

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

Independent Auditor's Report

On the IFRC's Financial Statements for the Bay
of Bengal Earthquake and Tsunami Emergency Appeal
(M04EA028)
for the year ended 31 December 2010



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Independent Auditor's Report

Bay of Bengal Earthquake and Tsunami Emergency Appeal (M04EA028) 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 Bay of Bengal Earthquake and Tsunami Emergency Appeal (M04EA028) 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 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.



*Bay of Bengal Earthquake and Tsunami Emergency Appeal (M04EA028)
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, 16 December 2011

Enclosure:

- Income and expenditure statement and related notes.

**INTERNATIONAL FEDERATION OF RED CROSS AND RED CRESCENT SOCIETIES
EMERGENCY APPEAL (M04EA028) - BAY OF BENGAL EARTHQUAKE & TSUNAMI**

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

INCOME	Note	2010 CHF	2009 CHF
Voluntary contributions	2.3 (a) & 3	2,721,104	14,222,707
Supplementary services income	2.3 (b)	1,053,814	2,689,395
Contribution to other organisation reimbursed	2.3 (c)	6,997,201	-
Interest income	2.3 (d)	-	17,320
Other income		48,890	120,225
Total INCOME	5	10,821,009	17,049,647
OPERATING EXPENDITURE			
Supplies		20,475,412	19,847,589
Land, vehicles and equipment		224,524	1,516,561
Transport and storage	2.5	737,860	1,489,519
Personnel expenditure	2.6	8,941,470	12,234,801
Travel		309,134	593,075
Communications		359,209	457,953
Workshops and training		1,243,535	1,420,696
Information		347,734	603,243
Legal, professional and consultancy fees		777,543	1,106,353
Finance expense, net		292,148	448,051
Other general expenses		1,020,791	1,529,064
Depreciation	2.7	41,594	59,457
Contributions to national societies	6 (b)	700,574	5,288,237
Contributions to other organisations		-	75,206
Programme and services support recovery	4	2,179,303	2,155,052
Services and recoveries	2.8	4,310	10,249
Provisions for operations	6 (a)	(89,251)	108,425
Voluntary contributions reimbursed to donors	2.4	5,593,426	1,230,957
Voluntary contributions decreased	2.3 (a)	2,477,767	-
Total OPERATING EXPENDITURE	5	45,637,083	50,174,488
RESULT FOR THE YEAR	5	(34,816,074)	(33,124,841)
FUNDS HELD FOR OPERATIONS			
Brought forward	2.4	91,401,886	125,717,605
Reallocations to other IFRC Appeals	2.4	(2,808,744)	(1,190,878)
Result for the year		(34,816,074)	(33,124,841)
FUNDS HELD FOR OPERATIONS		53,777,068	91,401,886

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 (M04EA028) - BAY OF BENGAL EARTHQUAKE & TSUNAMI**

**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.

The financial statements presented comprise the Income and Expenditure Statement and supporting notes of all projects linked to the Bay of Bengal Earthquake and Tsunami Appeal (M04EA028) 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 Bay of Bengal Earthquake and Tsunami Appeal (M04EA028), 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.

2.3 Income

Income comprises contributions in cash or in-kind from donors, sundry income from the sale of goods and income from 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

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2. Significant accounting policies (continued)

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. In the Consolidated Financial Statements of the IFRC which are prepared in accordance with IFRS, such changes are recognised as additions to, or reductions of, income, during the period in which the change was agreed. Revisions of voluntary contributions previously received are recognised in these Appeal Financial Statements as an Operating expenditure. Such revisions in 2010 amounted to CHF 2,477,767 (2009: CHF Nil).

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 in countries where these National Societies are working bilaterally with the local National Society, rather than multilaterally with the IFRC and the local National Society. Income from these types of services is included under Supplementary services income in the Income and Expenditure Statement.

c) Contributions to other organisation reimbursed

In 2006, as part of the Bay of Bengal Earthquake and Tsunami operation, the IFRC entered into a partnership agreement with the International Development Association (IDA). Under the terms of this agreement, in 2006 and 2008 the IFRC provided a total of CHF 22,800K to the IDA to work in partnership with the Government of Sri Lanka, in order to help beneficiaries reconstruct their own houses following destruction of their previous dwellings by the Tsunami. Following completion of the housing reconstruction programme, in 2010 the IDA returned CHF 6,997,201 (2009: CHF Nil) of unused funds to the IFRC. These funds are recognised as Income in the Statement of Income and Expenditure.

d) Interest income

Interest earned on unspent funds held, has been allocated to the Bay of Bengal Earthquake and Tsunami Appeal following the decision of IFRC's Governing Board in June 2006. In June 2009, following a management decision, the Tsunami Special Fund project was closed and interest earned on the appeal balance was discontinued.

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. An amount of CHF 5,593,426 was returned to donors in 2010 (2009: CHF 1,230,957). An amount of CHF 2,808,744 was reallocated to other IFRC Appeals in 2010 (2009: CHF 1,190,878)

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

2.5 Transport and storage

The cost of renting vehicles from the IFRC's Vehicle Fleet Base for use on the Tsunami 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.

2.7 Depreciation

Depreciation is charged to those projects which are using the related vehicles or equipment. It is calculated on the straight-line method to write off assets to their estimated residual values over their estimated useful lives as follows:

Vehicles	4-5 years
Computer equipment	3-4 years
Other equipment	3-5 years

2.8 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 Bay of Bengal Earthquake and Tsunami Appeal (M04EA028) amounted to CHF 4,310 (2009: CHF 10,249).

