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Action to be taken

Voting Procedure

TAKE NOTE	FINANCE COMMITTEE 336 th Meeting 22 June 2011	-
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Report by the External Auditors
on the Financial Statements of CERN for the Financial Year 2010
Report from the Italian Court of Audit

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1. INTRODUCTION

The legal basis for the audit carried out by the External Auditors is given in the Financial Protocol annexed to the Convention for the establishment of a European Organization for Nuclear Research of 1 July 1953, as modified on 17 January 1971 and in the Financial Rules as approved by the Council (Rule 11 — Audit — and Annex II —Auditors).

After the recent transition of the accounting and financial statements to IPSAS, the revision of the current rules governing CERN's financial administration (Financial Rules and Internal Financial Regulations) was approved by the Council on 12 December 2008 and article 21 has been dedicated to External Auditors.

This revision was recommended by the previous External Auditors and was completed after a long procedure in compliance with the conclusions of the Council Working Group on CERN Governance (CERN/FC/5228/Rev. — CERN/2777/Rev.) and of the Finance Committee Working Group on the Review of CERN Purchasing Policy and Procedures (CERN/FC/5259 - CERN/2797).

We have carried out the audit of the accounts for the Financial Year 2010 based on generally accepted international auditing standards and, in particular, on IPSAS regime.

We have planned the working activities according to our audit strategy to obtain a reasonable assurance that the Financial Statements are free from material misstatement.

We have tested, on a sample basis, a number of transactions and relevant documentation and we have obtained sufficient and reliable evidence in relation to the accounts and disclosures in the Financial Statements.

We have evaluated the accounting principles and related estimates made by management and we have assessed the adequacy of the presentation of information in the Financial Statements.

Thus, we have obtained through the audit a sufficient basis for the opinion given below.

A Letter of Representation referring to the Accounts for the Financial Year 2010, signed by the Director of Administration and General Infrastructure and the Head of Finance and Procurement Department, was handed over and it is an integral part of the audit documentation.

2. AUDIT CERTIFICATE**AUDIT CERTIFICATE**

In accordance with Article 21 of the CERN Financial Rules, and for approval by the Council, the report is presented to the Finance Committee to certify the correctness of the Financial Statements as follows:

"The Financial Statements of the Organization for the financial year ending 31 December 2010 have been examined in accordance with the instructions given to us. We have obtained all the information and explanations that we have required and we certify, as result of the audit, that in our opinion the Financial Statements give a true and fair view of the state of affairs of the Organization, subject to the observations in our report".

Without qualifying our opinion, we draw the Council's attention to the fact that the Statement of Financial Position shows provisions for actuarial liability for post-employment benefits totalling 5.509.491.000 CHF (2.994.514.000 CHF for Pension Scheme and 2.514.977.000 CHF for Health insurance Scheme). Details of our analysis are included in our report. Remedial measures have been submitted by the Management to the Council and approved in December 2010.

f. y. ending 31 December 2010

Rome 24 May 2011

Michele Cosentino

Franco Franceschetti

External Auditors of the Italian Court of Auditors

3. ENFORCEMENT OF IPSAS

Regarding the financial year 2010, from the analysis of the annual accounts and following interviews with the CERN Management, we conclude that IPSAS have been correctly implemented by the CERN Management.

4. 2010 BUDGET OUT-TURN

The table "Statement of Comparison of Budget and Actual Amounts" is compliant with IPSAS 24 which requires a comparison of budget amounts and actual amounts arising from execution of the budget to be included in the Financial Statements.

The Standard also requires disclosure of the reasons for material differences between budget and actual amounts.

With respect to this, even though we are aware the Management produces the Annual Progress Report (APR) - a document where such deviations are explained by "project or activity" and not by "nature" - we renew our recommendation to make more extensive use of the descriptive notes in the Annual Accounts, in order to explain all major variations between the budgeted and actual amount figures.

Alternatively, if detailed explanations concerning variations are already enclosed in the APR and if the Management considers such descriptions as exhaustive and complete for comparison purposes, we suggest to insert a reference to these explanations in the Annual Accounts to the APR.

4.1 Budget and actual Amounts

4.1.1 Total expenditure

In 2010 the difference between budget expenses (1026,3 MCHF) and the actual amounts of the expenditure (935,5 MCHF) resulted in a reduction of 90,8 MCHF (8,8%). As regards expenses, we observed that the deviation from the Budgeted amounts is due to a considerable decrease in Materials expenses (-21,1%) and to an increase in the actual amount of the Personnel (+9,9 MCHF; +1,9%) and Financial Costs expenses (+0,9 MCHF; +5,5%).

Description	2010				2009				2010 compared to 2009			
	Budget	Actual amount	Deviations	%	Budget	Actual amount	Deviations	%	<i>Budget 2010 vs 2009</i>	%	<i>Actual amounts 2010 vs 2009</i>	%
MATERIALS	481,7	380,1	-101,6	-21,1%	370,1	351,7	-18,4	-5,0%	111,6	30,2%	28,4	8,1%
PERSONNEL	528,2	538,1	9,9	1,9%	507,1	515,6	8,5	1,7%	21,1	4,2%	22,5	4,4%
INTERESTS & FINANCIAL COSTS	16,4	17,3	0,9	5,5%	23,4	22,7	-0,7	-3,0%	-7,0	-29,9%	-5,4	-23,8%
TOTAL EXPENSES	1026,3	935,5	-90,8	-8,8%	900,6	890	-10,6	-1,2%	125,7	14,0%	45,5	5,1%

According to the table above, for this financial year, comparing the 2010 total *budget* expenditure (1026,3 MCHF) to the 2009 total budget expenses (900,6 MCHF)¹, the increase of 125,7 MCHF (14,0%) is due both to the raise mainly in the budgeted expenses of Materials and to the raise in Personnel budgeted expenses, increased respectively by 111,6 MCHF (+30,2%) and by 21,1 MCHF (+4,2%) as compared to last year.

In addition, comparing the 2010 total *actual amounts* related to expenses (935,5 MCHF) to the 2009 total expenses (890,0 MCHF)², the increase of 45,5 MCHF (5,1%) is due both to the raise mainly in the actual expenses of Materials and to the raise in Personnel actual expenses, increased respectively by 28,4 MCHF (+8,1%) and by 22,5 MCHF (+4,4%) as compared to last year.

As represented in the table and in the overall analysis above, the trend shows roughly that in the two reference years (2009 and 2010) the real expenses (actual amounts) followed almost the forecast (budget) for Personnel but not for Materials.

