

Calvia, Spain, 26-30 October 2004

**REPORT OF FIDE INTERNAL AUDITOR REGARDING THE FINANCIAL YEAR 2003**  
(in this report, all figures are in CHF)

**1. ACKNOWLEDGEMENT**

The present report is based mainly on the following:

- the balance sheet
- the statement of income and expenditure
- the financial statistics for the years 1998 to 2003
- meetings and permanent contacts with the Treasurer

Although some financial aspects, examined here, have nothing to do with auditing, I felt, they should be mentioned in order that the GA takes a better and global view to assess whether fide money is spent correctly and efficiently and whether the level of income received is optimal.

**2. INCOME (net figures)**

**2.1 Fide reliable resources**

As shown in the table below, Fide income derived from our reliable resources (membership, entry, rating, registered tournament, and title application fees) are stagnating, if not declining since 1998. This is a very contrasting situation: one feels that competitive chess and number of competitive players is increasing steadily over the years, yet Fide does not benefit from this growth.

1998	1999	2000	2001	2002	2003
751 259	661 334	792 935	961 243	862 484	776 279

▪ **Membership fees**

1998	1999	2000	2001	2002	2003
160 655	161 350	161 000	161 350	162 030	159 650

This income has stagnated for a period of 6 years for two reasons:

- the level and structure of the fee has not changed
- very few new Federations have affiliated to Fide since 1998, at the same time, some have been excluded.

This fee has represented 20.6% of the reliable resources in 2003. It is also worth to notice that 19 Federations, out of 154, paid 50,5% of the total of this fee.

A lot of change has occurred in the World of Chess since 1998: new strong Federations have emerged, the number of players has been growing; this should result in revising the level and maybe the structure of the membership fee. There is a proposal from the Treasurer to this effect; the GA should take a positive stand on it.

▪ **Entry fees**

1998	1999	2000	2001	2002	2003
348 480	254 710	290 730	319 174	308 560	174 850

Entry fees have drastically decreased in 2003 compared to the years before. This decline can be partly explained by the decision taken by Fide, in 2002, to allow Continents collect and keep entry fees paid for participation in Continental events. This is already the case for Europe and Asia. America will follow suit in 2004. As for Africa, this income is marginal and has almost no effect on the entry fees as a whole.

It is interesting to notice that the World Youth Festival hosted in Greece, represented 58,68% (99 120) of this total. The World Senior held in Germany reached a significant 13,4% (23 520) of the same total.

A special attention has to be given by Fide to these two events. Potentially, they can produce more income. They should therefore be opened to wider competition and granted to organisers who guarantee the best financial revenue and the best hosting conditions.

▪ **Registered tournament fees**

1998	1999	2000	2001	2002	2003
100 872	96 798	149 068	148 216	139 116	213 756

After having reached a peak in 2000, tournament fees have declined in 2001 and 2002. But, a new record peak was observed in 2003, with an increase of 53% by comparison to 2002, record income due principally to the increase of the maximum charge paid by a Federation from 4000 to 8000.

▪ **Title application fees**

1998	1999	2000	2001	2002	2003
90 000	93 400	139 000	188 000	162 960	152 950

This income has registered its highest level in 2001, but it is decreasing since then. It continues however to be an important revenue to Fide. The decline in 2003 is the result of charging part of this fee in the year 2004.

## 2.2 Other revenues

	1998	1999	2000	2001	2002	2003
WCC	16 572	815 955	1 199 893	316 244	15 909	476 000
WWCC						

The income derived from the WCC and WWCC is extremely significant. Over the period examined here, Fide received 2 840 613, this revenue presents serious drawbacks: it is not only difficult to predict but also to cash. This resulted in negative consequences such as a tight cash flow or

cancellation of activities, the difficulty to prepare and implement the budget. This is why, since a few years, the Treasurer had to prepare two budgets, one that includes income from the World Championships and the other without taking account of it.

### **3 EXPENSES**

#### **➤ Staff expenses**

Not including the Elista Office, Staff costs seem to be very high with regards to the workload in Lausanne. However, Lausanne belongs now to the past, Fide should learn from the mistakes made there by establishing better supervision and control of the Secretariat and ensuring that number and level of staff match the workload. Fide is taking measures to that effect in Athens, starting in 2004.

#### **➤ Staff travel costs**

Not mentioning travel provided by third parties, these costs have amounted to 85 837. The Verification Commission has pointed out, last year already that staff travel was too high a cost for Fide and hard measures were taken. No more should be said again on the subject.

#### **➤ Telecommunications**

In spite of repeated instructions, telecommunications costs remained high with a predilection for the use (or misuse) of the mobile phone. This item has drawn the attention of the Executive Board in its meeting of last year. There is no need to mention it in details again, except that all Fide mobile phone contracts have been terminated.

#### **➤ Travel and meetings**

These costs concern travel and accommodation mainly for members of the Presidential Board to participate to meetings (PB meetings, negotiations with organisers...). Normally the organisers cover these expenses. However, the tradition has taken place that Fide pays part of the costs when they seem to be excessive; for instance because of costly tickets and higher number of participants. Nothing hinders Fide from continuing to carry out this tradition (especially as potential organisers of PB meetings are frightened by the costs they involve). But norms should be strictly established where number and position of participants to meetings is clearly defined and travel costs not exceeding those of the economic class ticket.

Moreover, extra costs should be paid only if all justifications are provided: essentially, what is the object and who allowed the mission?

#### **➤ General provision for 2003**

This is a provision for expenses paid by Fide, to be reimbursed by third parties. They were still outstanding in 2003. The Treasurer had to provide for a provision for later settlement. Last year, the Verification Commission, in its report to the Executive Committee, has pointed out these expenses. However, Payments have reached Fide recently, the matter is cleared now.

#### **4 BUDGET**

The budget is a good tool for the management of an organisation like ours. But, it must be well prepared and, when regularly adopted, it must be well implemented. Is it the case for Fide?

In the preparation process, not all concerned provide the Treasurer with the data needed, such as their program of activities, their projects and the estimated costs they occur. He is left alone to struggle in order to allocate funds to the various chapters, according to his experience and to the income expected.

Most important also is the precise and regular implementation of the budget. If not, the door is left open, particularly, for over spending.

Here are some examples of mispreparation and misimplementation in 2003 (not taking into account the budget for the Commissions because its preparation and implementation raises other problems examined earlier in 2.2).

<b>ITEMS</b>	<b>ACTUAL EXPENSES</b>	<b>Budget</b>	<b>Difference</b>
Staff salaries	314 342	285 000	+ 10.3%
Staff travel	85 837	35 000	+ 245.2%
Telecommunications	59 178	50 000	+ 11.8%
Travel and meetings	73 968	150 000	- 102.8%

The above examples are self-explanatory

To avoid any wrong implementation, Fide should establish a procedure by which no expense can occur if outside the budget. Of course, there might be circumstances or exceptions to allow for overstepping, but this must be done correctly. This can be provided through regular amendments of the budget, based on decisions taken by the Presidential Board between General Assembly sessions.

#### **5 RECOMMENDATION**

After having examined the financial statements, in the best of my knowledge and experience, after having received clarifications from the Treasurer through contacts and meetings with him, I recommend the approval of these statements and propose that the GA discharge him from his obligations.