



University of Western Ontario Pensions Plans

Audit Planning Report to the Joint Pension Board

For the year ending **December 31, 2010**

February 9, 2011

AUDIT

This Audit Planning Report (the "Report") for the year ending December 31, 2010 provides an overview for the Joint Pension Board of the audit plan.

This Report is confidential and intended solely for the use of the Joint Pension Board in carrying out and discharging its responsibilities, and should not be used for any other purposes. No responsibility for loss or damages, if any, to any third party is accepted as this Report has not been prepared for, and is not intended for, any other purposes.

KPMG LLP, Chartered Accountants, Licensed Public Accountants

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Topics for discussion

Auditors initiating discussion with the Joint Pension Board

We propose to highlight the following topics with the Joint Pension Board at the upcoming meeting, in connection with our engagement to audit the following financial statements:

The University of Western Ontario:

- Master Trust for the Pension Plans for the Academic and Administrative Staff and the Retirement Income Fund
- Pension Plan for Members of the Academic Staff
- Pension Plan for Members of the Administrative Staff
- Retirement Income Fund

<u>Topic</u>	<u>Joint Pension Board action</u>
Joint Pension Board input (page 4)	Raise potential concerns, questions and requests
What has changed from last year (page 5)	Review
Audit response to identified financial reporting risks (page 8)	Review and comment

Pension Board input/matters to be raised with the auditors

- Board members should use this section to note any areas of potential concern that should be raised and discussed at the audit planning meeting.

- Board members should use this section to note any other matters to be raised or requested at the audit planning meeting.

Audit plan for Joint Pension Board consideration

What has changed from last year

Entity-specific changes

- Changes to some of the investment managers utilized.
- Asset Backed Commercial Paper (ABCP) is now actively traded.

Accounting standards affecting the December 31, 2010 year

- None

Auditing standards

- Canadian Auditing Standards are effective for periods ending on or after December 14, 2010
 - consistent with the clarified International Auditing Standards
- Significant audit performance differences relate to:
 - communications with those charged with governance. The engagement letter in Appendix 2 provides a list of the communication requirements under Canadian Auditing Standards.
- Significant reporting differences relate to:
 - date of the audit report, form of the audit report, content of the audit report (e.g. emphasis of matter paragraph for material uncertainty related to going concern)
- Incremental documentation requirements.
- Refer to Appendix 1 for further discussion on this matter.

Future Accounting standards

On December 15, 2009, Canada's Accounting Standards Board ("AcSB") issued new accounting standards for private enterprises. Previously, the AcSB had announced that International Financial Reporting Standards will be required for Canada's publicly accountable enterprises and would be optional for private enterprises. Both sets of standards are effective for fiscal years commencing on or after January 1, 2011 with earlier adoption permitted.

The AcSB decided that, pension plans will continue to prepare their financial statements in accordance with existing Canadian GAAP.

The AcSB has approved new standards for pension plans that would be applicable to issuers of general purpose financial statements of pension plans.

The new standards are based on existing Canadian GAAP with the following significant modifications:

- Financial statements would be prepared on a basis consistent with IFRS, to the extent that these requirements do not conflict with the specific requirements in the proposed standard.

Audit Planning Report to the Joint Pension Board

- The statement of financial position (currently known as the “statement of net assets available for benefits”) would include net assets available for benefits and pension obligations.
- Guidance would be provided on the level of detail to be provided about investment assets and liabilities.
- All investment assets and liabilities would be measured at fair value.
- A pension plan would be permitted to use the plan sponsor’s accrued benefit obligation as its pension obligation in its financial statements.

Disclosure requirements would include those already required by various standards. In addition, disclosures of the effective date of the next required actuarial valuation, significant accounting policies, and additional related party information would also be required. Existing “desirable” disclosures would become required.

Pension plans may need to make changes to their accounting and reporting practices to meet the requirement to measure investment assets and liabilities at fair value and to present pension obligations on the face of the statement of financial position.

The proposed standards would be effective for annual financial statements for fiscal years beginning on or after January 1, 2011.

