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DISASTER RELIEF AND RECOVERY FUND

Special Purpose Financial Information
30 June 2020

Principal Activities and Registered Office in Australia

Australian Red Cross Society ('Society') undertakes a wide range of humanitarian activities to reduce vulnerability and improve lives in Australia and overseas.

Australian Red Cross Society is an organisation incorporated by Royal Charter and is a member of the International Federation of Red Cross and Red Crescent Societies. Australian Red Cross Society operates as two key operating divisions: Humanitarian Services, which provides relief in times of crisis and care for people experiencing vulnerability in Australia and around the world; and the Australian Red Cross Lifeblood (Lifeblood and previously called Australian Red Cross Blood Service), providing quality blood products, tissues and related services for the benefit of the community.

Australian Red Cross Society is domiciled in Australia and its registered office and principal place of business is:

Australian Red Cross Society
23-47 Villiers Street
NORTH MELBOURNE VIC 3051
Tel: (03) 9345 1800
ABN 501 69 561 394

Report on Disaster Relief and Recovery Fund

In July 2019, Australian Red Cross Society (the Society) established the Disaster Relief and Recovery (DRR) Fund for the period of July 2019 to June 2020, with the stated fund intent (fund intent) being:

‘Your donation means the Society can be there as soon as an emergency strikes in Australia and further afield. With your support we can help communities to prepare, respond and recover from disasters’.

During summer we saw unprecedented bushfires and unprecedented generosity in response from both our local and international community. The fund has been open since 1 July 2019 and by 30 June 2020, it had reached just over \$227 million.

The Society is using funds to support Australian Red Cross emergency teams this year, to help people meet their immediate needs through emergency grants, together with longer-term recovery support for people and communities and to cover necessary administrative support costs.

The DRR Fund allows the Society to support bushfire-affected communities now and over the coming 3 years as they recover.

A risk management approach is adopted to all our operations, as discussed in our Annual Report.

Specifically in relation to DRR Fund, an Advisory panel was put in place, including external panel members with previous lived experience to provide input on management recommendations and decisions in relation to the DRR Fund and support provided.

A dedicated team was employed to manage the end to end grant application, validation and payment process. In the case of emergency assistance we made decisions to balance controls around fraud with the need to get funds to those in needs as quickly as possible, based on limited and changing external information available confirming who was impacted by the bushfires.

Normal governance processes were applied in relation to payment approval delegations, cash flow management, donor funder reconciliations and cost recovery. Our administration costs whilst still incurred in relation to fundraising platform fees and international bank fees, system and legal costs were kept low due to the waiving of local bank fees and pro-bono services providing some systems and security support, fraud controls advice and independent audit support.

Refer to our website for [details on latest amounts disbursed and communities supported](#) (note that this information is not audited).

The numbers in this special purpose financial information are provided on an accruals basis in line with Australian Accounting Standards and also reported in our full Annual Report available on line.

Disaster, Relief and Recovery Fund

STATEMENT OF INCOME AND EXPENDITURE FOR THE YEAR ENDED 30 JUNE 2020

	Notes	2020 \$'000
Donations in respect of the Disaster, Relief and Recovery Fund	3a	227,044
Interest earned on funds held in separate bank accounts	3b	233
Total Gross Income for the Disaster, Relief and Recovery fund		227,277
Direct Relief Grants		
- distributed	3c(i)	118,658
- provided	3c(ii)	33,867
Total Direct Relief grants		152,525
Emergency services team in FY20	3d	5,000
3 Year Recovery Programs	3e	848
Administrative Support Costs	3f	8,243
Total Expenditure		166,616
Surplus of unexpended donations transferred to Disaster, Relief and Recovery Fund		60,661

STATEMENT OF DISASTER, RELIEF AND RECOVERY FUND AS AT 30 JUNE 2020

	2020 \$'000
Balance as at 1 July 2019	-
Transfer of surplus of unexpended donations to Disaster, Relief and Recovery Fund	60,661
Balance as at 30 June 2020 available for Direct Relief Grants and expenditure	60,661

Notes to the statement of income and expenditure and the statement of disaster, relief and recovery fund

1. Establishment of the Fund

On 1 July 2019, Australian Red Cross Society (the Society) established the Disaster, Relief and Recovery (DRR) Fund, with the intent that the Society can be there as soon as an emergency strikes in Australia and further afield and in particular funding community support in respect of specified disasters.

The DRR Fund relates to the grants and donations received by the Society that are set aside for people impacted by the bushfires who are still coming forward, and to be disbursed or spent specifically for further bushfire relief claims and recovery efforts in FY2021 and FY2022. Future expenditure relating to grants and any future donations in respect of bushfire relief will be expensed and recognised as income respectively in the statement of income and expenditure in future periods, with any surplus or deficit allocated to the DRR Fund.

