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**CERN** EUROPEAN ORGANIZATION FOR NUCLEAR RESEARCH

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*Action to be taken*

*Voting Procedure*

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

**Report by the External Auditors  
on the accounts of CERN for the Financial Year 2009**

Report by Auditors from the Italian Court of Audit



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## 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.

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 2009 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 new 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 2009, 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 2009 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”

f. y. ending 31 December 2009

Rome 21 May 2010

Bartolomeo Manna

Franco Franceschetti

External Auditors of the Italian Court of Audit

### 3. ENFORCEMENT OF IPSAS AND REVISED FINANCIAL RULES

#### 3.1 Implementation of IPSAS

In the financial year 2009 we observed that the implementation of IPSAS into the Financial Statements - which had begun in 2007 - was consolidated thanks to the efforts of the Finance and Procurement Department. This course also followed the recommendation of the Austrian External Auditors who during the past few years had consistently recommended the adoption of an accounting system compliant with IPSAS.

From the analysis of the annual accounts and following interviews with the CERN Management we concluded that IPSAS have been correctly implemented by the CERN Management.

#### 3.2 Revised Financial Rules and Regulations

As specified above, the revised CERN<sup>1</sup> Financial Rules and Regulations came into effect in December 2008.

Such a process of revision arose from the awareness of the necessity to update and improve the Financial Rules and Internal Financial Regulations and bring them into compliance with the conclusions of the CERN Working Groups, the IPSAS and the recommendations made by the Austrian External Auditors in their Reports.

Actually, some of the new Provisions simply implemented improvements already in use such as, for instance, the Statement of Comparison of Budget and Actual Amounts, provided in article 9 of the revised Financial Rules; the set up of CHIS Fund exclusively dedicated to CERN employees' (retired and active) health insurance scheme, provided in article 13; the option of having recourse to short-term loans to cover temporary cash exposure, provided in article 17.

### 4. BUDGET OUT-TURN 2009

The table "Statement of Comparison of Budget and Actual Amounts" was compliant with IPSAS 24 which requires a comparison of budget amounts and actual amounts

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<sup>1</sup> CERN/FC/5305 – CERN 2822 17 November 2008.

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 - a document where such deviations can be carefully explained - we recommend using more descriptive notes in order to explain variations between budget and actual figure.

#### 4.1 Budget and actual Amounts

##### Total expenditure

In 2009 the difference between budget expenses (900,6 MCHF) and expenditure (890,0 MCHF) resulted in a reduction of 10,6 MCHF (-1,2%). As regards this heading we observed a decrease in Materials expenses and in Interests and Financial Costs<sup>2</sup> and an increase in the Personnel expenses.

In fact, for this financial year, comparing the 2009 total expenditure (890,0 MCHF) to the 2008 total expenditure (892,8 MCHF)<sup>3</sup> a reduction of 2,8 MCHF (0,3%) can be obtained, but only owing to a decrease in the expenses of Materials (20,5 MCHF) and Interests and Financial Costs (4,9 MCHF); conversely, Personnel expenses increased to around 4,6% as compared to last year.

With reference to the LHC Programme (expenses in 2009 equivalent to 243,5 MCHF comparing to 324,7 MCHF in 2008), in 2009 the expenditures related to Personnel and Materials weighted 62,6% (71,4% in 2008) in the Financial Year Expenditure for all scientific programmes<sup>4</sup>.

##### Personnel expenditure

The Personnel expenditure amounted to 515,6 MCHF, with a rise of 22,6 MCHF as compared to 2008 (+4,6%), in spite of the fact that as at 31 December the total number of posts were reduced from 2.544 in 2007 to 2.400 in 2008 and, subsequently, to 2.378 in 2009. During this financial year, whilst Personnel expenses for Staff Members globally decreased, an increase in the expenses for Fellows, Paid Associates and

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<sup>2</sup> Particularly in the interests on short-term loans, as stressed in 2009 Financial Statement Part I, note 4.

<sup>3</sup> Financial Statements for the year 2008 page 2

<sup>4</sup> Refer to Financial Statements, Part I, note 1 see table.

Apprentices was recorded. Further details on Personnel expenses are provided in the Financial Statements, Part II, note 21.

In the 2009 Financial Statements the table titled “Movements of total Staff Members in post” was not reported.

