

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

Independent Auditor's Report

On the IFRC's Financial Statements
for the Kenya Drought Emergency Appeal
(MDRKE016)
for the period from 23 March 2011 to 31 December 2011



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Independent Auditor's Report

Kenya Drought Emergency Appeal (MDRKE016) 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 Kenya Drought Emergency Appeal (MDRKE016) of the International Federation of Red Cross and Red Crescent Societies ("IFRC") for the period from 23 March 2011 to 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 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.



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 period from 23 March 2011 to 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
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**INCOME AND EXPENDITURE STATEMENT
FOR THE PERIOD FROM 23 MARCH 2011 TO 31 DECEMBER 2011**

		Period from 23-Mar-2011 to 31-Dec-2011
INCOME	Notes	CHF
Voluntary contributions	2.3(a) & 3	9,023,819
Corporate donation fees	4	(7,962)
Services income	2.3(b)	43,592
Total INCOME		<u>9,059,449</u>
OPERATING EXPENDITURE		
Employee benefits	2.6	4,364
Relief supplies		670,641
Transportation and storage	2.5	63,765
Travel		1,653
Legal, professional and consultancy fees		1,614
Administration, office and general		2,030
Finance expense, net	2.2	40
Contributions to national societies	5	6,921,518
Services and recoveries	6	45,422
Programme and services support recovery	7	494,165
Total OPERATING EXPENDITURE		<u>8,205,212</u>
RESULT FOR THE PERIOD		<u>854,237</u>
FUNDS HELD FOR OPERATIONS	2.4	
Result for the period		854,237
FUNDS HELD FOR OPERATIONS		<u>854,237</u>

The notes on pages 4 to 8 are an integral part of these Appeal Financial Statements.

**INTERNATIONAL FEDERATION OF RED CROSS AND RED CRESCENT SOCIETIES
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**NOTES TO THE APPEAL FINANCIAL STATEMENTS
FOR THE PERIOD FROM 23 MARCH 2011 TO 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'.

An exceptionally poor performance of the October to December 2010 short rains occurred after similarly poor March to June long rains in the northern and north eastern pastoral areas; and the south-eastern and coastal lowlands of Kenya. The impact of the cumulative poor rains precipitated a rapid decline in household food security in these areas. The deterioration in food security in these areas was significant because households and livelihoods were just beginning to recover from the effects of the prolonged drought that started in 2007 and ended in October 2009.

Direct effects of the drought included livestock deaths, acute food shortage and increased migration by pastoral communities due to depletion of pasture and water for livestock. Additional effects included conflict over dwindling pasture and water resources with host communities and increased school drop-outs as school-going children migrated with their families in search of food, water and pasture for their livestock.

On 23 March 2011, the IFRC launched an Emergency Appeal for CHF 4.9 million to support the Kenya Red Cross Society to assist 855,000 beneficiaries for 6 months. The assistance was focused on emergency interventions in areas of relief / school feeding, livelihoods, WASTAN, health and nutrition. This emergency appeal was intended to complement the Kenya Red Cross Society's National Drought Appeal launched in January 2011 for CHF 28.3 million.

On 22 July 2011, the appeal was revised to extend the duration to 12 months and to increase the number of targeted beneficiaries to 1,000,000. On 4 October 2011, the appeal was further revised to CHF 30.4 million to address evident gaps by adding longer term food security interventions and doubling school feeding programmes including the addition of water trucking to schools.

The financial statements presented comprise the Income and Expenditure Statement and supporting notes for all projects linked to the Kenya : Drought Emergency Appeal (MDRKE016), 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

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2. Significant accounting policies (continued)

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).

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 Kenya: Drought Emergency Appeal (MDRKE016), 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.

2.3 Income

Income comprises contributions in cash or in-kind from donors 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 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 by comparing it to the cost that the IFRC would incur if it were to buy in the open market similar goods for the same intended use. If the market value is found to be significantly different to the value indicated by the donor, the value is revised to the market value.

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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 logistics services provided to national societies working in the Kenya Drought Emergency Operation. Income from these types of services is included under Services income in the Appeal 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.

No amounts were reimbursed to donors during the period from 23 March 2011 to 31 December 2011.

2.5 Transportation and storage

The cost of renting vehicles from the IFRC's Vehicle Fleet Base 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	Outstanding	Services	Period from
	CHF	pledges	In-Kind	23 -Mar-2011
		(Revalued)	CHF	to 31-Dec-2011
		CHF		TOTAL
				CHF
American Red Cross	214,721	188,661	-	403,382
American Red Cross (from Coca-Cola)	644,164	-	-	644,164
Austrian Red Cross	176,430	-	96,879	273,309
Belgian Red Cross (Flanders)	113,122	-	-	113,122
British Red Cross	841,235	-	75,804	917,039
British Red Cross (from British Government)	81,731	-	-	81,731
Credit Suisse Foundation (from Credit Suisse)	90,531	-	-	90,531
Danish Red Cross	-	246,362	-	246,362
Danish Red Cross (from Danish Government)	146,210	-	-	146,210
European Commission - DG ECHO	199,821	243,784	-	443,605
Sub-totals carried down	2,507,965	678,807	172,683	3,359,455

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3. Voluntary contributions (continued)

	Cash CHF	Outstanding pledges (Revalued) CHF	Services In-Kind CHF	Period from 23 -Mar-2011 to 31-Dec-2011 TOTAL CHF
Sub-totals brought down	2,507,965	678,807	172,683	3,359,455
Finnish Red Cross (from Finnish Government)	627,983	-	-	627,983
German Red Cross	369,851	-	-	369,851
IFRC at the UN Inc (from Kraft Foods Foundation)	46,194	-	-	46,194
Italian Government Bilateral Emergency Fund	350,099	-	-	350,099
Japanese Red Cross Society	210,513	-	-	210,513
Nestle	68,700	-	-	68,700
New Zealand Red Cross	42,780	-	-	42,780
Norwegian Red Cross (from Norwegian Government)	282,422	-	-	282,422
Other donors (including those with contributions less than CHF 10,000)	6,775	-	-	6,775
Red Cross of Monaco	81,947	-	-	81,947
Red Cross Society of China	140,026	-	-	140,026
Swedish Red Cross	273,975	-	-	273,975
Swedish Red Cross (from Swedish Government)	613,753	-	-	613,753
Swiss Red Cross	-	-	18,933	18,933
Taiwan Red Cross Organisation	78,548	-	-	78,548
The Canadian Red Cross Society	1,337,437	-	143,535	1,480,972
The Netherlands Red Cross	572,317	-	398,576	970,893
	<u>7,611,285</u>	<u>678,807</u>	<u>733,727</u>	<u>9,023,819</u>

The Outstanding pledges column shows movements in outstanding pledges between 23 March 2011 and 31 December 2011, together with the revaluation of outstanding foreign currency pledges as at 31 December 2011.

4. Corporate donation fees

In accordance with IFRC financial policy, a service fee of 5.0% is recovered on corporate donations. This service fee is recovered upon the receipt of the relevant contributions, in order to fund the costs of relationship management associated with corporate donors.

5. 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.

The IFRC makes cash contributions to fund the activities of member national societies. Such contributions are recognised as operational expenditure as they are incurred.

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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 service 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 Kenya: Drought Emergency Appeal (MDRKE016) amounted to CHF 45,422.

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, and information technology services, essential to the success of operations. The support for 2011 amounted to CHF 494,165.