Audit Planning Report to the Joint Pension Board

Milestones and deliverables

The following are deliverables and key dates in the audit process, which the Joint Pension Board should consider:

<u>Topic</u>	<u>Date</u>
Present the Audit Planning Report to the Pension Board	February 9, 2011
Conduct year-end audit field work	April 4 – 15, 2011
Present the Audit Findings Report, including our Independence Letter, to the Pension Board	May 18, 2011
Final financial statements for the Master Trust, Academic and Administrative Staff approved by the Joint Pension Board and release of audit opinions.	May 18, 2011
Final financial statements for the Retirement Income Fund approved by the University's Audit Committee	June 7, 2011
Release audit opinion on the Retirement Income Fund financial statements	June 7, 2011

Scope and timing of the audit

Our responsibilities

- Our responsibilities are described in the engagement letter in Appendix 2 to the Audit Planning Report.

Scope – Materiality

- We determine materiality to:
 - plan and perform the audit
 - evaluate the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements.
- For the current year, materiality for planning purposes was established as follows, based on total assets as at December 31, 2010.

○ Master Trust	\$16,000,000	(2009 - \$15,500,000)
○ Academic Staff Plan	\$7,500,000	(2009 - \$7,500,000)
○ Administrative Staff Plan	\$5,250,000	(2009 - \$5,190,000)
○ Retirement Income Fund	\$2,750,000	(2009 - \$2,800,000)
- We will reassess materiality at year-end to confirm whether the amounts indicated above remain appropriate prior to evaluating the effect of uncorrected misstatements.
- We will communicate to you corrected and uncorrected misstatements identified by us during the audit, other than those that are clearly trivial.
- The level of reporting materiality which will be communicated to the Council are any corrected or uncorrected differences which have an affect on net income greater than \$800,000.
- Should uncorrected misstatements remain, we will:
 - in accordance with professional standards, request that all uncorrected misstatements be corrected
 - require management to respond in writing to us why the amounts will not be corrected
 - communicate the effect that uncorrected misstatements, individually or in aggregate, may have on the opinion in the audit report on the financial statements.

Audit response to identified financial reporting risks

Significant financial statement accounts

Significant accounts and disclosures

Summary of planned audit approach

Cash	<p><i>Controls approach</i></p> <ul style="list-style-type: none"> • Review SAS 70 and/or section 5970 report for Northern Trust • Review year-end cash balances within the investment reconciliation and investigate reconciling and unusual items • Confirm cash balances with custodian • Cut-off testing over cash
Investments	<p><i>Controls approach</i></p> <ul style="list-style-type: none"> • Review SAS 70 and/or section 5970 report for Northern Trust • Review Statement of Investment Policies and Procedures compliance • Confirm investment balances with custodian statements • Confirm investment balances with investment manager • Review year-end reconciliation of investment manager statements to Northern Trust • Review financial statement disclosures
Revenue (Investment Income, Net unrealized and Net realized gain loss) and Receivables	<p><i>Controls approach</i></p> <ul style="list-style-type: none"> • Review SAS 70 and, or section 5970 report for Northern Trust • Perform Substantive procedures over investment income • Recalculate net unrealized change in fair value of investments • Confirm investment income with custodian • Confirm accrued income with custodian • Confirm net realized gain/(loss) with custodian
Operating Expenses and Accrued expenses	<p><i>Controls approach</i></p> <ul style="list-style-type: none"> • Review SAS 70 and/or section 5970 report for Northern Trust • Search for unrecorded liabilities • Substantive test of details over operating expenditures • Substantive test of details over accrued expenses • Substantive test of details over administrative costs recovered by the University

**Significant
accounts and
disclosures**

**Summary of
planned audit approach**

Contributions and
Transfers In

Controls approach

- Review SAS 70 and, or section 5970 report for Northern Trust
- Substantive test of details over contributions
- Confirm contribution and transfer-in balances with custodian statements
- Cut-off testing over contributions and transfers in

Benefits (Lump
sum payments,
Periodic Pension
payments and
Transfer to/from
RIF)

Controls approach

- Review SAS 70 and, or section 5970 report for Northern Trust
- Substantive test of details over payments
- Confirm lump sum payments, periodic pension payments and transfers to/from RIF with custodian
- Cut-off testing over benefit payments

Executing the audit

Service team and multidisciplinary resources

We will continue to make every effort to meet your needs and exceed expectations by:

- utilizing professionals who understand the key issues being addressed by management
- keeping pace with changes in the industry and at the Entity
- anticipating issues and adequately planning all aspects of our service
- being available and responsive.

