

REPORT OF THE VERIFICATION COMMISSION OF FIDE
JUNE 2016
ATHENS, GREECE

The Verification Commission met at FIDE's Secretariat office during the period 7-9 June. Present were Chairman Graham Boxall and Secretary Margaret Murphy. Tshepo Sitale was in attendance throughout as an approved observer.

Audit Report

The report of the statutory auditor of FIDE's financial statements for 2015, the calendar year under review, was not available to us during our meeting. But we were told that the auditory process was under way and that the report was expected to be available before the General Assembly takes place in Baku.

Financial Statements

The primary financial information, in the form of the balance sheet as at the accounting year end 31st December 2015 and the annual statement of income and expenditure for that year, was tabled and examined in detail. It is fair to say at the outset that we were disappointed to see that there had been a further deterioration in the value of the organisation's assets. In particular it was noticeable that the value of the securities held as a 'cushion' against unforeseen losses and expenses had fallen from 623,000 euros to 152,000 euros: that fall in value indicated that it had been necessary to sell securities to meet a perceived but unexpected shortfall in income and a rise in expenses necessitating emergency measures on the part of FIDE's officers during the year. In corroboration of that, an examination of the balance sheet results for both 2014 and 2015 showed that the value of FIDE's assets on the 31st December 2015 had fallen by 955,000 euros in the year leaving a balance of a mere 332,343 euros.

Since part of the assets representing that figure consisted of "Other Debtors/Prepaid Expenses/Accrued Income" in the sum of 308,580 euros it became a matter of very great importance to be sure that all the debts in that debtors' figure would be recoverable in a timely fashion, for without that FIDE would have a value approaching zero. We should mention here that the majority of the debts to FIDE are those relating to commitments due by our President. If the differences between the figures for 2013, 2014 and 2015 were to represent a continuing trend, FIDE's financial position would quickly become very difficult indeed. For those reasons our considerations focused

particularly on finding out where the money had gone and what should be done to prevent further losses.

We proceeded to an examination of the headline figures in the statement of income and expenses and the documents and invoices behind those figures. We should say right away that we saw no evidence of misfeasance within them. It seemed to us that a rational, albeit troubling on occasions, explanation could be found for them all among the instances where expenditure substantially exceeded budget. Egregious examples of that were items spent on Presidential Boards and Congress, legal costs, Sport Accord's activity in Sochi, the unbudgeted item for Itwebia Chess OU, South Koreans, two awards to journalists, and Presidential and Moscow staff travel. The figures also include a very large loss on currency conversion, which could be classed as somewhat technical and outside FIDE's control, and a very considerable loss occasioned by the need to liquidate a large part of the securities held by FIDE as the cushion referred to above, which we would characterise as not just unfortunate but as the regrettable consequence of collective overspending in the above and other areas.

Development Commission

As we said last year that we would, we have looked closely again at the figures for the Development Commission. Its budget was reduced to half that of last year. And it again overspent by some 20,000 euros but we were satisfied that on this occasion the variance was more to do with payment by FIDE of greatly increased rebates rather than over-expenditure in the continental zones or elsewhere. However our analysis of how some of the money was spent persuaded us that we should, in this report, encourage member federations of continental zones to participate more fully in the process of determining how and where the money that is received from the Development Commission should be spent.

Cash Flow

We have reported on overspending on budgets, but not least of FIDE's financial problems arise from the late payment of debts and deferral of receipts. One particular example of the latter is the periodical failure of the organisers of FIDE championships to comply with the payment obligations to FIDE set out in the applicable contracts, payment obligations upon which FIDE's finances rely. Examples of defaulting organisations in our year of account include the Women's World Championship which took place in Ukraine and the forthcoming Olympiad in Baku. In both cases FIDE was left without receipt of contractual payments on which it was entitled to rely in forecasting and budgeting its own expenditure from time to time during the year. A further instance where intense pressure is put on FIDE's budgeting occurs if FIDE is called upon to fund cash prizes for a FIDE event when the

organisers have failed to procure receipt sponsorship (or other) money in due time. A related instance occurred during the year when it was agreed that FIDE would forego receipt of some 80,000 euros from the prize fund allocated to the Rapid and Blitz tournament held in Berlin. We recommend that FIDE explore and implement stricter measures to enforce contractual commitments in order to avoid such difficulties for itself. And a case can also be made for taking measures to accelerate receipt of membership and registered tournament fees.

Contracts

When FIDE engages in sanctioning activities and events, it incurs numerous ancillary costs and disbursements hitherto not separately itemised and charged. Such costs and disbursements often include substantial outgoings on, for example, arrangements for drug tests, arbiter provision, medical matters, banking facilities contract administration and the drafting and provision of the contracts themselves. We believe that consideration should be given to the inclusion of such items in contracts for payment by organisers, rather than FIDE. And we further recommend that the Treasurer be party to negotiating and drafting of such contracts to ensure that he is privy to the commitments and expectations of all parties, can anticipate and plan for known events and can take measures against unexpected contingencies or defaults as appropriate; this recommendation should involve a review of the terms of Chapter 09.1 of FIDE's Statutes.

General

In previous years, when FIDE's finances were in better standing and our President was funding the majority of his expenses, it was possible to absorb some flexibility around the annual budgeted figures. In the context of the difficulties highlighted in this report however, that approach can no longer be regarded as appropriate and corrective action needs to be taken as a matter of urgency. We therefore recommend that the budgeting process be rigorously examined and applied during the year of account to which it relates and, in addition, that consideration be given to:

- a) reviewing of budgets for Commissions,
- b) the exercise of restraint on non-core expenditure,
- c) analysing expenditure with much greater emphasis on value for money,
- d) a review of the level of federation membership fees (which appear, incidentally, not to have been increased for more than twenty years) and
- e) removing the cap on tournament registration fees.

FIDE's objective now should be to do what it takes to restore a situation where it has an assets cushion equivalent to not less than one year's expenditure, and from our meetings with FIDE officers in Athens we are aware that steps are already being taken to address the issues raised in this report.

As always, we express our thanks to the staff in the Secretariat for their great help and their tolerance of the demands made by us during our visit.

A handwritten signature in black ink, appearing to read "Graham Scall". The signature is fluid and cursive, with a large, sweeping initial "G" and a stylized "S" at the end.

Chairman, July 2016