

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

Action to be taken

Voting Procedure

TAKE NOTE	FINANCE COMMITTEE 330 th Meeting 16 June 2010	-
TAKE NOTE	COUNCIL 155 th Session 18 June 2010	-

PENSION FUND

**REPORT BY THE EXTERNAL AUDITORS ON THE ACCOUNTS OF
THE CERN PENSION FUND FOR THE FINANCIAL YEAR 2009**

COMMENTS BY THE PENSION FUND MANAGEMENT UNIT

The report on the audit of the accounts of the Pension Fund for the 2009 financial year is given in document CERN/FC/5444-CERN/2911. This document contains the comments of the Pension Fund Management Unit.

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INTRODUCTION

The Pension Fund Management Unit (PFMU) has examined the Auditors' Report on the accounts of the CERN Pension Fund for the 2009 financial year.

The comments of the PFMU are limited to the clarifications given below. The other elements of the report requiring no comment to be made (numbering as per the audit report) have been duly noted.

At its meeting of the 18 February 2010 the Pension Fund Governing Board (PFGB) approved a proposed format to streamline the annual report so that it consisted essentially of the statutory financial statements for Council's approval and a Chairman's letter drawing the Council's attention to key aspects of the statements. The broad communication function that the annual report fulfilled in the past, including members and retirees statistics and the Actuary's Report would be achieved through an array of more suitable channels, including briefings, the Fund's website and paper and electronic newsletters, tailored to the appropriate audience.

SECTION 2 - CERTIFICATE OF THE EXTERNAL AUDITORS

2.2. Opinion

The External Auditors comment under this heading:

"We believe that the CERN Pension Fund underfunding is critical and that immediate corrective action is necessary for restore full-funding, therefore we welcome the set-up of an Advisory Group".

The PFMU acknowledges initiatives to investigate supplementary funding and is ready to provide any necessary administrative and technical support.

SECTION 3 - NO COMMENT

SECTION 4 - LEGAL STATUS OF THE PENSION FUND WITHIN THE ORGANIZATION

4.1. Amendments to the Rules and Regulations of the Pension Fund

The External Auditors make reference under this heading and elsewhere in their report to the draft amendments to Chapter I of the Rules and Regulations of the CERN Pension Fund to be presented to Finance Committee at its session on the 16 June 2010. The comments of the External Auditors on this document would be warmly appreciated.

SECTION 5 - THE CONTROL ENVIRONMENT IN CERN PENSION FUND

5.1. Internal Control Environment

In their Management Letter for 2009 PriceWaterhouseCoopers followed up their 2008 comments on internal control environment under the heading “SCI (Internal Control System) – Monitoring – independent controller” which they identified as a high priority. The PFMU replied that a fully documented internal control system will be presented to the PFGB for approval by September 2010.

With regard to the funding gap, the document “Report by the Pension Fund Governing Board on Funding principles and policy and measures to restore full funding of the CERN Pension Fund” (CERN/FC/5432/RA –CERN/2897/RA) was presented to Finance Committee and CERN Council for consideration at their March 2010 sessions. As noted by the External Auditors an Advisory Group has since been set up to study the issues raised.

5.1.1. High dependence on the Chief Operating Officer

As indicated by the External Auditors in their report the PFGB endorsed the document “CERN Pension Fund 2010-Strategic Plan” which identified the need for an additional qualified accountant in order to address this issue. Accordingly the recruitment of an accountant is planned for the near future.

5.1.2. Segregation of Duties in the IT Systems and at the accountant level.

The IT situation was endorsed by the PFGB at its meeting held on 30 March 2010. The current system has been enhanced and reinforced to reduce risk. This issue will be taken into account when implementing any new solutions in this domain.

With regard to the approval of year-end adjustments and day-to-day accounting entries, the Fund will introduce a system of review with approval limits that will improve the control and transparency of these accounting interventions.

5.1.3. Lack of monthly management reporting

The document “CERN Pension Fund 2010-2012 Strategic Plan” clearly identified the opportunities for improvement in the management reporting domain and these are in the process of being implemented by the PFMU. It is envisaged that a future monthly management report will include:

- Key performance indicators;
- Risk metrics;
- Performance attribution;
- Funding ratio estimates;
- PFMU commentary.

With respect to private equity reporting the PFMU will establish internally the documentation and presentation format to meet the requirements of this recommendation.

Concerning the use of Excel files, the Fund has commenced a review of its requirements with regard to the treatment and reporting of complex data. Investment in a Portfolio Management System is planned as part of any solution.

