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*Action to be taken*

*Voting Procedure*

For Discussion	<b>FINANCE COMMITTEE</b> 336 <sup>th</sup> Meeting <b>22 June 2011</b>	-
For Discussion	<b>COUNCIL</b> 159 <sup>th</sup> Session <b>23 and 24 June 2011</b>	-

ASSESSMENT AND COMMENTS BY THE EXTERNAL AUDITORS ON THE  
ANNUAL PROGRESS REPORT 2010

## ASSESSMENT AND COMMENTS BY THE EXTERNAL AUDITORS ON THE ANNUAL PROGRESS REPORT 2010

### INTRODUCTION

The Annual Progress Report (APR) is a key document in the new governance of the Organization and we appreciate we were included in the review process of this document and the opportunity we were given to discuss it with the Management and to provide suggestions on it.

After constructive discussions with the CERN Management on significant issues, we are pleased to provide, in the following paragraphs, some suggestions on how the Report may be even further improved. These suggestions include the information needed to form the basis for future “Efficiency Audits” of selected activities of the Organization, as also directly requested to us by the former President of the Council, Prof. Akesson, in March 2009.

In relation to the APR 2010, we would like to highlight that, while most of the categories of expenses related to scientific research and experiments are now in depth examined with an analysis of the goals, achievements, risks and future prospects, other categories, such as logistics, facilities and administrative expenses, are not fully analysed in details.

Therefore we suggest to enhance the analysis of the above mentioned categories of Expenses, specifying better the categories and/or the activities and sub-activities with a direct and clear link with goals, achievements and future prospects.

Furthermore, although we understand that Revenues are mainly based on the Member States’ contributions - which do not need broad and further examinations -, we observed that other categories of Revenues are not fully analysed, with particular regard to deviations from budget. We consequently suggest to enhance the description and review of certain Revenues categories, such as “external revenues for the new amphitheatre”, “financial revenues”, “knowledge and technology transfer” and “sales and miscellaneous”.

Finally, we would like to emphasize and mention again, as in the past two years, that the APR may only result in a key document if clear and direct links continue to be established between the APR itself and the MTP (Medium Term Plan), and if the correspondence is maintained with the actual figures in the Financial Statements.

Therefore we suggest to continue to improve direct links amongst the above mentioned documents, in particular to provide more exhaustive explanations to the readers, when deviations from the Budget and Out-turn figures are significant.

We acknowledge that the Management has implemented most of our suggestions and we welcome the transparency of the information provided in such document.

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Our comments and suggestions are summarized in a grid which shows the Management's replies to them and the state of implementation of their intended action and they are presented in two different paragraphs:

1) Suggestions and Comments on the 2010 Annual Progress Report (see §1)

In this paragraph we have reported our suggestions and comments, jointly with the Management's reply, after discussing them and having reached an agreement with the Management itself.

Some of our suggestions have been implemented already and they will appear in the revised version that the Management will present to the Council in the June's session, meanwhile the others will be implemented by the Management in the coming years and we will follow-up their implementation.

2) Follow-up of the 2008 and 2009 Suggestions (see §2)

In this paragraph we followed-up our past suggestions and we reported on their implementation status.

For instance, when our suggestions have been correctly and timely implemented, they have been classified as "closed" or "implemented", meanwhile if one of our suggestion is still waiting for full implementation, this is classified as "ongoing".

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## 1) Suggestions and Comments on the 2010 Annual Progress Report

The followings are the reported suggestions and comments and the relating Management's reply, after discussion and agreement with the Management.

