

**Report of the Verification Commission for FIDE General Assembly
Abu Dhabi, 26 February/01 March 2020**

The Commission met at the FIDE office in Athens in June 2019 and at the new FIDE administrative office in Lausanne Switzerland in February 2020. We were required to have two meetings because the financial statements and audit report were not finalized by the time of our June 2019 meeting. Members of the Commission are Lakhdar Mazouz, Panu Laine, Margaret Murphy, Rajai Al-Susi and Allen Priest. We were joined in Athens by FIDE Treasurer Zhu Chen, COO Willy Iclicki and Accounting Consultant Alexander Volzhin. We were joined in Lausanne by COO Willy Iclicki. Accounting Consultant Alexander Volzhin joined us by phone of part of our meeting.

All members were present in Athens. For the Lausanne meeting Margaret Murphy joined us by phone.

In Athens we expected to receive the final financial statements and auditors report. We received a preliminary set of financial statements and were informed that the audit was not complete. That required a second meeting after the auditors' report and the financial statements were finalized. We had these documents for the meeting in Lausanne.

In our meetings we noted the following items.

1. It did not appear the transition between the outgoing and incoming administrations was very smooth. We were told the office staff have been very helpful.
2. FIDE changed its financial reporting model. There are various levels of financial reporting and different levels of audit requirements available under Swiss law. The new administration elected to conform FIDE financial reporting to Swiss standard accounting rules and increase the level of the audit. After the audit was complete, we were able to meet directly with the audit manager representing Ernst and Young (EY). We also received the EY "Comprehensive report of the auditor to the Presidential Board in accordance with article 728B Swiss Code of Obligations. This report contains the auditors' issues and concerns regarding several issues including:
 - a. Performance of the audit
 - b. Results of the audit
 - c. Comments on the financial reporting
 - d. Comments on the internal control system
 - e. Findings pursuant to the Financial Market Infrastructure Act (FMIA)
 - f. Updates on current developments

We asked the EY representative about the cooperation from management. He noted their inability to get a response from the prior administration as well. He did not express any other concerns. He explained the differences between Swiss accounting standards that were used to prepare the financial statements and International Financial Reporting Standards (IFRS).

3. As noted above the audit work performed for 2018 was different from the services performed by the external audit firm in prior years. The work on prior year financial statements had a limited scope. It consisted primarily of inquiries of management and analysis of various financial ratios. It was the minimum required under Swiss law for entities the size of FIDE. For 2018 the work was expanded to a full scope audit. In this type of engagement, the external auditor does not just make inquiries of management, but also seeks independent verification of amounts reported by management. This audit evidence includes the confirmation of the existence and

the amount of accounts with counterparties. The auditor also reviews by inquiry and observation the system of internal control to make sure such system exists. The Auditor does not test the effectiveness of the system of internal control throughout the year.

4. Management engaged EY to conduct a forensic audit to explore certain areas of concern in more detail. That report was not finished in time for either of our two Commission meetings. We understand the report is to be presented at the special General Assembly.
5. Management explained the decision to adopt the Swiss accounting standards rather than IFRS. They indicated a switch to IFRS would entail extra cost and concluded any additional informational value would not be worth the cost. They felt the change to the Swiss standards was sufficient to meet FIDE needs.
6. We noted the issues with the banking situation which previously had been reported at the 2018 General Assembly. The FIDE accounts were frozen and to be able to transact business the prior administration established a financial arrangement through an unusual trust account with a Hong Kong company called Arkion. The Arkion fiduciary arrangement continued through the end of 2018 and into early 2019 as FIDE management worked to make new banking arrangements. In 2019 FIDE was able to set up accounts with banks in Russia and Spain and the Arkion arrangement was terminated. This situation was expensive, and 2018 bank charges far exceeded the budget and the amounts spent in the prior year. The Arkion agreement provided for a monthly fee which included a limited number of transactions. The number of transactions processed significantly exceeded the limit in the agreement and each additional transaction cost \$80 USD. Management expects this cost to decrease in 2019 with the return to normal banking arrangements.
7. Management noted FIDE does not have tax exempt status in Switzerland. Management is working to change the tax status to save the money currently paid in taxes. Also, this would allow FIDE to accumulate money from operations as a reserve fund without an income tax cost.
8. We noted the allowance for bad debts for amounts due from national chess federations. Several nations have balances due that are years old. Management reduced the value of these receivables on the balance sheet at 31 December 2018. Any amount due from billings prior to 2018 were valued at 0, and 2018 unpaid billings to national federations that had unpaid amounts from prior years were valued at 50%. Management is attempting to collect these amounts, but collection is not assured. Creating this allowance resulted in an expense in 2018 of over 366,000 Euro.
9. Management stated that some of these national federation debts are from individual title fees of various types that the national federations claim are the responsibility of those individuals. The financial regulations require the national federation to collect and remit those fees to FIDE. We recommend that FIDE refrain from issuing any title until the proper payment has been received.
10. We believe FIDE needs to take action to clear up these amounts due from various national federations. There are provisions in the current statutes and in the proposed new charter for FIDE to take actions to collect these debts. We believe these provisions should be followed.
11. The External Auditor noted the existence of an account in FIDE's name which had not been included in prior FIDE financial statements. This account was to benefit the Americas Continental Association (CCA) but it was in the name of FIDE. We understand the account was closed in 2019 and the money transferred to an account established by the CCA. But it is included in the 2018 financial statements since it was a FIDE asset.
12. We noted a practice of forwarding an annual allowance to certain continental presidents for expenditure on behalf of the continental association. Those presidents submitted receipts for expenditures after the fact. We believe this practice should be stopped. Expenditures should