5.1.4. Risk Management – Strategic decisions

As pointed out by the PFMU last year in response to a recommendation made by PwC under this heading, the Fund does indeed include quantitative analysis in consideration of its strategic decisions and measurement of risk. Consultants with expertise in asset allocation have been involved in the establishment of the Strategic Asset Allocation (SAA) and the services of the Fund’s custodian have been used in Value at Risk (VaR) analysis. Further implementation of quantitative measurement is planned including full identification and analysis of the risks to which the Fund is exposed.

With regard to the relative underweight of the actual allocation of Diversifying Assets as at 31.12.2009 compared to the planned allocation under the SAA, as mentioned by the External Auditors in their report, the PFMU is in the process of identifying investment opportunities in this asset class for the Pension Fund Investment Committee’s (PFIC) consideration and approval.

5.2. Audit

Section 5 of this document contains draft proposals concerning audit as follows:

Article I 5.01: The External Auditors

The accounts and financial statements of the Fund shall be audited by the External Auditors, appointed by the Council pursuant to Article 8 of the Financial Protocol, who shall submit their report to the Council.

Article I 5.02: The specialized auditor

An auditor specialized in pension fund matters shall be mandated by the Governing Board to conduct an additional annual audit of the accounts and financial statements of the Fund and perform such other audits as requested by the Governing Board. He shall submit his report to the Governing Board.

Article I 5.03: The CERN Internal Audit

In accordance with Article I 4.05, paragraph 2, of the Rules, the CERN Internal Audit shall be competent to perform audits relating to the application of the CERN Staff Rules and Regulations with respect to the staff of the Management Unit.

With the agreement of the Director-General, the Governing Board may request the CERN Internal Audit to perform any other audits relating to the Fund.

Article I 5.04: Duty to provide information

The Chief Executive Officer shall provide the auditors referred to in Articles I 5.01 to I 5.03 of the Rules with all information at his disposal and give them the support they may require to carry out their duties.

5.2.1. External Audit

The PFMU endorses completely the External Auditors' interpretation of International Standard on Auditing 600 (ISA 600) with its provisions for a "principal" and "other" auditor". However, while it is true the "other" auditor reports on the "component", the concept of "component" is applied to the CERN Pension Fund as it is an integral part of the wider CERN entity and under Article I.4.02. of the Fund's Rules "whose accounts shall be kept separately from those of CERN".

It should be emphasised that 2008 was the first year that PwC was engaged to audit the Pension Fund and they were selected by the PFGB following a competitive tender procedure involving two other audit firms.

With regard to firm deadlines for presentation of the PwC report, the PwC Audit Plan 2009 contained milestones and a final delivery date for their report to the PFGB. This audit plan and its timeline for delivery were approved by the PFGB at its meeting in September 2009. The Audit Plan was subsequently made available to the External Auditors.

Concerning the contract with PwC, the Fund is ready to examine any template with a view to introducing modifications where it is perceived such modifications are deemed to be in CERN's and the Fund's best interests. In addition, the present contract with PwC can be cancelled at any time by notification in writing.

5.2.2. Internal Audit

Please see our remarks under heading 5.2 Audit.

6. Financial Results for the Year

With respect to External Auditors' recommendation concerning the Actuary's Report, a channel for the communication of actuarial matters via the PFGB to the CERN Council Advisory Group has at present been established. In addition, the draft amendment to Chapter 1 of the Rules and Regulations of the Fund proposes the creation of an Actuarial and Technical Committee which shall report to the PFGB.

6.1. Financial Risks versus Performance

As referred to by the External Auditors in their report, the Fund's financial statements under the heading "Financial risk management" detail the risks to which the Fund is exposed due to its activities and also quantifies the amounts involved as at the balance sheet date. The External Auditors' recommend that the level of information in this section of the financial statements should be improved by commenting on how these risks "could interact with one another and what their impact under abnormal market conditions might be". While it believes that further analysis and commentary on the nature of these risks is appropriate, the PFMU suggests that these issues are better analysed within the planned monthly management reports which are forward looking in nature rather than within the historical, factual perspective of financial statements.

With respect to the notional amounts of the Fund's derivatives, an explanation of the significance of these amounts is given in the Notes to the Financial Statements. However, it is

worth noting that the Fund's exposure to derivatives is fully collateralized by the Fund's liquid assets. In addition, the PFIC receives periodic reports on the Fund's derivative positions

Also in this section of their report the External Auditors make recommendations regarding the establishment of historical comparisons of performance and risk over a 30 years period. The PFMU has reservations over the feasibility of such studies and the value-added from any analyses. In addition, given the Fund's current deficit situation, stretched resources are already heavily committed to responding to queries from the Fund's various stakeholders.