The data we requested and obtained from Management give the main reason for the growth in Personnel expenditure. It mostly originated from the increased recruitment of Fellows and Associates as Staff Members (52 units in 2009 compared to 21 in 2008) and from the increased external recruitment of employed members of personnel (101 units in 2009 compared to 69 in 2008). In addition, departures from CERN decreased from 234 units in 2008 to 175 units in 2009.

#### Total revenue

Total revenue amounted to 1.196,4 MCHF showing an increase of 3,3% as compared with the previous year end (1.158,7 MCHF in 2008). For the most part it consisted of Contributions from Member States (91,8%). 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 306,4 MCHF. After deduction of 14,0 MCHF for capital repayment, 292,4 MCHF were allocated to the Budget Balance to reduce the accumulated budget deficit.

2009 was the third 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>	<b>Budget</b>	<b>Results</b>
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

The accounting reconciliation followed the table “Statement of Comparison of Budget and Actual Amounts” and showed the transition from the Budget Surplus (306,4 MCHF) to the Net Accounting Deficit for the year 2009 (-16,2 MCHF), by integrating in the first item those amounts, in surplus or deficit, not present in the Budget but recorded in the Financial Year 2009. 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 Current and Non-current assets and Current and Non-current liabilities;
- A Statement of Changes in Net Assets, showing the Net surplus or Deficit for the Financial Year including expenses and revenue directly recorded in Net credit without being transferred to the profit and loss;
- 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 providing information about accounting policies and additional information necessary for a fair presentation.

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

## 6. STATEMENT OF FINANCIAL POSITION 2009

### 6.1. Assets

Assets - mostly consisting of non-current assets (98,7%) - totalled to 8.131,2 MCHF at the end of 2009, showing a decrease of 356,7 MCHF (-4,2%) as compared to 2008 (8.487,8 MCHF).

#### 6.1.1 Non-current Assets

Non-current assets as at 31 December 2009 totalled to 8.025,5 MCHF, recording a reduction of 338,1 MCHF (-4%) as compared to 2008 figures (8.363,6 MCHF), this was mainly due to the depreciation of the LHC<sup>5</sup>. They also included financial assets related to CHIS Fund for an amount of 102,8 MCHF.

##### a) Fixed assets

The total amount of Fixed assets as at 31 December 2009 was 7.922,7 MCHF, compared to 2008 (8.269,5 MCHF) it showed a decrease of 346,8 MCHF (-4,2%). They comprised infrastructure and services buildings, PS consolidation, SPS consolidation and CNGS plus *fixed assets in progress* amounting to 197,3 MCHF. This latter sub-heading increased by 90,6 MCHF (84,9%) comparing to the previous year (106,7 MCHF) mainly due to the LHC improvement.

As far as the LHC machine is concerned, it was recorded for 7.459,1 MCHF under fixed assets, and it was 94,1% of the whole heading. The reduction of the value recorded in 2008 (7.874,1 MCHF), as compared to the 2009 value (7.459,1 MCHF), was due to the depreciation of the machine related to this financial year, using a 5% depreciation rate.

In relation to the item "fixed asset in progress" we audited a sample of transactions recorded in the accounts as Additions in the year 2009 without detecting any material error.

During our audit activity we analyzed the inventory procedures set up by the Management. We observed that since these procedures leave a certain level of flexibility for their implementation - according to the specific requirements of each Department - the actual process of putting into effect those measures in a non-standardized way by the different units involved ends up in creating discrepancies.

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<sup>5</sup> Refer to note 3, Part II of the Financial Statements.

Therefore we recommend establishing 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 from those in charge of implementing the above-mentioned inventory procedures.

Even though we understand that the implementation of such a procedure produces a cost, we hold the opinion that benefits will be granted through a direct, optimal and efficient use and maintenance of the goods.

b) Financial Asset CHIS Fund (102,8 MCHF)

The *CHIS Fund financial assets* amounted to 102,8 MCHF in 2009, increasing by 9,1% (8,6 MCHF) relating to 2008 (94,2 MCHF).

In December 2007 a capitalized fund for the Health Insurance Scheme 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 Security<sup>6</sup>.

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 management expenses.

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

CHIS FUND (in MCHF)	2009			2008
	HIS	LTC	Total	Total
Results				
Technical Performance	-5,7	4,9	-0,9	4,9
Financial Performance			9,4	-7
<b>Total</b>			<b>8,6</b>	<b>-2,1</b>

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

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<sup>6</sup> Agreement between the Swiss Federal Council and CERN dated 11 June 1961 in CERN/115/Rev.3, 11 June 1961.