3. Voluntary contributions

	Cash	Outstanding Pledges (Revalued)	Services In- Kind	TOTAL 2010	TOTAL 2009
	CHF	CHF	CHF	CHF	CHF
American Red Cross	2,936,367	(2,872,611)	-	63,756	4,556,172
Australian Government	-	-	-	-	(406,636)
Australian Red Cross	3,140,311	(3,086,027)	105,600	159,884	5,359,478
Australian Red Cross (from Australian Government)	47,231	-	-	47,231	-
Belguim Red Cross (French)	-	-	-	-	(227,429)
British Red Cross	51,227	-	-	51,227	-
British Red Cross (from British Government)	-	-	-	-	2,821,605
Canadian Red Cross	1,190,224	(1,189,449)	-	775	-
Danish Red Cross (from Denmark - Private Donors)	-	-	-	-	129,733
Finnish Red Cross	31,000	31,000	90,000	152,000	-
Finnish Red Cross (from Finnish Government)	-	-	-	-	(157,815)
French Red Cross	913,547	(913,537)	-	10	-
German Red Cross	-	-	-	-	40,412
Hong Kong Red Cross	(201,515)	201,535	-	20	259,368
Icelandic Red Cross	-	-	-	-	(210,392)
Irish Red Cross	356,057	(404,847)	122,700	73,910	-
Japanese Red Cross	-	-	-	-	315,877
Netherlands Red Cross	-	-	-	-	166,079
New Zealand Red Cross	35,433	(5,453)	78,637	108,617	388,738
Sub-totals carried down	8,499,880	(8,239,389)	396,937	657,429	13,035,190

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

3. Voluntary contributions (continued)

	Cash	Outstanding Pledges (Revalued)	Services In- Kind	TOTAL 2010	TOTAL 2009
	CHF	CHF	CHF	CHF	CHF
Sub-totals brought down	8,499,880	(8,239,389)	396,937	657,429	13,035,190
New Zealand Red Cross (from New Zealand Government)	-	-	-	-	(1,763,626)
Norwegian Red Cross	3,312,785	(1,484,951)	-	1,827,833	2,209,472
Other donors	(188)	-	-	(188)	-
Republic of Korea Red Cross	321,225	(315,877)	-	5,348	-
South African Red Cross	-	-	-	-	11,147
Spanish Red Cross	-	-	71,000	71,000	570,778
Swedish Red Cross	54,082	-	105,600	159,682	-
Swiss Red Cross	-	-	-	-	37,108
Taiwan Red Cross Organisation	178,904	(178,904)	-	-	-
Uganda Red Cross	-	-	-	-	107
UNICEF (UN Agency)	-	-	-	-	(27)
United Arab Emirates Red Crescent	-	-	-	-	1,482
	<u>12,366,688</u>	<u>(10,219,121)</u>	<u>573,537</u>	<u>2,721,104</u>	<u>14,222,707</u>

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

Reimbursements of funds to donors referred to in note 2.4 above are recorded as a reduction in cash voluntary contributions if the contributions had already been paid or as a reduction in outstanding pledges if the contributions were still unpaid.

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 2,179,303 (2009: CHF 2,155,052).

**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**

5. Income and expenditure analysis by country of implementation

	Indonesia CHF	Sri Lanka CHF	Maldives CHF	Other CHF	2010 TOTAL CHF	2009 TOTAL CHF
Voluntary contributions	(1,212,643)	14,589,415	187,818	(10,843,486)	2,721,104	14,222,707
Supplementary services income	778,712	275,102	-	-	1,053,814	2,689,395
Contributions to other organisation reimbursed	-	6,997,201	-	-	6,997,201	-
Interest income	-	-	-	-	-	17,320
Other income	36,151	12,739	-	-	48,890	120,225
Total INCOME	(397,780)	21,874,457	187,818	(10,843,486)	10,821,009	17,049,647
OPERATING EXPENDITURE						
Supplies	1,029,026	17,648,965	1,797,421	-	20,475,412	19,847,589
Land, vehicles and equipment	51,474	85,014	-	88,036	224,524	1,516,561
Transport and storage	280,660	430,327	13,845	13,028	737,860	1,489,519
Personnel expenditure	3,852,442	2,866,224	400,852	1,821,953	8,941,470	12,234,801
Travel	156,894	39,726	32,650	79,864	309,134	593,075
Communications	193,039	92,538	24,583	49,050	359,209	457,953
Workshops and training	889,648	196,943	9,608	147,336	1,243,535	1,420,696
Information	89,640	222,155	642	35,297	347,734	603,243
Legal, professional and consultancy fees	171,918	107,923	58,654	439,048	777,543	1,106,353
Finance expense, net	47,778	196,784	37,445	10,141	292,148	448,051
Other general expenses	334,758	510,160	66,962	108,912	1,020,791	1,529,064
Depreciation	30,509	11,085	-	-	41,594	59,457
Contributions to national societies	484,803	215,771	-	-	700,574	5,288,237
Contributions to other organisations	-	-	-	-	-	75,206
Programme and services support recovery	388,850	1,474,010	149,144	167,298	2,179,303	2,155,052
Services and recoveries	2,885	1,049	-	377	4,310	10,249
Provisions for operations	(184,188)	142,492	(23)	(47,532)	(89,251)	108,425
Voluntary contributions reimbursed to donors	-	4,544,220	347,753	701,453	5,593,426	1,230,957
Voluntary contributions decreased	291,443	2,883,628	-	(697,304)	2,477,767	-
Total OPERATING EXPENDITURE	8,111,578	31,669,012	2,939,534	2,916,958	45,637,083	50,174,488
RESULT FOR THE YEAR	(8,509,358)	(9,794,555)	(2,751,716)	(13,760,444)	(34,816,074)	(33,124,841)

Income included under the Other heading consists primarily of unearmarked income which initially has been allocated to the Tsunami General Fund and now being applied to fund country programs.

6. Operational provisions

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 89,251.

(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.