

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

Independent Auditor's Report

On the IFRC's Financial Statements
for the China Sichuan Earthquake Emergency Appeal
(MDRCN003)
for the year ended 31 December 2010



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Independent Auditor's Report

China Sichuan Earthquake Emergency Appeal (MDRCN003) 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 China Sichuan Earthquake Emergency Appeal (MDRCN003) 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 on these financial 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.



*China Sichuan Earthquake Emergency Appeal (MDRCN003)
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, 3 November 2011

Enclosure:

- Income and expenditure statement and related notes.

**INTERNATIONAL FEDERATION OF RED CROSS AND RED CRESCENT SOCIETIES
EMERGENCY APPEAL (MDRCN003) – CHINA SICHUAN EARTHQUAKE**

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

INCOME	Note	2010 CHF	2009 CHF
Voluntary contributions	2.3 & 3	1,188,987	46,282,619
Corporate donation fees	4	-	(2,756)
Other income		19,348	269,139
Total INCOME		<u>1,208,335</u>	<u>46,549,002</u>
OPERATING EXPENDITURE			
Supplies		-	15,390
Vehicles and equipment		-	169,216
Transport and storage	2.5	32,487	53,410
Personnel expenditure	2.6	1,401,947	1,438,945
Workshops and training		41,510	127,684
Travel		105,811	75,890
Information & public relations		69,926	60,741
Office costs		51,021	38,995
Communications		13,097	12,750
Legal, professional and consultancy fees		215,615	117,934
Finance expense, net	2.2	55,504	191,652
Other general expenses		1,582	6,975
Contributions to national societies	7 (b)	2,824,637	56,989,868
Programme and services support recovery	5	312,364	4,733,443
Services and recoveries	6	36,786	8,100
Provisions for operations	7 (a)	(758)	(2,713)
Total OPERATING EXPENDITURE		<u>5,161,529</u>	<u>64,038,280</u>
RESULT FOR THE YEAR		<u>(3,953,194)</u>	<u>(17,489,278)</u>
FUNDS HELD FOR OPERATIONS			
Brought forward	2.4	35,675,396	53,164,674
Result for the year		(3,953,194)	(17,489,278)
FUNDS HELD FOR OPERATIONS		<u>31,722,202</u>	<u>35,675,396</u>

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 (MDRCN003) – CHINA SICHUAN EARTHQUAKE**

**NOTES TO THE APPEAL FINANCIAL STATEMENTS
FOR THE YEAR 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.

In May 2008, a 7.8 magnitude earthquake rocked the South-Western province of Sichuan in China. The IFRC launched a preliminary emergency appeal on 15 May 2008 for CHF 20.1 million to support the Red Cross Society of China in assisting around 100,000 people affected by the earthquake for 12 months. This preliminary appeal was followed by an additional appeal for CHF 96.7 million, launched on 30 May 2008, in response to the humanitarian needs and in recognition of the unique position of the Red Cross Society of China supported by Red Cross Red Crescent partners to deliver high quality disaster response and recovery programmes. A further revised appeal was launched in November 2008 for CHF 167.0 million, in order to support the Red Cross Society of China to assist an estimated 200,000 families (up to 1,000,000 people) affected by the earthquake for 31 months, covering the provision of life-saving relief and substantial recovery and reconstruction programmes to address widespread humanitarian needs in Sichuan, Gansu and Shaanxi provinces. The appeal was further revised in September 2010 to reduce the appeal amount to CHF 152.86 million and to extend the appeal timeframe to 44 months.

The financial statements presented comprise the Income and Expenditure Statement and supporting notes of the China Sichuan Earthquake Appeal (appeal MDRCN003) and are hereto referred to as the Appeal Financial Statements.

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 China Sichuan Earthquake Emergency Appeal (appeal MDRCN003), 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 expense, net, in the Income and Expenditure Statement.