In 2009, on the contrary, the financial performance and the total performance of the Fund was positive (around 8,6 MCHF).

It is worth mentioning that, for the first time, in 2009, the presentation of the Fund slightly changed in order to enhance the visibility of its two activities, Health Insurance Scheme (HIS) and Long Term Care (LTC).

This distinction increased the transparency and the possibility of a better monitoring of the performance of the Fund. As a matter of fact, it showed that the decrease in the performance in 2009 is related to the HIS technical performance; not only to the negative ratio of contributions/benefits, but also to the Contractor's fees and overheads.

The Contractor's fees and overheads weight around 3,4% of the benefits paid by the Contractor itself on behalf of CERN and they were equivalent to around 2,3 MCHF. Considering in absolute value the fees paid by the CERN to the Contractor, it is recommended in the future to assess the economy, the efficiency and effectiveness of using an external service provider instead of a direct in-house management.

Moreover, by opting for an in-house management of the Fund would help the Management itself in having directly-owned data also providing the opportunity to have a constant monitoring and a fast response to any problem that may arise in the future.

The Fund financial assets in 2009 amounted to 102,8 MCHF and consisted of equities, bonds, deposits in bank accounts, UNIQA deposits and credits stemming from taxation at source through anticipated deductions to be reimbursed. The CHIS Fund had its exact counterpart in the liabilities.

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.

### 6.1.2 Current Assets

The total of inventories, receivables, cash and cash equivalents was reduced from 124,2 MCHF in 2008 to 105,7 MCHF in 2009 resulting in a decrease of 18,5 MCHF (-14,9 %). 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 26,7 MCHF (61,8 MCHF in 2008) - included all the balances of CERN banks current account as at 31 December 2009 and, for a non-material amount (less than 0,01%), cash set aside for petty cash expenses.

We asked all the banks having a business relation with CERN to confirm the current accounts' balance as at 31 December 2009 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 5,0 MCHF (around 4,8% of the Current assets - gross value as at 31.12.2009 equal to 6,8 MCHF minus a depreciation of 1,8 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 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 (31.12.2009) were identified. We traced that all the tested items were properly recorded into the Stores' accounts.

However, we observed that not all the goods entering CERN were recorded in the same way. Some of them were labelled with a Bar Code and recorded in the stock entries, while other goods, directly delivered to users, were not labelled at all. We therefore recommend to adopt a standardized procedure - for example through the use of a bar code system which has presently a limited utilization 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, in addition, to simplify the inventory process as stated in paragraph 6.1.1 a).

Receivables, totalling to 74,0 MCHF (70,0% of the Current assets value) mostly corresponded to the sums Member States owed to CERN as contributions. As at 31 December 2009 this sub-heading showed a noteworthy increase – from 8,9 MCHF in 2008 to 43,6 MCHF in 2009 – resulting in 41,2% of all Current assets. In addition, the heading included taxes paid by CERN, to be refunded as a consequence of CERN exemptions regime (7,9% of Current assets), amounts owed by teams and collaborations plus other receivables and prepayments.

As for the above mentioned receivables we asked, on a sample basis, direct confirmation of the amounts declared by CERN as due at the year-end. Besides, the accounting unit is 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, 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 Assets<sup>7</sup>.

### 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 4.908,8 MCHF at the end of 2009; in 2008 it was 4.712,4 with an increase of 196,4 MCHF (4,2%), mainly due to the post-employment benefits.

- a) Total long-term debts decreased by 10,6 MCHF (-2,3%), from 451,9 MCHF in 2008 to 441,3 MCHF in 2009 and included FORTIS BANK and FIPOI loans. The last installment of the EIB loan dedicated to the LHC project was reimbursed during this financial year.
- b) Liabilities against Member States - related to ppbar contribution from 5 of the Member States - amounted to 20,4 MCHF as at 31 December 2009 and, compared to 2008 (20,0 MCHF), showed an increase of 401 kCHF (2%) due to the 2009 indexation rate.

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

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<sup>7</sup> Financial Statements, Part II, page 15.

