

FINANCE & AUDIT COMMITTEE MEETING

Mazars Geneva, Chemin de Blandonnet 2 CH-1214 Vernier Switzerland
14:00-16:00 Thursday 27th February 2020

MINUTES

1. Welcome and Opening

1.1. Chair's opening remarks

Ms Sorling welcomed all to the meeting, giving special thanks to Mr Sollanellas and Mr Bohumsky who are attending their first Finance & Audit Committee Meeting with the ITTF, and thanked Mazars for hosting the meeting in their Geneva offices.

With new members joining the Committee for the first time, including Mr Sollanellas who is not involved in table tennis, an overview of the ITTF and its activities was presented. This focused on the Governance Structure, Financial Staff Structure and information in relation to the various entities the ITTF have established. Information was provided in detail about the establishment of the ITTF Foundation, as well as an overview of the tender process that was undertaken in the establishment of World Table Tennis.

1.2. Roll Call

Ms Petra Sorling	Chair (Executive Vice President – Finance)
Mr Dhanraj Choudhary	Board of Directors Appointee
Mr Francesc Sollanellas	Independent Member
Mr Petr Bohumsky	Independent Member

In attendance

Mr Michael Brown	ITTF CFO
Mr Michael Ackermann	Mazars
Mr Emmanuel Barilier	Mazars

2. Minutes of the previous Finance & Audit Committee meeting

2.1. Adoption of the Minutes of the previous meeting

It was noted that formal minutes were not taken of the previous meeting and agreed that moving forward it is important to ensure minutes of the Finance & Audit Committee meeting are taken, and more importantly that decisions made during the meeting are circulated as necessary, and presented to relevant bodies when required.

- 2.2. Business arising from the minutes
No business arising from the previous minutes.

3. Audit of Financial Statements

3.1. Management presentation of Financial Statements

Due to final preparation of the Consolidation being undertaken, with increased complexities from the growth in 2019 from two entities to five entities, the financial statements were not presented in final form. An overview of the Balance Sheet and Income Statement was presented. It was confirmed that once the final version of the Financial Statements are available, they will be circulated to the members of the Committee for formal approval.

3.2. Selection and appointment of auditors

It was noted that the selection and appointment of the auditors for both 2019 and 2020 was undertaken at the 2019 ITTF AGM.

The Committee agreed that the next appointment of auditors for 2021, should take place through a tender process.

3.3. Scope and planning of the audit

Mazars presented their comprehensive report, which provided details in relation to the purpose of their work, the scoping strategy and organisation of their work, their progress on the audit, and a conclusion.

In conclusion, Mazars confirmed that there is no unrecorded adjustment nor reclassification in the consolidated financial statements as of December 31, 2019 and therefore will issue a clean audit opinion. Specific mention was made that this year was the first year a legal audit was undertaken, in line with Swiss requirements.

Mazars continued their report to provide an overview of the quality of the accounting closing process, although majority of areas were well prepared, specific mention was made in relation to the standardization of the accounting plan across all entities of the ITTF Group. With the creation of new entities, it was evident to Mazars that not the same accounting plan was in place across all entities. The level of preparation for the audit was delayed, regarding some minor changes made to the Lausanne entity accounts, and then the preparation in relation to the consolidation was delayed. It was noted that this year the audit work was taking place one month earlier than in previous years.

Mazars gave an overview of the significant events during the year, mentioning two significant events – the creation of three entities, and the termination of the Sportsmaster agreement.

Mazars gave details through the various accounting estimates made by management, two items which had not appeared in previous years were a change in the depreciation method of the property in Renens, Switzerland; which is currently not in use by the ITTF and is therefore treated as an investment property due to income generated through rental of the property. The other estimate was a provision for the potential fees to be incurred in relation to litigation with the former ITTF President. A provision of USD50,000 was made.

Mazars reported that there were no audit adjustments that remained unrecorded, all adjustments or reclassifications that had been identified had been corrected by Management.

3.4. Independence and objectivity of external auditors

Mr Ackermann provided background information as the independence of himself, and Mazars, to be able to undertake the audit of the ITTF with an objective view.

3.5. Effectiveness of the audit

Mazars raised five points in relation to different themes as for how the internal control function could be improved in relation to the Financial Statements preparation.

1. Closing process not fully implemented

Mazars recommends formalizing the process of closing the financial statements. To be more rigid in closing dates for the finance department to adequately prepare the financial statements in a timely manner. To ensure this timeframe is adhered to across all entities.

2. Lack of contract management system or proper revenue follow-up

Mazars recommends implementing a reconciliation process to ensure that all contracted revenues have appropriate invoices raised, and a formal follow up process to ensure unpaid invoices are either received or raised as bad debts.

3. Internal control not consistently applied by each ITTF entity and purchase process to be strengthened

The ITTF established three new entities during 2019, and it was evident during the audit process that some of these entities did not follow the same

internal control process as that of the two long established entities. Mazars recommends that the ITTF implement and adopt the same internal controls across all entities.

Mazars also reported that a formal purchases policy should be in place, especially on significant purchases. Mazars also noted that the use of credit cards could cause unauthorised purchases to be made and recommended to limit as much as possible the distribution of credit cards.