Apart from \$5 million used to fund the Australian Red Cross emergency team this financial year, all other funds allocated to the DRR Fund for the year ended 30 June 2020 have been or will be used to support those impacted by the summer of 2019 / 2020 bushfires including affected communities to meet their immediate needs through emergency grants, together with longer-term recovery support for people and communities and necessary administrative support costs.

2. Basis of preparation

The special purpose financial information comprising the statement of income and expenditure and the statement of the Disaster, Relief and Recovery Fund and notes thereto (the financial information) has been prepared to meet the requirements of the Directors for the period 1 July 2019 to 30 June 2020. The special purpose financial information has been prepared in accordance with the recognition and measurement requirements of applicable Australian Accounting Standards and Interpretations and has been prepared in accordance with the accruals basis of accounting and is based on historical cost.

The following significant accounting policies have been adopted in the preparation and presentation of the financial information.

3. Summary of significant accounting policies

(a) Revenue - donations

The Society recognises revenue under AASB 1058 or AASB 15 when appropriate. In cases where there is an enforceable contract with a donor with 'sufficiently specific' performance obligations, the transaction is accounted for whereby income is recognised when (or

as) the contractual performance obligations are satisfied (i.e. when the Society transfers control of a product or service to a beneficiary). Revenue is measured based on the consideration to which the Society expects to be entitled in a contract with parties.

In cases where the Society enters into transactions where the consideration to acquire an asset is significantly less than the fair value of the asset received principally to enable the Society to further its objectives the excess of the asset recognised (at fair value) over any 'related amounts' is recognised as income immediately.

The DRR Fund was established by the Directors of the Society for the purpose of funding the Society's ongoing work on disasters and those donations specifically designated by donors are allocated to the DRR Fund. Donations specifically identified by donors for the DRR Fund as well as all single donations received by the Society via the Australian Red Cross Society website from the 5th to the 17th January 2020 were recorded in DRR Fund on the basis that management decided to allocate all donations received during that period to the DRR Fund.

During the period ended 30 June 2020, the DRR Fund received most of its funding from donations. Amounts donated are recognised as revenue only when the DRR Fund gains control, economic benefits are probable and the amounts can be measured reliably.

The Society establishes controls to ensure that donations are recorded in the financial records, however at times it is impractical to maintain effective controls over the collection of such revenue prior to its initial entry into the financial records. Therefore, donations are recognised as revenue when they are recorded in the books and records of the DRR Fund.

The DRR Fund has received donations principally through the Australian Red Cross Society's own fundraising platform, operated by the Australian Red Cross Society, and through the use of contracted fundraising platforms.

Pledged amounts are not recognised as donations as they are not enforceable by the Society. Donations are recognised at the gross amount donated and any fees deducted by fund raising platforms are recognised as an expense described as Administrative Cost on the basis that the contracted fundraising platforms are acting as agents for the Australian Red Cross Society.

For other sources of donations, revenue is recognised when the Society obtains control of the funds.

Notes to the statement of income and expenditure and the statement of disaster, relief and recovery fund (continued)

(b) Other income - interest

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset. Interest is earned on funds held in the DRR Fund at 0.45%

The funds set aside are held in low risk interest bearing accounts with Commonwealth bank, ANZ, and NAB. This is in line with the Society's investment policy, no more than 40% of the Society's funds are held in any one institution for a prolonged period of time to balance the counterparty risk. Interest is then allocated back into the fund for distribution.

(c) Direct Relief Grants

(i) Direct Relief Grants distributed

These amounts are payments made in accordance with applications that meet the terms of the grant to those people whose homes have been destroyed, have been hospitalised, lost a loved one or for urgent home repairs. This also includes mid to long term support grants for people facing financial hardship to rebuild their homes.

(ii) Direct Relief Grants provided

This amount represents the expense in respect of amounts provided relating to claims applications received by the 31 August 2020.

In respect of claims, the expense is recognised when an applicant makes a claim that meets the relevant grant's requirements before or on the application deadline. As at 30 June 2020 the application closure deadline was 31 August 2020. The DRR Fund has recognised an expense in respect of the provision only where there are claims received on or prior to the 31 August 2020 with the provision based on analysis which includes taking into account the probability of expected settlement having regard to the terms of the grant and the outcome of experience from prior reviews of applications.

Refer to Subsequent Event note for extension of the application deadline.

(d) Emergency Services

This represents the costs of the Society's emergency team, including payroll costs.