Service team

Jim Cassidy
Lead Audit Engagement Partner

Telephone: (519) 660 – 2177
email: jfcassidy@kpmg.ca

David Arnold
Audit Engagement Manager

Telephone: (519) 660 – 2124
email: darnold@kpmg.ca

Ian Knill
Audit In-charge

Telephone: (519) 672-4880
email: iknill@kpmg.ca

Multidisciplinary resources

Paul Loughran
Information Risk Management, Senior Manager

Telephone: (519) 747-8291
email: ploughran@kpmg.ca

Diana Lowe
Advisory, Associate Partner

Telephone: (416) 777 – 3838
email: kdlowe@kpmg.ca

Fees and assumptions

Our fees for the current year end are estimated as follows:

	<u>2010 Budget</u>	<u>2009 Actual</u>
Financial Statement audit	\$ 33,600	\$ 33,000

Routine administrative expenses such as long distance telephone calls, photocopies, fax charges, printing of statements and reports, postage and delivery and secretarial and report department assistance are included in the above noted fees.

Appendices

Appendix 1: Future Changes in Auditing Standards

Canada is adopting International Standards on Auditing (ISA) as Canadian Auditing Standards (CAS) for the audits of financial statements. CAS will constitute Canadian generally accepted auditing standards (GAAS). CAS becomes applicable for periods ending on or after December 14, 2010.

While there are a number of similarities between Canadian standards and the new standards, management will see a number of changes in the execution of audits and readers of the financial statements will see changes in the wording and format of the auditors' report.

Benefits of the new auditing standards

The new standards are more transparent, and designed to facilitate consistent high-quality audits that provide assurance over financial statements prepared in accordance with recognized financial reporting frameworks, which moves Canada in line with global auditing standards for all enterprises.

The increased emphasis on effective risk assessment procedures and developing audit responses which specifically address the risks of the audit will improve the relevance of how the audit is conducted. In addition, the emphasis on appropriate and timely communications with management and those charged with governance will help you to understand and respond to our audit findings.

Summary of new requirements

Comparing the new standards to those currently in place, there are approximately one third more explicit requirements that apply to stand alone audits (and a number of new requirements that apply to group audits). Much of the increase is a further clarification of existing guidance while other requirements have been designed to improve audit quality.

Implementing the new standards will result in some new matters to consider and new procedures to be performed. The standards may require us to make additional inquiries of those charged with governance and management, request additional information for testing and perform additional audit procedures. Additional procedures may be required in the areas of auditing estimates and related party transactions.

CAS 700: Auditors report: The principle that the auditor is expressing an opinion on whether the financial statements are prepared in accordance with generally accepted accounting principles remains unchanged; however, the structure and wording of the report will change.

The date of the audit report will be later than currently reported given that the date of the report is no earlier than the date that all audit evidence has been obtained, including the Board's approval

CAS 260: Communication to those charged with governance: There are new requirements which require us to communicate any significant deficiencies in internal control and evaluate the adequacy of two-way communications.

CAS 220/580: Terms of engagement/management representations: You may notice changes in our standard engagement letter and management representation letters to address the requirements of the new standards

Appendix 2: Engagement letter

See attached



KPMG LLP
Chartered Accountants
140 Fullarton Street Suite 1400
PO Box 2305
London, ON N6A 5P2

Telephone (519) 672-4880
Fax (519) 672-5684
Internet www.kpmg.ca

Ms. Jane O'Brien
Associate Vice President, Human Resources
University of Western Ontario
Student Support Building #5100
London, ON N6A 5B8

Mr. Jim Loupos
Joint Pension Board
c/o University of Western Ontario
Student Support Building #5100
London, ON N6A 5B8

January 26, 2011

Dear Ms. O'Brien and Mr. Loupos:

The purpose of this letter is to outline the terms of our audit engagement commencing for the period ending December 31, 2010.

