

**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 2011



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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 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 (MDRCN003) – CHINA SICHUAN EARTHQUAKE**

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

		2011	2010
INCOME	Notes	CHF	CHF
Voluntary contributions	2.3(a) & 3	125,784	1,188,987
Services income	2.3(b)	5,484	12,530
Other income		-	6,818
Total INCOME		<u>131,268</u>	<u>1,208,335</u>
OPERATING EXPENDITURE			
Employee benefits	2.6	695,025	1,401,947
Relief supplies		57	-
Transportation and storage	2.5	23,516	24,387
Vehicles and equipment		22,035	-
Travel		125,087	105,811
Communications		9,432	16,947
Workshops & training		22,579	41,510
Information		19,560	69,926
Legal, professional and consultancy fees		(6,906)	215,615
Administration, office and general		16,377	58,103
Finance expense, net	2.2	9,224	55,504
Provisions for operations	4(a)	-	(758)
Contributions to national societies	4(b)	7,716,110	2,824,637
Voluntary contributions reimbursed to donors	2.4	138,129	-
Services and recoveries	5	31,406	35,536
Programme and services support recovery	6	534,167	312,364
Total OPERATING EXPENDITURE		<u>9,355,798</u>	<u>5,161,529</u>
RESULT FOR THE PERIOD		<u>(9,224,530)</u>	<u>(3,953,194)</u>
FUNDS HELD FOR OPERATIONS			
Brought forward	2.4 & 7	31,722,202	35,675,396
Result for the period		(9,224,530)	(3,953,194)
FUNDS HELD FOR OPERATIONS		<u>22,497,672</u>	<u>31,722,202</u>

The notes on pages 4 to 7 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 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'.

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 operation effectively came to a close at the end of December 2011 with the implementation of all activities completed.

The financial statements presented comprise the Income and Expenditure Statement and supporting notes of the China Sichuan Earthquake Emergency 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 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.

**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 2011**

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.

2. Significant accounting policies (continued)

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, except for exchange gains and losses arising on income which are included within Voluntary contributions.

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.

2.3 Income

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

a) Voluntary contribution

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 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 (MDRCN003) – CHINA SICHUAN EARTHQUAKE**

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

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.

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 proportion 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 Services income in the Income and Expenditure Statement.

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. CHF 139,129 was reimbursed to the American Red Cross Society during the year ended 31 December 2011 (2010: CHF Nil).

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.

3. Voluntary contributions

	Cash CHF	Outstanding pledges (Revalued) CHF	Services In-Kind CHF	Year ended 31-Dec-2011 TOTAL CHF	Year ended 31-Dec-2010 TOTAL CHF
American Red Cross	-	-	-	-	504,409
Australian Red Cross	-	-	18,993	18,993	153
British Red Cross	1,009,111	(1,004,250)	-	4,861	(161,440)
Canadian Red Cross	-	-	-	-	215,358
French Red Cross	-	-	-	-	494,107
Italian Red Cross	-	-	-	-	98,887
Japanese Government	35,715	-	-	35,715	(35,715)
Other donors (including those with contributions less than CHF 10,000)	1,907	-	64,308	66,215	73,228
	1,046,733	(1,004,250)	83,301	125,784	1,188,987

The Outstanding pledges column shows movements in outstanding pledges between 1 January 2011 and 31 December 2011, together with the revaluation of outstanding foreign currency pledges as at 31 December 2011.

**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**

4. Provisions for operations and contributions to national societies

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

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 nil.

(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.

5. 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 service support recovery (see also note 6). 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 China Sichuan Earthquake Appeal (MDRCN003) amounted to CHF 31,406 (2010: CHF 35,536).

6. 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, logistics and information technology services, essential to the success of operations. The support for 2011 amounted to CHF 534,167 (2010: CHF 312,364).

7. Funds held for operations

On 31 December 2011 the China Sichuan Earthquake Emergency Operation was closed. The closing balance of Funds held for operations at that date amounted to CHF 22,497,672.

After three years of direct involvement in Red Cross Society of China's relief and recovery work in Sichuan and surrounding areas, the IFRC closed its sub-office in Chengdu, and the management of longer-term recovery and development programmes under this operation was absorbed by the regional team in 2011. This included programmes for building community safety and resilience (such as livelihood provisioning, community-based disaster risk reduction (CBDRR) and community based health and first aid (CBHFA), and also programmes for increasing capacities to respond to disasters and emergencies. Beginning in 2012, all remaining activities and funds related to these programmes are further consolidated and integrated into the China four-year longer-term planning framework and continue to be implemented as presented in the China Sichuan Earthquake Emergency Appeal (MDRCN003).