Ref. N°	Corte dei Conti Financial Years 2010 Standard/Fact	Suggestion	Management's Reply	Implementation
1/10	<p>In the Report on CERN Governance (CERN/2777-annex V par.2) it is stated that <i>"The achievement shall be broken down following the structure of the Budget document and be compared to the planned goals and objectives (...)"</i>. Certain categories are not compared to "planned goals and objectives". For instance no goals are mentioned on page 18 of APR 2010 (activities classified as "general facilities and logistics" and "informatics"), on page 22 (centralized expenses), on page 24 ("linear collider detector R&amp;D), page 26 ("Other R&amp;D –computing detectors -), page 28 (LHC machine upgrade).</p>	<p>We suggest enhancing the analysis of such categories of Expenses, specifying in a better way the categories and/or activities and sub-activities with a direct and clear link with goals, achievements and future prospects.</p>	<p>As stated in 2010, targets for some sub-programmes were only made for 2011 not yet for 2010, which will mean a final implementation in the APR 2011 in 2012 only. Wherever possible, the suggestion was taken on in the revised APR 2010 and more explanations are given in the June version. For some generic and recurrent activities, it will not always be possible to state specific goals for the year concerned.</p>	<p>In progress, implementation foreseen in APR 2011 in 2012</p>
2/10	<p>In relation also to the Standard/Fact n°1/10 above mentioned, <i>goals and objectives</i> should be, when possible, better detailed inside a given Activity, in particular for "Personnel" and "Materials". Specific explanations over deviations, related to "Personnel" and "Materials" of the out-turn figures from the budgeted ones are not provided.</p>	<p>Whenever and wherever possible, specific explanations over deviations, related to "Personnel" and "Materials" of the out-turn figures from the budgeted ones could be provided in the most suitable documents, namely the APR or the Financial Statements (part 1)</p>	<p>The CERN governance is based on deliverables by activity and not by target on the expenses breakdown by nature (like personnel and materials). These figures are just the result of the estimate during the planning phase. The aim of this new Governance is to allow for sufficient flexibility in the</p>	<p>Not applicable in the APR document but to be taken into account in the Financial Statement (Part 1:Statement of Comparison of Budget and Actual Amounts.</p>

Ref. N°	Corte dei Conti Financial Years 2010 Standard/Fact	Suggestion	Management's Reply	Implementation
			<p>resources management to achieve as many goals as possible. This includes the possibility of transfers in between personnel and materials. It is therefore not adequate to focus on differences in the expenses breakdown by nature in the Annual Progress Report but on the explanations on why the overall P+M allocations to an activity change with respect to the budget. These variations are systematically included in the APR 2010.</p>	
2.1/10	<p>Summing up “Personnel outturns” and “Materials out-turns” in part II, from page 8 till 29 of the APR, the result differs apparently from the tables from pages 36 onwards.</p>	<p>We suggest to present totals in section/part II of the APR, cross-referencing them to tables (i.e. part III. “Additional Information”) and analysis (i.e. part IV. “Financial Tables and Explanations”) in order to enhance readability of data presented in different sections/parts of the APR.</p>	<p>The activities concerning the LHC upgrade were re-organised throughout 2009 and 2010. Consequently, when reporting the financial tables to the latest activity structure, some variations with respect to the draft budget being presented 2 years earlier are unavoidable as long as the future scientific activities are still subject to the scientific results from the LHC.</p> <p>For that reason there was no factsheet heading in Section II with respect to the financial tables in Section III, which is now added to the June version</p>	<p>Implemented in June version.</p>

Ref. N°	Corte dei Conti Financial Years 2010 Standard/Fact	Suggestion	Management's Reply	Implementation
			<p>(and concerns the CERN share to LHC detectors upgrade for R&amp;D and improvements.</p> <p>Due to rounding, a difference of 0.3 FTEs appears when comparing the sum of all headings under all activities in Section II and III with respect to the personnel breakdown of expenses.</p>	
3/10	<p>On page 32 of the 2010 APR, at paragraph 2 “Human resources”, figures related to personnel FTE (Full Time Equivalent) are presented without reference to the new CERN Governance approved by the Council and/or with reference to the self-set-limit of active Staff fixed by Management. In the APR is mentioned the concept of FTA (Full Time Available), which is not clearly explained and whose calculation is different from the FTE result. Deviations from the goals are not systematically explained.</p>	<p><u>We suggest</u> to always refer the FTE’s analysis to objectives stated by Council and/or set by the Management, and then explaining why deviations have occurred, in the most suitable documents, namely the APR or the Financial Statements (part 1).</p>	<p>It is important to note the background: the 2250 FTEs was a target for the previous management under the OLD CERN Governance. The new CERN Governance does not mention a ceiling. On the contrary, it allows for flexibility. In the previous years, the Management maintained nonetheless a self set limit of active 2250 FTEs, essentially due to the limited overall funding as well as to preserve sufficient materials budget to allow for achieving the goals. More recently, the Management has announced to make use of the flexibility by allowing for up to 5% flexibility depending on the resources need by activity. For this context, it is not appropriate to</p>	<p>Not applicable in the APR document but to be taken into account in the Financial Statement (Part 1:Statement of Comparison of Budget and Actual Amounts.</p>

