

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

Independent Auditor's Report

On the IFRC's Financial Statements
for the Horn of Africa Exceptional Food Security
Crisis Emergency Appeal
(MDR64003)
for the year ended 31 December 2011



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Independent Auditor's Report

Horn of Africa Exceptional Food Security Crisis Emergency Appeal (MDR64003) 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 Horn of Africa Exceptional Food Security Crisis Emergency Appeal (MDR64003) 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 Pigeon
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 (MDR64003) – HORN OF AFRICA: EXCEPTIONAL FOOD SECURITY CRISIS**

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

		2011	2010
INCOME	Notes	CHF	CHF
Voluntary contributions	2.3 & 3	351,085	2,582,868
Corporate donation fees	4	(12,964)	-
Other income		114	-
Total INCOME		<u>338,235</u>	<u>2,582,868</u>
OPERATING EXPENDITURE			
Employee benefits	2.6	30,343	371,417
Relief supplies		132,595	55,835
Transportation and storage	2.5	41,196	29,400
Vehicles and equipment		-	(374)
Travel		1,056	19,588
Communications		329	13,511
Workshops & training		289	2,330
Information		15	41,789
Legal, professional and consultancy fees		45,604	28,131
Administration, office and general		2,697	40,286
Finance expense/(income), net	2.2	11	(5,022)
Provisions for operations	5(a)	-	(37,237)
Contributions to national societies	5(b)	-	2,380,168
Services and recoveries	6	6,851	(91)
Programme and services support recovery	7	16,964	187,634
Total OPERATING EXPENDITURE		<u>277,950</u>	<u>3,127,365</u>
RESULT FOR THE PERIOD		<u>60,285</u>	<u>(544,497)</u>
FUNDS HELD FOR OPERATIONS			
	2.4		
Brought forward		424,488	968,985
Result for the period		60,285	(544,497)
FUNDS HELD FOR OPERATIONS		<u>484,773</u>	<u>424,488</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 (MDR64003) – HORN OF AFRICA: EXCEPTIONAL FOOD SECURITY CRISIS**

**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'.

Responding to reports of increasing levels of hardship for millions of people in the Horn of Africa region, the IFRC and a number of national societies undertook a multi-disciplinary assessment mission in November 2008, in order to confirm the extent and scale of the reported food crisis situation. Based on the assessment results, a robust food relief and recovery response plan was developed, with a focus on meeting the immediate needs while appropriate medium to longer-term recovery and risk reduction (capacity building) interventions developed. An Emergency Appeal presented the provisional findings of the assessment, and the outlined a preliminary plan of action to be adjusted in response to the evolving situation on the ground.

Populations, in large areas of Kenya and the Horn of Africa, were identified as facing an exceptional humanitarian crisis that required urgent food assistance and a range of complementary interventions, in order to combat acute malnutrition levels and threats to coping mechanisms. The combined effect of high worldwide food prices and drought in the region was jeopardizing the lives, livelihoods and dignity of up to 20 million people in both rural and urban communities. The affected populations were those who were already living on the margins of survival due to conflict, displacement and chronic poverty. The IFRC responded to the situation, in order to bring immediate relief to affected populations and mitigate risk of the situation developing into famine.

- The Emergency Appeal was initially launched on 11 December 2008, for CHF 114.0 million, in order to assist 2.2 million beneficiaries over a period of five years.
- CHF 130,000 was allocated from the International Federation's Disaster Relief Emergency Fund (DREF) to support the assessment activities and mission. The DREF allocation was fully reimbursed in December 2008.
- An exceptional advance of CHF 10.0 million was extended by IFRC to support the national societies of Ethiopia, Djibouti, Kenya and Somalia to respond to food crisis.
- A revised emergency appeal was launched on 23 June 2009, in which the initial appeal target of CHF 114.0 million was revised downwards to CHF 75.7 million. The appeal was revised and scaled down as there was, by then, insufficient time left to purchase and distribute more food before the Belg harvest would be available in the local markets. The appeal revision did not in any way reflect a decrease in the needs of the affected population, but rather, IFRC's concern not to demoralize local farmers or markets.
- On 10 November 2009 it was announced via Operations Update no 3 that IFRC would phase out its 5 year integrated appeal and that it would fully phase out implementation of emergency interventions by 1 May 2010. This deadline was further extended in Operations Update no 4 to end of December 2010.

The financial statements presented comprise the Income and Expenditure Statement and supporting notes for all projects linked to the Horn of Africa: Exceptional Food Security Crisis Emergency Appeal (MDR64003), hereto referred to as the Appeal Financial Statements.

**INTERNATIONAL FEDERATION OF RED CROSS AND RED CRESCENT SOCIETIES
EMERGENCY APPEAL (MDR64003) – HORN OF AFRICA: EXCEPTIONAL FOOD SECURITY CRISIS**

**NOTES TO THE APPEAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011**

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 Horn of Africa: Food Security Crisis Emergency Appeal (MDR64003), 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/(income), 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 from donors.

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.

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.

**INTERNATIONAL FEDERATION OF RED CROSS AND RED CRESCENT SOCIETIES
EMERGENCY APPEAL (MDR64003) – HORN OF AFRICA: EXCEPTIONAL FOOD SECURITY CRISIS**

**NOTES TO THE APPEAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011**

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 2011 (2010: CHF Nil). No amounts were reallocated from the Horn of Africa: Exceptional Food Security Crisis Appeal (MDR64003) during 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

Employee benefits expenditure includes salary and benefit costs of international delegates, in-kind delegates and national staff.

3. Voluntary contributions

	Cash	Outstanding pledges (Revalued)	2011 TOTAL	2010 TOTAL
	CHF	CHF	CHF	CHF
Belgian Red Cross (Flanders) (from Belgian Federal Government)	-	-	-	84,864
British Red Cross	-	-	-	52,500
European Commission - DG ECHO	432,269	(447,182)	(14,913)	2,478,944
Finnish Red Cross (from Finnish Government)	-	-	-	21,667
Nestle	259,281	-	259,281	-
Other donors (including those with contributions less than CHF 10,000)	3,528	-	3,528	-
Société Internationale de Télécommunications Aéronautiques	10,416	-	10,416	-
Unidentified donor	92,773	-	92,773	-
WFP - World Food Programme	-	-	-	(55,107)
	<u>798,267</u>	<u>(447,182)</u>	<u>351,085</u>	<u>2,582,868</u>

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.

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.

**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 2011**

5. 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 less than at 31 December 2010 by CHF 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.

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 Horn of Africa: Exceptional Food Security Crisis Appeal (MDR64003) amounted to CHF 6,851 (2010: CHF (91)).

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 16,964 (2010: CHF 187,634).