4. Budgeting process

Mazars recommends more formalized monitoring of the budget vs actual, especially with the growth of the organisation.

5. Risk matrix to be tailored to the business

Mazars recommends that the Risk Assessment Workshop take place on an annual basis.

Discussion was held amongst the Committee members, with the following decisions made based on the recommendations from Mazars.

- ITTF Finance team to implement formal procedures for closing of the ITTF finances on 15th January annually.
- ITTF Finance team to develop a reconciliation process to ensure all contracted funds are invoiced, and appropriate follow up is made on outstanding invoices.
- To hold back funds to entities that have not yet implemented Internal Control Systems that are aligned to the ITTF Group.
- ITTF Finance team to develop a purchases policy.
- To remove credit cards due to the financial risk they pose to the organisation regarding unauthorised purchases.
- ITTF Finance team to generate quarterly reporting package for the Finance & Audit Committee, and to include budget vs actual analysis.
- Risk Assessment Workshop to take place on an annual basis.

Mazars reported areas of improvement regarding corporate governance:

1. Remuneration Committee
2. Risk Assessment Process
3. Formalisation of transactions between entities

Discussions were held on each topic, with the Committee members proposing the following:

- Formalisation of Remuneration Panel, to have at least one independent member
- To ensure the Risk Assessment Workshop follow up is completed before the AGM
- To ensure transactions take place between entities through a legal document establishing the connection between the entities. This becomes very important with the growth and complexity of the Group.

3.6. Adherence to Swiss Civil Code

Mazars confirmed that the Mr Ackermann reported through the audit opinion provided by Mazars that the ITTF Financial Statements adhere to the Swiss Civil Code.

Mazars made formal queries regarding whether ITTF had any ongoing litigation which was not already reported upon, in which Ms Sorling confirmed there is not.

Mazars also queried whether there was any knowledge regarding fraud, Ms Sorling confirmed there is not.

3.7. Approval of Financial Statements

The approval of the 2019 Audited Financial Statements will be made electronically, once the final version of the consolidated Financial Statements is presented.

4. Financial Management

4.1. Annual Budget

Mr Brown presented the 2020 budget, explaining how the budget is prepared, and how it was initially approved at the 2019 ITTF AGM. Due to the current situation in relation to the postponement of the World Table Tennis Championships, and potential for other events to be impacted, it was discussed that the budget should be adjusted based on different scenarios, and for various budgets to be presented based on these scenarios, such as the cancellation of the WTTC, or the cancellation of World Tour events. It was also suggested to look at the budget impact of the cancellation of the Tokyo 2020 Olympic Games.

Mr Brown informed the Committee that the Management Team of staff met two days prior to the meeting and had already undertaken a first budget impact analysis. Further work would be undertaken, and different scenarios would be provided as part of the 1st Quarter Reporting package to be presented to the Committee.

4.2. Quadrennial Budget

As 2020 is the final year of the quadrennial, no budget for the quadrennial was presented, however an overview of the forecasting done in relation to World Table Tennis was shared. It was agreed that further discussion around future budgets should be made after the COVID-19 situation is clearer.

4.3. Monitoring of budgets

Mr Brown provided a background as to how the ITTF has managed its finances in the past and provided more detail of more recent improvements in terms of monitoring budgets vs actuals.

For the Finance & Audit Committee to play an effective role within the ITTF, it will be important for the budget vs actual to be monitored on a frequent basis, of which a quarterly basis was agreed upon. This will result in the ITTF CFO sharing a reporting pack on a quarterly basis.

4.4. Lending, borrowing and investing

It was noted that the ITTF currently has no loans with external parties, however there is a Loan Agreement between ITTF & World Table Tennis Pte Ltd. The details of the loan were explained by Mr Brown.

Mr Brown reported that he has been in contact with the ITTF's primary bank (UBS), about potential for overdraft options, should cash flow be impacted in the short term due to the situation in relation to COVID-19, and several partners from China looking for amended payment terms of existing contracts.

Ms Sorling reported on the ongoing process of the sale of the ITTF property in Renens. Further decisions around how to invest the potential funds made available following the sale would be made in due course.

5. Risk Management

5.1. Internal Control System

The discussion in relation to the Internal Control System was covered through the report of the auditors. It was stressed again the important to have a well-established Internal Control System, and to ensure that all entities follow the same system.

5.2. Compliance

Mr Brown explained the importance to ensure compliance is met according to each of the different legal jurisdictions in which the ITTF is now operating. Mr Ackermann expressed his importance of this, particularly in relation to World Table Tennis being a for-profit entity.

5.3. Insurance

Mr Brown explained the various insurances that the ITTF currently has in place, however explained that the ITTF currently does not have any specific event insurances, and in the past, this has always been a requirement for the LOC to manage at each event. Ms Sorling mentioned her experience during the 2018 World Table Tennis Championships in Sweden.

It was suggested that an insurance framework should be developed to mitigate risks and seek to understand whether further insurance policies should be taken out. Attention should be paid in relation to events.

6. Any other business

No other business was raised.

7. Next meeting

Next meeting due to take place during second half of March 2020.