



Verification Commission

FIDE 2021 Financial Statements

VER Report to the 2022 General Assembly

The Verification Commission met via Zoom with the Ernest and Young auditors prior to the start of the audit. All members were present.

The Commission met in Madrid 24-25 June 2022. Members present in person were Chair Lakhdar Mazouz, Rajai Alsusi, Panu Laine, and Allen Priest. Joining via Zoom for the whole meeting was Margaret Murphy. (Referred to as VER) Present in person from FIDE was Alexander Volzhin. Also joining via Zoom were Zhu Chen and Igor Kogan (referred to as Fide Team).

1 - PRE-AUDIT ZOOM MEETING

The Commission met with the Ernst and Young auditors (referred to as EY) prior to the start of the audit via Zoom. The Commission members were able to ask the EY questions and emphasize areas of concern for EY. The Commission discussed the changes in the EY audit team. Only the partner in charge of the engagement remains the same. All other EY team members are different. The Commission expressed strongly the need to have the work completed far earlier than in prior years so the Commission would have time to finish its work before the General Assembly.

2 - INTERIM PERIOD

Before the Commission received the audit report, we did receive from the FIDE the internal accounting records. These are spreadsheet-based reports from the FIDE accounting system listing the transactions by account. The Commission reviewed these reports and conducted a Zoom meeting to develop a list of comments and questions for the FIDE team in advance of our meeting in Madrid. We did not receive the final EY audit reports before meeting in Madrid. We did receive a draft of an EY internal control study that focused on the FIDE IT system. We also received the draft 2021 financial statements with footnotes shortly before the meeting in Madrid.

3 - JUNE MADRID MEETING

To open our meeting the FIDE team gave a summary of the financial results for 2021. They also indicated EY was expected to release the final audit report within a week, so this report was not available for our meeting. This was despite the assurances of EY that the reports would be done before this meeting. The delay this year was related to the more detailed study of the IT system's internal control, and the desire of EY to further consider issues related to the FIDE Special Purpose Vehicle (SPV) used to organize the 2021 World Cup.

The SPV was created solely to manage the contracts and finances of the 2021/2022 tournament cycle planned for Russia. FIDE has full operational control over the SPV and is exposed to profits and losses of the SPV. In the end the SPV only ran the 2021 World Cup due to changes in the FIDE calendar. The SPV was necessary to obtain Russian financial support under Russian law. The financial results of the SPV are not consolidated with the FIDE financial statements in accordance with Swiss statutory accounting rules, but the net result of the SPV operations is reflected in the FIDE accounting records.

The Commission discussed the questions we had previously submitted to the FIDE team. We noted the exposure of FIDE to Russian banks was large on 31 December 2021, but it had been substantially reduced before international sanctions made transfers of money from Russia difficult. At present, FIDE money in Russian banks is adequate to fund FIDE obligations within that country for team salaries and office costs.

FIDE's primary transactional bank is now in Spain. FIDE continues to operate a PayPal account. Last year we noted there were issues with operating that account. The FIDE team advised us that while there remain issues with the ability to transfer funds from the PayPal account to any other FIDE bank, FIDE can operate the PayPal account, and both receive and make payments using PayPal. FIDE has been using that account to make smaller international payments as the cost is less than using wire transfers. The PayPal account balance has been maintained at around EUR 50,000 by balancing receipts and payments.

We noted bank charges were much higher in 2021 than in 2020. We examined the detail of the charges from the records and discussed this with the FIDE team. The higher cost is the result of the higher volume of transactions as worldwide chess activity resumed after pandemic restrictions eased.

Since new financial regulations were adopted effective 1 January 2021, we asked to see the expense reports submitted by FIDE officials. We were checking compliance with the new expense report policy requiring receipts and approvals of all such expenditures. We noted the policy appears to be enforced for all. As noted below, the auditors discovered some FIDE credit card charges did not have accompanying receipts.