7. Audit results

7.1. Current accounts and deposits

The PFMU is committed to introducing a formal review of year-end adjustments and accounting entries in respect of the data from State Street, the Fund's global custodian. Please see our comments above under heading 5.1.2.above.

Concerning the exchange rates used at the closing date by the Fund, a full explanation was given by the PFMU last year in the document "Comments by the Administration of the Fund" (CERN/FC/5342 –CERN/2845) of the practical and accounting difficulties that would be encountered if the Fund changed the source of its year-end exchange rates as suggested by the External Auditors. These difficulties still exist.

At present, the Fund conforms to best industry practice in the establishment of its closing exchange rates and in this regard uses a world market standard as its source. Furthermore, this year, the PFMU provided a table of its major currencies showing comparison of its closing exchange rates as supplied by Reuters World Markets and those supplied by the European Central Bank. It should be borne in mind that the fund has not only cash at "Current accounts and deposits" as assets in foreign currency, but also shares, bonds, investment funds, derivatives and real estate. To go further and calculate asset values based on the two different rates would be the equivalent of keeping two sets of accounts.

Furthermore, as the PFMU stated last year, it has reservations concerning the usefulness of the comparability of the financial statements of a scientific research laboratory and those of a pension fund.

7.2. Investment properties local auditors

With regard to the instructions issued to local real estate auditors for the execution of their mandate, the PFMU regards this as a matter between the External Auditors as principal auditor and PwC. Indeed the timetable of the PwC Audit Plan 2009, approved by the PFGB, provided for full discussion of any aspects of the planned audit activities with the External Auditors at a date of their choosing. In the future the PFMU is ready to help facilitate any dialogue in this domain between the External Auditors and PwC.

8. Follow-up of recommendations 2004 – 2008

The Management's comments under this heading are to be found opposite each recommendation.

The Administration of the Fund would like to warmly thank the Auditors for their examination of the accounts of the Fund and their recommendations regarding its operations.

ANNEX 1

Report	Recommendation raised By Austrian Court of Audit 2004-2007	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	Comments received from CERN Management related to 2009 Report	Status on actions taken by Management as evaluated by Italian Court of Audit
2004	<p>Organizational matters of the Pension Fund With reference to a Working Group established in 2004 on the procedures for council appointments to the Governing Board of the Pension Fund and on the Term of Office of Members and Alternates the External Auditors recommended that efforts should continue to be made to implement an efficient organizational structure for the Pension Fund with clearly defined and separate roles and responsibilities of all members of the Pension Fund's bodies.</p>	No comment.	The procedures for the establishment of a new Pension Fund governance structure, including the roles and responsibilities of the Pension Fund's bodies and their members, is set out in document CERN/2733/Rev. 22 June 2007. The measures outlined in this document are in the process of being implemented.	New Governance structure implemented by PFGB through Working Groups 1, 2, 3 and 4.	Closed.

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2005 and 2006	<p>IT – Management of the Fund</p> <p>The External Auditors recommended that the Administration of the Fund should continue its efforts with respect to the organizational improvement of the Fund’s IT system both on the technical side as well as on the personnel resources. This could also include considerations with respect to the availability of “off the- shelf “IT-modules for retirement benefit programmes as well as the option for out-sourcing parts of the Fund”s administration to specialized service providers.</p>	<p>In order to address this issue and to improve the logistics backup, an IT project was launched in 2005 with the following objectives: Migrate the in-house built computing systems of the Fund towards Organizational standards (Oracle HR); Review and improve available functionality by evaluating standard existing products available on the market. Amongst other things successful implementation of the project will ensure improved operational efficiency in the recurrent functional areas of the Fund and lead to an improvement in data security and quality.</p>	Ongoing.	Acquisition of proposed software cancelled by PFGB at its meeting of 5 May 2010. Current system has been enhanced and reinforced to reduce risk. New initiative on benefits management and member communication to be launched.	Ongoing.

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2005	<p>Decision taken by the Finance Committee - Package of Equilibration Measures</p> <p>The External Auditors noted, that the decision of the Finance Committee, not to support recommendation 5 of the "Package of Equilibration Measures", has an impact on the numerical content of recommendation 6. In the Auditors' view, this decision jeopardises the target of achieving a fully funded situation by end of 2033 (as decided by Council at its 131st Session in December 2004). The External Auditors recommended, that the "Package of Equilibration Measures" should be revised to take into account the impact of not supporting the original recommendation 5. Also, the External Auditors advise, that the financial consequences of limiting the non-indexation of pensions to the year 2005 as set out in recommendation 4, should be reconsidered in the light of the decision of Finance Committee.</p>	No comment.	A new indexation policy has been implemented (Appendix C of the Rules and Regulations) as part of the Package of Equilibration Measures. Regarding the External Auditors recommendation, Working Group 2 is charged with the drafting of a Funding Policy and Funding Principles for the Pension Fund for examination by the Pension Fund Governing Board.	Report by the PFGB on Funding Principles and policy and measures to restore full funding of the CERN Pension Fund (CERN/FC/5432/RA - CERN/2897/RA). Advisory Group set up by CERN Council.	Closed.

