ENGLISH CHESS FEDERATION **C18.5**

FINANCE COUNCIL MEETING 13 APRIL 2013

COMMENTARY ON 2012/13 ACCOUNTS

[Note: this is a reproduction, with the addition of a footnote on the final page, of the commentary that was circulated to Council members on 31 January 2013]

The Board was not in a position to seek the approval of the AGM for the 2012/13 accounts as there were a number of unresolved issues with the draft prepared by the outgoing Finance Director. Responsibility for finalising the accounts has passed to Chris Mattos as the new Finance Director and John Philpott as the Financial Controller reporting to Chris. Much time has been spent reviewing the underlying accounting records and seeking to understand how some of the balances have arisen. This has led on to a significant number of adjustments being made to clear out old items and arrive at a "clean " balance sheet at 30 April 2012 which provides a realistic and reliable starting point for the future. This process has taken longer than was originally hoped, and there has been no opportunity to consult Council formally about the accounts prior to the 31 January 2013 Companies House filing deadline. The accounts will therefore be laid before the April 2013 Finance Council meeting, when there will be an opportunity for discussion. In the meantime the accounts are being circulated to members of Council as required by sections 423 and 424 of the Companies Act 2006, and it was considered appropriate to attach this commentary to explain the key features of the accounts.

Contents:

General observations

(1) This is the last time that accounts will be prepared for a financial year ending on 30 April. Following the decision taken by the last AGM, the accounting date will in future be 31 August to coincide with the end of the membership year, with the next accounts being prepared for

the 16 months to 31 August 2013. The process in future will be for accounts to be laid before the Finance Council rather than the AGM. An incidental advantage of the change in accounting date is that there will be a longer gap between the end of the financial year and the meeting in question, and the Board recognises that there can be no justification in any further failures to present audited (or in the case of the BCF independently examined) accounts at the appropriate meeting.

(2) The structure of the detailed management accounts has not been revisited for many years, and the sections still reflect the directorships that existed at the time of the BCF. There are also far too many small figures reported to make interpretation of the accounts easy. This state of affairs is mirrored in the ECF's nominal ledger, which has a ridiculously large number of accounts for an organisation the size of the ECF. Subject to a small amount of pruning, the present accounts have followed the established format in the interests of drawing a line under the present financial year, but this approach will be revisited for 2012/13 and the reporting aligned more closely with the present Director responsibilities. Work is already in progress to reduce the number of nominal ledger codes that are in use.

(3) The balance sheet previously included an item for stock relating to the retail operations for books and equipment that the Office used to conduct. The previous Finance Director took the view, with which the present team concur, that it would be appropriate to write this off as it was non-moving, and a charge of £8,543 has been made to the profit and loss account to effect this. A value is still being ascribed to Certificate of Merit stock as some sales are being made.

(4) There were a number of old debtor and creditor balances in the ledger, the origins of some of which were lost in the midst of time. The previous Finance Director had initiated a process of writing off the older items, and the present team has taken this process to its logical conclusion, by only including in the balance sheet debtors and creditors for which there is an actual likelihood of settlement in the foreseeable future. The items that have been written off largely matched each other.

(5) The established practice dating back many years has been to carry in the accounts a debtor for Game Fee due but not collected as at the end of the financial year. This is not a precise science, given the fact that most Game Fee is not invoiced, and the follow up procedures in respect of unpaid Game Fee were historically not as rigorous as these might have been. Nevertheless there is a sufficient gap between the end of the financial year and the finalisation of the accounts for a reasonable estimate to be made based on the amount subsequently collected. The previous Finance Director decided, on the grounds of prudence, to carry a low debtor for this item in the 2010/11 accounts and was intending there to be no debtor at all in the 2011/12 accounts. The new Finance team does not agree with approach and has reverted to the previous practice, but this does mean that an element of Game Fee that would normally have been reported in the 2010/11 accounts has been held over and included in the 2011/12 accounts.

(6) The ECF's accounting policy is to account for the results of events that it organises or to which it sends players in the period in which the event concludes, with income and expenditure in respect of events which are incomplete (or have not even started) at the end of the financial

year being carried forward in the balance sheet. This policy had not been correctly applied in the draft accounts as these existed prior to the AGM: indeed, it was the existence of a substantial Junior surplus in those accounts (which proved to be the result of expenditure relating to the 2011 World Youth Championships being incorrectly carried forward) that first alerted the Board to the fact that there was a serious problem with the draft accounts. The Finance team has made a number of material adjustments to ensure that the policy was correctly applied in the final version of the 2011/12 accounts. There were instances, albeit of a far smaller magnitude, of departures from this policy in the 2010/11 accounts. While as with the old debtors and creditors, the "overs" and "unders" largely cancelled each other out there was one significant exception. For a number of years a £5,000 receivable had been carried for the element of the DCMS grant due for the month of April. This item reflected the difference between the Government's financial year of 1 April to 31 March for which the grant was paid and the ECF's financial year of 1 May to 30 April. A £5,000 receivable was included in the 2010/11 accounts despite the fact that the grant had been terminated, and there was nothing due from the DCMS or any subsequent month. This treatment was simply wrong: in the interests of transparency a negative figure of £5,000 has been included at the DCMS line in the general funding section in the present accounts.