(e) 3 Year recovery programs

These programs are to help impacted communities in their recovery. It includes personnel costs and other general expenses incurred on assistance and rebuilding the community.

(f) Administrative Support Costs

Administration Support Costs are the necessary costs of managing a fund of this size and distributing money as effectively and efficiently as possible. They include the set-up of a dedicated grant payments team, casework support for people with complex needs, fraud prevention, data security, and the fundraising systems that made it possible to raise money. Third party fundraising platform and merchant card fees of \$2.4m are included in this amount. For FY 2020, the Society only deducted 4 cents in every dollar raised for administration support costs.

(g) Foreign currency

The functional and presentation currency of Australian Red Cross Society is Australian dollars (\$AUD).

Some overseas donations were received in foreign currency. Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rate of exchange ruling at reporting date. All foreign currency differences in the financial report are taken to profit or loss.

(h) Income tax

The Society, being a humanitarian organisation, is exempt from income tax under subsection 50-5 of the Income Tax Assessment Act 1997. The entity is also registered as a deductible gift recipient for tax.

(i) Goods and services tax

Revenues and expenses are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of an item of expense.

(j) Judgements and estimates

In the application of the Society's accounting policies, management are required to make judgements, estimates and assumptions about the carrying amount of the Direct Relief Grants provision that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. There is a degree of uncertainty as to the amount of the pending applications that will be successful and paid.

Notes to the statement of income and expenditure and the statement of disaster, relief and recovery fund (continued)

Subsequent events

As at 30 June 2020 the application for Direct Relief Grants closure deadline was 31 August 2020 (refer to Note (c)). Subsequent to year end, the Society extended the application deadline to 30 September 2020 and as at the date of this report, to 31 December 2020.

Should all funds not be claimed by the 31 December 2020, the Society will extend our program of support based on community needs analysis.

Subsequent to 30 June 2020, and as at 30 September 2020 the Society has paid \$157m in respect of Direct Relief Grants.

Board members' statement

The Society Board members declare that in the Board's opinion, the attached special purpose financial information and notes thereto present fairly in accordance with the basis of preparation set out in Note 2.

On behalf of the Society Board



Ross Pinney
President of the Society

Melbourne, 23 October 2020



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Independent Auditor's Report to the Directors of the Australian Red Cross Society

Opinion

We have audited the attached Special Purpose Financial Information of the Australian Red Cross Society ("ARCS") Disaster Relief and Recovery Fund ("DRRF") for the period 1 July 2019 to 30 June 2020, which comprise the statement of income and expenditure and the statement of the Disaster, Relief and Recovery Fund and notes and directors' statement.

In our opinion, the accompanying Special Purpose Financial Information presents fairly, the Statement of Income and Expenditure for the year ended 30 June 2020 and Statement of Disaster, Relief and Recovery Fund as at 30 June 2020 in accordance with the basis of preparation described in note 2.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Special Purpose Financial Information* section of our report. We are independent of ARCS in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independent Standards)* (the Code) that are relevant to our audit of the Report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Basis of Accounting and Restriction on Distribution and Use

We draw attention to the *Responsibilities of Management and Directors for the Special Purpose Financial Information* section of our report, which describes the basis of accounting. The Special Purpose Financial Information has been prepared to assist ARCS to meet the financial reporting requirements of the Directors. As a result, the Special Purpose Financial Information may not be suitable for another purpose. Our report is intended solely for the Directors of the Australian Red Cross Society and should not be distributed or used by parties other than the Directors of the Australian Red Cross Society. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Directors for the Special Purpose Financial Information

Management is responsible for the preparation and fair presentation of the Special Purpose Financial Information in accordance with the requirements of the Directors and has determined that the accrual basis of accounting is appropriate to meet the financial reporting requirements of DRRF and the needs of the Directors of the Australian Red Cross Society. Management's responsibility also includes such internal control as Directors determine is necessary to enable compliance with the DRRF and the preparation and fair presentation of the Special Purpose Financial Information that is free from material misstatement, whether due to fraud or error.

The Directors are responsible for overseeing ARCS' financial reporting process.

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Member of Deloitte Asia Pacific Limited and the Deloitte Network.



Auditor's Responsibilities for the Audit of the Special Purpose Financial Information

Our objectives are to obtain reasonable assurance about whether the Special Purpose Financial Information as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Special Purpose Financial Information.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Special Purpose Financial Information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 ARCS internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Evaluate the overall presentation, structure and content of the Special Purpose Financial Information, including the disclosures, and whether the Special Purpose Financial Information represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

DELOITTE TOUCHE TOHMATSU

Isabelle Lefevre
Partner
Chartered Accountants
Melbourne, 23 October 2020

Auditor registration number: 21638

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October 2020

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