- c) Post-employment benefits corresponded to<sup>8</sup> the estimated liability of defined-benefits plans for pension benefits and post-employment Health Insurance Scheme benefits towards active employees and retired members of CERN as at the reporting date<sup>9</sup>. The provision for post-employment benefits is based on the calculation of the present value of defined-benefit obligations, backed up by actuarial expertises. The following table shows the trend starting from 2006.

in MCHF				
<b>Post-employment benefits</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
Pension benefits	1.523,9	829,7	2.397,7	2.450,9
HIS Benefits	1.474,3	1.214,9	1.438,7	1.597,4
Net Liabilities	2.998,2	2.044,6	3.836,4	4.048,3

In 2008 and in 2009 we observed an increase in the liabilities, as compared to 2007, linked to the reduction of the discount rate from 3,34% in 2007 to 2,59% in 2008 and to 2,55% in 2009, but linked to other factors too, such as updated actuarial assessments 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 validate the practice of performing the actuarial reviews on a yearly basis. We recommend this review to be performed, as stated, annually and we shall monitor the state of works in the future (refer to Annex 1).

- d) Other provisions totalled to 296,0 MCHF as at 31 December 2009, decreasing by 13,8 MCHF (-4,5%) as compared to 2008 (309,8 MCHF). During our audit we observed that financial corrections to be applied to two projects financed by the European Commission were not classified as provisions. Furthermore - although the corrections and the concerning provisions were not material for the accounts - we noted that no feed-back was given to the other project leaders in order to avoid that similar corrections might be applied to other projects in future. We therefore recommend the Management to set up a standardized procedure which may envisage the systematic communication to the project leaders of all financial corrections and information received from the European Commission on the EU funded projects, so as to allow them to timely take corrective actions.

<sup>8</sup> According to IPSAS 25, in force as of 28 February 2008.

<sup>9</sup> Refer to Financial Statement, Part II, note 11, table a).

### Repair sector 3-4

During 2008, in relation to the LHC incident an amount of 22,8 MCHF, for repair in sector 3-4 and for the reconstruction of the spares inventory, was allocated to the non-current liabilities - "Other Provisions". This year the repairs were executed and the relating 2008 provision for the repair was written-off in full. The amount of 8.9 MCHF, indicated as provision in the financial statements accounts, solely relates to the spares inventory.

### Dismantling

As for the year 2009, 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 and the more the end of operational period approaches – the more a future obligation for CERN to dismantle the installations may be contracted.

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 2009 CERN Financial Statements is basically correct.

### 6.2.3 Current liabilities

The statement of liabilities and the corresponding notes were examined on the basis of supporting documentation concerning the underlying transactions. The total amount of this item was 722,8 MCHF as at 31 December 2009, presenting the significant decrease of 318,5 MCHF (-30,6%) as compared to 2008 (1.041,3 MCHF).

- a) The total of short-term debt and bank overdrafts is referred to the amounts of long-term debts falling in 2010 and to the short term borrowings from banks and it was considerably reduced of 321 MCHF (-51,3%) adding to 305,1 MCHF as compared to the previous year when they stood at 626,1 MCHF. As most of the borrowings are normally repaid within a few months, this put an emphasis on the importance of timely payments of Member States' contributions.
- b) Other liabilities referred to suppliers (52,9 MCHF), advances received from teams and collaborations (158,9 MCHF) and accruals of employee benefits from paid leaves and

termination allowances (163,8 MCHF); the latter stood for the estimates concerning the accumulated present value of CERN liability towards its staff.

- c) Deferred revenues (38,8 MCHF) referred to advances from Member States, EU and other projects to be further recognized as revenue.
- d) In 2009 Other current liabilities amounted to 3,2 MCHF with a growth of 1,4 MCHF (80,5%) as compared to the 2008 sum of 1,8 MCHF.

We did not observe errors and the amounts recorded are thus verified and confirmed.

## 7. STATEMENT OF FINANCIAL PERFORMANCE 2009

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 surplus<sup>10</sup>.

- a) Total operating revenue amounted to 1.286,4 MCHF with a significant decrease of 1.615,5 MCHF, (-55,7%) as compared to 2008 (2.901,9 MCHF), chiefly owing to the reduction of the heading *Additional contribution from Host States* (amounting to 18,5 MCHF (-23,5%) and the heading *Transfers to the fixed assets* (90.6 MCHF) which were reduced by 1.637,6 MCHF (1.728,2 MCHF in 2008). The EU contributions to EU co-funded projects increased by 2.745 kCHF (16,6%).
- b) Total operating expenses are generally in line with the past financial year. In fact they amounted to 1.280,7 MCHF and, in comparison with last year's (1.278,0 MCHF), only showed a minor increase of 2,7 MCHF (0,2%). They are subdivided into two main items: *Materials* and *Personnel*. Whereas expenses for *Materials* decreased from 806,3 in 2008 to 789,0 MCHF in 2009 (-2,1%), *Personnel* expenses increased by 20 MCHF from last year 471,7 MCHF to this year 491,7 MCHF (4,2%).

