

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

Independent Auditor's Report

On the IFRC's Financial Statements for the
Ethiopia: Drought Emergency Appeal
(MDRET010)
for the year ended 31 December 2012



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Independent Auditor's Report

Ethiopia: Drought Emergency Appeal (MDRET010) 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 Ethiopia: Drought Emergency Appeal (MDRET010) of the International Federation of Red Cross and Red Crescent Societies ("IFRC") for the year ended 31 December 2012.

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 2012 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, 6 November 2013

Enclosure:

- Income and expenditure statement and related notes

**INTERNATIONAL FEDERATION OF RED CROSS AND RED CRESCENT SOCIETIES
EMERGENCY APPEAL (MDRET010) – ETHIOPIA: DROUGHT**

**INCOME AND EXPENDITURE STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2012**

		Year ended 31-Dec-2012	Period from 04-Aug-2011 to 31-Dec-2011
INCOME	Notes	CHF	CHF
Voluntary contributions	2.3(a) & 3	1,705,167	7,547,640
Corporate donation fees	4	-	(4,763)
Services income	2.3(b)	-	9,514
Total INCOME		<u>1,705,167</u>	<u>7,552,391</u>
OPERATING EXPENDITURE			
Employee benefits	2.5	760,339	135,687
Relief supplies		16,113	149,145
Transportation and storage	2.6	163,841	89,612
Vehicles and equipment		82,859	12,768
Travel		47,482	17,626
Communications		12,514	3,520
Workshops & training		12,337	359
Information		1,837	306
Legal, professional and consultancy fees		225,002	47,572
Administration, office and general		209,791	3,605
Finance expense, net	2.2	16,290	557
Provisions for operations		(1,485)	6,141
Contributions to national societies	5	1,942,428	3,318,679
Services and recoveries	6	31,061	21,182
Indirect cost recovery	7	218,187	240,715
Total OPERATING EXPENDITURE		<u>3,738,596</u>	<u>4,047,474</u>
RESULT FOR THE PERIOD		<u>(2,033,429)</u>	<u>3,504,917</u>
FUNDS HELD FOR OPERATIONS			
Brought forward	2.4	3,504,917	-
Result for the year/period		(2,033,429)	3,504,917
FUNDS HELD FOR OPERATIONS		<u>1,471,488</u>	<u>3,504,917</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
EMERGENCY APPEAL (MDRET010) – ETHIOPIA: DROUGHT**

**NOTES TO THE APPEAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

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 5 zone offices and 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'.

On 5 August 2011, following two consecutive seasons of significantly below average rainfall in the Horn of Africa, a preliminary emergency appeal for CHF 11.0 million was launched by the IFRC to support the Ethiopian Red Cross Society in assisting 165,000 beneficiaries for 6 months. The assistance was focused on providing appropriate and timely response in the areas of food relief and cash grants, water and sanitation, health and institutional capacity building as well as the planning and implementation of long term recovery and rehabilitation assistance to vulnerable pastoral communities.

CHF 200,000 was allocated from the International Federation's Disaster Relief Emergency Fund (DREF) to support the operation and on 26 September 2011 a revised emergency appeal was launched seeking CHF 25.4 million to assist 570,000 beneficiaries for 12 months. The revised appeal included the scaling up of activities in the water, sanitation and health sectors based on preliminary findings of assessments. On 28 December 2012 a revised Emergency Appeal was launched reducing the amount requested to CHF 12.3 million in cash, kind or services to support the Ethiopian Red Cross Society in assisting approximately 270,000 beneficiaries until the end of August 2013.

The financial statements presented comprise the Income and Expenditure Statement and supporting notes for all projects linked to the Ethiopia: Drought Emergency Appeal (MDRET010), 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).

**INTERNATIONAL FEDERATION OF RED CROSS AND RED CRESCENT SOCIETIES
EMERGENCY APPEAL (MDRET010) – ETHIOPIA: DROUGHT**

**NOTES TO THE APPEAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

2. Significant accounting policies (continued)

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 Ethiopia: Drought Emergency Appeal (MDRET010), 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 realised 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 services (in the form of staff) 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. 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
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**NOTES TO THE APPEAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

2. Significant accounting policies (continued)

(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 Ethiopia Drought Emergency Operation. 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.

During the year ended 31 December 2012, in agreement with the donor, CHF 97,763 was reallocated from Ethiopia: Population Movements Emergency Appeal (MDRET011) to the Ethiopia: Drought Emergency Appeal, however subsequent to year end, in agreement with the donor, the CHF 97,763 was reallocated out of the Ethiopia: Drought Emergency Appeal. As such, the income and associated expenditure are not included in these statements (period from 4 August 2011 to 31 December 2011: CHF nil).