only be made as costs are incurred and proper support should be submitted at the time the expenditure is processed.

13. We noted the cost of advisors to the president for the transition was not included in the budget. Costs for advisors to the prior administration ended with the transition.
14. Iran has not paid 65,000 Euro for the Women's World Championship held there. Management established a 100% valuation allowance for this in 2018. Thus 2018 expenses were increased by that amount.
15. Management noted there are amounts due from various FIDE training academies that appear to be uncollectible. Those have been fully reserved in 2018 and the status of those academies is under review.
16. Management is proposing a new set of financial regulations. We reviewed the proposed regulations and provided comments. One area under consideration for change is the calculation of national federation and other member fees. National federation fees have not been revised since 2004. This would involve reviewing the status of each federation and changing the level of federations where warranted. The proposed rules would reset the annual fee levels based only on chess activity. We discussed if it was appropriate to add some consideration of the economic development of the country in addition to the chess activity to establish the level. The proposed rules also call for the elimination of all fees except for the annual fee to level 4 and 5 federations with some relief for level 3 federations.
17. Management noted there had been a travel insurance contract with an annual premium of over 44,000 Euro. That contract was terminated, and individuals will be responsible for their own travel coverage.
18. Management discovered several payments to various individuals for which they found little or no documentation. We were not told of any plan to seek to recoup any of these payments.
19. Management reported on the status of the relocation of the FIDE offices to Lausanne. The accounting staff is still primarily in Athens. They are still using an accounting system that was custom developed for FIDE. The production of some weekly reports has been automated so that management can carefully monitor expenditures. The Accounting Consultant is reviewing these reports and periodically recommending changes in the accounting for various items.
20. The relocation has resulted in some staff turnover. Those with contracts under Greek law are receiving severance in accordance with those contracts. The expected cost of the relocation and severance costs were recorded as expenses and liabilities in 2018.
21. Management has hired a local Lausanne accounting firm to process and administer payroll in Switzerland. They decided to do this to make sure FIDE is in compliance with Swiss law. We received and reviewed the contract for these services.
22. The current audit firm has been engaged for the audit of 2019. The audit manager committed to us to complete the audit work by April and the issue the report by May. Therefore, we set our meeting to review that work for the first week of June 2020 in Lausanne.
23. We discussed with the Accounting Consultant and the audit manager the feasibility of adding a statement of cash flows to the financial statements. We believe it would cost little to add this statement and the statement would provide valuable information to users of the financial statements.

The Commission met at the General Assembly meeting in Abu Dhabi.

Members from the audience asked questions. We made some adjustments from our initial report in response.

There was some discussion that was not directly related to the Verification Commission work.

- Hal Bond of Canada asked about 2019 financial results. Accounting Consultant Volzhin stated the 2019 results were about break even with perhaps a small deficit related to the failure of an event sponsor to make proper payment.
- There were questions addressed about various financial statement items at 31 December 2018. Those questions were addressed by Mr. Volzhin. These were not questions addressed to the Verification Commission.

To summarize the recommendations of the Verification Commission:

1. FIDE should continue to engage the audit firm to conduct a full scope audit.
2. FIDE should continue to make its financial statements in accordance with Swiss accounting standards.
3. A cash flow statement should be added to all FIDE financial statements.
4. Management should continue to pursue tax-exempt status in Switzerland to reduce tax costs.
5. Member federation debts should be collected. Management should use the provisions of the FIDE charter and statutes to collect these debts.
6. FIDE titles should not be issued until payment for such titles is received.
7. Payments for expenses and services should be made only after the receipt of appropriate documentation and approval of the expenditure.
8. The new Financial Rules propose that member federation fees should be re-evaluated. We believe it is time to consider changes in federation fees. We believe that some consideration should be made of the economic development of the various nations in setting fees.
9. Management should consider adopting a standard accounting program instead of the current custom application. Such a change could reduce costs and be better able to produce internal financial reports more quickly.
10. The 2019 financial statements and audit report must be completed in accordance with the statutes so that we can complete our work in time for the 2020 General Assembly.