We discussed with the FIDE team the changes in FIDE income. In 2021 general sponsorships declined. However, FIDE is now directly organizing events and the sponsorship income is mostly associated with specific events.

We noted the amounts due to FIDE from Federations had increased due to a resumption of activity after pandemic restrictions were eased. However, we also noted the changes made by FIDE to encourage collections from Federations in arrears appear to have reduced the amounts in arrears. While collection efforts slowed during the COVID period, debtor federations resumed payment programs. As we noted in our prior year report, Iran continues to make significant progress in reducing its total, Serbia is making payments with a goal of paying all its amounts by the end of 2023, and Venezuela has a plan to pay in 2022. Issues have been resolved with balances related to Egypt, among others.

Last year we noted there was a change in billing practice to make it clear what the national federation agrees to have billed to the federation account. This has been an issue with certain federations who

claimed amounts should have been billed directly to individuals. That change has been fully implemented. It does result in more work for the FIDE office as they must bill and collect small amounts from individuals around the world, mostly related to titles. The policy is now that titles are not issued until payment has been received.

The staff levels in 2021 have increased over 2020 as FIDE added marketing and event management positions. Employee compensation increased significantly over 2020 and was over budget. The FIDE team explanation had several points. First, FIDE added positions as mentioned for marketing and events. Second, salaries were reduced in 2020 due to the uncertainty about the impact of COVID. As it became clear that the impact of COVID on FIDE finances was manageable (largely due to an increase in general sponsorship money), salaries were restored, then increased for some employees.

The Commission noted bonuses were accrued for certain management team members on 31 December 2021. We asked about the policy for determining these bonuses, The FIDE team told us certain employee contracts list Key Performance Indicators which, if achieved, provide for bonus compensation. In addition, certain contracts provide for a discretionary bonus of up to 30% of compensation to be determined by the FIDE President and Treasurer.

Last year the auditors noted there was a change in Swiss law requiring FIDE to file VAT returns starting in 2018. FIDE has now properly registered and engaged EY to complete the past due returns and future returns. Filing the prior returns should result in a refund to FIDE for prior VAT paid.

The Commission asked about the impact of the present geopolitical situation on the Russian sponsorship money. There was one sponsorship contract that extended through 2022-2023 that was terminated effective 1 January 2022 and FIDE will not receive the two final years commitment from that sponsor.

4 - COMISSION REVIEW OF AUDIT REPORT

The VER finally received the audited financial statements on 2 July 2022. The date of the auditor's opinion is 1 July 2022. The delay in the issuance of the statements created a major problem for the VER to complete its work in time to meet the deadlines for the VER report to the GA. This is disappointing since the VER has struggled with this issue for the last two years, and the VER was repeatedly reassured by the EY partner in charge that the time requirements would be met.

E&Y issued an unqualified opinion. That is often called a "clean opinion" and is what you want the auditors to find. It means they found no uncorrected material errors. This does not mean the financial statements are perfect, just there are no material errors. The opinion states the financial statements comply with Swiss law and the FIDE articles of association.

The financial statements received from EY matched the internal statements the VER received from the FIDE team.

The VER also received the Comprehensive report of the auditor, which is the Swiss equivalent to a management letter. That report noted there were no uncorrected misstatements in the 2021 financial statements. That means any material items noted by the auditor were adjusted before the financial statements were finalized. The report also notes the Special Purpose Vehicle (SPV) mentioned above. The report notes the purpose for the formation of the SPV was to get funding from the Russian government that FIDE would have otherwise been unable to obtain. As the FIDE team explained, Russian law prohibited the distribution of government funds to a non-Russian entity. The formation of a subsidiary in Russia was used for the first time in 2021 to obtain funding for the 2021 World Cup event and was to be used for the 2022 Olympiad and other events (subsequently moved).

The report made special mention of issues with the FIDE accounting system. The report mentions several internal control weaknesses of the present system. The report states:

“... we noted that the accounting entries are not locked upon booking in the accounting system but can actually be modified subsequently without amending the date of the accounting entry. Changes are not evidenced in the system and therefore could affect figures that have already been subject to review. This is clearly not standard practice and should be changed going forward. Separate corrective entries should be recorded each time an entry needs to be corrected.”