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2005	<p>Rules and Regulation of the Pension Fund – Pension Policy The External Auditors noted the absence of the Pension Policy as foreseen in the Rules. The External Auditors recommended that having a sound pension policy is vital and should be considered together with the overall review of the Rules and Regulations of the Pension Fund.</p>	<p>No comment. As stated by the Chairman of the Governing Board in his letter of 12December 2005, “we feel that the Rules and Regulations regarding the Pension Fund clearly establish the existence of a capitalized fund, with carefully described rights and obligations for both the Sponsors and the participants in the Fund”. Nevertheless, to meet the requirements of the Auditors, a statement on Pension Policy will be included in an appropriate form in the next revision of the Rules and Regulations of the Fund.</p>	<p>This recommendation falls within the remit of Working Group 2 which is charged with the drafting of a Funding Policy and Funding Principles for the Pension Fund for examination by the Pension Fund Governing Board.</p>	<p>Report by the PFGB on Funding Principles and policy and measures to restore full funding of the CERN Pension Fund (CERN/FC/5432/RA - CERN/2897/RA). Advisory Group set up by CERN Council.</p>	<p>Closed.</p>

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2005 and 2006	<p>Rules and Regulation of the Pension Fund Investment Policy</p> <p>The External Auditors noted the lack of a comprehensive document on investment policy as such, although guidelines exist in a number of various sources. The External Auditors recommended, that having a sound investment policy is vital and all existing guidelines should be consolidated for better understanding in one document.</p>	<p>It is envisaged that a definitive document that takes into consideration all valid contributions towards an optimal Investment Policy for the Fund will be submitted to the Governing Board via the Investment Committee for implementation within the timescale for the introduction of the new Pension Fund governance. Such a document is of high importance for all bodies involved in supervising the Fund's investment policy.</p>	<p>The new Investment Committee will be tasked with the establishment of a comprehensive investment policy to be submitted to the Pension Fund Governing Board for approval.</p>	<p>Statement of Investment principles policy and guidelines will be submitted to the PFIC by the PFMU in 2010.</p>	<p>Pending.</p>

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2005	<p>External Audit</p> <p>The External Auditors recommended including the basic audit principles in any review of the Pension Fund rules and regulations based on internationally accepted standards. The audit tasks (e.g. legality and regularity of financial management and accounting as well as the performance, economy, efficiency and effectiveness of the Fund's administration) should be determined accordingly. The revised rules and regulations should ensure, that the External Auditors are appointed by and responsible only to Council and fully independent from the management of the Fund.</p>	<p>In line with the recommendation of the Auditors, the review of the Rules and Regulations of the Fund (see point 10.2.1) will formalise the audit tasks, including audit of the financial status and the management of the Pension Fund, compliance with the Fund's investment and funding policy and other relevant regulations and guidelines. These formalised audit tasks will be based on fundamental audit principles and international auditing standards to be executed by fully independent auditors who are appointed by, and responsible only to, Council.</p>	<p>This recommendation falls within the remit of Working Group 1 which is charged with the revision of Chapter 1, Section 2 of the Rules and related Regulations for examination by the Pension Fund Governing Board.</p>	<p>Amendment to Chapter 1, Section 5- Audit, of the Fund's Rules was approved by the PFGB at its meeting of 5 May 2010. Recommended to CERN Council for approval at its June session.</p>	<p>Ongoing.</p> <p>PFGB presented a Document to the Council for Approval We received the document with too short notice to express a written opinion (refer to paragraph 4.1 and 5.2.1).</p>

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2005	<p>Internal Audit</p> <p>The External Auditors note that internal audit is an essential part of the overall internal control system of the Organization. Therefore the External Auditors recommended formalizing the internal audit function in any review of the Pension Fund rules and regulations. Based on the principles of independence and objectivity, the responsibilities and competencies of the internal audit function should be determined according to internationally accepted standards.</p>	<p>The Administration recognises the important role played by the Internal Audit service as part of the overall control system of the Pension Fund. The formalisation of this role, based on the principles of independence and objectivity, will be considered in the review of the Rules and Regulations of the Fund within the general audit context.</p>	<p>This recommendation falls within the remit of Working Group 1 which is charged with the revision of Chapter 1, Section 2 of the Rules and related Regulations for examination by the Pension Fund Governing Board.</p>	<p>Amendment to Chapter 1, Section 5- Audit, of the Fund's Rules was approved by the PFGB at its meeting of 5 May 2010. Recommended to CERN Council for approval at its June session.</p>	<p>Ongoing.</p> <p>PFGB presented a Document to the Council for Approval We received the document with too short notice to express a written opinion (refer to paragraph 4.1 and 5.2.1).</p>