Furthermore, in the table below, we weighted the expenses per categories - and their deviations - and we compared their values between the two reference years and the table shows that the difference in weight between categories in the 2009 Annual Accounts (1,6%) was less than in 2010 (around 6%)

¹ Financial Statements for the year 2009 page 2.

² Financial Statements for the year 2009 page 2.

Description	2010					2009				
	Budget	% Budget weight	Actual amounts	%	Delta in Budget's weight	Budget	% Budget weight	Actual amounts	%	Delta in Budget's weight
EXPENSES (WEIGHT per Categories)										
MATERIALS	481,7	46,9%	380,1	40,6%	-6,3%	370,1	41,1%	351,7	39,5%	-1,6%
PERSONNEL	528,2	51,5%	538,1	57,5%	6,1%	507,1	56,3%	515,6	57,9%	1,6%
INTERESTS AND FINANCIAL COSTS	16,4	1,6%	17,3	1,8%	0,3%	23,4	2,6%	22,7	2,6%	0,0%
TOTAL EXPENSES	1026,3	100,0%	935,5	100,0%	0,0%	900,6	100,0%	890	100,0%	0,0%

The two tables above do not have the intention to generate conclusive data or produce findings which could bring to conclusions but they are supportive elements to our opinion that an analysis, that answers to the question why, and for which reasons, a deviation occurred, is important for the reader and for the stakeholders of the Annual Accounts and they are currently missing.

This corroborates our recommendation, stated above in the introduction to section 4, over the importance of explaining variations and deviations in the Annual Accounts not only because IPSAS require such explanations, but because they do so in all cases, whether categories are classified by “activity” or by “nature”.

Personnel expenditure

The Personnel expenditure amounted to 538,1 MCHF in 2010 compared to 515,6 MCHF in 2009, with a rise of 22,5 MCHF (+4,4%).

The total number of staff members in post were reduced from 2.544 in 2007 to 2.400 in 2008 and, subsequently, to 2.377 in 2009. During this financial year (2010), Personnel increased to 2.427 staff members in post (+2,1%) and this mainly explain the rise in the related expenditure. Further details on Personnel expenses are provided in the Financial Statements, Part 2, note 21.

In the 2009 Financial Statements the table titled "Movements of total Staff Members in post" was not reported and we welcome the fact that, for 2010, this sub-paragraphs has been reintroduced and explains clearly the variations in post by category of events which took place during the year 2010.

The data in point 3.3 give the main reason for the growth in Personnel expenditure. It mostly originated from the increased recruitment of Fellows and Associates as Staff Members (72 units in 2010 compared to 52 in 2009) and from the increased external recruitment of employed members of personnel (157 units in 2010 compared to 101 in 2009). We also note that departures from CERN increased from 175 units in 2009 to 179 units in 2010.

4.1.2 Total revenue

Total revenue amounted to 1.223,5 MCHF showing an increase of 2,3% as compared with the previous year end (1.196,4 MCHF in 2009). Also in 2010 for the most part it consisted of *Contributions from Member States* (90,9%) with a decrease in the weight over the total revenues compared to 2009 (91,8%) which is mainly explained by the *Contribution from candidates for accession* (+3.232 MCHF) and from *Additional contributions in-kind* (+5.328 MCHF). Details of revenue are given in the Financial Statements, Part I, page 4.

4.2 Net Accounting Deficit

Total revenue minus total expenses led to a Budget Surplus of 288,0 MCHF. After deduction of 15,1 MCHF for capital repayment, 272,9 MCHF were allocated to the Budget Balance to reduce the accumulated budget deficit.

2010 was the fourth year in which CERN had a Budget Surplus after a number of years of Deficit. This confirms a continual positive trend reversion as compared to the past as shown in the table below:

<i>Years</i>	Budget	Results
2005	-332,03	-323,62
2006	-183,90	-184,28
2007	105,10	130,60
2008	229,40	265,90
2009	276,80	306,40
2010	178,3	288,0

The accounting reconciliation follows the table on page 2 "Statement of Comparison of Budget and Actual Amounts" and shows the transition from the Budget Surplus (288,0 MCHF) to the Net Accounting Deficit for the year 2010 (-71,2 MCHF – page 3), by integrating in the first item those amounts, in surplus or deficit, not present in the Budget but recorded in the Financial Year 2010. The accounting reconciliation is mainly given by fixed assets' depreciation and expenses transferred to the same item minus variations of provisions.

5. STRUCTURE OF THE ACCOUNTING STATEMENTS

The Financial Statements of CERN prepared and presented in compliance with IPSAS 1 included the following elements:

- A Statement of Financial Position, showing Assets (divided into Current and Non-current assets), Net assets and Liabilities (split into Current and Non-current liabilities);
- A Statement of net surplus/deficit and gains/losses recognized directly in Net Assets, showing the Net surplus or deficit for the Financial Year including gains and losses directly recognized in Net Assets without being transferred to the Statement of Financial Performance;
- A Statement of Changes in Net Assets, showing the Net surplus or Deficit for the Financial Year including losses directly recorded in Net assets without being transferred to the Statement of Financial Performance;
- A Statement of Financial Performance, showing the Surplus/Deficit for the financial year;
- A Cash Flow Statement, showing the inflow and outflow of cash and cash equivalents, purposely regarding the operational, investments and financing transactions and the treasury totals at the end of the Financial Year;
- Notes on the accounting statements providing information about accounting policies and additional information necessary for a fair presentation;

Note 1 to the Financial Statements describes the implementation of the accounting principles.

6. STATEMENT OF FINANCIAL POSITION 2010

6.1 Assets

Assets - mostly consisting of non-current assets (98,4%) - totalled to 7.865,1 MCHF at the end of 2010, showing a decrease of 266,1 MCHF (-3,3%) as compared to 2009 (8.131,2 MCHF).

6.1.1 Non-current Assets

Non-current assets as at 31 December 2010 totalled to 7.740,9 MCHF, recording a reduction of 284,6 MCHF (-3,5%) as compared to 2009 figures (8.025,5 MCHF), this was mainly due to the depreciation of the LHC³.

They consist of *a*) Fixed assets, equal to 7629,1 MCHF (98,6% of the total Non-current Assets) and of *b*) Financial assets, only related to the CERN Health Insurance Scheme (CHIS), equal to 111,8 MCHF (1,4% of the total Non-current Assets).

a) Fixed assets

The total amount of Fixed assets as at 31 December 2010 was 7.629,1 MCHF, compared to 2009 (7.922,7 MCHF) it showed a decrease of 293,6 MCHF (-3,7%).

