceptional humanitarian crisis that required urgent food assistance and a range of complementary interventions, in order to combat acute malnutrition levels and threats to coping mechanisms. The combined effect of high worldwide food prices and drought in the region was jeopardizing the lives, livelihoods and dignity of up to 20 million people in both rural and urban communities. The affected populations were those who were already living on the margins of survival due to conflict, displacement and chronic poverty. The IFRC responded to the situation, in order to bring immediate relief to affected populations and mitigate risk of the situation developing into famine.

- The Emergency Appeal was initially launched on 11 December 2008, for CHF 114.0 million, in order to assist 2.2 million beneficiaries over a period of five years.
- CHF 130,000 was allocated from the International Federation's Disaster Relief Emergency Fund (DREF) to support the assessment activities and mission. The DREF allocation was fully reimbursed in December 2008.
- An exceptional advance of CHF 10.0 million was extended by IFRC to support the national societies of Ethiopia, Djibouti, Kenya and Somalia to respond to food crisis.
- A revised emergency appeal was launched on 23 June 2009, in which the initial appeal target of CHF 114.0 million was revised downwards to CHF 75.7 million. The appeal was revised and scaled down as there was, by then, insufficient time left to purchase and distribute more food before the Belg harvest would be available in the local markets. The appeal revision did not in any way reflect a decrease in the needs of the affected population, but rather, IFRC's concern not to demoralize local farmers or markets.

The financial statements presented comprise the Income and Expenditure Statement and supporting notes for all projects linked to the Horn of Africa: Exceptional Food Security Crisis Emergency Appeal (appeal MDR64003), hereto referred to as the Appeal Financial Statements.

**INTERNATIONAL FEDERATION OF RED CROSS AND RED CRESCENT SOCIETIES
EMERGENCY APPEAL (MDR64003) – HORN OF AFRICA: EXCEPTIONAL FOOD SECURITY CRISIS**

**NOTES TO THE APPEAL FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2010**

2. Significant accounting policies

2.1 Basis of accounting

The Appeal Financial Statements are presented in Swiss Francs and have been prepared under the historical cost convention. 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).

2.2 Foreign currency transactions

The presentational 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 Horn of Africa: Food Security Crisis Emergency Appeal (appeal MDR64003), 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.

Exchange gains and losses resulting from the settlement of foreign currency transactions and from translation are included under Finance income, net, in the Income and Expenditure Statement.

2.3 Income

Income comprises contributions in cash or in-kind from donors.

Voluntary contributions are identified according to the level of earmarking. Donors can earmark contributions for use on 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, UN agencies, ECHO and other government agencies such as 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 that are subject to specific contractual obligations or earmarked for use in a future period are not fully under control of the IFRC. Contributions 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 which are earmarked for use in a future period are deferred for recognition in income in the future period for which they are earmarked.

In-kind contributions of goods (comprising relief supplies) and services (in the form of staff or transport) are recognised on the date of receipt of the goods or service, and are reported as equal contributions and expenses in the Income and Expenditure Statement. In-kind goods and services received in response to the Appeal are measured at fair value.

The fair value of in-kind goods is based on the donor indication of the value. This value is tested for reasonableness and adjusted accordingly, by comparing it to the cost that would be incurred by the IFRC, if it were to buy similar goods, in the open market, for the same intended use.

The fair value of in-kind staff is taken as the average cost that would be incurred by the IFRC, if it were to directly employ a person in a similar position.

**INTERNATIONAL FEDERATION OF RED CROSS AND RED CRESCENT SOCIETIES
EMERGENCY APPEAL (MDR64003) – HORN OF AFRICA: EXCEPTIONAL FOOD SECURITY CRISIS**

**NOTES TO THE APPEAL FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2010**

2. Significant accounting policies (continued)

The IFRC sometimes agrees with a 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 income reported in these Appeal Financial Statements.

2.4 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 donor for a reallocation of those funds for a different use, or reimburses them to the donor.

With agreement of the donor, CHF 684,720 were reallocated from the Horn of Africa: Exceptional Food Security Crisis Appeal (appeal MDR64003) to Ethiopia Drought Appeal (appeal MDRET007) during 2010 (2009: CHF Nil). No amounts were reimbursed to donors during the year ended 31 December 2010. CHF 130,000 was reimbursed from the Horn of Africa: Exceptional Food Security Crisis Appeal (appeal MDR64003) to the IFRC DREF fund during the period 11 December 2008 to 31 December 2009.

2.5 Transport and storage

The cost of renting vehicles from the IFRC's Vehicle Fleet Base and from third parties, for use in the operation, is recorded under Transport and storage.