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2006	<p>Special regulations and provisions The External Auditors noted that occasionally special regulations and provisions are put in force by the governing bodies for implementation by the Administration of the Pension Fund. These special regulations and provision date back to past decades. We noted that currently no comprehensive document exists indicating the special regulations and provisions granted including their validity and duration.</p> <p>We recommend that following an evaluation process all limits, special regulations and provisions put in place for the management of the Fund should be properly documented and periodically reviewed.</p>	<p>There is merit in the production of a document that reiterates and reviews these special regulations and provisions and consistent with the Auditors' recommendations the Administration will prepare once a year an appropriate format for approval by the Investment Committee in order to update systematically decisions which may have been taken.</p>	<p>The External Auditors have been informed that a review process took place. Following the interim audit a comprehensive document has been established which will be circulated to all IC Members for information.</p>	<p>The issue of Special regulations and provisions will be subsumed in the Statement of Investment principles policy and guidelines to be submitted to the PFIC by the PFMU in 2010.</p>	<p>Ongoing.</p>

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2006	<p>Liabilities of Internal Managers</p> <p>The External Auditors would like to draw the attention to the fact that in case of fraud and errors occurring in funds handled by external managers the liabilities for compensation for damages lies with the external manager while in cases of fraud and errors arising in funds handled internally the risk lies with CERN and ultimately the member countries. The External Auditors recommended considering strategies to address this potential risk.</p>	<p>The Fund will explore, as recommended by the Auditors, initiatives to further address this issue, which among others, could entail daily compliance monitoring and liability insurance cover.</p>	<p>Daily compliance reports have been introduced, while contracting a liability insurance - according to the Administrator of the Fund – would be feasible but the cost may be prohibitive. The telephone lines of the internal manager for investment deals will be recorded. A list of brokers has been established. In addition, the brokers were informed that two staff members are authorised to perform trading activities. The investment Committee is involved in the broker selection process.</p>	<p>The following measures have been introduced: Daily compliance reporting for internal funds</p> <p>list of authorized brokers established</p> <p>list of internal persons authorized to trade with limits</p> <p>established system to record telephone investment deals being installed.</p>	<p>Closed. Management implemented the issue and we will follow up the implementation.</p>

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2006	<p>International Public Sector Accounting Standards (IPSAS) The adoption of IPSAS can be seen as one of the greatest challenges the Pension Fund has to face in the coming years.</p> <ul style="list-style-type: none"> <input type="checkbox"/> The External Auditors recommended that: a roadmap for the implementation of IPSAS should be established; <input type="checkbox"/> cooperation with the responsible department for the implementation of IPSAS at CERN should be initiated to ensure a coordinated approach; <input type="checkbox"/> the Financial Rules and Regulations should be updated accordingly to reflect the compulsory application of IPSAS. 	<p>The Pension Fund accounting policy is in line with International Accounting Standards (IAS) by having adopted a mark to market policy. Nevertheless, on the Liabilities' side of the balance sheet, regarding IPSAS, IAS 19 will be one of the major issues for actuarial valuation of the liabilities. In addition to traditional actuarial valuation based on long-term hypothesis as determined by the Council, the Pension Fund will provide the financial position based on IAS 19 for information purposes. With respect to the other items, the Pension Fund will address them by consulting other international Pension Funds.</p>	<p>The Pension Fund has adopted IPSAS with a work plan aiming at full implementation for the year-end 2008. Working Group 1 will incorporate this initiative into its re-drafting of the Financial Rules and Regulations.</p>	<p>International Public Sector Accounting Standards were adopted by the Fund for its 2008 Financial Statements. Amendment to Chapter 1, Section 4- Article I.4.02, of the Fund's Rules was approved by the PFGB at its meeting of 5 May 2010. It stipulates that "The Fund's accounts shall be prepared and presented by the Chief Executive Officer in accordance with the International Public Sector Accounting Standards, hereinafter referred to as IPSAS". Recommended to CERN Council for approval at its June session.</p>	Ongoing.