Fixed Assets consisted of *i*) infrastructure and services buildings (1,9% of the Fixed assets), *ii*) LHC, which amounted to 7.044,2 MCHF (92,3% of the Fixed assets), *iii*) PS consolidation (0,5% of the Fixed assets), *iv*) SPS consolidation (0,3% of the Fixed assets) and CNGS (0,6% of the Fixed assets) plus *fixed assets in progress*, which amounted to 336,6 MCHF (4,4% of the Fixed assets).

LHC

As far as the LHC machine is concerned, it was recorded for 7.044,2 MCHF under fixed assets, and it was 92,3% of the whole heading. In order to understand the relevance of the LHC, it is important to highlight that it weights around 90% of the CERN's Assets.

³ Refer to note 3, Part II of the Financial Statements, paragraph 3.1.

The reduction of the value recorded in 2010 (7.044,2 MCHF), as compared to the 2009 value (7.459,1 MCHF), was due to the depreciation of the machine, using a linear method at the rate of 5% of the gross value of the various component, except for computing component. The LHC will be depreciated in a 20 year- period and it has been recorded into the account as a Fixed Asset at the end of 2008 when it started its activity. Implementation and upgrading of the LHC are after 2008 recorded in the accounts under the sub-heading *fixed asset in progress* which is examined in the paragraph below.

Fixed assets In Progress

This sub-heading, which recorded all the Assets that are still in the process of being built at the 31st of December, amounted to 336,6 MCHF and it increased by 139,3 MCHF (+70,6%) comparing to the previous year (197,3 MCHF).

The overall increase of 139,3 MCHF, recorded into the 2010 accounts, is due to the net effect of, from one side, the Additions (145,1 MCHF) and, on the other side, of the Disposals and Transfers (-5,8 MCHF).

Under the 2010 Additions⁴, the most relevant activities are the LHC improvement (28,3 MCHF, representing 20% of the all Additions), the LINAC 4 (25,4 MCHF), the CLIC Test Facility (22,8 MCHF) and the Infrastructure consolidation (22,3 MCHF).

We audited a sample of transactions recorded in the accounts as Additions in the year 2010 without detecting any material error, however, we found that an invoice related to a contract recorded under “Additions” was not accrued for 2010, therefore we recommend the Management to monitor closely the cut-off procedures at year-end.

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As last year, during our audit activity related to the Assets, we analyzed the inventory procedures set up by the Management and, this year, we focused on the logistics and procedures which regulate the safekeeping, the attribution of property and the recording of the fixed assets into the accounts. We observed that the Assets’ management is weak, especially considering the volume and the value of such

⁴ Refer to note 3.2, Part II of the Financial Statements.

assets. Moreover, as last year, we observed, in particular for the inventory, that, since these procedures which regulate such processes leave a considerable level of flexibility for their implementation - according to the specific requirements of each Department, the actual implementation of these processes in a non-standardized way, by the different units involved, ends up in creating discrepancies in the categories of goods recorded under the inventory procedure in different Departments.

Therefore, and in addition to last year's recommendation on the procedure for the Departments' inventory, we further recommend to enhance the procedures which regulate the assets' management (logistics, delivery, cost control etc.).

Even though we understand that the implementation of such procedures has a cost, we still hold the opinion that benefits, such as the optimal and efficient use and maintenance of goods, will be granted through their appropriate management and adequate control.

Under the 2010 Disposals and Transfers an amount of 3,8 MCHF is recorded which represents the write-off resulting from the cancellation of the project LHC Inner Triplet Upgrade. We observed that the write-off of such an important amount was carried out without the accountant having, as supporting documentation, a written declaration that clearly states which goods should be written off and which one should be kept as CERN's Assets. Actually, from our analysis of the goods written off, we observed that some of them are still used as Assets in the CERN premises. We therefore recommend that when such important cancellations of projects are decided, the Management should provide a detailed analysis of which goods and materials could be still used and should therefore be added to another project or which goods should be sent back to the central warehouse to make them available to every staff that might need such materials.

b) Financial Asset

The *CHIS financial assets* amounted to 111,8 MCHF in 2010, increasing by 8,7 % (9,0 MCHF) relating to 2009 (102,8 MCHF).

The CHIS financial assets in 2010 consisted of equities and bonds (102,8 MCHF, equivalent to 92% of the amount shown in the heading Financial Asset- CHIS fund), deposits in bank accounts (5,9 MCHF), UNIQA deposits (2,3 MCHF) and credits

stemming from taxation at source through anticipated deductions to be reimbursed (0,9 MCHF). The CHIS assets have their exact counterpart in the liabilities.

In December 2007, a capitalized fund for the CHIS was set up so as to contribute to facing the issue of the aging of the insured population, by means of a system of dedicated reserves. These reserves aim at guaranteeing employees and pensioners an insurance equivalent to Switzerland's Social Security⁵.

In December 2007, reserves accumulated from past contributions were transferred to the capitalized fund. The full amount of the fund fluctuated depending on the performance of investments as well as on the ratio contributions/benefits and on the overheads expenses.

The performance of the Fund for years 2008, 2009 and 2010 is listed below:

CHIS FUND (in	2010	2009	2008
Technical	6,8	-0,8	4,9
Financial Performance	2,2	9,4	-7,0
Total	9,0	8,6	-2,1

In 2008 we observe a decrease of 2,1 MCHF in the CHIS assets; in fact, the financial performance suffered directly from the financial crisis that took place in 2008.

On the contrary, the total performance of the Fund in the past two financial years, 2010 and 2009, was positive and stable (respectively 9,0 MCHF and 8,6 MCHF).

However, the overall positive performance of the Fund, which appears to be stable in the past two years, was affected in 2009 by a negative *technical* performance, mainly due to the negative ratio of contributions/benefits. It was however compensated by a positive *financial* performance (around 9% if compared with the CHIS assets). Meanwhile, in 2010, both performance's components were positive but with a reduced contribution of the *financial* performance (around 2% if compared with the CHIS assets).

⁵ Agreement between the Swiss Federal Council and CERN dated 11 June 1961 in CERN/115/Rev.3, 11 June 1961.