**INTERNATIONAL FEDERATION OF RED CROSS AND RED CRESCENT SOCIETIES
EMERGENCY APPEAL (MDRCN003) – CHINA SICHUAN EARTHQUAKE**

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

2. Significant accounting policies (continued)

2.3 Income

Income comprises contributions in cash or in-kind from donors and income from the provision of services.

a) Voluntary contributions

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.

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.

b) Income from the provision of services

Income from services is recognised in the period in which the service is rendered. For the provision of services across accounting periods, income is recognised according to the stage of completion of the service, by reference to services performed to date as a percentage of total services to be performed.

The majority of income from the provision of services is derived from services provided to implementing national societies working bi-laterally with the Red Cross Society of China, rather than working multi-laterally with the IFRC and the Red Cross Society of China. Income from these types of services is included under Other income in the Income and Expenditure Statement.

**INTERNATIONAL FEDERATION OF RED CROSS AND RED CRESCENT SOCIETIES
EMERGENCY APPEAL (MDRCN003) – CHINA SICHUAN EARTHQUAKE**

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

2. Significant accounting policies (continued)

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. No amounts were reimbursed to donors during the year ended 31 December 2010 (2009 : CHF Nil).

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	2010 TOTAL CHF	2009 TOTAL CHF
American Red Cross	15,499,239	(14,994,829)	-	504,410	31,332,506
Australian Red Cross	153	-	-	153	881,178
British Red Cross	927,540	(1,088,980)	-	(161,440)	2,146,940
Canadian Red Cross	6,800,996	(6,585,638)	-	215,358	10,673,216
Charities Aid Foundation	(226)	-	-	(226)	98,414
Croatian Red Cross	-	-	-	-	24,882
Danish Red Cross	-	-	-	-	11,539
Finnish Red Cross	-	-	-	-	(13,235)
Finnish Red Cross (from Finnish Government)	-	-	-	-	(25,412)
French Red Cross	494,107	-	-	494,107	381,918
IFRC at the UN inc (from Black Rock)	-	-	-	-	30,255
IFRC at the UN inc (from EMC Corp)	-	-	-	-	104,904
IFRC at the UN inc (from PricewaterhouseCoopers)	-	-	-	-	278,534
Italian Red Cross	98,887	-	-	98,887	-
Japanese Government	(35,715)	-	-	(35,715)	-
Japanese Red Cross	-	-	-	-	(98,246)
New Zealand Red Cross	-	-	-	-	45,968
OPEC fund for International Development	-	-	-	-	103,337
Other donors (including those with contributions less than CHF 10'000)	1,157	(74)	69,300	70,383	54,119
Sub-totals carried down	<u>23,786,138</u>	<u>(22,669,521)</u>	<u>69,300</u>	<u>1,185,917</u>	<u>46,030,817</u>

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

3. Voluntary contributions (continued)

	Cash CHF	Outstanding Pledges (Revalued) CHF	Services In-Kind CHF	2010 TOTAL CHF	2009 TOTAL CHF
Sub-totals brought down	23,786,138	(22,669,521)	69,300	1,185,917	46,030,817
Romanian Red Cross	-	-	-	-	58,857
Swedish Red Cross	2,393	-	-	2,393	165,481
UN staff council / UNOG	-	-	-	-	13,631
United States - private donors	677	-	-	677	13,833
	<u>23,789,208</u>	<u>(22,669,521)</u>	<u>69,300</u>	<u>1,188,987</u>	<u>46,282,619</u>

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. Corporate donation fees

In accordance with IFRC standard policy, donations received from corporate donors are charged a 5% service fee which is deducted from income, when the corporate donation is received.

5. 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 312,364 (2009: CHF 4,733,443).

6. 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 5). 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 China Sichuan Earthquake Appeal (MDRCN003) amounted to CHF 36,786 (2009: CHF 8,100).

7. 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.

(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 less than at 31 December 2009 by CHF 758.

**INTERNATIONAL FEDERATION OF RED CROSS AND RED CRESCENT SOCIETIES
EMERGENCY APPEAL (MDRCN003) – CHINA SICHUAN EARTHQUAKE**

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

7. Provisions for operations (continued)

(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.