

ORGANISATION EUROPÉENNE POUR LA RECHERCHE NUCLÉAIRE  
**CERN** EUROPEAN ORGANIZATION FOR NUCLEAR RESEARCH

---

Action to be taken

Voting Procedure

For information	<b>FINANCE COMMITTEE</b> 360 <sup>th</sup> Meeting <b>13-14 June 2017</b>	-
For information	<b>COUNCIL</b> 185 <sup>th</sup> Session <b>15-16 June 2017</b>	-

**Report by the External Auditors on  
the Annual Report and Financial Statements of the  
CERN Pension Fund  
for the Year Ended 31 December 2016**

**Supreme Audit Office of Poland**





NAJWYŻSZA IZBA KONTROLI  
SUPREME AUDIT OFFICE OF POLAND

**Audit No. P/17/052-3/CERN PF AR**

**EXTERNAL AUDITOR'S ASSESSMENTS AND COMMENTS  
ON THE ANNUAL REPORT  
OF THE EUROPEAN ORGANIZATION  
FOR NUCLEAR RESEARCH PENSION FUND (CERN PF AR)  
FOR THE YEAR 2016**

Warsaw, 19 May 2017



## EXTERNAL AUDITOR'S REPORT

Addressed for information to:

**COUNCIL OF THE EUROPEAN ORGANIZATION FOR NUCLEAR RESEARCH  
(CERN)  
CH-1211, Genève 23, Switzerland**

### **ASSESSMENT AND COMMENTS ON THE CERN PENSION FUND ANNUAL REPORT**

We have read the accompanying Annual Report of the European Organization for Nuclear Research Pension Fund (CERN PF), which comprises Chairman's Letter and Pension Fund Governing Board Report, including information on the Composition of the bodies of the Fund and Advisors, Overview of the year 2016, information concerning Members and Beneficiaries, Actuarial Status of the Fund, and Investment Report.

#### ***CERN PF Governing Board's Responsibility for the Annual Report***

CERN PFGB is responsible for the preparation and fair presentation of the Annual Report in accordance with a general guidance given during the PFGB 58th Meeting on 12 June 2015.

#### ***Responsibility of the Supreme Audit Office of Poland (NIK)***

Our responsibility is to make an assessment and give comments on the Annual Report based on our reading of the document. We conducted our audit in accordance with International Standard of Supreme Audit Institutions No. 1720 (ISSAI 1720). This standard requires that we obtain reasonable assurance about whether the Annual Report is free from material inconsistencies with the financial statements for the year ended 31 December 2016 audited by us. The standard also requires that we assess whether the Annual Report is free from misstatements of fact, i.e. other information that is unrelated to matters appearing in the audited financial statements is correctly stated and presented.

We believe that the audit evidence we have obtained during the audit of the CERN PF Financial Statements was sufficient and appropriate to make comparisons with the information presented in the Annual Report and thus provide a basis for our assessment.

#### ***Assessment of the CERN Pension Fund Annual Report***

**In our view, the CERN Pension Fund Annual Report is consistent, in all material respects, with the financial and non-financial information contained in the CERN Pension Fund Financial Statements for the year ended December 31, 2016 and does not contain any misstatements of fact as regards other information that is unrelated to matters appearing in the audited financial statements.**

#### ***Other Comments***

1. The presented Annual Report provides information and touches all important points of the CERN PF operations in the preceding year. Our previous recommendations related to providing information on the Fund's financial position and its performance over a longer period of time. This Report provides such, very brief, information based on the last year Periodic Actuarial Review.

2. The investment performance figure (1.48%) is given in the Portfolio Performance chapter of the Annual Report, supplemented by a footnote on the methodology and data used to calculate the performance figure. For the record, it is worth mentioning that the return on assets calculated in accordance with the standard practice, taking into account the relation of net investment income for the year ended to total assets at the year-end, gives a lower figure, i.e. 1.41%.

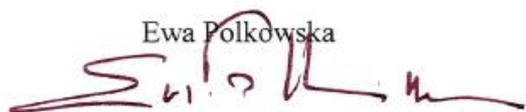
**CERN Pension Fund comment:**

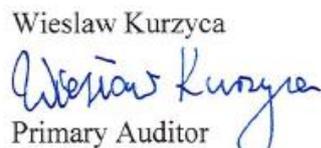
*It should be noted that the methodology and data used to calculate the performance figure (1.48%) given in the Annual Report is described in the footnote to the relevant item of the report.*

*As referred to in our responses over the last couple of years, our performance calculation is a time weighted return based on the Global Investment Performance Standards (GIPS), which is an internationally recognised method of performance calculation, and is based on the data held by the Custodian.*

**Our position**

*By this comment we would like to draw attention of the Council that the return on assets is an important indication of the Pension Fund's performance as it is assets available for the payment of benefits that finally decide about the Fund's ability to fulfil its obligations. The figure 1.41% is the quotient of net investment income (MCHF 58) and total assets (MCHF 4,132) multiplied by 100%.*

Ewa Polkowska  
  
Vice-President of NIK  
Chairman of CERN Audit  
Steering Committee

Wieslaw Kurzyca  
  
Primary Auditor  
of CERN External Audit

19 May 2017  
Supreme Audit Office  
ul. Filtrowa 57  
Warsaw, Poland



NAJWYŻSZA IZBA KONTROLI  
SUPREME AUDIT OFFICE OF POLAND

**Audit No. P/17/052-3/CERN PF FS**

**EXTERNAL AUDITOR'S REPORT  
ON THE FINANCIAL STATEMENTS OF  
THE EUROPEAN ORGANIZATION  
FOR NUCLEAR RESEARCH PENSION FUND  
(CERN PF)  
FOR THE YEAR ENDED 31 DECEMBER 2016**