From our audit and our analysis performed over the scheme, we observe some risks and critical points in relation with: i) the capacity of the CHIS to fulfil its obligations in the long term, ii) the internal controls, delegation of duties and compliance with rules.

i) CHIS's capacity to fulfil its obligation in the long term

Under the non-current liabilities of the Statement of Financial Position, and more specifically under the heading concerning the Post-employment benefits⁶, are reported provisions that cover future obligations due to present commitments and, in particular, the one related to the Health insurance Scheme that represents the estimated actuarial liability. The trend of this provision is listed in the table below, which is an extract of the table presented in paragraph 6.2.2.

in MCHF					
Post-employment benefits (Liabilities)	2006	2007	2008	2009	2010
HIS Benefits	1.474,3	1.214,9	1.438,7	1.597,4	2.514,0

As reported in the note 11 of the Financial statements, the increase in the CHIS liability is mainly due to the reduction of the discount rate (173 MCHF) and to the change in the rate of inflation of medical costs (715 MCHF). We highlight that liabilities are steadily increasing and, in the long term, the CHIS might face underfunding issue. We acknowledge the attention brought by Management, and other stakeholders of the 2010 five-yearly review of the financial and social conditions of members of the Personnel, to the CHIS, and, in particular, the proposals by the Management summarized in 4.2.2 of the document CERN/2946. We also acknowledge the increased transparency on the long-term obligations related to the CHIS that the implementation of IPSAS has allowed.

⁶ Refer to paragraph 6.2.2 below.

However, we now estimate, considering that remedial actions approved in the 5 Yearly Review have been already embedded in the actuarial estimate, that the level of the liability is significant and we recommend that in the future the financial long-term equilibrium of the scheme is periodically monitored in order to (i) confirm that the corrective measures are giving the expected results and (ii) if needed - that appropriate actions or measures are introduced as soon as possible in order to prevent any further deterioration. It is worth mentioning that the remedial actions approved in “2010 five-yearly review”, after having compared the Scheme to those of the other comparator organizations in terms of benefits, did not “change the overall envelope of benefits”⁷. Management of the CHIS confirmed to us that benefits are unchanged since year 2001.

Moreover, if we combine the CHIS liabilities with the CERN Pension liabilities (equal to 2.995 MCHF), the future obligations for the two schemes will have a critical impact on the CERN’s budget and accounts.

For the matter of clarity, considering the actuarial provisions as stated also in the accounts, and in the case where the benefits granted to staff are maintained at the same level in the future for the two schemes, we estimate that the part of the Member States contributions which actually fund research activities and projects will be de facto reduced, year after year more significantly, by the funds allocated to the long term balance of the social schemes.

Finally, it is important to highlight that the long-term risk of insolvency of the CHIS has, so far, not yet been formally addressed by the bodies responsible for managing the CHIS and, in the hypothetical scenario of dissolution of CERN, there are, today, no remedial actions or agreement with external bodies for maintaining the health insurance level as, for example, Council’s resolution in 1996 to establish, prior to the dissolution of the Organization, a Foundation intended to succeed the CERN Pension Fund (CERN/2165).

Therefore we recommend that, in the future, corrective measures should include also a review of the level of benefits, and in this respect we take note of and we support the proposals by the Management in the area of benefits contained in the “Five-yearly review 2010 – proposals by the Management ” (Section 4.2.2) and we recommend that they become effective.

⁷ Annex 1 CERN/2946 particularly § 4.2.2.

Furthermore, we consider important that – as the Council has not delegated a representative in the management of the CHIS - the Council should be continuously and fully informed of the risks to the overall financial equilibrium of the CHIS and of the particular attention given to the situation of CHIS by the Management.

ii) the internal controls, delegation of duties and compliance with rules

As already disclosed last year, and despite the improvements introduced during 2010, we consider that internal controls over the CHIS are weak due to the fact that most of the activity (management of claims and part of the reporting) is outsourced to a service provider (the Contractor), through a contract, which has been approved by Finance Committee in 1999, and which since then has been automatically renewed every year.

The Contractor's fees and overheads weight around 3,7% of the benefits paid by the Contractor itself on behalf of CERN (in 2009 the weight was 3,4%) and they were equivalent to around 2,4 MCHF with an increase of 0,1 MCHF in respect of the fees paid in 2009 (2,3 MCHF).

The increase of the fees paid by CERN to the Contractor represents an increase of 4,3% compared to 2009. This cannot be linked to the volume of benefits paid by the scheme that, in 2010 were 65,4 MCHF, compared to 70,2 MCHF paid in 2009, which is a decrease of 7%⁸. If, following the assessment that we recommend, Management maintains its strategy to outsource the administration of the CHIS claims, we recommend that the Management complies with the CERN Procurement rules, by fixing promptly a competitive call for tender.

Furthermore, we observe that the amount paid to the Contractor, has not been included in the return coefficient to the Member States. Therefore we recommend the Management to include the amount paid under the CERN budget to the contractor in the return coefficient to the Member States.

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We retraced the corresponding entries and transition procedures for non-current assets accounts and we examined the bookkeeping entries of expenditure accounts and fixed assets accounts, including depreciations. We did not observe material errors and the amounts recorded in the Financial Statement are thus verified and confirmed.

⁸ Refer to Annex 1 table follow up of past recommendations.

6.1.2 Current Assets

The total of inventories, receivables, cash and cash equivalents was 124,2 MCHF in 2010 (105,7 MCHF in 2009) resulting in an increase of 18,5 MCHF (+17,5%). Current Assets weighted 1,6% of the Total Assets, in line with the weight they had in the 2009 Accounts (1,3%).

A breakdown of Current assets is shown in the Financial Statements, Part II, notes 4 to 6; the basis for the evaluation of current assets is given in the Accounting Principles (Accounting Statements, Note 1).

The sub-heading "cash and cash equivalent" - totalling to 37,3 MCHF (26,7 MCHF in 2009 and 61,8 MCHF in 2008) - included all the balances of CERN banks current account as at 31 December 2010.

We asked all the banks having a business relation with CERN to confirm the current accounts' balance as at 31 December 2010 and we verified that they were properly recorded into the accounts. All variances detected have been explained and justified.

Current assets also comprised inventories amounting to 5,6 MCHF (around 4,5% of the Current assets - gross value as at 31.12.2010 equal to 7,7 MCHF minus a depreciation of 2,1 MCHF).

The low stock values were mainly due to the Stores Management commitment to a policy of minimization of items in the stores through direct delivery to users. We carried out, as past years, a physical stock checking of a sample of items randomly selected by us. No major problems, which may have had an impact on the accounts at the closing date (31.12.2010), were identified. We traced that all the tested items were properly recorded into the Stores' accounts.

Receivables, totalling 81,3 MCHF (65,5% of the Current assets value) mostly corresponded to the sums which Member States owed to CERN as contributions. During the last three years this sub-heading showed a noteworthy increase — from 8,9 MCHF in 2008 to 43,6 MCHF in 2009 and to 51,2 MCHF in 2010 — resulting in 41,3% of all Current assets.

In addition, the heading included taxes paid by CERN (total amount 6,2 MCHF), to be refunded as a consequence of CERN's exemptions regime (5% of Current assets), plus the amounts owed by teams and collaborations (9,3 MCHF) plus other receivables and prepayments (14,5 MCHF).