In noting these issues, the auditor then required FIDE engage their IT department to conduct an in-depth internal control review of the controls over FIDE’s accounting and IT systems. That report was also provided to the VER. The review noted that basic controls over system access and for the preservation of and audit trail for access and changes is lacking in both the general IT systems and the accounting program.

The auditors also noted they selected a sample of credit card expenditures and several lacked formal expense approval and supporting invoices.

The VER also reviewed expense reports found in the accounting records and found those reports had been approved and had receipts attached. The issue appears to be direct credit card purchases. In response to an inquiry, the FIDE team noted several management team members carry FIDE cards as well as one that is in the office and is used for booking travel and other purchases.

The auditors stated corrective actions should be taken as soon as possible to address these issues.

5 - PRIOR YEAR RECOMMENDATIONS AND RESPONSES

The VER reviewed our 2020 recommendations with FIDE staff. The specific recommendations from the VER report on the 2020 financial statements and the FIDE responses are listed below.

Recommendation 1. While we noted a cash flow statement prepared on the indirect method had been included in the internal statements, we again recommend the cash flow statement should be prepared on the direct method. While the direct method would take more time to prepare, it would provide more information to the financial statement users.

Response 1. FIDE continues to prepare a cash flow statement, but on the indirect method.

Recommendation 2. The auditor engagement should be expanded to include the cash flow statement.

Response 2. The auditor was not engaged to examine the cash flow statement. The FIDE team said the cost to expand the engagement would be prohibitive as cash flow statements are not part of the Swiss statutory reporting model.

Recommendation 3. The contract with the auditor must clearly state the audit must be completed by the end of May so the VER will have adequate time to complete its work.

Response 3. The timing requirements were made clear to EY, and they committed to that timeline. However, EY did not meet its commitment. The FIDE team attributed the delay to the IT internal control work and the need to look at more documents related to the SPV.

Recommendation 4. The VER agrees with the FIDE team recommendation to explore a change in auditor. The purpose of the change is to find a firm that will have value the relationship enough to complete the audit within the time agreed to in the engagement letter.

Response 4. The FIDE team explored other auditors but were unable to obtain proposals from other firms. The firms indicated they did not have the staff to conduct this audit.

Recommendation 5. The FIDE Charter states the business language of FIDE is English. Therefore, all FIDE contracts should be prepared either in English, or as a parallel dual language version.

Response 5. FIDE accounting documents and contracts are now stated in English or there are dual language/translations available when signed. The Commission did note travel receipts for airfare were still in Russian when the travel was booked by the FIDE Russian office.

Recommendation 6. As we previously recommended, FIDE should complete the development of a nepotism policy to clarify that any family members will not be in a supervisory position over another.

Response 6. FIDE adopted a nepotism policy at the General Assembly in 2021.

Recommendation 7. The resolution of the issue with access to the PayPal account funds needs to be a high priority.

Response 7. FIDE can access the PayPal account to make payments, although transfers to other FIDE bank accounts are still a problem.

Recommendation 8. FIDE needs to complete all required Swiss VAT returns and claim the appropriate refunds as soon as possible.

Response 8. EY has been engaged to complete this project.

Recommendation 9. Future contracts for event or program sponsorships and general donations should include terms to allocate contract revenue to the various requirements for FIDE to provide services. This will meet the requirements of Swiss statutory accounting rules while maintaining the customary revenue recognition policies of FIDE. FIDE should continue to make its financial statements in accordance with Swiss accounting standards and engage the audit firm to conduct a full scope independent audit as it has done for 2018 and 2019. The limited scope audit and the presentation of financial statements under FIDE's own accounting rules as was done prior to 2018 does not provide adequate assurance as to FIDE accounts.

