<table>
<thead>
<tr>
<th>Action to be taken</th>
<th>Voting Procedure</th>
</tr>
</thead>
<tbody>
<tr>
<td>For information</td>
<td>FINANCE COMMITTEE 364th Meeting 12 and 13 June 2018</td>
</tr>
<tr>
<td>For information</td>
<td>OPEN COUNCIL 189th Session 14 and 15 June 2018</td>
</tr>
</tbody>
</table>

Recommendations from the External Auditors to the CERN Pension Fund Management on the Annual Report and Financial Statements for the Year Ended 31 December 2017 and Comments from the CERN Pension Fund Management

Supreme Audit Office of Poland
EXTERNAL AUDITOR’S MANAGEMENT LETTER RELATING TO 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
(Intentionally blank)
Dear Dr. Roth,

We have recently completed our audit of the CERN Pension Fund financial statements for the year ended 31 December 2017, which we conducted in accordance with International Standards of Supreme Audit Institutions. Our audit examination was conducted primarily to enable us to express an opinion on the financial statements and compliance with authorities but not for the purpose of expressing an opinion on the effectiveness of the Organization’s Pension Fund internal control. Our consideration of internal control was for the limited purpose relevant to the entity’s preparation and fair presentation of the financial statements and compliance with authorities and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We have not found any new matters or areas of possible improvement involving internal control and accounting issues. During our audit, we checked and assessed the follow-up of our previous recommendations.

This letter does not affect our audit report dated 4 May 2018 on the Financial Statements of the CERN Pension Fund. We have reviewed the status of two previous recommendations one provided by us and one by previous external auditors and have determined their current status of implementation in the Annex to this Management Letter. We are pleased to announce that one of those recommendations has been closed and we found further progress in the implementation of the other one.

We have received your comment related to one recommendation considered by us as being in progress of final implementation and included this comment in this Management Letter.
Our observations from this year audit are summarized as follows:

There are no observations as regards the audit of the CERN Pension Fund Financial Statements for the year 2017 (see the Annex for previous years observations).

Signed by:
Ewa Połkowska
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
## Status of prior period audit recommendations

<table>
<thead>
<tr>
<th>OBSERVATION / RECOMMENDATION</th>
<th>ACTION TAKEN</th>
<th>STATUS</th>
</tr>
</thead>
</table>
| NIK Management Letter FY 2015, Audit No. P/16/051-2/CERN PF ML: | **Assessment of the External Auditor:** Action was taken by the Fund management during our previous year audit by developing a CERN Pension Fund Internal Control System Policy, which was presented to the PFGB in November 2016 and approved at the PFGB meeting in February 2017. The policy met our recommendations and provided solid grounds for the upgrade of the existing system. We noted that the work on such upgrade was going on last year by, e.g. providing further details to description of particular processes, more informative control descriptions, marking interrelations between processes, creating hyperlinks to relevant documents, etc. Last year we suggested several other improvements, such as:  
- presenting objectives for particular processes and sub-processes (or functions)  
- marking relation between objectives (operational, reporting, compliance) and risks and controls,  
- reviewing process descriptions whether they present sequence of actions leading to the achievement of objectives  
- The lacking parts were also:  
  - control environment (in relation to the Fund as a whole),  
  - information on how the system and particular control activities are communicated to all concerned, and  
- how it is monitored.  
**During the audit for 2017 we further discussed the issue with the Fund's** |
| Observation 1. The CERN Pension Fund Internal Control System (COSO Framework) | | IN PROGRESS |
easy and rectifying them may be effective.
Failure or resignation from applying the new COSO framework would mean losing an opportunity to develop a system in which all its five components, while operating together, may collectively and effectively reduce to an acceptable level the risk of not achieving the organisation’s objectives.

**Recommendation:**
We recommend to develop a transition plan to pass over from the current Internal Control System to the 2013 New COSO Internal Control Framework. In our view this will require:
- creating a centralized project management function,
- transferring knowledge on the new framework to the personnel,
- developing a cost-effective approach to converting the underlying documentation,
- mapping controls through each of the five components and supporting principles and, to the extent they are applicable, particular points of focus,
- designating roles, responsibilities and authorities for converting documentation,
- developing a road-map of implementation until the conversion is completed.

management, including on a pattern to provide a clear link between the process and sub-process objectives, risks to their achievement and related controls.
The work on the project was continued and virtually finalized for contributions and benefits processes and to much extent for the Fund’s accounting process. It will be continued for investment processes this and next year.

*From this point of view, we consider this observation as being still IN PROGRESS.*

**Comment by the CERN Pension Fund Management:**
The transition to the 2013 COSO Internal Control Framework is progressing well and is expected to be completed over the coming year.

<table>
<thead>
<tr>
<th>ITALIAN COURT OF AUDIT (CORTE DEI CONTI), AUDIT REPORT NO. CERN/FC/5742:</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Recommendation 13. Declarations of potential conflict of interests are to be carefully reviewed by a dedicated body</strong></td>
</tr>
</tbody>
</table>
This recommendation referred to a potential conflict of interests that might arise “in an environment such as the CERN Pension Fund, where considerable assets were invested in different funds and could materialize at every level of the staff, through the management and Investment Committee, to the PFGB members.” We have agreed that the conflict of interest may arise and have wished to leave this recommendation open, at the same time to consider its content in the future, especially in the context of the manner of verifying declarations about the lack of the conflict of interests made by particular officials. |
| **Assessment of the External Auditor:** |
The CEO of the Fund had a draft Register of Interests produced which was consulted with all concerned, including external auditors. The Register of Interest was approved by the PFGB at its meeting in April 2017. The document fully responded to our recommendation and comments made in the consultation process. In the final discussion with the CEO on the approved text we proposed to set the deadline by which the Register shall be filled in each year by the relevant personnel. |
| **During the Interim Audit in** | **CLOSED** |
November 2017 the CERN Pension Fund Register of Interests was presented to us in its full and final version. As planned, it was put into effect from the beginning of 2018, i.e. the members of PFGB, PFIC, ATC and PFMU received it to fill in and sign, whereby the recommendation has been implemented.

Thus, we consider that the recommendation “Declarations of potential conflict of interests are to be carefully reviewed by a dedicated body” shall be CLOSED.