As for the above-mentioned receivables (amounts owed by teams and collaboration) we asked, on a sample basis, direct confirmation from third parties of the amounts declared by CERN as due at the year-end. Besides, according to our suggestion, the accounting unit is in the process of carrying out a careful review of any discrepancies emerged. Some of the clients did not answer to our confirmation letters' request. In these cases, yet again on a sample basis, and also in relation to the other subheadings, we checked the subsequent payment after the year-end closing and no major problems have been identified.

6.2 Liabilities and Net Assets

6.2.1 Net Assets

This heading corresponded to the difference between liabilities and assets and it included contributed capital, accumulated surpluses - or deficits - and reserves, as shown in the Statement of Changes in Net Assets⁹.

6.2.2 Non-current liabilities

This heading comprised long-term debts, contributions in advance from Member States, liabilities against a capitalized fund for the CERN Health Insurance Scheme (CHIS) and provisions covering obligations of uncertain amount and timing mainly related to post-employment benefits.

The Non-current liabilities totally amounted to 6.419,1 MCHF at the end of 2010 (in 2009 it was 4.908,8) with an increase of 1.510,3 MCHF (30,8%), mainly due to the post-employment benefits.

Total long-term debts weighted 6,6% of the total non-current liabilities (9% in 2009) and they decreased by 16,4 MCHF (-3,7%), from 441,3 MCHF in 2009 to 424,9 MCHF in 2010 and included loans with FORTIS BANK and FIPOI.

⁹ Financial Statements, Part II, page 15.

Liabilities against Member States - related to ppbar contribution from 5 of the Member States - amounted to 20,7 MCHF as at 31 December 2010 and, compared to 2009 (20,4 MCHF), showed an increase of 237 kCHF (1,2%) due to the 2010 indexation rate.

The recommendation made by our predecessors, the Austrian Court of Audit, to write off this debt, is still pending (see Annex 1).

Post-employment benefits corresponded to¹⁰ the estimated actuarial liability of defined-benefits plans for pension benefits and post-employment Health Insurance Scheme (HIS) benefits towards active employees and retired members of CERN as at the reporting dates¹¹. The provision for post-employment benefits is based on the calculation of the present value of defined-benefit obligations, backed up by actuarial expertises based on demographic and financial assumptions. The following table shows the trend starting from 2006.

in MCHF	Financial Year				
	2006	2007	2008	2009	2010
Post-employment benefits					
Pension benefits (A)	1.523,9	829,7	2.397,7	2.450,9	2994,5
HIS Benefits (B)	1.474,3	1.214,9	1.438,7	1.597,4	2515,0
Net Liabilities (A+B)	2.998,2	2.044,6	3.836,4	4.048,3	5.509,5

In 2010 we observed a significant increase in the liabilities, as compared to the previous years; and this increase is linked to the reduction of the discount rate (from 3,34% in 2007 to 2,59% in 2008, to 2,55% in 2009 and to 2,10% in 2010), but also linked to other factors too, such as updated actuarial assessments, different sets of assumptions and financial effects.

We analyzed the two actuarial reports and we verified that the actuarial estimates were correctly reflected into the accounts. In line with the External Auditors' Report on the 2007 Financial Statements, we validated the practice of performing the actuarial reviews on a yearly basis.

It is important to highlight that this sub-heading weights 80,1% of all the CERN liabilities (in 2009 its weight was 71,9) and, with an increase of 36,1%, is the most

¹⁰ According to IPSAS 25, in force as of 28 February 2008.

¹¹ Refer to Financial Statement, Part II, note 11, table a).

significant. As already stated in paragraph 6.1.1, we are of the opinion that the liabilities which arise from the post-employment benefits are significant and therefore, as already stated in paragraph 6.1.1, we reiterate our recommendation mentioned in point 6.1.1.b.i) that in the future the financial equilibriums are periodically monitored and that corrective measures are considered as soon as possible.

Other provisions totalled to 352,3 MCHF as at 31 December 2010, increasing by 56,9 MCHF (19,2%) as compared to 2009 (296,0 MCHF). This increase is mainly due to the reassessment of the estimated costs for the disposal of radioactive waste stored at CERN at the year end (351,0 MCHF, which represent around 99% of the sub-headings).

In relation to the other sub-headings recorded in the accounts as “*other provisions*”, named “Repair sector 3-4”, it amounted to 1,2 MCHF and it decreased by 7,7 MCHF comparing to 2009 (8,9 MCHF).

The related provision was created during 2008, in relation to the LHC incident, with an amount of 22,8 MCHF, for repairs in sector 3-4 and for the reconstruction of the spares inventory. In 2009 the repairs were executed and the relating 2008 provision for the repair was written-off in full and it was decided to maintain anyway, under this sub heading, a provision solely relates to the replenishment of spares inventory.

Other Items not recognized in the Financial Statement

The management dedicated a paragraph for disclosing the “other Items not recognized in the Financial Statement”¹² but for which the Management itself does not consider appropriate to create a dedicated provision into the accounts or *i)* because they consider not having a legal or constructive obligation, or *ii)* because they do not consider probable that an outflow of resources will be required to settle the obligation or *iii)* because a reliable estimate of the amount of the obligation can not be made.

Dismantling

For the above-mentioned reasons, and as in the past year, no provision for dismantling is recognized. Although neither a legal obligation for dismantling any installation (LHC CNGS etc.) nor commitments to do so exist, it cannot be excluded that — with the passing of time - , the more the end of operational period approaches, the more a future obligation for CERN to dismantle the installations may be contracted.

¹² Refer to Financial Statement, Part II, note 11, part D. page 36.

Furthermore, it is not possible to foresee the sites' final destination and their physical state by the end of their operational periods.

For these reasons, the assumption that, from a financial and accounting point of view, no estimates of expenditure for the dismantling should be included in the 2010 CERN Financial Statements is basically correct, although with the passing of time, it might be appropriate to start giving some thoughts to the issue.

6.2.3 Current liabilities

The total amount of this item was 459,8 MCHF as at 31 December 2010, presenting the significant decrease of 263,0 MCHF (-36,4%) as compared to 2009 (722,8 MCHF). The decrease is mainly due to the reduction in short-term borrowings with banks during 2010.

- a) The total of short-term debt and bank overdrafts is referring to the amounts of long-term debts falling in 2010 and to the short term borrowings from banks and, in 2010, the total amount concerned was 47,4 MCHF. It was considerably reduced by 257,7 MCHF (-84,5%) as compared to the previous year when they stood at 305,1 MCHF.