Overall result

After all the adjustments had been made, the accounts show a deficit of £6,539. This should be compared to what was in the budget. 2011/12 was always going to be a difficult year for the ECF following the loss of the grant. The detailed budget documents presented to the April 2011 Finance Council meeting indicated a potential £16,700 deficit, but this was reduced by a £5,000 additional contribution to Junior Chess from the John Robinson Youth Chess Trust and a £10,000 drawdown from the Permanent Invested Fund, both of which were agreed by the meeting and subsequently received. This implied that the budgeted deficit following the decisions taken at the meeting was £1,700. Confusingly, the detailed budget documents presented to the April 2012 Finance Council meeting compared the to date and forecast figures with a budget deficit of £10,750. This appears to have been arrived at by omitting the £5,000 contingency item from the original budget, making changes to various sections aggregating to £950 and ignoring the John Robinson and PIF money altogether. The papers indicated that the forecast deficit for 2011/12 at that stage was £1,996.

The higher actual deficit compared with the budget and the forecast could be interpreted as primarily attributable to the write back of the £5,000 DCMS receivable or the stock write off (neither of which were known about in April). However, it is in reality the net outcome of the interaction of a number of factors. Comments on specific sections of the accounts follow.

Balance sheet

The cumulative deficit on the profit and loss accounts means that the ECF is solvent only as a result of the balance on the legacies fund. This is an inherently unsatisfactory state of affairs but one which has been with us for a number of years.

The overall level of reserves is well below the level of £50,000 which Council defined as the target level several years ago. The charitable status proposals envisaged recapitalising the ECF's reserves with part of the PIF. If this is ultimately done and the general fund restored to a surplus position, a clear policy should be developed for how the legacies fund is to be used.

Gross assets and liabilities are both noticeably higher, mainly as a result of events that were unfinished at the year end. A new event this time around was the World Schools, finishing in May, for which income of £52,073 and expenditure of £45,573 was carried forward.

General funding

This reflects the £10,000 drawdown from the Permanent Invested Fund and the write off of the accrual for the April 2011 instalment of the discontinued DCMS grant. In general the various write offs of old balances have been netted off and charged to sundry administration expenditure, but this particular item seemed too individually large to deal with in this way.

Management Services

The net spend is down from £101,097 to £86,855, reflecting the economy measures applied following the loss of the DCMS grant, although slightly above the budgeted spend of £84,850 with the significant adverse variance relating to salaries.

Direct members

Membership income showed an encouraging growth even in advance of the launch of the new schemes. The net income of £59,272 comfortably exceeded the budgeted £52,500. This increase is reflected in the increase in direct members which rose from 1,889 (2010/11) to 2,082 (2011/12).

Game Fee

The apparent overall increase from 2010/11 is misleading, since the relatively small debtor recognised for Game Fee at 30 April 2011 of £1,165 had the effect of shifting income to 2011/12 and producing the higher figure at the "Prior year" line. The amount carried forward at 30 April 2012, net of a provision for refunds for overpaid Game Fee, was £4,756, all of which has been collected subsequently. Even with this artificial boost, the income of £56,179 fell short of the budgeted £62,000, more or less offsetting the effect of the higher income from direct members.

Home Chess

There is little of note here, as Home Chess events generally run on a break even basis save for the National Club which as a result of the minimal level of entry into the Open normally makes a modest deficit. The relatively large "other" items for the current year results from the 2012 British Blitz Championship being run as an ECF event. The £250 overall surplus was marginally less than the budgeted £400.

Junior Chess

One of the allocation errors in the 2010/11 accounts, in that income of £2,250 relating to the 2011 World Youth event received prior to 30 April 2011 was recognised as income in 2010/11 instead of being carried forward to 2011/12 when the event took place. If this income had been accounted for in the correct financial year the 2010/11 deficit would have increased to £6,918 and the 2011/12 deficit reduced to £5,422. The true budgeted deficit was £1,500, representing the £6,500 per the original budget less the additional £5,000 from the John Robinson Youth Chess Trust. The figures reported are largely the responsibility of the previous junior chess team: the current team believe that there may have been a lack of rigour in the past in quantifying the charges to be made to parents.[1]

England was not represented in the World Junior event taking place in 2011/12. Responsibility for the 2012/13 event moved to International, but this will revert to Junior from 2013/14.

Women's Chess

The £752 net expenditure represented a saving on the budgeted £1,500.

International Chess

Net expenditure of £19,916 was marginally inside the budgeted £20,500, with the difference broadly equating to the surplus made on the new European Seniors event. The European Team Championship income included £1,000 from the John Robinson Youth Chess Trust re David Howell and £9,500 in donations which enabled a stronger (and therefore more expensive) team to be sent to this event.

British Championships

The current year figures relate to Sheffield 2011 and the comparatives to Canterbury 2010. These figures are in line with those that were tabled at the April Finance Council meeting, save that a decision was subsequently made to capitalise the wide screen TVs acquired and depreciate these over their expected useful life.

Marketing

The £522 expenditure exceeded the budgeted £400. The excess was attributable to a payment of £200 to sponsor a podcast of *The Full English Breakfast* from Sheffield.

Grading

Printing costs are down because of the progressively smaller print run and the use of a cheaper provider.

The FIDE Fees comparatives appear to include items which would more appropriately have been allocated to International or Junior.

Chris Mattos, ECF Director of Finance

John Philpott, ECF Financial Controller

[1] This sentence appears critical of the previous Junior chess team in a way that the authors of the commentary did not intend. We accept that a lack of proper feedback from Finance to this Junior team on monies received from parents was a key factor in any failure to collect all cash that was due.