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2007 (refer also to 2005)	External Audit The External Auditors recommend that Terms of Reference for the newly established Working Group should be defined in order to meet the expectations of the Governing Board at its best. The terms of reference should inter alia refer to the issue of two External Auditors and address this issue to be in line with international accepted standards.	The Terms of Reference of the Working Group will be established with respect to the recommendations concerning External and Internal Audit.	This recommendation falls within the remit of Working Group 1 which is charged with the revision of Chapter 1, Section 2 of the Rules and related Regulations for examination by the Pension Fund Governing Board.	Amendment to Chapter 1, Section 5- Audit, of the Fund's Rules was approved by the PFGB at its meeting of 5 May 2010. Recommended to CERN Council for approval at its June session.	Ongoing. PFGB presented a Document to the Council for Approval We received the document with too short notice to express a written opinion (refer to paragraph 4.1 and 5.2.1).

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2007	<p>Internal Audit</p> <p>The External Auditors recommend that the terms of reference of the newly established Working Group should include the task to clarify the roles and responsibilities as well as the reporting line of the CERN internal audit with respect to the Pension Fund. This includes the determination of the internal audit in the Rules and Regulations of the Pension Fund.</p>	<p>The Terms of Reference of the Working Group will be established with respect to the recommendations concerning External and Internal Audit.</p>	<p>This recommendation falls within the remit of Working Group 1 which is charged with the revision of Chapter 1, Section 2 of the Rules and related Regulations for examination by the Pension Fund Governing Board.</p>	<p>Amendment to Chapter 1, Section 5- Audit, of the Fund's Rules was approved by the PFGB at its meeting of 5 May 2010. Recommended to CERN Council for approval at its June session.</p>	<p>Ongoing.</p> <p>PFGB presented a Document to the Council for Approval We received the document with too short notice to express a written opinion (refer to paragraph 4.1 and 5.2.1).</p>

Report	Recommendation raised by Italian Court of Audit	Comments received from CERN Management	Status on actions taken by Management as evaluated by Italian Court of Audit
2008	<p>Internal Control Environment In PWC's Management Letter, while recognizing, on the one hand, that the PFGB has actively assumed its leadership function to identify appropriate investment strategies considered by them as adequate for the Fund's current risk capacity, they, on the other hand, considered that the PFGB has to develop a clear strategy and define measures to remedy the funding gap, in spite of the fact that CERN and ESO guarantee the benefits acquired under the provisions of the Rules. "With respect to the internal control system, controls are in place, however some organizational and administrative procedures are not always documented although controls are performed."</p>	<p>The management responded that "The document 'Report of the Study Group on Pension Fund Governance' (CERN/2733/Rev.) affirms that 'the extent and legal status of CERN and ESO guarantee for pension entitlements and benefits (in proportion to their respective members and beneficiaries)' as well as 'the enforcement of the guarantees' must be specified in the Fund Rules and/or policy statements and decisions. This issue as well as measures to remedy the funding gap fall within the remit of Working Group 2 which will report to the PFGB.</p> <p>The Management responded that "The documentation of all organizational and administrative procedures will be addressed as a matter of priority as part of the self-assessment process to be recommended to the PFGB by Working Group1".</p> <p>Internal Control System to be presented to the PFGB at its meeting in September 2010.</p>	<p>Ongoing. Refer to par. 5.1.</p>

Report	Recommendation raised by Italian Court of Audit	Comments received from CERN Management	Status on actions taken by Management as evaluated by Italian Court of Audit
2008	<p>Current accounts and Deposits As also specified in the Report on the Accounts of CERN for 2008, we found that the exchange rates for certain foreign currencies at the closing date used by CERN differed from those same currencies utilized by the Pension Fund and, what is more, in some cases they both differed from the Swiss National Bank's official exchange rates. Since IPSAS have the objective to enhance, among other issues, Comparability of financial statements and considering the fact that the two Financial Statements are interrelated, we thus recommend to employ the same foreign exchange rates for both Entities. We consider that for a public funded International Organization a generally worldwide rate accepted as official, published by public institutions such as, for example, the Swiss National Bank or the European Central Bank could be more appropriate.</p>	<p>Please refer to the document CERN/FC/5342 – CERN/2845 – “Report by the External Auditors on the Accounts of the CERN Pension Fund for the Financial YEAR 2008 - Comments by the Administration of the Fund. A detailed response to this recommendation is given in the document CERN/FC/5342 – CERN/2845 – “Report by the External Auditors on the Accounts of the CERN Pension Fund for the Financial YEAR 2008 - Comments by the Administration of the Fund”.</p> <p>Briefly;</p> <ul style="list-style-type: none"> <input type="checkbox"/>the Fund uses the foreign exchange rates supplied by its global custodian – this is considered best practice in the pension fund industry <input type="checkbox"/>the source of these rates is Reuters World Markets, a recognized market standard <input type="checkbox"/>use of the Swiss National Bank or European Central Bank would create problems in terms of timing and availability of rates quoted. <input type="checkbox"/>use of different sources of exchange rates for yearend valuation and the valuation of foreign exchange contracts, used for currency hedging, would generate artificial gains or losses <input type="checkbox"/>Comparison of the Fund's financial statements under IPSAS, are best made with other pension funds who share the same activities and goals. <p>In addition, in the Fund's Financial Statements for the year 2009 under the heading “Critical Accounting estimated and judgements” a table is provided indicating the exchange rates used by the Fund at the year-end and also the rates from the European Central Bank.</p>	<p>Pending. (please refer to paragraph 7.1 of the report).</p>

