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*Action to be taken*

*Voting Procedure*

For Discussion	<b>FINANCE COMMITTEE</b> 330 <sup>th</sup> Meeting 16 June 2010	-
For Discussion	<b>COUNCIL</b> 155 <sup>th</sup> Session 18 June 2010	-

ASSESSMENT AND COMMENTS BY THE EXTERNAL AUDITORS ON THE  
ANNUAL PROGRESS REPORT 2009



## ASSESSMENT AND COMMENTS BY THE EXTERNAL AUDITORS ON THE ANNUAL PROGRESS REPORT 2009

### INTRODUCTION

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

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

Our suggestions are presented in two different paragraphs:

A) Suggestions and Comments on the 2009 Annual Progress Report (see §1)

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

Some of our suggestions will be implemented by the Management in the coming years; we consider this reasonable since the Management is committed to consider and implement the point of views of other CERN bodies as well, some of which are differing from ours or even in disagreement with them.

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

In this paragraph we followed-up our last year’s suggestions and we reported on their status of implementation by the Management. Some of our suggestions were already waiting implementation; consequently they are classified as “ongoing”.

The main aspect we have raised since last year and which we would like to emphasize and mention again is that the APR may only result in a key document if clear and direct links are established between the APR itself and the MTP (Medium Term Plan), and if the correspondence is maintained with the actual figures in the Financial Statements.

Moreover, as the Council requested last year, should the information in the APR form the basis for future “Efficiency Audits” of selected activities of the Organization, then an exhaustive and detailed set of information is required.

However, when assessing economy, efficiency and effectiveness, which is the essence of performance audits, of certain activities and/or scientific projects considered crucial by the Council, internal data might not be sufficient and reliable.

Therefore, for measuring the performance of a given activity, it should be envisaged, not only to rely on internal data, but also to use benchmarking techniques wherever possible. In modern auditing, when objectives are specific, measurable, achievable and agreed, benchmarking can be considered an effective, although not exhaustive, audit tool for having corroborative elements. For instance, when assessing the efficiency and effectiveness of certain expenditures towards the LHC, benchmarking them with a comparable infrastructure, for example the Tevatron in Fermilab, would bring important and useful reference elements.

In the next paragraph, our comments and suggestions for the year 2009 are summarized in a grid which shows the Management’s replies related to them and the state of implementation of their intended action.

### 1) Suggestions and Comments on the 2009 Annual Progress Report

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

Ref.	Fact	Suggestion	Management's Reply	Implementation
#1	<p>The table entitled "Summary of Revenues and Expenses" (see Figure 1&amp; 9) shows in separate columns the figures related to the "2009 Budget", the "2009 Revised Budget", the "2009 Outturn" and the "Variations of Outturn with respect to Budget".</p> <p><b>Variations</b> are prepared only in respect of the "2009 Budget" and not with the "2009 Revised Budget".</p>	<p>We understand from the Management that in 2009 Finance Committee and SPC requested the comparison with final budget. It is important to highlight that, for instance, when an analysis of the variation is carried out, the same budget line might present a positive or negative variation when comparing Outturn with "2009 Budget" or with "2009 Revised Budget". In turn, this will mislead the variations' analysis and the possibility of having a clear and precise understanding of the nature and reasons of such variations. Moreover, this could also undermine a possible future analysis on the accuracy of the Budgeting process. Therefore we suggest to the Management - when discrepancies between "Budget" and "Revised budget" are relevant - to provide explanatory comments.</p>	<p>The variation will remain a-priori between final budget and outturn. However, if important changes are made in the revised budget, additional information will be provided (for ex. there will not be a revised budget 2010).</p>	<p>APR 2010 in 2011</p>

