

**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 2011



KPMG SA
Audit
111, rue de Lyon
CH-1203 Geneva

P.O. Box 347
1211 Geneva 13

Telephone +41 22 704 15 15
Fax +41 22 347 73 13
Internet www.kpmg.ch

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 2011.

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.



Opinion

In our opinion, the accompanying financial statements give a true and fair view of the income, expenditure and funds held for operations for the year ended 31 December 2011 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 Pingeon
Licensed Audit Expert
Auditor in Charge

Christine Fox

Geneva, 14 February 2013

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**

		2011	2010
	Notes	CHF	CHF
INCOME			
Voluntary contributions	2.3(a) & 3	467,946	2,721,104
Services income	2.3(b)	479,410	1,053,814
Contribution to other organisation reimbursed	2.3(c)	-	6,997,201
Other income		308,070	48,890
Total INCOME		<u>1,255,426</u>	<u>10,821,009</u>
OPERATING EXPENDITURE			
Employee benefits	2.6	2,966,167	8,941,470
Relief supplies		2,847,239	20,475,412
Transportation and storage	2.5	370,184	735,760
Land and buildings		-	102,526
Vehicles and equipment		226,416	121,998
Travel		97,875	309,134
Communications		159,802	370,753
Workshops & training		195,668	1,243,535
Information		109,382	347,734
Legal, professional and consultancy fees		445,173	777,543
Administration, office and general		570,644	1,009,244
Finance expense, net	2.2	97,753	292,148
Depreciation	2.7 & 4	12,652	41,594
Provisions for operations	5(a)	(571,422)	(89,251)
Contributions to national societies	5(b)	770,973	700,574
Contributions to other organisations		222,258	-
Voluntary contributions reimbursed to donors	2.4	1,259,396	5,593,426
Voluntary contributions decreased	2.3(a)	2,228,920	2,477,767
Services and recoveries	6	8,434	6,410
Programme and services support recovery	7	349,376	2,179,303
Total OPERATING EXPENDITURE		<u>12,366,890</u>	<u>45,637,080</u>
RESULT FOR THE PERIOD		<u>(11,111,464)</u>	<u>(34,816,071)</u>
FUNDS HELD FOR OPERATIONS			
Brought forward	2.4	53,777,069	91,401,884
Allocations to other IFRC appeals	2.4	(3,023,884)	(2,808,744)
Result for the period		(11,111,464)	(34,816,071)
FUNDS HELD FOR OPERATIONS		<u>39,641,721</u>	<u>53,777,069</u>

The notes on pages 4 to 9 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 2011**

1. Activities

Founded in 1919, the International Federation of Red Cross and Red Crescent Societies (IFRC) is a membership organisation comprising 187 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. Working through its 187 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'.

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 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).

Reclassification of certain comparative figures has been made in the Income and Expenditure Statement, in order to be consistent with the current year presentation.

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, with the exception of exchange gains and losses on voluntary contributions, which are included under voluntary contributions.

**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 2011**

2. Significant accounting policies (continued)

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

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 2011 amounted to CHF 2,228,920 (2010: CHF 2,477,767).

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 bi-laterally with the local national society, rather than multi-laterally with the IFRC and the local national society. Income from these types of services is included under Services income in the Income and Expenditure Statement.

**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 2011**

2. Significant accounting policies (continued)

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 of unused funds to the IFRC. These funds were recognised as Income in the Statement of Income and Expenditure. In 2011, the amount of unused funds returned was CHF nil.

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. A total of CHF 1,259,396 was reimbursed to donors during 2011 (2010: CHF 5,593,426). An amount of CHF 3,032,884 was reallocated to other IFRC appeals in 2011 (2010: CHF 2,808,744).

2.5 Transportation 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 Employee benefits

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. It is calculated on the straight-line method to write off assets to their estimated residual values over their estimated useful lives as follows:

Heavy and light vehicles	5 years
Computer equipment	3 – 4 years
Other equipment	2 – 5 years

3. Voluntary contributions

	Cash CHF	Outstanding pledges (Revalued) CHF	Services In-Kind CHF	2011 TOTAL CHF	2010 TOTAL CHF
American Red Cross	-	-	-	-	63,756
Australian Red Cross	109,991	(55,000)	109,200	164,191	159,884
Australian Red Cross (from Australian Government)	-	-	-	-	47,231
British Red Cross	-	-	-	-	51,227
China Red Cross, Hong Kong branch	-	-	-	-	20
Finnish Red Cross	29,416	(31,000)	92,400	90,816	152,000
French Red Cross	-	-	-	-	10
Irish Red Cross Society	196,443	(151,302)	-	45,141	73,910
New Zealand Red Cross	-	-	-	-	108,617
Sub-totals carried down	335,850	(237,302)	201,600	300,148	656,655