This letter supersedes our previous letter to the University of Western Ontario Pension Plans including: The University of Western Ontario Pension Plan for the Members of the Academic Staff, Pension Plan for the Members of the Administrative Staff, Retirement Income Funds Program and the Master Trust for the Pension Plans for the Academic and Administrative Staff and the Retirement Income Funds Program (the "Plans" or "Entities") dated February 15, 2008. The terms of the engagement outlined in this letter will continue in effect from period to period, unless amended or terminated in writing. The attached Terms and Conditions form an integral part of the terms of this engagement and are incorporated herein by reference (collectively the "Engagement Letter").

FINANCIAL REPORTING FRAMEWORK

The financial statements will be prepared in accordance with a basis of accounting described in the notes to the financial statements (hereinafter referred to as the "financial reporting framework"). These financial statements will be prepared for the purpose of complying with Regulation 76 of the Ontario Pension Benefits Act, and for the use of management and the the Joint Pension Board of The University of Western Ontario, and the Financial Services Commission of Ontario.

The financial statements will include an adequate description of the financial reporting framework.



Management's responsibilities

Management acknowledges and understands that they are responsible for:

- (a) the preparation and fair presentation of the financial statements in accordance with the financial reporting framework referred to above.
- (b) ensuring that all transactions have been recorded and are reflected in the financial statements.
- (c) such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. Management also acknowledges and understands that they are responsible for the design, implementation and maintenance of internal control to prevent and detect fraud.
- (d) providing us with access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters.
- (e) providing us with additional information that we may request from management for the purpose of the audit.
- (f) providing us with unrestricted access to persons within the Plan from whom we determine it necessary to obtain audit evidence.
- (g) providing us with written representations required to be obtained under professional standards and written representations that we determine are necessary. Management also acknowledges and understands that professional standards require that we disclaim an audit opinion when management does not provide certain written representations required.

An audit does not relieve management or those charged with governance of their responsibilities.

Management has informed us of all steps taken to determine that the applicable financial reporting framework is acceptable in the circumstances.

AUDITORS' RESPONSIBILITIES REGARDING THE AUDIT

Our function as auditors of each Plan is:

- to express an opinion on whether the Plan's annual financial statements, prepared by management with the oversight of those charged with governance, are, in all material respects, in accordance with the financial reporting framework referred to above and



- to report on the annual financial statements.

We will conduct the audit of each Plan's annual financial statements in accordance with Canadian generally accepted auditing standards and relevant ethical requirements, including those pertaining to independence (hereinafter referred to as applicable "professional standards").

We will plan and perform the audit to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Accordingly, we will, among other things:

- identify and assess risks of material misstatement, whether due to fraud or error, based on an understanding of the Plan and its environment, including the Plan's internal control. In making those risk assessments, we consider internal control relevant to the Plan's preparation of the financial statements 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 Plan's internal control.
- obtain sufficient appropriate audit evidence about whether material misstatements exist, through designing and implementing appropriate responses to the assessed risks.
- form an opinion on the Plan's annual financial statements based on conclusions drawn from the audit evidence obtained.
- communicate matters required by professional standards, to the extent that such matters come to our attention, to the appropriate level of management, those charged with governance and/or the board of directors. Refer to Appendix C for a listing of such matters and the form and timing of such communication.

AUDITORS' DELIVERABLES

The expected form and content of our sample audit report is provided in Appendix B. However, there may be circumstances in which a report may differ from its expected form and content.

FEES

Appendix A to this letter lists our fees for professional services to be performed under this Engagement Letter.

We are available to assist the Plan, upon request, with a wide range of services beyond those outlined above. Additional services are subject to separate terms and arrangements.



We are proud to serve each Plans and we appreciate your confidence in our work. We shall be pleased to discuss this letter with you at any time. If the arrangements outlined are in accordance with the Plans' requirements and if the above terms are acceptable to the Plans, please sign the duplicate of this letter in the space provided and return it to us.