<b>Ref.</b>	<b>Fact</b>	<b>Suggestion</b>	<b>Management's Reply</b>	<b>Implementation</b>
<b>#1.a</b>	The "summary of Revenues and Expenses" is provided twice in Figure 1 on page 7 and in Figure 9 on page 29.	We therefore suggest to prepare a note and a reference that might help the reader in understanding that the same table is presented twice in the same document.	We will give some explanation under the first table referring to the more detailed table in the financial section.	APR 2009 revised in June 2010
<b>#1.b</b>	The "summary of Revenues and Expenses" is similar to the "Statement of comparison of Budget and Actual amounts" in the CERN's Financial Statements (F/S). In both documents a dedicated section where differences and variations are analytically commented by the Management is missing.	We suggest to select the most appropriate document (APR or F/S) in which an analytical analysis of variations should be performed. This in order to give FC and the Council the possibility to have a specific comment on any deviation.	Further work will go into the synchronisation of the documents for the 2010 versions	APR 2010 in 2011 / annual accounts 2010
<b>#1.b.1</b>	Variations are only produced in absolute terms, not in percentage.	In the above-suggested dedicated section, a note on the related percentage of variations could help the reader in better understanding the comment.	We will include the percentages as well.	APR 2009 revised in June 2010
<b>#2</b>	In figure 2 of the APR it is indicated: 2009 Figures, Variations, Activities, 2009 Targets according with the Medium Term Plan, 2009 Targets Revised and 2009 Achievements. Targets according the Medium Term Plan do not always match exactly.	Although we understand the different nature of MTP and APR, we suggest to try to align in the most suitable manner the targets decided by the Council in the MTP and comment, when relevant, on possible differences between targets.	This will come naturally with a more consistent activity breakdown and experience gained starting from 2008. For example the MTP 2009 already contains more specific targets, the MTP 2010 even more in 2011.	APR 2010 in 2011

Ref.	Fact	Suggestion	Management's Reply	Implementation
#2.a	In the comments presented in section "2009 Achievements" not only are the 2009 goals listed, but also risks, future perspective etc.	We understood from the Management that the section "achievement" is prepared by a different Unit, namely the Unit in charge of that particular activity. In order to have an homogeneous readability, we suggest - as an example - to subdivide the section "Achievement" into 4 sub-columns a) Targets b) Achievements c) Risks and d) Longer Term.	This can be implemented for the next APR, distinguishing clearly the achievements from risks and longer-term items.	APR 2010 in 2011
#2.b	In the comments presented in section "2009 Achievements" links between facilities and related financial data are missing.	In order to provide more information to the APR reader, we suggest to link financial data with the related Target and "sub-activity", indicating targets and milestones achieved also in financial terms.	With the introduction of additional fact sheets in the MTP 2009 for the budget year 2010, there will be a financial comparison for each item in associating targets and achievements.	APR 2010 in 2011
#3	On page 17, activity 13 "Administration", comments on 2009 Achievements are not sufficiently detailed.	Considering the relevance of the activities carried out by the Administration, we suggest to provide a more detailed representation of the achievements as already indicated in the above mentioned point 2.a	More specific targets are defined for administration with some more details in the MTP 2010 for the year 2011.	APR 2011 in 2012

Ref.	Fact	Suggestion	Management's Reply	Implementation
#4	In relation to figure 10 of the APR "Total revenues", we noted that there is not a detailed explanation on variations and targets.	We understand that even in the MTP there is no fact sheet on revenues with objectives and targets. However we suggest that in the APR, comments on Variations should be given in a detailed format. For instance, some of the Member States could be interested in obtaining more details about, for example, "in-kind contributions", "knowledge and technology transfer", "sales and miscellaneous" etc.	Yes, targets will be entered in the MTP 2010 for 2011, thus the APR 2011 in 2012 can compare targets and achievements. Some explanations can be made in APR 2010.	APR 2010 in 2011 and APR 2011 in 2012
#5	Figure 22 in the APR "EU Projects" only presents a list of projects without providing further explanations.	We suggest presenting more detailed comments on these projects, for instance, providing information on achievements, future developments and relations with the EU.	Yes, more details will come. Some in the revised APR 2009, more in the APR 2010	June 2010 for APR 2009, 2011 for 2010 APR

## 2) Follow-up of the 2008 suggestions

In the next grid the results of the follow-up of our last year's suggestions are presented; additionally, their status of implementation by the Management is shown in the column "Assessment for the year 2009".