Response 9. Sponsorship contracts now are mainly related to events and contain language defining the FIDE obligation to which the sponsorship money relates. There were no issues with the auditor for 2021 related to contract revenue recognition.

6 - CURRENT RECOMMENDATIONS

Recommendation 1. We continue to recommend the cash flow statement should be prepared on the direct method. While the direct method would take more time to prepare, it would provide more information to the financial statement users.

Recommendation 2. The FIDE Charter states the business language of FIDE is English. Therefore, all FIDE accounting documents should be prepared either in English, or as a parallel dual language version. We noted travel documents booked in Russia were only provided in Russian, and we required a translation to be able to determine the purpose of the travel.

Recommendation 3. FIDE needs to complete all required Swiss VAT returns and claim the appropriate refunds as soon as possible.

Recommendation 4. The Commission is still receiving information far later than we are comfortable with. We need information much earlier so that we have time to do our work. The auditor must still be pressed to complete the work in May, and internal documents should be provided to the Commission no later than the end of April.

Recommendation 5. All bonus policies should be publicly available.

Recommendation 6. Bonuses should be provided for in the FIDE budget. If management wishes to award bonuses more than the budgeted amount, the FIDE Council should approve the increased amount in total.

Recommendation 7. The EY IT internal control study makes it clear that access controls over the accounting system are lacking. Further, the system does not support an audit trail of changes to transactions. As we recommended in prior years, we believe it is time to replace the custom Greek accounting program, which is based in Excel spreadsheets, with a standard program available in the marketplace. Examples of such programs are QuickBooks, Sage Intacct, or Oracle NetSuite. Such accounting program should employ standard double entry accounting. The numbers of users who can post transactions to the accounts should be limited. An audit trail of changes to transactions should be inherent in the program. The system should support making financial information widely available both to FIDE management and to member federations and other interested parties. We recommend the implementation of a new system be made a priority with the goal of having a new system operating by the start of the new fiscal year on 1 January 2023.

Recommendation 8. With the normal scheduling of the Olympiad and World Championship cycles, FIDE has a two-year operating cycle. FIDE must generate extra income in one year to covers costs in the subsequent year. The planning for and creation of a two-year budget would better fit the operating cycle than the current system of single year budgets. We propose the adoption of a rolling two-year budget process.

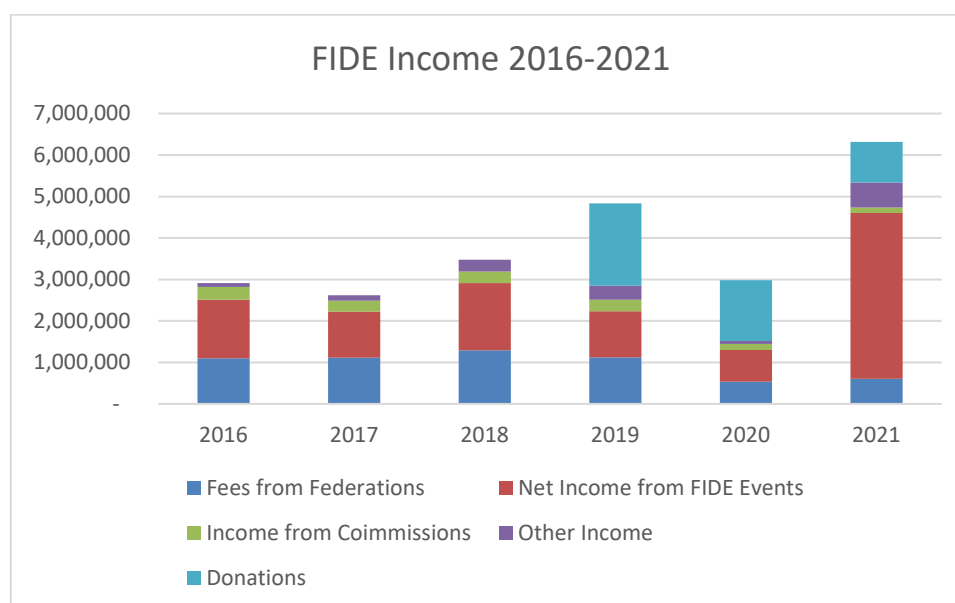
7 – TRENDS OF FIDE INCOME/EXPENSES

The VER has the following comments on the trend of income/expenses since 2016 to 2021. (All figures are expressed in Euro)