As mentioned above, the reduction in short term borrowings with banks, is the main reason for the decrease of these current liabilities with banks; in the past, these operations were carried out mainly for temporary cash-shortage, mainly due to delay in Member States contributions. This places an emphasis on the importance of the timely payments of the Member States' contributions.

- b) Other liabilities referred to suppliers (56,0 MCHF), advances received from teams and collaborations (177,5 MCHF) and accruals of employee benefits from paid leaves and termination allowances (155,5 MCHF); the latter stood for the estimates concerning the accumulated present value of CERN's liability towards its staff.
- c) Deferred revenues (19,2 MCHF) decreased by 50,5% comparing to 2009 (38,8 MCHF), it referred to advances from Member States, EU and other projects to be further recognized as revenue.
- d) In 2010 Other current liabilities amounted to 4,1 MCHF with a growth of 0.9 MCHF (30,3%) as compared to 2009 (3,2 MCHF).

The statement of liabilities and the corresponding notes were examined on the basis of supporting documentation concerning the underlying transactions. We did not observe errors and the amounts recorded are thus verified and confirmed.

7. STATEMENT OF FINANCIAL PERFORMANCE 2010

This Statement showed the Organization's operating and financial revenue and expenses classified, disclosed and presented on a consistent basis in order to explain the year's net deficit or surplus¹³.

- a) Total operating revenue amounted to 1.366,4 MCHF with an increase of 80,0 MCHF, (+6,2%) as compared to 2009 (1.286,4 MCHF), chiefly owing to the increase of the *Transfers to the fixed assets* amounting to 143,7 MCHF (90,6 MCHF in 2009) which were increased by 53,1 MCHF (+58,6%). The *EU contributions to EU co-funded projects* decreased by 4,1 MCHF (-21,5%) and there was an increase of the sub-heading *Other operating revenue* (36,5 MCHF; +29% compared with 2009), mainly due to the sale of equipment no longer in use and revenue from collaborations.
- b) Total operating expenses increased compared to last year, contrary to the past two years where they were stable. They amounted to 1.421,4 MCHF and, in comparison with last year's (1.280,7 MCHF), showed an increase of 140,7 MCHF (11%). They are subdivided into two main items: *Materials* and *Personnel* and both increased, in particular the expenses for *Materials* by 11,7% (789,0 MCHF in 2009 and in 2010 881,6) and for *Personnel* by 9,8% (they increased from 491,7 MCHF in 2009 to 539,8 MCHF in 2010).

As far as *Materials* are concerned we observed a reduction in the heading *Support Services* (mainly concerning the IT and technical support) and an increase in *energy costs, in "variations for provision"* (in particular for elimination

¹³ IPSAS 1: "As a minimum, the face of the statement of financial performance should include line items which present the following amounts: revenue, surplus or deficit from operating activities, financial costs and extraordinary items. Net surplus or deficit for the period."

of radioactive waste¹⁴) and in the sub-headings “*good, consumables, equipment and supplies*” and in *Repair and Maintenance*. As far as personnel are concerned, the growth we observed was largely related to the rise of *Post-employment benefits*.

- c) Net deficit from operating activities in 2010, contrary to past years, CERN registered a *deficit* of 55,0 MCHF compared to the *surplus* registered in 2009 (5,7 MCHF) and in 2008 (1.624,0 MCHF).
- d) Financial activities showed a deficit reduction by 5,6 MCHF (25,5%), from a deficit equal to 21,8 MCHF in 2009 to 16,3 MCHF in 2010. Details of financial revenue and expenses are provided in the Financial Statements, Part II, note 22.

We verified the sums paid by CERN to FORTIS pertaining to the year 2010 and we traced the operations into the Accounts.

- e) The net deficit for the year 2010 amounted to 71,2 MCHF which, when comparing it with the 2009 net deficit of 16,2 MCHF, illustrated a noteworthy increase of deficit of 55,1 MCHF.

We examined the composition of the Statement of Financial Performance based on the balance and consolidation of corresponding annual accounts, we carried out interviews within the Accounting service and we did not detect any material extraordinary operations. We thus certify the amounts recorded in the Financial Statements and the relevant net deficit for the period 2010.

8. STATEMENT OF CHANGES IN NET ASSETS 2010

In 2010 changes in the net assets (1.513,5 MCHF as opposed to 234,7 MCHF in 2009), resulted from the recognition of the expenses directly recorded in the net assets (1.422,2 MCHF) related to variations due to actuarial loss estimates regarding health care and pensions, plus 71,2 MCHF as net deficit for the period.

As far as the accounting reconciliation is concerned, we found that the entries were properly backed-up by supporting documentation and correctly settled into the corresponding accounts.

¹⁴ Refer to note 11 B. Part II of the 2010 Annual Accounts.

8.1 STATEMENT OF NET DEFICIT & LOSSES RECOGNIZED DIRECTLY IN NET ASSETS

The Statement has been introduced this year and discloses the net deficit for the year 2010 (71,2 MCHF) and the other valuations adjustments which, under IPSAS, are not recorded in the Statement of Financial Performance but directly reported in the Statement of Financial Position, which in 2010 are the actuarial losses from defined benefits plans (equal to 1.442,2 MCHF, composed by 880,1 MCHF for actuarial losses related to Health Care and by 562,2 MCHF for actuarial losses related to Pensions).

The total of the three above-mentioned figures is recognized directly in Net assets (1513,5 MCHF)¹⁵. Thus the values are reconciled with both the Statement of Financial Position and Changes in Net Assets¹⁶.

9. CASH FLOW STATEMENT 2010

The Cash Flow Statement¹⁷ identifies the sources of cash inflows, the items on which cash was spent during the reporting period, and the cash balance as at the reporting date.

In 2010 the Organization reported cash flows from operating activities using the direct method, i.e. whereby major classes of gross cash receipts and gross cash payments were disclosed. Net cash-flows from operating activities showed a surplus from receipts and payments amounting to 453,8 MCHF. Net cash flows from investing activities, which included personnel and materials expenditure and the CHIS Fund capitalization (see paragraph 6.1.1), added to -152,3 MCHF. Net cash flows from financing activities accounted for -290,9 MCHF. As a consequence, the net increase in cash and cash equivalents was 10,6 MCHF; by adding cash and cash equivalents at the beginning of period (26,7 MCHF), it led to cash and cash equivalents amounting to 37,3 MCHF as at 31 December 2010¹⁸.

We checked the underlying entries by selecting samples from some accounts. The result was that all transactions chosen were properly backed-up by supporting documentation. The Cash Flow Statement is thus verified and confirmed.

¹⁵ Refer to § 8.

¹⁶ Refer to Part II, page 15 of the 2010 Annual Accounts.