Report	Recommendation raised by Italian Court of Audit	Comments received from CERN Management	Status on actions taken by Management as evaluated by Italian Court of Audit
2008	<p>Program access management We recommend to implement personalised user accounts to restrict system access and secure data. Such a measure will decrease the risk of a non-authorized access and also ensure a traceability of changes. Besides, a password change every three months is further recommended.</p>	<p>Consultation with the suppliers of the accounting system ‘Winway’ has confirmed that it is not technically possible to implement personalised user accounts within this application. Given the access controls which exist currently in respect of each workstation (system enforced personalised login and password changes) and the small number of people using the system (three staff members) it is considered that the probability of an undetected, unauthorized intervention is low. Nevertheless if and when a new version of the application becomes available that permits personalized user accounts this option will be taken up by the Fund The existing benefits application, although requiring a personalised password to access the system, cannot enforce a periodic password change. The feasibility of this recommendation will be considered on installation of the new benefits computing system. Situation endorsed by the PFGB at its meeting held on 30 March 2010. The current system has been enhanced and reinforced to reduce risk This issue will be taken into account when implementing any new solutions in this domain.</p>	Ongoing.

Report	Recommendation raised by Italian Court of Audit	Comments received from CERN Management	Status on actions taken by Management as evaluated by Italian Court of Audit
2008	<p>Segregation of Duties in the IT Systems. Development – go live There is no segregation of duties since an external consultant performs the development and go live of applications. The CERN Pension Fund IT is fully dependant on an external consultant We recommended to reduce dependence towards IT external consultancies and to implement effective segregation of duties.</p>	<p>The present solution, which has been endorsed by the Pension Fund Governing Board (PFGB), has worked satisfactorily over the years. The external consultant, being independent of the Fund, cannot personally benefit from any unauthorized modification of an application. Nevertheless the new computing system will reduce dependence on the consultant and will effectively ensure a segregation of duties between development and implementation phases and will in general substantially reduce risk in this area</p> <p>Acquisition of proposed software cancelled by PFGB at its meeting of 5 May 2010. Situation endorsed by the PFGB at its meeting held on 30 March 2010.</p> <p>The current system has been enhanced and reinforced to reduce risk. This issue will be taken into account when implementing any new solutions in this domain and in the development of the Internal Control System.</p>	Ongoing.

Report	Recommendation raised by Italian Court of Audit	Comments received from CERN Management	Status on actions taken by Management as evaluated by Italian Court of Audit
2008	<p>Assumptions used to calculate the actuarial present value of retirement</p> <p>We are of the opinion and we consequently recommend, that the actuarial assumptions to be employed should be based on realistic economic assumptions calculated on market values.</p>	<p>Please refer to the document CERN/FC/5342 – CERN/2845 – “Report by the External Auditors on the Accounts of the CERN Pension Fund for the Financial YEAR 2008 - Comments by the Administration of the Fund</p> <p>The PFGB at its meeting on 18 February 2010 approved the use of two sets of actuarial assumptions for depicting the Pension Fund’s liabilities in the 2009 financial statements: a market-based set of assumptions as proposed in the agenda document, and the set of assumptions used in the report by Working Group 2, reflecting a long-term view.</p>	Closed.
2008	<p>SCI- Monitoring – Independent controller</p> <p>Financial activities are carried out either by external or internal managers who are supervised by the Pension Fund administration.</p> <p>Given the small number of administrative employees the control activity is not independent from the operational department.</p> <p>We recommended to implement a self-assessment process in order to ensure compliance with internal procedures, limits and restrictions decided by the Investment Committee, transactions validity, cash movements validity.</p>	<p>Following a thorough review of the Internal Control System (ICS) Working Group 1 will shortly make a recommendation to the PFGB that high priority be given to a self-assessment process within the Fund covering all aspects of internal procedures including transactions and cash movements validity. Furthermore, in the course of setting the Investment Principles of the Fund the IC will address the question of limits and restrictions. Internal Control System to be presented to the PFGB at its meeting in September 2010.</p>	Ongoing.