No amounts were reimbursed to donors during the year ended 31 December 2012 (period from 4 August 2011 to 31 December 2011: CHF nil).

2.5 Employee benefits

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

2.6 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 Transportation and storage.

3. Voluntary contributions

	Cash	Outstanding pledges (Revalued)	Services In-Kind	Year ended 31-Dec-2012	Period from 04-Aug-2011 to 31-Dec-2011
	CHF	CHF	CHF	CHF	CHF
American Red Cross	506,084	-	-	506,084	473,103
American Red Cross (from Coca-Cola)	-	-	-	-	52,567
Andorran Red Cross	10,643	-	-	10,643	-
Austrian Red Cross	112,000	-	-	112,000	198,829
Belgian Red Cross (Francophone) (from Belgian Federal Government)	1,064,264	-	-	1,064,264	-
China Red Cross, Hong Kong branch	122,465	(121,349)	-	1,116	121,349
Credit Suisse Foundation (from Credit Suisse)	-	-	-	-	45,265
Danish Red Cross	698,025	(698,025)	54,890	54,890	698,025
Danish Red Cross (from Danish Government)	-	-	-	-	307,414
Sub-totals carried down	2,513,481	(819,374)	54,890	1,748,997	1,896,552

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**NOTES TO THE APPEAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

3. Voluntary contributions (continued)

	Cash CHF	Outstanding pledges (Revalued) CHF	Services In-Kind CHF	Year ended 31-Dec-2012 CHF	Period from 04-Aug-2011 to 31-Dec-2011 CHF
Sub-totals brought down	2,513,481	(819,374)	54,890	1,748,997	1,896,552
Finnish Red Cross	2,187	2,187	114,697	119,071	-
Finnish Red Cross (from Finnish Government)	19,681	19,681	-	39,362	-
French Red Cross (from France - Private Donors)	576,081	(580,205)	-	(4,124)	580,205
French Red Cross (from French Government)	1,118,275	(1,126,280)	-	(8,005)	1,126,280
IFRC at the UN Inc (from Kraft Foods Foundation)	-	-	-	-	27,716
Japanese Red Cross Society	-	-	-	-	227,936
Nestle	-	-	-	-	50,000
New Zealand Red Cross	-	-	-	-	42,780
Other donors (including those with contributions less than CHF 10,000)	700	-	(62,790)	(62,090)	69,669
Red Cross of Monaco	24,041	-	-	24,041	-
Red Cross Society of China	-	-	-	-	140,026
Swedish Red Cross	351,178	(702,173)	120,450	(230,545)	1,072,082
Swedish Red Cross (from Swedish Government)	-	-	-	-	601,563
Swiss Red Cross	-	-	-	-	43,713
Taiwan Red Cross Organisation	-	-	-	-	189,538
The Canadian Red Cross Society	-	-	-	-	914,980
The Netherlands Red Cross	-	-	-	-	564,600
The Republic of Korea National Red Cross	39,230	-	-	39,230	-
The Republic of Korea National Red Cross (from the Community Chest of Korea)	39,230	-	-	39,230	-
	4,684,084	(3,206,164)	227,247	1,705,167	7,547,640

The reduction of CHF 62,790 for services in-kind received from other donors in 2012 relates to a reduction in a provision for in-kind staff.

The Outstanding pledges column shows movements in outstanding pledges between 1 January 2012 and 31 December 2012, together with the revaluation of outstanding foreign currency pledges as at 31 December 2012.

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. 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.

**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 2012**

5. Provisions for operations and contributions to national societies (continued)

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. During the year ended 31 December 2012, the IFRC contributed CHF 1,942,428 (2011: CHF 3,318,679)

6. Services and recoveries

In keeping with the IFRC's principle of full cost recovery, costs are recovered from operations for specific services provided in addition to the essential services funded by indirect cost recovery (see also note 7). Such recoveries 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 2012 the total of such recoveries charged to the Ethiopia: Drought Appeal amounted to CHF 31,061 (2011: CHF 21,182).

7. Indirect cost 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, essential to the success of operations. Such indirect support services include management and leadership, both in Geneva and the zones, information and communication technology and professional and services functions in the areas of reporting, resource mobilisation, finance, information technology and human resources. The support for 2012 amounted to CHF 218,187 (2011: CHF 240,715).