Yours very truly,

A handwritten signature in black ink that reads "KPMG LLP". Below the signature is a long, horizontal, slightly wavy line.

James F Cassidy

Partner responsible for the engagement and its performance, and for the report that is issued on behalf of KPMG LLP, and who, where required, has the appropriate authority from a professional, legal or regulatory body
(519) 660-2177

Enclosure

cc: Pension Committee



The terms of the engagement set out are as agreed:

The University of Western Ontario

by

Ms. Jane O'Brien _____
Associate Vice President, Human Resources

Date (dd/mm/yy) _____

Mr. Jim Loupos _____
Chair, Joint Pension Board

Date (dd/mm/yy) _____



Appendix A – Fees for professional services

The Plans and KPMG agree to a fee based on actual hours incurred at mutually agreed-upon rates. The estimated fee for the audits is \$33,600.



Appendix B – Expected Form of Report

INDEPENDENT AUDITORS' REPORT

To the Academic Staff Pension Board of The University of Western Ontario

We have audited the accompanying financial statements of The University of Western Ontario Pension Plans for the Academic Staff, which comprise the statement of net assets available for benefits as at December 31, 2010, the statements of changes in net assets available for benefits for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management based on the financial reporting provisions of the Financial Services Commission of Ontario for pension plan financial statements subject to the Ontario Pension Benefits Act.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of the Financial Services Commission of Ontario for pension plan financial statements subject to the Ontario Pension Benefits Act, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements present fairly, in all material respects, the net assets available for benefits of the The University of Western Ontario Pension Plan for the Academic Staff as at December 31, 2010, and the changes in net assets available for benefits for the year then ended in accordance with the financial reporting provisions of the Financial Services Commission of Ontario for pension plan financial statements subject to the Ontario Pension Benefits Act.

Basis of accounting

Without modifying our opinion, we draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the Administrator of The University of Western Ontario Pension Plan for the Academic Staff to comply with the requirements of Financial Services Commission of Ontario. As a result, the financial statements may not be suitable for another purpose.

Restriction on Use

Our report is intended solely for the Administrator of The University of Western Ontario Pension Plan for the Academic Staff and Financial Services Commission of Ontario and should not be used by parties other than the Administrator of The University of Western Ontario Pension Plan for the Academic Staff and Financial Services Commission of Ontario.



INDEPENDENT AUDITORS' REPORT

To the Academic Staff Pension Board and the Administrative Staff Pension Board of The University of Western Ontario

We have audited the accompanying financial statements of The University of Western Ontario Master Trust for the Pension Plans for the Academic and Administrative Staff and the Retirement Income Fund, which comprise the statement of net assets available for benefits as at December 31, 2010, the statements of changes in net assets available for benefits for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management based on the financial reporting provisions of the Financial Services Commission of Ontario for pension plan financial statements subject to the Ontario Pension Benefits Act.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of the Financial Services Commission of Ontario for pension plan financial statements subject to the Ontario Pension Benefits Act, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements present fairly, in all material respects, the net assets available for benefits of the The University of Western Ontario Master Trust for the Academic and Administrative Staff and the Retirement Income Fund as at December 31, 2010, and the changes in net assets available for benefits for the year then ended in accordance with the financial reporting provisions of the Financial Services Commission of Ontario for pension plan financial statements subject to the Ontario Pension Benefit Act.

Appendix C – Matters to communicate

Matters required to be communicated under professional standards to the appropriate level of management include:

Engagement partner

- identity and role of the engagement partner

Fraud and non-compliance with laws and regulations

- any identified fraud or any information obtained that indicates that a fraud may exist.
- any identified non-compliance with laws or regulations or suspected non-compliance.

Control deficiencies

- any material weaknesses in the Plans' internal control.
- any significant deficiencies in the Plans' internal control that we intend to communicate to those charged with governance unless it would be inappropriate to communicate directly to management in the circumstances.
- other deficiencies in internal control that have not been communicated to management by other parties and that, in our professional judgment, are of sufficient importance to merit management's attention.
- all other deficiencies in internal control not previously communicated by us or by others.