¹⁷ Refer to Part II, page 17 of the 2010 Annual Accounts.

¹⁸ Refer to paragraph 6.1.2 Current Assets.

10. HUMAN RESOURCES MANAGEMENT

In the Annex we have inserted the follow-up of our last year's recommendations and we have assessed the status of their implementation.

During our audit we understood that the Code of Conduct approved in 2010 by the Council should be considered as a "guide" so as to "conduct" and "treat" people "in accordance with CERN values"¹⁹. Furthermore, the intention is not to "duplicate or extend [CERN] existing legal rights and obligations, nor is it an exhaustive list of dos and don'ts"²⁰.

Moreover, in order "to increase understanding of how the code of conduct applies to practical situations"²¹ an online frequently asked questions section (FAQ) has been created by the HR Department on how the Code of Conduct should apply to practical situation.

However, only the Staff Rules and Regulations -further implemented by means of administrative and operational circulars- provide to staff, or to Management, the legal basis on which, for instance, to lodge a claim for violation of such a code of conduct.

Due to the fact that the Code of Conduct is considered as a reference "guide", as stated above, only the FAQ actually clarify who should be contacted in case of violation of the code, namely the hierarchical superior, or the Human Resources Department or Internal Audit and, in case the violation involves an interpersonal conflict, the Ombuds Office²². Furthermore, in the FAQ, it is stated that "CERN does not have an official whistle-blowing policy"²³. We observed that CERN has no a clear internal procedure which defines: *i*) how these cases should be dealt with, *ii*) who should be in charge of following-up such cases of violation of the Code of Conduct, *iii*) what is the legal basis against which to assess such violations, also considering to their importance, *iv*) what are the all possible consequences and sanctions for different levels of violation. Therefore we recommend to start developing a specific procedure that could address the above mentioned points.

¹⁹ Refer to CERN Code of Conduct, Introduction by the Director-General.

²⁰ Refer to CERN Code of Conduct, Introduction by the Director-General.

²¹ Refer to CERN Code of Conduct, "using the code of Conduct".

²² Refer to CERN Code of Conduct, Frequently Asked Questions; in particular question "I have witnessed a colleague violating the Code of Conduct . What action should I take?"

²³ Refer to CERN Code of Conduct, Frequently Asked Questions; in particular question "if I report someone for violating standards of conduct at CERN, do I receive whistle-blower protection?"

At the date of issuance of this Report, out of 90 FAQs, around 10 of such questions were related to “conflict of interests” issues but we observed that no definition of conflict of interest exists, either in the Code of Conduct or in the FAQ. However, we observed that the CERN Pension Fund, already in 2008²⁴ adopted its own Code of Conduct where a clear definition of “conflict of interests” is stated. The Human resources Department, when mentioning “conflict of interests” in the Code or in the FAQ, has never utilized, or made clear reference, to the definition used in the Pension Fund Code of Conduct. Therefore we recommend to identify just one single definition of “conflict of interests” applicable to all CERN and to make it part of the Code of Conduct and the FAQ.

Furthermore, we recommend that addenda to the Code of Conduct, applicable to all CERN contributors, are created for the Organization’s activities and processes with specific risks.

Despite the fact that the definition of “conflict of interests” is only clarified at the level of Pension Fund Code of Conduct, all CERN staff – particularly those who manage risks or commit the Organization with third parties - are not required, first to declare that they have acknowledged the concept of “conflict of interests” and then, to confirm the absence of conflicts of interest in their position.

CERN has no procedure yet, with a direct link with the Staff Rules and Regulations, which would require from staff that they declare conflicts of interests, and a dedicated body - which could be in charge of verifying whether a conflict of interests arises - has not been set up.

Therefore we recommend implementing a procedure to collect from staff in specific positions, or from budget holders, confirmations that they have no conflicts of interests and setting up a dedicated body which can handle such process, at the highest level of confidentiality, and which can verify if cases of conflict of interests may be present at CERN. As a consequence, such a dedicated body, in order to fulfil these duties efficiently and effectively, should be in condition to analyse and assess on a case-by-case basis when staff or contractors are in a situation that could potentially lead them into conflict of interests and accordingly take the necessary corrective actions. For instance, staff in Finance and Procurement Department should declare in

²⁴ Approved with effect from 1st January 2009 in the restricted Session of the Council held on the approved on the 26 November 2008.

a standard form *not only* that they are aware of the definition of conflict of interest *but also* that they will disclose to the dedicated body the situations that could lead them to a potential conflict of interest, with the dedicated body assessing their declarations.

In addition, we also recommend implementing a procedure by which Members of Personnel are encouraged to report suspected acts of fraud to well defined reporting channels and which defines how this reported information will be handled.

11 INTERNAL AUDIT SERVICE

In May 2011, at the time of our reporting, the Internal Audit Service (IA) was composed of 3 auditors with a staffing level equivalent to 3 FTEs. In addition, the IA was assigned a part-time (20%) secretarial resource.

On 31.12.2010 the Organization had one internal auditor for 408 MCHF of budget and one auditor for 961 employed members of personnel.

We can confirm that the IA provided the necessary support to the External Auditors in conducting their mandate, providing technical help with CERN specific systems and tools and ensuring that requests for information were met by the Organization.

Internal Audit's main role is to provide an independent assurance to the Director-General and, indirectly so, to the Council, on the risk management, control and governance processes of the Organization. Beyond the support and technical help that IA provides to them, IA's full and free access to the External Auditors and the CERN SACA is an additional guarantee of Internal Audit's independence.

12. FOLLOW-UP OF RECOMMENDATIONS 2006 - 2009

Following the request of the Council regarding the examination and adoption of the External Auditors' past recommendations, we have reviewed the External Auditors reports of the Austrian Court of Audit for the period of time from 2004 to 2007²⁵ and the corresponding comments by the Management²⁶.

Moreover, Annex 1 collect also all the recommendations issued by us in our 2008 and 2009 Reports.

In Annex 1 are listed only two categories of recommendations:

- a) the recommendations that are still pending (not considered as completed by the Austrian Court of Audit and/or by us);
- b) the recommendations considered by the Austrian Court of Audit as "pending" but considered as completed by us.

In addition, Annex I also includes the comments received from CERN Management at the time of the issuance of the corresponding Report and the latest status on actions taken by Management.

It appears that most of our predecessors' recommendations, as well as the recommendations we issued, have been implemented; therefore we appreciate the willingness and attention of the Management to improve the effectiveness and efficiency on financial and administrative matters.

²⁵ See CERN/2559 - CERN/FC/4810, CERN/2609 - CERN/FC/4923, CERN/2668 - CERN/FC/5043, CERN/2721 - CERN/FC/5140, CERN/2788 - CERN/FC/5246.