As far as *Materials* are concerned we observed a reduction in the heading *Depreciation* (mainly concerning the LHC) and an increase in energy *costs*, *Support services* and *Other overheads*. As far as *personnel* are concerned, the growth we observed was largely related to the rise of *Post-employment benefits*.

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<sup>10</sup> 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."

- c) Net surplus from operating activities declined from 1.624,0 MCHF at the end of 2008 to 5,7 MCHF in 2009, showing a sharp reduction of 1.618,3 MCHF.
- d) On the contrary, Financial activities showed a deficit reduction adding to 7,2 MCHF (-24,9%), from 29,1 MCHF in 2008 to 21,8 MCHF in 2009. 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 2009 and we traced the operations into the Accounts.

- e) The net deficit for the year 2009 amounted to 16,2 MCHF which, when comparing it with the 2008 surplus of 1.594,9 MCHF, illustrated a noteworthy decrease of 1.611,1 MCHF. It is primarily accountable to the fact that in this financial year no capitalization of fixed assets was envisaged.

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 Department 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 2009.

## 8. STATEMENT OF CHANGES IN NET ASSETS 2009

In 2009 changes in the net assets (234,7 MCHF) resulted from the recognition of the expenses directly recorded in the net assets (218,5 MCHF) related to variations due to actuarial loss estimates regarding health care and pensions, plus 16,2 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.

## 9. CASH FLOW STATEMENT 2009

The cash flow statement identified 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 2009 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 393,0 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 -99,7 MCHF. Net cash flows from financing activities accounted for 328,5 MCHF. As a consequence, the net decrease in cash and cash equivalents was 35,1 MCHF; by adding cash and cash equivalents at the beginning of period (61,8 MCHF), it led to cash and cash equivalents amounting to 26,7 MCHF as at 31 December 2009.

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.

## 10. HUMAN RESOURCES MANAGEMENT

In the course of the audit on the Human Resources cycle we performed - in particular on the recruitment procedures such as the issue of new contracts and the award of indefinite contracts - we found that the analysis of the eligibility criteria and the related assessment of each candidate were generally carried out in an accurate way. However, we noted that these appraisals cannot be easily compared, due to the fact that the assessment of each single candidate is carried out on an individual basis.

As a matter of fact, no evaluation and assessment grids have been detected during our tests; such grids might be used as a tool for implementing what is stated in the Staff Rules and Regulations. An evaluation grid - predefined and ready before a shortlist of eligible candidates is complete or, even better, before a recruitment procedure begins - would allow synoptically appraisal of all candidates at one glance, according to the eligibility criteria determined in the vacancy note. 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.

Furthermore, while we understand that internal mobility constitutes an important pillar of the general Human Resources' policy, we are of the opinion that when a vacancy occurs for the award of indefinite contracts in sensitive positions – for example, posts

managing high risk activities and requiring technical competencies which might not be learnt on the job – an open vacancy should be addressed directly to internal and external candidates. As matter of fact, we observed in a few cases that internal staffs were rotated or recruited on indefinite contracts, in sensitive and specialized positions without a competition open to both internal and external candidates. Therefore, since a list of sensitive positions has never been predefined and/or specified in an approved document, we recommend the creation and the regular maintenance of such a list. As a general rule, in order to support the principle of “equality of treatment between people” in the selection of candidates to sensitive positions, the two above mentioned measures (predefined evaluation grids and open competition) should be adopted in addition to other instruments which could raise the level of independence of the selection board, such as the advice of outside consultants when a additional expertise is needed.

## 11 INTERNAL AUDIT SERVICE

In May 2010, at the time of our reporting, the Internal Audit Service (IA) was composed of 3 auditors (one of them recruited in July 2009) with a staffing level equivalent to 3 FTEs. In addition, the IA was assigned a part-time (20%) secretarial resource.

On 31.12.2009 the Organization had one internal auditor for 436 MCHF of budget and one auditor for 925 employed members of personnel.