Misstatements

- any accumulated misstatements, other than those that are clearly trivial. Furthermore, we request that management correct all misstatements communicated.

Appendix C – Matters to communicate (continued)

Matters required to be communicated, on a timely basis, under professional standards to those charged with governance include:

Engagement partner

- identity and role of the engagement partner

Audit approach

- an overview of the planned scope and timing of the audit.

Ethical requirements

- compliance, in writing, with relevant ethical requirements regarding independence.
- any threats to our independence and the related safeguards that have been applied to eliminate the identified threats.

Fraud and non-compliance with laws and regulations

- any identified fraud or suspected fraud that may exist involving management, employees who have significant roles in internal control, or others where the fraud results in a material misstatement in the annual financial statements.
- any matters related to fraud that are, in our judgment, relevant to your responsibilities.
- any identified non-compliance with laws or regulations or suspected non-compliance, other than when the identified or suspected non-compliance is clearly inconsequential.

Control deficiencies

- any significant deficiencies, in writing, in the Plans' internal control.
- a statement that we have communicated to management any deficiencies we identified in the Entity's internal control, other than those listed above.

Misstatements

- any accumulated uncorrected misstatements (amounts or disclosures) other than those that are clearly trivial. Furthermore, we request all uncorrected misstatements be corrected

Accounting practices

- our views about significant qualitative aspects of the accounting practices including accounting policies, accounting estimates and financial statement disclosures.

Significant difficulties

- any significant difficulties that we encountered during the audit. For example, if we conclude that management's refusal to allow us to send a confirmation request is unreasonable or when we are unable to obtain relevant and reliable audit evidence from alternative audit procedures.

Significant matters

- significant matters, if any, arising from the audit that were discussed, or subject to correspondence with management (e.g., management's consultation with other accountants, major issues discussed with management prior to retention or any disagreements with management, whether or not satisfactorily resolved, about matters that individually or in the aggregate could be significant to the financial statements or report thereon)
- other significant matters arising from the audit, if any, that, in our professional judgment, are significant to the oversight of the financial reporting process, including those significant matters arising from the audit in connection with the Plans' related parties.

Management representations

- copies of written representations requested from management.

Going concern

- events or conditions identified that may cast significant doubt on the Plans' ability to continue as a going concern.

Reporting

- any expected modifications to the audit report.
- any expected emphasis of matter or other paragraphs in the audit report.
- management refuses to remove a scope limitation in the audit.

Other information

- any revision necessary to, or material misstatement of fact included in, financial and non-financial information which is included, either by law, regulation or custom, in a document containing the audited financial statements and our audit report thereon ("other information") that we identified when reading such information, which management refuses to correct.
- our responsibilities with respect to other information in documents containing audited financial statements.
- any significant matters resulting from the procedures performed in accordance with professional standards on the other information.

Note: Significant findings from the audit will be communicated in writing if, in our professional judgment, oral communication would not be adequate.

Appendix C – Matters to communicate (continued)

Matters required to be communicated under professional standards to the board of directors include:

Fraud and non-compliance with laws and regulations

- any identified non-compliance with laws or regulations or suspected non-compliance where we suspect that management or those charged with governance are involved.



TERMS AND CONDITIONS FOR ASSURANCE ENGAGEMENTS

The Terms and Conditions are an integral part of the accompanying engagement letter from KPMG that identifies the engagement to which they relate (and collectively form the "Engagement Letter"). The Engagement Letter supersedes all written or oral representations on this matter.

1. SEVERABILITY.

If any of the provisions of this Engagement Letter are determined to be invalid or unenforceable, the remaining provisions shall remain in effect and be binding on the parties to the fullest extent permitted by law.

2. GOVERNING LAW.

This Engagement Letter shall be subject to and governed by the laws of the province where KPMG's principal office performing this engagement is located (without regard to such province's rules on conflicts of law) and all disputes arising hereunder or related thereto shall be subject to the exclusive jurisdiction of the courts of such province of Canada.

