

CERN/FC/6226  
CERN/3357  
Original: English  
22 May 2018

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

---

*Action to be taken*

*Voting Procedure*

For information	<b>FINANCE COMMITTEE</b> 364 <sup>th</sup> Meeting <b>12 and 13 June 2018</b>	-
For information	<b>OPEN COUNCIL</b> 189 <sup>th</sup> Session <b>14 and 15 June 2018</b>	-

**Report by the External Auditors on  
the Financial Statements of CERN  
for the Financial Year 2017**

**Supreme Audit Office of Poland**





NAJWYŻSZA IZBA KONTROLI  
SUPREME AUDIT OFFICE OF POLAND

Audit No. P/18/050-5/CERN FS

**EXTERNAL AUDITORS' REPORT  
ON THE FINANCIAL STATEMENTS OF  
THE EUROPEAN ORGANIZATION  
FOR NUCLEAR RESEARCH (CERN)  
FOR THE YEAR ENDED 31 DECEMBER 2017**

Warsaw, 18 May 2018

*(Intentionally blank)*

## EXTERNAL AUDITOR'S REPORT

Addressed to:

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

We have audited the accompanying financial statements of the European Organization for Nuclear Research (CERN), which comprise the statement of financial position as at 31 December 2017, and statement of financial performance, statement of changes in net assets and statement of cash flow for the year then ended, statement of comparison of CERN budget and actual amounts, and notes to the financial statements, including a summary of significant accounting policies.

### *Audit Opinion on CERN financial statements*

**In our opinion, the CERN Financial Statements present fairly, in all material respects, the financial position of the European Organization for Nuclear Research as at December 31, 2017, its financial performance and its cash flows for the year then ended in accordance with the International Public Sector Accounting Standards (IPSAS).**

We have also audited the CERN management compliance with CERN Financial Rules and Regulations for the Implementation of the CERN Financial Rules, including Procurement Rules and the CERN annual budget appropriations, as well as other rules and regulations and service agreements related to and affecting the use of CERN financial resources.

### *Audit Opinion on compliance of the CERN management with rules and regulations*

**In our opinion, the transactions carried out in the process of financial reporting and execution of the CERN budget have been, in all material respects, in compliance with IPSAS and the CERN Financial Rules, including Procurement Rules, and Regulations for the Implementation of the CERN Financial Rules, and the CERN budget appropriations. The CERN management also complied with other rules, regulations and service agreements related to and affecting the use of the CERN financial resources.**

### *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 as well as the Code of Conduct of the Supreme Audit Office of Poland, 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.**

### *Emphasis of Matter*

We draw the Council's attention to decreased pension liability indicated in the CERN Statement of Financial Position, Note (MCHF 5,452 in 2017 as compared to MCHF 5,574 in 2016). It is,

---

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

however, worth mentioning that this liability has grown by MCHF 1,390 since 2013, i.e. the first year of our audit at CERN (from MCHF 4,062 in 2013 to MCHF 5,452 in 2017) and still remains a considerable item among liabilities in the CERN financial statements.

Our opinion is not modified in respect of the matter emphasized.

### ***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 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 Financial Statements for 2017 were as follows:

#### **1) Impairment of Property, Plant and Equipment (PPE)**

An impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation.<sup>2</sup>

CERN Property, Plant and Equipment in use constitute the most significant asset in the CERN Financial Statements of a total value of MCHF 7,472, whose larger part is used to facilitate a number of scientific programs and projects of varying scope and duration. It is a CERN policy to use developed plant and equipment for a new project or in a new programme once a previous has been completed.

The matter was addressed in the audit through analytical procedures, inspection of documents (Asset Register, CERN 2016 and 2107 Annual Progress Reports, and other available documents on current experiments at CERN) as well as inquiries with the Finance and Administrative Processes and CERN experiments engineering staff. The audit team recommended and then monitored an impairment test to have been carried out in reference to the CLIC Test Facility 3 (CTF3), whose operation had been stopped in December 2016 with part of CTF3 equipment to be used as a new user facility for the CERN Linear Electron Accelerator for Research and the remaining larger part to be stored as spare parts with the intention of future use. The impairment test has been completed in the course of audit and adequately accounted for and reported in the CERN 2017 Financial Statements.

#### **2) Remuneration data flow**

Remuneration is the significant item in the CERN Statement of Financial Performance. The remuneration process at CERN is supported by an information system that includes transfers between several key databases through which personal and financial data are streamed and processed to result in the complete payroll list and consolidated financial information, which forms a material line-item in the financial statements.