INCOME						
	2016	2017	2018	2019	2020	2021
Fees from Federations	1,098,327	1,112,442	1,295,302	1,123,810	539,025	606,955
Net Income from FIDE Events	1,411,315	1,116,372	1,616,902	1,112,468	757,373	3,999,059
Income from Coimmissions	309,142	260,582	275,345	275,257	146,824	124,968
Other Income	92,110	126,345	286,582	340,633	69,946	602,954
Donations	-	-	-	1,981,656	1,469,083	981,545
	2,910,894	2,615,741	3,474,131	4,833,824	2,982,251	6,315,481
EXPENSES						
	2016	2017	2018	2019	2020	2021
Official's expenses	176,911	247,558	629,186	366,639	73,731	258,068
Secretariat/All	671,881	613,810	676,521	1,001,577	1,010,178	1,329,583
General expenses	565,568	784,270	1,127,392	958,142	845,426	822,508
Commissions & Committees	618,885	422,741	675,971	443,657	277,847	308,245
Event Expenses	60,046	83,662	376,167	483,256	149,913	256,461
FIDE Development Fund				1,893,213	818,725	1,240,527
	2,093,291	2,152,041	3,485,237	5,146,484	3,175,820	4,215,392
Net Income against Expenses	817,603	463,700	(11,106)	(312,660)	(193,569)	2,100,089
FIDE Reserve Fund beginning of year					1,289,879	1,096,310
FIDE Reserve Fund ending of year					1,096,310	3,196,399

- Development funds existed also in the years before. They consisted of funds provided for the Development Commission and Activity rebate. (See financial statements for the years 2016, 2017 and 2018). They amounted respectively to 220 570, 183 393, and 300 040.

7.1 - INCOME



Income consists of:

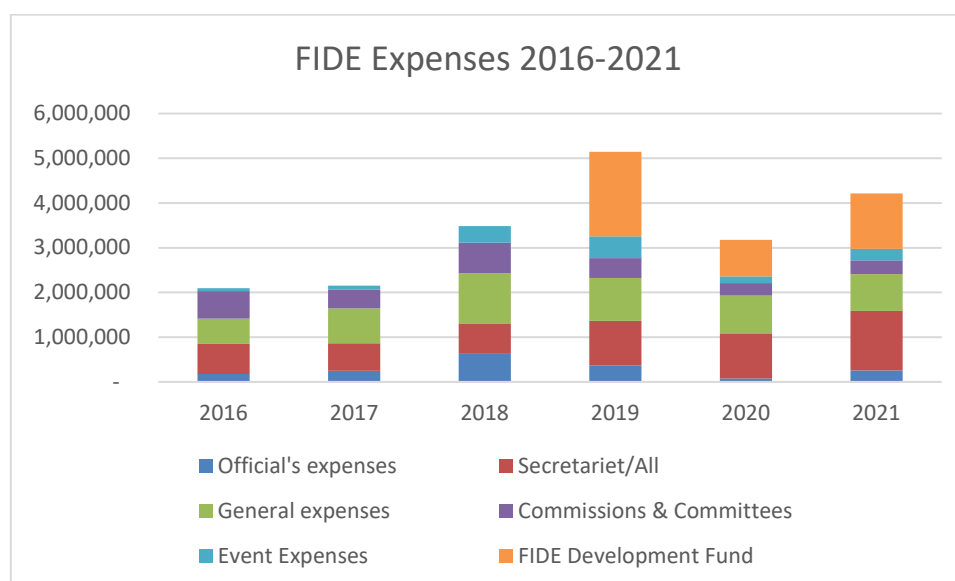
1. **Fees from Federations** - mostly membership fees, entry fees, registered tournaments, change of federation's fees, title fees.
2. **Net Income from FIDE Events** - income from events like World Championship Matches, Candidates, Online events, World Cup etc.
3. **Income from Commissions** - Various seminar and license fees, up to Event Bidding Fees
4. **Other Income** - Various income, e.g., International Olympic Committee, rental of boards, interest from bank, royalties, etc.
5. **Donations** - Donations and sponsorship.