3. LLP STATUS.

KPMG LLP is a registered limited liability Partnership ("LLP") established under the laws of the Province of Ontario and, where applicable, has been registered extra-provincially under provincial legislation. KPMG is a partnership, but its partners have a degree of limited liability. A partner is not personally liable for any debts, obligations or liabilities of the LLP that arise from a negligent act or omission by another partner or by any other person under that other partner's direct supervision or control. The legislation relating to limited liability partnerships does not, however, reduce or limit the liability of the firm. The firm's insurance exceeds the mandatory professional indemnity insurance requirements established by the various Institutes/Ordre of Chartered Accountants. Subject to the other provisions hereof, all partners of the LLP remain personally liable for their own actions and/or actions of those they directly supervise or control.

4. DOCUMENTS AND INFORMATION.

Management's cooperation in providing us with documents and related information and agreed-upon assistance on a timely basis is an important factor in being able to issue our report. KPMG shall be entitled to share all information provided by the Entity with all other member firms of KPMG International Cooperative ("KPMG International") performing services hereunder. All work papers, files and other internal materials created or produced by KPMG during the engagement and all copyright and intellectual property rights in our work papers are the property of KPMG.

5. INFORMATION PROCESSING OUTSIDE OF CANADA.

Personal and/or confidential information (e.g. entries into KPMG's time and billing system and into KPMG's conflicts database) collected by KPMG during the course of this engagement may be processed and stored outside of Canada by KPMG, KPMG International member firms performing services hereunder or third party processors. Such personal and/or confidential information may be subject to disclosure in accordance with the laws applicable in the jurisdiction in which the information is processed or stored, which laws may not provide the same level of protection for such information as will Canadian laws.

6. PERSONAL INFORMATION CONSENTS AND NOTICES.

KPMG may be required to collect, use and disclose personal information about individuals during the course of this engagement. The Entity represents and warrants that: (i) it will obtain from individuals all consents required by law to permit KPMG to collect, use and disclose all personal information reasonably required in the course of the engagement, and (ii) it has provided notice of KPMG's potential processing of information outside of Canada (as described in paragraph 5 above) to all individuals whose personal information is disclosed to KPMG.

7. OFFERS OF EMPLOYMENT.

In order to allow issues of independence to be addressed, management agrees that prior to extending an offer of employment to any KPMG partner, employee or contractor, the matter is communicated to the engagement partner or associate partner.

8. OFFERING DOCUMENTS.

If the Entity wishes to include or incorporate by reference the financial statements and our report thereon in an offering document, we will consider consenting to the use of our report and the terms thereof at that time. Prior to issuing any consent, comfort or advice letter, if any, we will be required to perform procedures as required by professional standards.

Management agrees to provide us with adequate notice of the preparation of such documents.

9. FEE ARRANGEMENTS.

KPMG's estimated fee is based on the quality of the Entity's accounting records, the agreed-upon level of preparation and assistance from the Entity's personnel, and adherence to the agreed-upon timetable. KPMG's estimated fee also assumes that the Entity's financial statements are in accordance with the applicable financial reporting framework and that there are no significant new or changed accounting policies or issues, or financial reporting, internal control over financial reporting or other reporting issues. KPMG will inform the Entity on a timely basis if these factors are not in place.

Additional time may be incurred for such matters as significant issues, significant unusual and/or complex transactions, informing management about new professional standards, and any related accounting advice. Where these matters arise and require research, consultation and work beyond that included in the estimated fee, the Entity and KPMG agree to revise the estimated fee. No significant additional work will proceed without management's concurrence, and, if applicable, without the concurrence of those charged with governance. Upon completion of these services KPMG will review with the Entity any fees and expenses incurred in excess of KPMG's estimate, following which KPMG will render the final billing. Routine administrative expenses such as long distance telephone calls, photocopies, fax charges, printing of statements and reports, postage and delivery and secretarial and report department assistance will be charged on the basis of a percentage of KPMG's professional costs. Other disbursements for items such as travel, accommodation and meals will be charged based on KPMG's actual disbursements.

KPMG's invoices are due and payable upon receipt. Amounts overdue are subject to interest. In order to avoid the possible implication that unpaid fees might be viewed as creating a threat to KPMG's independence, it is important that KPMG's bills be paid promptly when rendered. If a situation arises in which it may appear that KPMG's independence is threatened because of significant unpaid bills, KPMG may be prohibited from signing the report and, if applicable, any consent.