Warsaw, 19 May 2017



## EXTERNAL AUDITOR'S REPORT

**Addressed to:**

**COUNCIL OF THE EUROPEAN ORGANIZATION FOR NUCLEAR RESEARCH  
(CERN)  
CH-1211, Genève 23, Switzerland**

We have audited the accompanying financial statements of the European Organization for Nuclear Research Pension Fund (the Fund), which comprise the statement of financial position as at December 31, 2016, and the statement of financial performance, cash flow statement and statement of changes in net assets available for benefits for the year then ended, and a summary of significant accounting policies and other explanatory information.

### *Audit Opinion on the CERN Pension Fund financial statements*

**In our opinion, the financial statements present fairly, in all material respects, the financial position of the CERN Pension Fund as at December 31, 2016, its financial performance and its cash flows for the year then ended in accordance with the International Accounting Standard 26 and International Public Sector Accounting Standards.**

We have also audited the Fund's management compliance with the Rules and Regulations of the Pension Fund, CERN Financial Rules and Regulations for the Implementation of the CERN Financial Rules as well as other rules and regulations and service agreements related to and affecting the use of the Fund financial resources.

### *Audit Opinion on compliance of the Fund's management with rules and regulations*

**In our opinion, the transactions related to the CERN Pension Fund, handling receipts of the Fund members contributions, collecting the contributions of the Fund beneficiaries to the CERN Health Insurance Scheme, payments of benefits, operating investments of the Fund assets, and incurring other expenses have been conducted, in all material respects, in compliance with the CERN and CERN Pension Fund Rules and Regulations and all other relevant rules and regulations and service agreements.**

### *Basis for Opinions*

We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the audited Organisation in accordance with the ISSAI 10 – Mexico Declaration of SAI<sup>1</sup> Independence and ISSAI 30 – Code of Ethics, together with other requirements that are relevant to our audit of the financial statements of an international institution as stated in ISSAI 5000 – Audit of International Institutions – Guidance for SAIs, and we have fulfilled our ethical and other responsibilities in accordance with the said standards. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Key Audit Matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and compliance with

---

<sup>1</sup> SAI – Supreme Audit Institution

authorities. These matters were addressed in the context of our audit of the financial statements as a whole and compliance with authorities, and in forming our opinion thereon.

Key audit matters in the audit of the CERN PF Financial Statements for 2016 were as follows:

1) Valuation of Pension Fund Assets

Pension Fund Assets constitute the crucial item in the Pension Fund Financial Statements of the total value MCHF 4,132. They form the basis of PF capability of providing benefits to CERN pensioners and other beneficiaries as well as meeting other Fund's liabilities.

The matter was addressed in the audit by verification of the information provided in the Custodian's monthly reports against relevant account balances and reconciliation of the values reported in the Statement of Financial Position with the relevant accounting data.

2) Accuracy of reporting Pension Fund Investments

Pension Fund investment reflect active use of PF assets in excess of those utilised for the payment of defined benefits and other expenses of the Fund. As members' and employers' (CERN and ESO) contributions to the Fund are not alone sufficient to meet PF obligations the level of return from investments decides about PF long-term capability to pay benefits.

The matter was addressed in the audit by verification of the information provided in the Custodian's monthly reports against relevant account balances and reconciliation of the amounts reported in the Statement of Financial Performance with the relevant accounting data.

3) Accuracy of and compliance of payments of Pension Fund benefits

Payment of Pension Fund benefits is the ultimate goal of the PF operations. The objective of the Fund is to comply with the Rules and Regulations of the Fund in calculating benefits and to report accurately benefits paid.

The matter was addressed by a sample check of calculating benefits for surviving spouses and analytical procedures performed in reference to other benefits.

***Responsibilities of CERN Pension Fund Management and Those Charged with Governance for the Financial Statements***

CERN Pension Fund management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Accounting Standard 26 and International Public Sector Accounting Standards, and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using going concern basis of accounting unless relevant authorities either intend to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

The Fund's management is also responsible for the use of the Fund's financial resources in compliance with all applicable policies, rules and regulations.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

## ***Auditor's Responsibilities of the Supreme Audit Office of Poland (NIK) for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Our objective is also to express an audit opinion on compliance of respective CERN Pension Fund authorities with the CERN and CERN Pension Fund all applicable policies, rules and regulations as regards making use of financial resources of the Fund.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our

report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

***Emphasis of matter***

We draw the Council's attention to increased technical deficit of the Fund (MCHF 6,106 as compared to MCHF 6,041 in 2015) and accompanied lower level of the PF Funding Ratio (39.9% as compared to 40.4% in 2015). Net assets available for benefits also decreased from MCHF 4,093 in 2015 to MCHF 4,060 in 2016. The level of net assets available for benefits went down below the level of 2013 (MCHF 4,070) or, if compared to the times before the financial crisis, below the level of 2005 (MCHF 4,209).

Signed by:

Ewa Polkowska



Vice-President of NIK  
Chairman of CERN Audit  
Steering Committee

Wieslaw Kurzyca



Primary Auditor  
of CERN External Audit

19 May 2017  
Supreme Audit Office  
ul. Filtrowa 57  
Warsaw, Poland