Ref. N°	Corte dei Conti Financial Years 2010 Standard/Fact	Suggestion	Management's Reply	Implementation
			include further explanations with respect to the 2250 figure.	
4/10	<p>Revenues are a fundamental part of the budget process and they should be analysed in the APR.</p> <p>Although they are mainly based on the Member States' contributions - which they do not need broad and further examinations -, certain categories of Revenues are not fully analysed, with particular regard to deviations from budget, and to goals, achievements and risks.</p>	<p>We consequently <u>suggest</u> to enhance the description and review of certain Revenues categories, such as "external revenues for the new amphitheatre", "financial revenues", "knowledge and technology transfer" and "sales and miscellaneous".</p>	<p>We will already modify the June version of the 2010 APR to include more explanations for the variations for revenues and will do so systematically for the future years. Nonetheless it is important to note that a heading like revenues from knowledge and technology transfer corresponds to not more than 0.2% of the total revenues planned and realised.</p>	<p>In progress, final implementation foreseen for APR 2011 in 2012.</p>

## 2) Follow-up of the 2008 and 2009 suggestions

The results of the follow-up of our suggestions presented in the Financial Years 2008 and 2009 are presented in the grid below.

For instance, the assessment of the status of the Management's implementation of our previous suggestions is showed in the column "Assessment for the Financial Year 2010".

Date of issuance	Ref.	Corte dei Conti Financial Years 2008/2009 Standard/Fact	Suggestion	CERN Management Reply	Corte dei Conti Assessment FY 2010
2008	2)	The headings and/or figures in the APR (pag.18) and in the Financial Statement (page 2-9) and the figures in the MTP 2009-2013 (for instance page 20 and page 28) do not match exactly.	Layout should be designed to facilitate a synoptic readability and consequently a better understanding.	• OK	Implemented
2008	3)	In the Report on CERN Governance (CERN/2777-annex V par.2) it is stated that <i>"The achievement shall be broken down following the structure of the Budget document and be compared to the planned goals and objectives (...)"</i> . In the APR 2008 section II "Progress Report" (pages 4-15) the activities performed during the year are described in broad lines, whereas the MTP 2009-2013 in section II (pages 6-15) provides detailed tables.	In order to increase comparability between documents, each programme in the APR Section II should be drafted as in the MTP Section II. In addition, one column should be dedicated to the progress achieved during the year concerned, plus another column should describe the relating goals/objectives as approved in the MTP. Since the MTP document is designed to shift forward during the 5 years (n+1 to n+5), it is worth mentioning that clear reference in the APR should be given in relation to the year when milestones and goals/objectives are to be achieved.	• OK	Implemented

Date of issuance	Ref.	Corte dei Conti Financial Years 2008/2009 Standard/Fact	Suggestion	CERN Management Reply	Corte dei Conti Assessment FY 2010
2008	4)	In the APR no particular emphasis is dedicated to risks (arisen during the year and/or not in place any longer) and alternative action to mitigate them.	As to give more elements to plan and to carry out “efficiency audits”, risks description and probability (increase or decrease) and related financial estimate (with the cost of possible mitigation action) should be envisaged in the APR.	Yes, this is added for the APR 2010 (based on MTP 2011).	Implemented
2008	5)	In the Report on CERN Governance (CERN/2777-annex I) it is stated that “(...) <i>Results-Based Budgeting is thus a result-driven budgeting process in which: - programme formulation and resources justification involve a set of predefined objectives, expected results, outputs, inputs and performance indicators which constitute a logical framework (...)</i> ”. Activities in the APR section II “Progress Report” (page 4-15) are not linked with performance Indicators.	Performance Indicators should be linked with the progress achieved and clearly defined in a table (as proposed in above-mentioned point 3).	KPIs are internal management instruments. For the 2010 APR the key statistics of the non-scientific areas will be integrated, this was specified in the annex XII of the new Governance report.  Performance indicators such as % achieved versus planned for major projects will be included if they are reasonable.	In progress
2008	6)		In order to give more elements to plan and to carry out “efficiency audits”, in the APR, when a goal is achieved or is about to be met, an independent scientific assessment should be added to the table (see point 3).	The independent assessment is the scientific policy committee (SPC), if the assessment is available, reference will be included.	In progress

