<table>
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<th>Action to be taken</th>
<th>Voting Procedure</th>
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<td>FINANCE COMMITTEE</td>
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<td>364th Meeting</td>
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<td>12 and 13 June 2018</td>
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Report by the External Auditors on the Annual Report and Financial Statements of the CERN Pension Fund for the Year Ended 31 December 2017

Supreme Audit Office of Poland
EXTERNAL AUDITOR’S REPORT
ON THE FINANCIAL STATEMENTS OF
THE EUROPEAN ORGANIZATION
FOR NUCLEAR RESEARCH PENSION FUND
(CERN PF)
FOR THE YEAR ENDED 31 DECEMBER 2017

Warsaw, 18 May 2018
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EXTERNAL AUDITOR’S REPORT

Addressed to:

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

We have audited the accompanying financial statements of the European Organization for Nuclear Research Pension Fund (the Fund), which comprise the statement of financial position as at December 31, 2017, and the statement of financial performance, cash flow statement and statement of changes in net assets available for benefits for the year then ended, and a summary of significant accounting policies and other explanatory information.

Audit Opinion on the CERN Pension Fund financial statements

In our opinion, the financial statements present fairly, in all material respects, the financial position of the CERN Pension Fund as at December 31, 2017, its financial performance and its cash flows for the year then ended in accordance with the International Public Sector Accounting Standards and International Accounting Standard 26.

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

Audit Opinion on compliance of the Fund’s management with rules and regulations

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

Basis for Opinions

We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the audited Organisation in accordance with the ISSAI 10 – Mexico Declaration of SAI1 Independence and ISSAI 30 – Code of Ethics, together with other requirements that are relevant to our audit of the financial statements of an international institution as stated in ISSAI 5000 – Audit of International Institutions – Guidance for SAIs and the Code of Conduct of the Supreme Audit Office of Poland, and we have fulfilled our ethical and other responsibilities in accordance with the said standards. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

We draw the Council’s attention to decreased technical deficit of the Fund (MCHF 6,001 as compared to MCHF 6,106 in 2016) and accompanied higher level of the PF Funding Ratio

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1 SAI – Supreme Audit Institution
(41.5% as compared to 39.9% in 2016). Net assets available for benefits also increased from MCHF 4,060 in 2016 to MCHF 4,259 in 2017. The level of net assets available for benefits went up close to the level of 2007 (MCHF 4,614) before the financial crisis of 2008. Nevertheless, the funding ratio of the Fund calculated in accordance with IPSAS remains low and the financial position of the Fund is exposed to the risk of unpredictable fluctuations on the market.

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and compliance with authorities. These matters were addressed in the context of our audit of the financial statements as a whole and compliance with authorities, and in forming our opinion thereon.

Key audit matters in the audit of the CERN PF Financial Statements for 2017 were as follows:

1) **Valuation of Pension Fund Assets**

   Pension Fund Assets constitute the crucial item in the Pension Fund Financial Statements of the total gross value MCHF 4,325. They form the basis of PF capability of providing benefits to CERN and ESO pensioners and other beneficiaries as well as meeting other Fund’s liabilities.

   The matter was addressed in the audit by verification of the information provided in the Custodian’s monthly reports against relevant account balances and reconciliation of the values reported in the Statement of Financial Position with the relevant accounting data. For investment property (kCHF 824), a verification of existence, completeness and valuation was also performed on the basis of the information provided in property managers and evaluators reports.

2) **Accuracy of reporting Pension Fund Investments**

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

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

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

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

   The matter was addressed by substantive analytical procedures for contributions and benefits, taking into account quantities of new members and beneficiaries and quantities of those who left the Fund and making recalculations and comparisons of relevant totals of contributions and benefits.

4) **Going concern assumption**

   Under the going concern basis of accounting, the financial statements are prepared on the assumption that the entity is a going concern and will continue its operations for the foreseeable future. General purpose financial statements are prepared using the going concern basis of accounting, unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so. IPSAS contain
an explicit requirement for management to make a specific assessment of the entity’s ability to continue as a going concern, and standards regarding matters to be considered and disclosures to be made in connection with going concern.

For the CERN Pension Fund such an assessment is important from the point of view of vested interests of its beneficiaries and members as well as economic and operational interests of its sponsors.

The matter was addressed during the audit by inquiries with the Fund management, inspection of a document on the going concern assessment, inspection of the annual Actuary’s Report and analysis of the current financial position of the Fund. We were satisfied with the approach of the management and the result of the going concern assessment this year.

5) Internal control system

We believe that well-designed internal control system supports the achievement of the Fund’s objectives and is an effective and efficient measure against risks to materialise in the form of misstatements in financial reporting and/or incidents of non-compliance with authorities, thus hampering financial and compliance objectives of the Fund. In 2015, we assessed that the Fund’s internal control system was well designed and was satisfactorily effective in support of the Funds daily operations. Nevertheless, we recommended the Fund’s management to take into account fundamental principles of COSO Internal Control Integrated framework while upgrading the Fund’s internal control system.

The matter was addressed by inquiries with the Fund’s management, discussions on patterns of relating objectives with risks and mitigating controls. The system has been upgraded in two important services of the Fund and is going to be enhanced in other ones.

Information Other than the Financial Statements and Auditor’s Report Thereon

Management is responsible for the other information, included in the Pension Fund Annual Report that comprises Pension Fund Governing Board Report and Extract of Actuary’s Report on the Fund as at 31 December 2017, apart from the financial statements and our auditor’s report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. However, in connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

CERN Pension Fund management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Accounting Standard 26 and International Public Sector Accounting Standards, and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the financial statements, management is responsible for assessing the Fund’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using going concern basis of accounting unless relevant authorities either intend to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

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

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

_Auditor’s Responsibilities of the Supreme Audit Office of Poland (NIK) for the Audit of the Financial Statements_

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund’s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Fund to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Signed by:

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

Wiesław Kurzyca  
Primary Auditor  
of CERN External Audit

18 May 2018  
Supreme Audit Office  
ul. Filtrowa 57  
Warsaw, Poland