Fees for any other services will be billed separately from the services described in this engagement letter and may be subject to written terms and conditions supplemental to those in this letter.

Canadian Public Accountability Board (CPAB) participation fees, when applicable, are charged to the Entity based on the annual fees levied by CPAB.

10. LEGAL PROCESSES.

The Entity on its own behalf acknowledges and agrees to cause its subsidiaries and its affiliates to acknowledge that KPMG may, from time to time:

- be required, pursuant to subpoena or other legal process, or may agree to a request by the Entity, to provide information and copies of documents in KPMG's files, including KPMG's working papers and other work-product relating to the Entity, its subsidiaries and/or its affiliates ("Information and Documentation") in judicial or administrative proceedings to which KPMG is not a party; and
- receive requests or orders from judicial, administrative, professional, securities or other regulatory or governmental authorities (both in Canada and abroad, including without limitation the Canadian Public Accountability Board) ("Requesting Authority") to provide them with Information and Documentation.

In such situations, the Entity on its behalf consents and agrees to cause its subsidiaries and affiliates to consent to KPMG providing Information and Documentation without further reference to, or authority from, the Entity or its subsidiaries and affiliates. If a request or order is directly related to an inspection or investigation of the Entity or its subsidiaries and affiliates, KPMG will advise the Entity or its subsidiaries and affiliates of the request or order, except where prohibited by law from doing so.

KPMG will not provide to the Requesting Authority Information and Documentation over which the Entity or its subsidiaries and affiliates have expressly asserted privilege, except a) with the Entity's consent, b) where required by law, or c) where requested by a provincial Institute/Ordre of Chartered Accountants pursuant to its statutory authority. The Entity or its subsidiaries and affiliates will mark any document over which the Entity or its subsidiaries and affiliates assert privilege as "privileged".

KPMG may also be required to provide Information and Documentation to a Requesting Authority relating to the fees that KPMG charges or collects from the Entity or its subsidiaries and affiliates for the provision of audit



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services, other accounting services and non-audit services, and the Entity on its behalf consents and agrees to cause its subsidiaries and affiliates to consent to the disclosure of that Information and Documentation to that Requesting Authority.

The Entity or its subsidiaries and affiliates shall reimburse KPMG at standard billing rates for its professional time and expenses, including reasonable legal fees, incurred in dealing with the matters described above.

11. KPMG INTERNATIONAL MEMBER FIRMS.

The Entity agrees that any claims that may arise out of this engagement will be brought solely against KPMG, the contracting party, and not against any other KPMG International Cooperative ("KPMG International") member firms participating in this engagement.

12. CONNECTING TO THE ENTITY'S IT NETWORK.

KPMG personnel are authorized to connect their computers to the Entity's IT Network, subject to any restrictions communicated to KPMG from time to time. Connection to the Entity's IT Network or the Internet via the Network, while at the Entity's premises, will be for the express purpose of conducting normal business activities, primarily relating to facilitating the completion of work referred to in this letter.

13. DELIVERABLES OR COMMUNICATIONS.

KPMG may issue other deliverables or communications as part of the services described in this Engagement Letter. Such deliverables or communications may not be included in, summarized in, quoted from or otherwise used or referred to, in whole or in part, in any documents or public oral statement.

KPMG expressly does not consent to the use of any communication, report, statement or opinion prepared by us on the interim financial statements and such communication, report, statement or opinion may not be included in, summarized in, quoted from or otherwise used in any document or public oral statement.

Appendix 4: KPMG's Audit Committee resources

General

- *Accountability e-Lert* – Periodic electronic newsletter
www.kpmg.ca/accountability
- *Canadian Audit Committee Update* – Semi-annual publications
<http://www.kpmg.ca/auditcommittee/update.html>
- Audit Committee Roundtables – Spring and Fall
<http://www.kpmg.ca/auditcommittee/roundtables.html>
- Audit Committee Institute Web site
www.kpmg.ca/auditcommittee