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2009	#1	<p>The table entitled "Summary of Revenues and Expenses" (see Figure 1&amp; 9) shows in separate columns the figures related to the "2009 Budget", the "2009 Revised Budget", the "2009 Outturn" and the "Variations of Outturn with respect to Budget".</p> <p><b>Variations</b> are prepared only in respect of the "2009 Budget" and not with the "2009 Revised Budget".</p>	<p>We understand from the Management that in 2009 Finance Committee and SPC requested the comparison with final budget. It is important to highlight that, for instance, when an analysis of the variation is carried out, the same budget line might present a positive or negative variation when comparing Outturn with "2009 Budget" or with "2009 Revised Budget". In turn, this will mislead the variations' analysis and the possibility of having a clear and precise understanding of the nature and reasons of such variations. Moreover, this could also undermine a possible future analysis on the accuracy of the Budgeting process. Therefore we suggest to the Management - when discrepancies between "Budget" and "Revised budget" are relevant - to provide explanatory comments.</p>	Ok	Implemented
2009	#1.a	<p>The "summary of Revenues and Expenses" is provided twice in Figure 1 on page 7 and in Figure 9 on page 29.</p>	<p>We therefore suggest to prepare a note and a reference that might help the reader in understanding that the same table is presented twice in the same document.</p>		Implemented
2009	#1.b	<p>The "summary of Revenues and Expenses" is similar to the "Statement of comparison of Budget and Actual amounts" in the CERN's Financial Statements (F/S). In both documents a dedicated</p>	<p>We suggest to select the most appropriate document (APR or F/S) in which an analytical analysis of variations should be performed. This in order to give the possibility to have a specific comment on any deviation.</p>	<p>Further work will go into the synchronisation of the documents for the 2010 versions and has been included in the 2010 versions.</p>	Ongoing

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		section where differences and variations are analytically commented by the Management is missing.			
2009	#1.b.1	Variations are only produced in absolute terms, not in percentage.	In the above-suggested dedicated section, a note on the related percentage of variations could help the reader in better understanding the comment.	Ok	Implemented
2009	#2	In figure 2 of the APR it is indicated: 2009 Figures, Variations, Activities, 2009 Targets according with the Medium Term Plan, 2009 Targets Revised and 2009 Achievements. Targets according the Medium Term Plan do not always match exactly.	Although we understand the different nature of MTP and APR, we suggest to try to align in the most suitable manner the targets decided by the Council in the MTP and comment, when relevant, on possible differences between targets.	Ok	Implemented
2009	#2.a	In the comments presented in section "2009 Achievements" not only are the 2009 goals listed, but also risks, future perspective etc.	We understood from the Management that the section "achievement" is prepared by a different Unit, namely the Unit in charge of that particular activity. In order to have an homogeneous readability, we suggest - as an example - to subdivide the section "Achievement" into 4 sub-columns a) Targets b) Achievements c) Risks and d) Longer Term.	Ok	Implemented

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2009	#2.b	In the comments presented in section "2009 Achievements" links between facilities and related financial data are missing.	In order to provide more information to the APR reader, we suggest to link financial data with the related Target and "sub-activity", indicating targets and milestones achieved also in financial terms.	Ok	Implemented
2009	#3	On page 17, activity 13"Administration", comments on 2009 Achievements are not sufficiently detailed.	Considering the relevance of the activities carried out by the Administration, we suggest to provide a more detailed representation of the achievements as already indicated in the above mentioned point 2.a.	More specific targets are defined for administration with some more details in the MTP 2010 for the year 2011.	Ongoing
2009	#4	In relation to figure 10 of the APR "Total revenues", we noted that there is not a detailed explanation on variations and targets.	We understand that even in the MTP there is no fact sheet on revenues with objectives and targets. However we suggest that in the APR, comments on Variations should be given in a detailed format. For instance, some of the Member States could be interested in obtaining more details about, for example, "in-kind contributions", "knowledge and technology transfer", "sales and miscellaneous" etc.	Yes, targets will be entered in the MTP 2010 for 2011, thus the APR 2011 in 2012 can compare targets and achievements. Some explanations can be made in APR 2010.	Ongoing
2009	#5	Figure 22 in the APR "EU Projects" only presents a list of projects without providing further explanations.	We suggest presenting more detailed comments on these projects, for instance, providing information on achievements, future developments and relations with the EU.	Ok	Implemented

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2009		<p>The Council requested since 2008 that information in the APR should form the basis for future “Efficiency Audits” of selected activities of the Organization.</p>	<p>When assessing economy, efficiency and effectiveness, which is the essence of performance audits, of certain activities and/or scientific projects considered crucial by the Council, internal data (and consequently the Key Performance Indicators –KPI) ought to be sufficient and reliable and, thus, an exhaustive and detailed set of information is required.</p> <p>Therefore, for measuring the performance of a given activity, and especially in order to provide more assurance to the Council on results obtained, <u>it should be envisaged</u> that Management, for corroborating its achievements, not only shows in APR internal data, but also uses benchmarking techniques wherever and whenever possible, also for comparing them with internal KPI.</p>	<p>As stated above, KPIs are essentially Management tools for the online monitoring and management. Meaningful KPIs will be integrated in the APR.</p>	Ongoing