²⁶ See CERN/2560 - CERN/FC/4811, CERN/2610 - CERN/FC/4924, CERN/2669 - CERN/FC/5044, CERN/2722 - CERN/FC/5141.

ANNEX 1

Report	Recommendation raised By Austrian Court of Audit	Comments received from CERN Management at the time of the issuance of the report	Status on actions taken by Management as reported by Austrian Court of Audit	Status on actions taken by Management as evaluated by Italian Court of Audit
2006	<p><u>Funds and Reserves</u></p> <p>Other Reserves (CHIS):</p> <p>a) The External Auditors recommended to consider the assignment of the health insurance scheme to the insurance company in full.</p>	<p>a) The Management will issue a new market survey to evaluate the possibility of a complete outsourcing of the insurance risk. (2006)</p>	<p>a) Ongoing - A market survey should be launched in 2008.</p>	<p>Ongoing</p> <p>We have requested Management, when carrying out the survey requested by the Council, to consider that also economic conditions may vary during the years, and to take in consideration also our recommendation in paragraph 6.1.1 b).</p>
<p>2006 2007 (see also § 6.2.2)</p>	<p><u>Long-term debts</u></p> <p>b) ppbar contributions: the External Auditors recommended entering into negotiations with the Member States concerned to write-off the outstanding amounts.</p>	<p>The Management accepted the recommendation and will take the necessary steps.</p>	<p>Pending - It has been decided to defer action until 2010.</p>	<p>Pending</p> <p>Action will be further deferred by the Management in the coming years.</p>

Report	Recommendation raised By Austrian Court of Audit	Comments received from CERN Management at the time of the issuance of the report	Status on actions taken by Management as reported by Austrian Court of Audit	Status on actions taken by Management as evaluated by Italian Court of Audit
2007 (see § 6.2.2 lit.e)	<p>Post-employment Benefits To ensure the best estimate of the expenditure required for a rational settlement of the present obligation at the reporting date, we recommend to ensure to draw up the actuarial reviews on a yearly basis.</p>			<p>Completed for 2010</p> <p>In financial year 2009 an actuarial review was drawn up by an independent actuarial. In line with the Austrian recommendation, we recommend to perform actuarial reviews on a yearly basis.</p> <p>Management agreed that from 2010 onwards the actuarial review will be performed on a yearly basis.</p>

Report	Recommendation raised By Italian Court of Audit	Comments received from CERN Management at the time of the issuance of the report	Status on actions taken by Management as evaluated by Italian Court of Audit
<p>2009 (refer also to paragraph 4.1)</p>	<p>“Statement of Comparison of Budget and Actual amounts” in part 1 of the Annual accounts We recommend using more descriptive notes in order to explain variations between budget and actual figure which arise from the</p>		<p>In progress Our recommendation has been renewed also this year (2010)</p>
<p>2009 (refer also to paragrap h 6.1.1 b)</p>	<p>Financial Asset (CHIS) We recommend to assess the economy, the efficiency and effectiveness of using an external service provider instead of a direct in-house management.</p>	<p>Controls have been improved: (1) since 2010, monthly and semestrial reports on services provided and their quality (Quality Insurance Plan) are received from UNIQA and monitored; (2) annual extractions from the database of UNIQA with full reimbursement details allow CERN to monitor and control that the reimbursements and treatments of the claims are in conformity with the procedures and rules agreed. It is currently planned to further study and improve the control of the overall process and to assess the cost/ benefit of the external service provider.</p>	<p>In progress</p>

Report	Recommendation raised By Italian Court of Audit	Comments received from CERN Management at the time of the issuance of the report	Status on actions taken by Management as evaluated by Italian Court of Audit
<p>2009</p> <p>(refer also to paragraph 6.1.1 a)</p>	<p>Fixed Asset</p> <p>We recommend to establish a stricter set of procedures and a regular follow-up mechanism by means of- at least- an annual inventory exercise, carried out by a team independent from the accounting unit, and those in charge of implementing the above mentioned inventory procedures.</p>	<p>Each Departmental Inventory's responsible have been contacted in order to describe their own procedure. A document has been prepared which summarizes all the procedures followed. The current objectives are (1) to agree to a standard procedure (using a defined list of inventoriable items) and (2) design and put in place a new inventory application having much more links with other software applications (EDH, CET, others) with much more controls and standard way of working for all Departments.</p>	<p>In progress</p>
<p>2009</p>	<p>Current assets</p> <p>We recommend to adopt a standardized procedure in recording goods entering at CERN, - not only in order to facilitate the recording system into the accounts but also in order to enhance the traceability of goods during their life-cycle and, furthermore, to simplify the inventory process</p>	<p>A working group with GS and AIS has been activated. The first step is to treat a limited number of items using bar code or electronic chip.</p>	<p>In progress</p>
<p>2009</p>	<p>Other provisions</p> <p>We recommend the Management to set up a standardized procedure which envisages the systematic communication of all the financial corrections and information received from the European Commission to the EU funded project leaders so as to allow them to take timely corrective actions.</p>		<p>In progress</p>

Report	Recommendation raised By Italian Court of Audit	Comments received from CERN Management at the time of the issuance of the report	Status on actions taken by Management as evaluated by Italian Court of Audit
2009	<p><u>Human resources management</u> We recommend a systematic adoption of predefined evaluation grids, in order to improve the transparency level in the selection procedure and, thus, to increase the degree of compliance with the principle of "equality of treatment between people", as stated in the Preamble of the CERN Staff Rules and Regulation.</p>		Ongoing.
2009	<p><u>Human resources management</u> We are of the opinion that when a vacancy occurs for the award of indefinite contracts in sensitive positions an open vacancy should be addressed directly to internal and external candidates.</p>		Ongoing
2009	<p><u>Human resources management</u> We recommend the creation and the regular maintenance of a list of sensitive positions in the selection of candidates.</p>		Pending

Report	Recommendation raised By Italian Court of Audit	Comments received from CERN Management at the time of the issuance of the report	Status on actions taken by Management as evaluated by Italian Court of Audit
2009	If Internal Audit independently decides to increase the number of technical and operation audits we recommend that its staffing level be further increase according to the audit risks identified and audit coverage required.		Not implemented
2009	In case Internal Audit enlarges its scope to technical and operational audits, we recommend that Internal Audit should recruit a technical expert with an audit experience background as an asset.		Not implemented
2009	We recommend that the Internal Audit carefully reviews, at least on annual basis, the exceptions' register, in order to assess the relevance of the exceptions recorded.		Not implemented