In order to allow the IA service to maintain its capabilities and to fulfil its strategic role, we recommend a minimum staffing level of 3 experienced and professional auditors, and to minimize further disruption in case of departure. Should Internal Audit be in charge of internal auditing activity on the Pension Fund again, after it had been discharged in February 2008, or, what's more, should IA advise independently to increase the number of technical and operational audits in the coming years, we recommend that its staffing level be further increased, according to the audit risks which will be identified and the corresponding audit coverage required.

Furthermore, in case it should enlarge its audit scope to technical and operational areas, we recommend that IA should recruit a technical expert with an audit-experience background as an asset.

Last year the percentage of agreed recommendations showed a rise from 45% in 2007 to 95% in 2008 and to 90% in 2009.

We therefore support the renewed priority and higher attention given by top Management to the follow up of internal audit recommendations and we recommend that Internal Audit keeps carrying out the follow up of their recommendations and the status of their implementation by the Management at least on an annual basis (see also Annex 1).

In addition, since the Accounting unit, following our proposal, has introduced an exception register – a document where exceptions to standard accounting procedures are recorded and approved by Senior management – we recommend that the Internal Audit carefully reviews, at least on annual basis, such a register in order to assess the relevance of the exceptions recorded.

Finally, 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 - 2008

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 2007<sup>11</sup> and the corresponding comments by the Management<sup>12</sup>.

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

In Annex 1 are listed only two categories of recommendations:

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<sup>11</sup>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.

<sup>12</sup> See CERN/2560 - CERN/FC/4811, CERN/2610 - CERN/FC/4924, CERN/2669 - CERN/FC/5044, CERN/2722 - CERN/FC/5141.

- 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 1 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.



**ANNEX 1**

<b>Report</b>	<b>Recommendation raised By Austrian Court of Audit</b>	<b>Comments received from CERN Management at the time of the issuance of the report</b>	<b>Status on actions taken by Management as reported by Austrian Court of Audit</b>	<b>Status on actions taken by Management as evaluated by Italian Court of Audit</b>
<p><b>2006</b></p>	<p><b><u>Funds and Reserves</u></b> Other Reserves (CHIS): a) The External Auditors recommended to consider the assignment of the health insurance scheme to the insurance company in full. b) (...)</p>	<p>a) The Management will issue a new market survey to evaluate the possibility of a complete outsourcing of the insurance risk. (2006) b) (...)</p>	<p>a) Ongoing - A market survey should be launched in 2008. b) Completed.</p>	<p><u>Ongoing.</u> 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><b>2006</b> <b>2007</b> (see § 6.2.2 lit.c)</p>	<p><b><u>Long-term debts</u></b> c) 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><u>Pending</u> 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
<p><b>2007</b> (see § 6.1.2) and <b>2008</b></p>	<p><b><u>Other Receivables</u></b> The heading “5.4 Other Receivables and Prepayments” includes an amount of 2.49 MCHF committed for the repair of the inner triplet magnet to be invoiced to Fermilab in 2008. There is no sufficient evidence that the amount was notified to and agreed by the debtor. The External Auditors recommend that the amount to be received by the Organization is adequately supported by an agreement between the parties.</p>			<p><u>Completed</u> Negotiations for in-kind contributions from Fermilab to the LHC Improvement Project were concluded as at 31 December 2009.  CERN recorded this amount in its entirety as in-kind contribution.</p>
<p><b>2007</b> (see § 6.2.2 lit.e)</p>	<p><b><u>Post-employment Benefits</u></b> 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><u>Completed for 2009.</u> 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.  Management agreed that from 2010 onwards the actuarial review will be performed on a yearly basis.</p>

<b>Report</b>	<b>Recommendation raised By Italian Court of Audit</b>	<b>Comments received from CERN Management at the time of the issuance of the report</b>	<b>Status on actions taken by Management as evaluated by Italian Court of Audit</b>
<b>2008</b>	We recommend that, at the closing date, both CERN and its Pension Fund use a foreign exchange rate generally world-wide accepted as rates officially published by a public institution such as, for example, the Swiss National Bank, the European Central Bank, etc.		<p><u>Completed by the CERN.</u></p> <p>Management agreed to use for the year end the Swiss official published exchange rates.</p> <p>For the Pension Fund we refer to the related Report</p>
<b>2008</b>	We support the priority and high attention given by Internal Audit and top Management to the follow up of internal audit recommendations and we recommend that Internal Audit perform the follow up of recommendations and the status of their implementation by the Management at least on an annual basis.		<p><u>Completed for 2009</u></p>