Ref.	Corte dei Conti FY 2008 Standard/Fact	Suggestion	CERN Management Reply	Corte dei Conti Assessment FY 2009
1)	According to the Report on CERN Governance (CERN/2777-par. 4.2) APR is to be presented in the March Council Session. Therefore the income and expenditure outturn figures are based on provisional data provided by the Financial and Accounting Service in FP Dept. These figures could change due to the certification process.	In case a change in the outturn figures occurs during the certification process, consequently-recalculated variations with respect to the APR should be reported to the Council in a new document commenting such deviations.	• Ok	Implemented
2)	The headings and/or figures in the APR (pag.18) and in the Financial Statement (page 2-9) and the figures in the MTP 2009-2013 (for instance page 20 and page 28) do not match exactly.	Layout should be designed to facilitate a synoptic readability and consequently a better understanding.	• OK, unavoidable in 2008 due to implementation of new Governance and related headings.	Ongoing (please refer also to suggestion #2 over APR 2009)

Ref.	Corte dei Conti FY 2008 Standard/Fact	Suggestion	CERN Management Reply	Corte dei Conti Assessment FY 2009
3)	<p>In the Report on CERN Governance (CERN/2777-annex V par.2) it is stated that <i>“The achievement shall be broken down following the structure of the Budget document and be compared to the planned goals and objectives (...)”</i>. In the APR 2008 section II “Progress Report” (pages 4-15) the activities performed during the year are described in broad lines, whereas the MTP 2009-2013 in section II (pages 6-15) provides detailed tables.</p>	<p>In order to increase comparability between documents, each programme in the APR Section II should be drafted as in the MTP Section II. In addition, one column should be dedicated to the progress achieved during the year concerned, plus another column should describe the relating goals/objectives as approved in the MTP. Since the MTP document is designed to shift forward during the 5 years (n+1 to n+5), it is worth mentioning that clear reference in the APR should be given in relation to the year when milestones and goals/objectives are to be achieved.</p>	<ul style="list-style-type: none"> <li>• OK for 2010, Clarification</li> <li>• The objectives for the 5 years can not be used for the APR, however we can compare the annual progress and specific annual targets.</li> <li>• Furthermore, for 2010 we agreed to compare the annual targets and risk assessment with the real outturn</li> </ul>	In progress
4)	<p>In the APR no particular emphasis is dedicated to risks (arisen during the year and/or not in place any longer) and alternative action to mitigate them.</p>	<p>As to give more elements to plan and to carry out “efficiency audits”, risks description and probability (increase or decrease) and related financial estimate (with the cost of possible mitigation action) should be envisaged in the APR.</p>	<ul style="list-style-type: none"> <li>• Yes, this will be added for the APR 2011(based on MTP 2010) since it was not amounted in the MTP 2007 and 2008.</li> </ul>	In progress

<b>Ref.</b>	<b>Corte dei Conti FY 2008 Standard/Fact</b>	<b>Suggestion</b>	<b>CERN Management Reply</b>	<b>Corte dei Conti Assessment FY 2009</b>
5)	<p>In the Report on CERN Governance (CERN/2777-annex I) it is stated that “(...) <i>Results-Based Budgeting is thus a result-driven budgeting process in which: - programme formulation and resources justification involve a set of predefined objectives, expected results, outputs, inputs and performance indicators which constitute a logical framework (...)</i>”. Activities in the APR section II “Progress Report” (page 4-15) are not linked with performance Indicators.</p>	<p>Performance Indicators should be linked with the progress achieved and clearly defined in a table (as proposed in above-mentioned point 3).</p>	<p>KPIs are internal management instruments. For the 2010 APR the key statistics of the non-scientific areas will be integrated, this was specified in the annex XII of the new Governance report</p> <p>Performance indicators such as % achieved versus planned for major projects will be included.</p>	In progress
6)		<p>In order to give more elements to plan and to carry out “efficiency audits”, in the APR, when a goal is achieved or is about to be met, an independent scientific assessment should be added to the table (see point 3).</p>	<p>The independent assessment is the scientific policy committee (SPC), if the assessment is available, reference will be included.</p>	In progress