Report	Recommendation raised by Italian Court of Audit	Comments received from CERN Management	Status on actions taken by Management as evaluated by Italian Court of Audit
2008	Review of the portfolio valuation (Private Equity Funds)	<p>The Fund has retained these securities within its portfolio in order to benefit from possible future claims and distributions. The Fund's global custodian, State Street Bank GmbH, who monitor corporate actions on behalf of the Fund have advised us that to remove these titles from our portfolio would mean that Fund waives the aforesaid claims and distributions as the titles would no longer be effectively held in State Street's custody. Indeed in such a scenario the custodian would require the Fund to sign a waiver to this effect. The Fund will discuss this issue further with the custodian with a view to finding a solution which will satisfy valuation requirements while at the same time retaining rights to possible future economic benefits.</p> <p>Given that the Fund invests in private equity funds whose financial reporting dates are the same as that of the Fund it is unlikely that valuations based on audited financial statements as at 31 December will be always be available. This issue is dealt with under 'Critical Accounting Estimates and Judgements' in the Annual Report where the basis for the Fund's valuation of private equity investments and the nature of the uncertainty with regard to these values is stated. It is likely that similar disclosure will be required in future in respect of these investments. However, it should be noted that the valuations based on the latest audited financial statements are reported to the IC at the earliest opportunity.</p>	Closed.

Report	Recommendation raised by Italian Court of Audit	Comments received from CERN Management	Status on actions taken by Management as evaluated by Italian Court of Audit
2008	<p>Investment properties local auditors selection Real estate is managed locally by experts and, on a yearly basis, audited by local auditors. We observed, as also reported by PriceWaterhouseCoopers, that some local auditors were re-elected without any formal engagement letter and no criteria were defined by the management regarding their selection.</p>	<p>Henceforth the Fund will request an annual engagement letter from the local auditors and will ensure that the content is consistent with the requirements of International Standards of Auditing and that reference is made to the independence and qualifications of the auditors. Furthermore the Fund will write to all local auditors reminding them of the necessity to meeting reporting deadlines in the future.</p> <p>All real estate auditors were obliged to supply a formal engagement letter in respect of the 2009 audit. The content was consistent with the requirements of International Auditing Standards and made specific reference to the auditors' independence and qualifications.</p>	Closed for year 2009.
2008	<p>Investment properties expert selection No formal engagement letter is annually requested and no criteria are defined by the management regarding the selection of experts. Request an annual engagement letter which requires compliance with IPSAS criteria and defines quality criteria for expert designation (independence, qualifications...).</p>	<p>Henceforth the Fund will request an annual engagement letter from the valuation experts specifying compliance with IPSAS and attesting to their independence and qualifications.</p> <p>Engagement letters meeting the required criteria were received from all valuation experts in 2009.</p>	Closed for year 2009.

Report	Recommendation raised by Italian Court of Audit	Comments received from CERN Management	Status on actions taken by Management as evaluated by Italian Court of Audit
2008	<p>Investment properties valuation With regard to the valuation of the investment property, by sampling the valuation methods, we found that each expert applies the valuation method used in his respective country. Valuation principles consequently differ between countries, and, according to IPSAS 16, current prices on an active market are the best evidence of fair value. In the absence of current market prices and prices on less active markets, discounted cash flow projections should be used.</p>	<p>The Fund will write to each valuation expert imposing the valuation methods consistent with the provisions of IPSAS 16.</p> <p>Instructions were issued to all external real estate experts in 2009 in order to have a consistent valuation approach compatible with the requirements of IPSAS 16.</p>	Closed for year 2009.
2008	<p>Risk management – strategic decision Strategic decisions (strategic allocation, tactical margin and investment drivers) are essentially based on qualitative analysis. We recommended implementing quantitative measurement of market risks taken by the PF such as VaR and stress analysis.</p>	<p>Quantitative analysis is performed with regard to strategic asset allocation where the Fund uses the consultants Ortec who are recognized as having wide expertise in the quantitative field as applied to pension funds. The Fund is considering setting up tactical margins based on tracking error constraints. With regard to investment drivers the Fund has access to external research and analysis that include quantitative aspects. The Fund already obtains regular VaR reports from its custodian. Additionally the Fund is working on introducing additional and deeper analysis with the use of the product Algorisk proposed by State Street. Steps have already been taken in this direction. Implementation should be effective in 2009 Q2 and should enable stress-tests and what-if analysis to be carried out. Implementation of quantitative measurement in progress.</p>	Ongoing (see par. 5.1.4).