Over the years the makeup of FIDE income has changed. In 2016, income from Federations, chess events and commissions represented 96.8% of the total. However, in 2021 these items increased more than 3 times over the 2020 totals. These represented 77% of 2021 total income due to the post pandemic increase in chess events and competitions.

Income from donations in 2021 decreased 33% from the 2020 total. Fortunately, income from chess activities compensated for the drop in donations.

As we mentioned in our report on the 2020 financial statements, FIDE policy must continue to emphasize developing more revenue outside its traditional income of fees from Federations. With the return of the events rights to FIDE, the sponsorship money is likely to be more focused on event sponsorship rather than general donations. But attention should be made toward generating sponsorships for various FIDE programs in addition to events. As we stated in 2020, FIDE should continue to look for new resources to realize its ambitions for sustained worldwide chess activities. No effort should be spared towards this goal.

7.2 - EXPENSES



FIDE expenses consist of:

1. **Official's expenses** - Mostly Official's travel costs, Treasurer expenses, President advisers, council, and congress meetings.
2. **Secretariat costs** - Mainly of secretariat expenses in Lausanne/Athens and Moscow/Elista – (staff salaries & costs), office rent & costs.
3. **General expenses** - Mainly costs related to accountancy, audits, professional services, bank charges, currency conversion, depreciations, press/PR/marketing, taxes.
4. **Commissions & Committees** - Costs of various Commissions and Committees (20 Commissions in total in 2020) mostly for meetings and travel.
5. **Event expenses** - Varies a lot year by year. Includes World Championship matches, Olympiad, World Cup, various team events, electronic boards.
6. **FIDE Development Fund** - Development Fund for the 4 Continental Associations, for National Chess Federations and Social Projects and Reserves.

All item expenses, except Secretariat and general expenses which are basically fixed costs, were affected by the COVID pandemic. In 2020 fewer chess activities meant reduced revenue but also fewer expenses. In 2021 the reverse occurred, and more chess activities meant increased revenue but also increased expenses. As the pandemic eased, expenses increased. Salaries that had been cut in 2020 due to concerns over revenue in the pandemic were restored in 2021.

Compared to 2019, expenses were cut by 38.3 % in 2020. Costs increased in 2021 but did not return to pre-pandemic levels.

The Development Fund has been the most affected expense item. In 2020 Development Fund expenditures decreased from 1 893 213 to 818 725, a decline of 56.7 % as national federations, zones and continents were forced to reduce activities. In 2021 the Development Fund expenditures increased to 1 240 527. This was a 50% increase over 2020, but still about 2/3 of the 2019 total.

Expenses devoted to development represented 36.7% of total expenses in 2019, 25.7% of 2020 expenses, and 29.4% of 2021 expenses. Nevertheless, they are still a major component of FIDE costs.

However, note that in 2016, 2017 and 2018, development expenses represented respectively only 10.5%, 8.5% and 8.6% of total costs. This means FIDE has increased efforts for chess development around the world.

Note also on 31 December 2021 FIDE had a total of 37 employees and consultants.

Definitions:

Restricted grants – funds provided by an organization to FIDE that stipulates exactly how it will be spent. Unless the funds are spent as stipulated, they must be returned to the grantor.

Sponsorships – funds provided to support a specific FIDE event or program in exchange for publicity before, during and after the event or program.

Donations – funds provided to support FIDE not connected to any specific event with little or no expectation of much publicity or restrictions on the use of the funds.