The matter was addressed in the audit by performing audit procedures to gain understanding and to check the adequacy of the design, implementation and operating effectiveness of controls in place to mitigate risks in the process. The said check included controls introduced by CERN management as a response to our recommendation given in the previous year to strengthen the control over the initial input electronic data for payroll.

Procedures conducted during the audit allowed us to confirm completeness, accuracy and integrity of the data flow between databases employed in the remuneration process. The risk

---

<sup>2</sup> IPSAS 21, paragraph 14.

referring to payroll process was reassessed from medium at the planning stage of our audit to low when our work was done.

### 3) Physical inspection of Property, Plant, and Equipment

CERN Property, Plant and Equipment constitute the most significant asset in the CERN Financial Statements of a total value of MCHF 8,139 including PPE in progress of development. In 2015 CERN management introduced a revised accounting policy in reference to Property, Plant, Equipment (PPE) which has entailed a significant increase in value and quantity of recognized PPEs.

In reference to the said revised PPE policy and on the basis of our recommendation, CERN management designed and implemented a new physical control procedure over PPEs in 2017. In the context of that new procedure, a medium risk of misstatement in the financial reporting on PPE has been identified by the auditors.

The matter was addressed in the audit mainly through analytical procedures: analysis of controls designed and implemented by CERN, inquiry of the CERN management and staff, a field visit and monitoring of physical inspection, analysis of physical inspection documents, and treatment of inspection results.

NIK noted that an appropriate and sufficient procedure of physical control of PPEs were designed and introduced by the CERN management. The procedure and practices constitute all necessary elements such as: a population to be checked, sampling method, rules for engagement of a person or team composed of personnel independent of those charged with the custody of checked assets, the rules for the physical inspection results, and finally their accounting treatment. This control activity proved to be implemented and appeared effective in use. Consequently, our risk assessment was changed from medium to low.

### 4) Budget appropriations, including procurement

Budget appropriations represent the planned use of Member State financial contributions and the purpose for which CERN common funds have been planned. The budget allocated to expenditures on materials is significant, and appears as a material item in the Statement of Comparison between Budget and Actual Amounts (MCHF 550 planned; MCHF 537.8 actually spent<sup>3</sup>). Both budget appropriations and procurement activity checks illustrate mainly a compliance aspect of our audit.

Expenditures on materials which, besides the ones on personnel, constitute the main expenditure item, are incurred through a procurement process. The matter was addressed during the audit through a sample check of purchase orders, verification whether those orders conformed with the purpose stated under the indicated budget code, and whether the procurement process for particular items was in compliance with the CERN Procurement Rules.

Based on the work performed as outlined above and the evidence obtained, we were satisfied that the materials and services had been acquired in compliance with CERN budget appropriations as well as financial and procurement rules, and appropriately reported in the budget statements and accompanying notes.

### 5) Internal control system

We believe that well-designed internal control system supports the achievement of the Organisation's objectives and is an effective and efficient measure against risks to materialise in the form of misstatements in financial reporting and/or incidents of non-compliance with

---

<sup>3</sup> This difference was satisfactorily explained in the Notes to the Financial Statements

authorities, thus hampering the achievement of financial and compliance objectives. In 2017, we encouraged the CERN management to take into account fundamental principles of COSO Internal Control Integrated framework while upgrading the Organisation's internal control system.

The matter was addressed by us during interim and year-end audit by inquiries with the management and inspection of IT platform where a pilot system is being developed for the CERN Treasury service. Considerable progress was noted in building a consistent internal control system in line with COSO framework. The next step is intended to cover the CERN accounting service and then to disseminate the system to other CERN departments.

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

CERN management is responsible for the preparation and fair presentation of these financial statements in accordance with the 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 CERN'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 CERN or to cease its operations, or has no realistic alternative but to do so.

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

### ***CERN Management's Responsibility for Compliance***

CERN management is also responsible for the use of CERN financial resources in compliance with the CERN Financial Rules, including Procurement Rules, Regulations for the Implementation of the CERN Financial Rules and all other applicable rules and regulations, professional standards, and good practices where standards have not been set.

### ***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 authorities with the CERN all applicable policies, rules and regulations as regards gaining and making use of financial resources of the Organisation.

As part of an audit in accordance with ISSAIs, 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 CERN'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 CERN'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 Organisation 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.

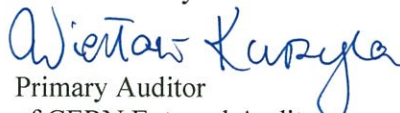
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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.

Signed by:

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

Wieslaw Kurzyca  
  
Primary Auditor  
of CERN External Audit

18 May 2018

Supreme Audit Office  
ul. Filtrowa 57  
Warsaw, Poland