**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**

3. Voluntary contributions (continued)

	Cash	Outstanding pledges (Revalued)	Services In-Kind	2011 TOTAL	2010 TOTAL
	CHF	CHF	CHF	CHF	CHF
Sub-totals brought down	335,850	(237,302)	201,600	300,148	656,655
Norwegian Red Cross	-	-	-	-	1,827,833
Other donors (including those with contributions less than CHF 10,000)	1,593	-	109,200	110,793	585
Spanish Red Cross	-	-	-	-	71,000
Swedish Red Cross	57,005	-	-	57,005	159,682
The Republic of Korea National Red Cross	-	-	-	-	5,349
	394,448	(237,302)	310,800	467,946	2,721,104

The Outstanding pledges column shows movements in outstanding pledges during 2011 together with the revaluation of outstanding foreign currency pledges as at 31 December 2011.

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. Depreciation

	2011 CHF	2010 CHF
Depreciation	11,501	41,594
Loss on disposal of tangible assets	1,151	-
	<u>12,652</u>	<u>41,594</u>

5. 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 2011 was CHF 571,422 less than at 31 December 2010.

(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.

**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 2011**

6. Services and recoveries

In keeping with the IFRC's principle of full cost recovery, fees and other charges are made to operations for specific services provided in addition to the essential services funded by programme and services support recovery (see also note 7). Such fees include specific logistics service fees based on the value of procurement services provided, together with pledge earmarking and reporting fees that are charged to donations where donors either require their donations to be used for specific purposes, or require specific financial or narrative reports on IFRC's use of the donations. For 2011 such fees charged to the Bay of Bengal Earthquake and Tsunami Emergency Appeal (M04EA028) amounted to CHF 8,434 (2010: CHF 6,410).

7. Programme and services support recovery

In keeping with the IFRC's principle of full cost recovery, the direct costs of programmes and services are subject to 6.5% indirect cost recovery to fund the costs of providing indirect support services, such as human resources, finance, administration and information technology services, essential to the success of operations. The support for 2011 amounted to CHF 349,376 (2010: CHF 2,179,303) and is added to unrestricted reserves.

**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 2011**

8. Income and expenditure analysis by country of implementation

	Indonesia	Sri Lanka	Other	2011 TOTAL	2010 TOTAL
	CHF	CHF	CHF	CHF	CHF
INCOME					
Voluntary contributions	(3,131,031)	(1,120,228)	4,719,205	467,946	2,721,104
Services income	320,036	159,374	-	479,410	1,053,814
Contribution to other organisation reimbursed	-	-	-	-	6,997,201
Other income	205,907	102,163	-	308,070	48,890
Total INCOME	(2,605,088)	(858,691)	4,719,205	1,255,426	10,821,009
OPERATING EXPENDITURE					
Employee benefits	870,102	1,144,361	951,704	2,966,167	8,941,470
Relief supplies	(66,703)	2,913,942	-	2,847,239	20,475,412
Transportation and storage	175,084	193,738	1,362	370,184	735,760
Land and buildings	-	-	-	-	102,526
Vehicles and equipment	25,738	199,560	1,118	226,416	121,998
Travel	22,431	29,618	45,826	97,875	309,134
Communications	67,842	59,567	32,393	159,802	370,753
Workshops & training	55,576	89,894	50,198	195,668	1,243,535
Information	4,871	95,920	8,591	109,382	347,734
Legal, professional and consultancy fees	(10,015)	163,449	291,739	445,173	777,543
Administration, office and general	152,325	347,396	70,923	570,644	1,009,244
Finance expense, net	4,898	92,350	505	97,753	292,148
Depreciation and amortisation	973	11,679	-	12,652	41,594
Provisions for operations	(6,763)	(564,659)	-	(571,422)	(89,251)
Contributions to national societies	692,321	78,652	-	770,973	700,574
Contributions to other organisations	145,275	56,983	20,000	222,258	-
Voluntary contributions reimbursed to donors	393,643	865,753	-	1,259,396	5,593,426
Voluntary contributions decreased	-	190,507	2,038,413	2,228,920	2,477,767
Services and recoveries	4,976	2,711	747	8,434	6,410
Programme and services support recovery	(37,893)	305,858	81,411	349,376	2,179,303
Total OPERATING EXPENDITURE	2,494,681	6,277,279	3,594,930	12,366,890	45,637,080
RESULT FOR THE PERIOD	(5,099,769)	(7,135,970)	1,124,275	(11,111,464)	(34,816,071)

Income included under the Other heading consisted primarily of unearmarked income which had initially been allocated to fund country programmes and is now being applied to the Tsunami General Fund, together with income from the disposal of tangible assets.