2.6 Personnel expenditure

Personnel expenditure includes salary and benefit costs of international delegates, in-kind delegates and national staff.

3. Voluntary contributions

	Cash CHF	Outstanding Pledges (Revalued) CHF	Services In-Kind CHF	Year ended 31-Dec-10 TOTAL CHF	Period from 11-Dec-08 to 31-Dec-09 TOTAL CHF
Andora Government	-	-	-	-	11,152
Australian Red Cross (from Australian Government)	-	-	-	-	460,395
Belgian Red Cross (Flanders) (from Belgian Federal Government)	754,489	(669,625)	-	84,864	669,625
British Red Cross	-	-	52,500	52,500	480,518
Canadian Red Cross	-	-	-	-	12,613
European Commission - DGECHO	2,574,281	(95,337)	-	2,478,944	10,259
Finnish Red Cross (from Finnish Government)	1,427,708	(1,406,041)	-	21,667	1,406,041
Irish Red Cross	-	-	-	-	67,823
Japanese Government	-	-	-	-	1,185,818
Japanese Red Cross	-	-	-	-	247,100
Libyan Red Crescent	-	-	-	-	10,000
Luxembourg Government	-	-	-	-	152,952
Monaco Red Cross	-	-	-	-	36,906
New Zealand Red Cross	-	-	-	-	19,980
Sub-totals carried down	4,756,478	(2,171,003)	52,500	2,637,975	4,771,182

**INTERNATIONAL FEDERATION OF RED CROSS AND RED CRESCENT SOCIETIES
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**NOTES TO THE APPEAL FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2010**

3. Voluntary contributions (continued)

	Cash	Outstanding Pledges (Revalued)	Services In-Kind	Year ended 31-Dec-10 TOTAL	Period from 11-Dec-08 to 31-Dec-09 TOTAL
	CHF	CHF	CHF	CHF	CHF
Sub-totals brought down	4,756,478	(2,171,003)	52,500	2,637,975	4,771,182
Nordea Life & Pensions SA	-	-	-	-	115,960
Other donors (including those with contributions less than CHF 10,000)	-	-	-	-	4,968
Swedish Red Cross	-	-	-	-	464,549
Swedish Red Cross (from Swedish Government)	-	-	-	-	3,427,752
Swiss Red Cross	-	-	-	-	128,073
Swiss Red Cross (from Swiss Government)	-	-	-	-	272,156
United Arab Emirates Red Crescent	-	-	-	-	239,926
WFP - World Food Programme	38,574	(93,681)	-	(55,107)	209,400
	4,795,052	(2,264,684)	52,500	2,582,868	9,633,966

The Outstanding pledges column shows movements in outstanding pledges between 1 January 2010 and 31 December 2010, together with the revaluation of outstanding foreign currency pledges as at 31 December 2010.

4. Programme and services support recovery

In keeping with the IFRC's full cost recovery principles, an additional 6.5% is added to the cost of each operation as a contribution to fund the indirect costs of providing support services, such as human resources, finance, logistics and information technology services, essential to the success of operations. The support for 2010 amounted to CHF 187,634 (2009: CHF 600,097).

5. Services and recoveries

In keeping with the IFRC's full cost recovery principles, fees and other charges are made to operations for specific services provided in addition to the essential services funded by programme and service support recovery (see also note 4). Such fees include specific logistics service fees based on the value of procurement services provided, together with pledge earmarking and reporting fees. For 2010 such fees charged to the Horn of Africa: Exceptional Food Security Crisis Appeal (MDR64003) amounted to CHF (91) (2009: CHF 94,532).

6. Provisions for operations

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.

**INTERNATIONAL FEDERATION OF RED CROSS AND RED CRESCENT SOCIETIES
EMERGENCY APPEAL (MDR64003) – HORN OF AFRICA: EXCEPTIONAL FOOD SECURITY CRISIS**

**NOTES TO THE APPEAL FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2010**

(a) Provisions for operations

When the IFRC provides cash working advances to national societies for them to implement activities on behalf of the IFRC, amounts advanced are recognised as receivables until such time as recipient national societies report to the IFRC on their use of the funds. A provision is recognised for the value of working advances which has not been reported on by the recipient national societies and the related expense is recorded in Operating expenditure – Provisions for operations. When recipient national societies report on their use of the funds, the provision is reversed and the expense is reclassified according to its nature.

The value of unreported working advances at 31 December 2010 was lower than at 31 December 2009 by CHF 37,237.

(b) 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.