

AUDIT

University of Western Ontario Pension Plans

Audit Planning Report

For the year ending December 31, 2011

KPMG LLP, Chartered Accountants, Licensed Public
Accountants

Dear Joint Pension Board members,

Audit planning is the cornerstone of an effective, efficient and high quality audit. In developing our audit plan, we have worked with management to obtain a common understanding of the issues and related financial reporting risks facing the University of Western Ontario Pension Plans and have designed our audit to focus on those areas of risk.


As members of the Joint Pension Board, you have a significant role to play in the oversight of our audit and we welcome any and all observations you may have regarding the decisions reflected in this audit plan.

At KPMG, we are committed to audit quality and outstanding client service. Audit quality is integral to our business and is engrained in our training, our processes and our systems and controls. We believe this audit plan embodies our commitment to audit quality.

We would like to take this opportunity to remind you that KPMG's Audit Committee Institute is committed to providing information, resources and knowledge-sharing opportunities to help audit committees and their boards of directors strengthen the integrity of their financial reporting process and the quality of their corporate governance practices. For more information, and to register to receive updates, publications and invitations to Audit Committee Institute events, please visit www.kpmg.ca/auditcommittee.

We sincerely hope this Audit Planning Report is of assistance to you, and we look forward to discussing it in detail and answering any questions you may have at the upcoming meeting.

Yours sincerely,



James F. Cassidy



At KPMG, we are passionate about earning your trust. We take deep personal accountability, individually and as a team, to deliver exceptional service and value in all our interactions with you. Ultimately, we measure our success from the only perspective that matters—yours.

For KPMG's audit committee resources, please visit kpmg.ca/auditcommittee



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Audit plan

We have prepared this audit plan to inform you of the planned scope and timing of the audit for the purpose¹ of carrying out and discharging your responsibilities and exercising oversight over our audit of the financial statements.

What has changed from last year

We have set out below a summary of changes that have been taken into consideration in planning the audit for the current period:

Your organization

- There have been some internal management changes.
- Minor changes to the product mixes offered.
- Changes to the fee structure for certain members beginning in 2012.

Accounting standards

In November 2011, the Accounting Standards Board of Canada (AcSB) amended Section 4600, regarding pension plans, in Part IV of the Canadian Institute of Chartered Accountants (CICA) Handbook. These changes come as a result of the issuance of International Financial Reporting Standard (IFRS) 13, Fair Value Measurement, in Part 1 of the CICA Handbook.

Section 4600 requires the use of fair value for the measurement of investment assets and investment liabilities and also requires disclosures about how fair value has been determined. Before the amendments, the definition of fair value in Section 4600 was by reference to International Accounting Standard 39 (Financial Instruments: Recognition and Measurement) which in turn referred to International Accounting Standard 32 (Financial Instruments: Presentation). Going forward, the AcSB reconfirmed its intent to refer to IFRS 13 for guidance on fair value regarding financial and non-financial investment assets and liabilities.

The key change can be found in paragraphs 70 and 71 of IFRS 13:

“If an asset or a liability measured at fair value has a bid price and an ask price, the price within the bid-ask spread that is most representative of fair value in the circumstances shall be used to measure fair value regardless of where the input is categorized within the fair value hierarchy. The use of bid prices for asset positions and ask prices for liability positions is permitted, but is not required.”

¹ KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this document has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

This IFRS does not preclude the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurements within a bid-ask spread.”

The mandatory application date of IFRS 13 is for fiscal years beginning January 1, 2013. The AcSB have allowed early adoption for fiscal years beginning January 1, 2011, which is also the effective date for Section 4600. This will allow pension plans to continue to report using mid-market prices and removes the requirement for a restatement of 2010 valuations.

A condition of the earlier application of IFRS 13 is that the adoption must be identified in the annual financial statements and that the measurement requirements are applied to the fair value of investment assets and liabilities.

Additionally, the Plan’s fiscal 2011 year-end is its first year reporting under the Canadian Institute of Chartered Accountants new accounting framework for pension plans. Highlights of this standard include:

- The renaming of the Statement of Net Assets Available for Benefits to the “Statement of Financial Position”
- The presentation of the pension obligation on the Statement of Financial Position. Each plan is permitted to use the plan sponsor’s accrued pension benefit obligation for this purpose.
- Requiring plans to distinguish investment assets and investment liabilities by type either on the face of the Statement of Financial Position or in the notes to the financial statements.
- Requiring plans to provide details of investment income by type either in the statement of changes in net assets available for benefits or in the notes to the financial statements
- Requiring plans to provide details of changes in pension obligations.
- Plans must also now disclose the effective date of the next required actuarial valuation, the name of the actuarial firm that performed the valuation, and the significant assumptions used in determining the pension obligation, including the discount rate and rate of compensation increase.
- Retrospective application is required.

Annual inquiries related to risks of fraud:

Canadian Auditing Standards require that we ask you the following questions in connection with your oversight of management’s process for identifying and responding to the risks of fraud:

- How do you provide effective oversight of management’s process for identifying and responding to fraud risks, including programs and controls to prevent, detect and deter fraud?
- Are you aware of any instances of actual, suspected or alleged fraud, including misconduct or unethical behaviour related to financial reporting or misappropriation of assets? If so, how have the allegations been addressed?

Scope of the audit

The purpose of an audit is to enhance the degree of confidence of the users of the financial statements through the expression of an opinion on whether the financial statements fairly present, in all material respects, the statement of financial position and changes in net financial assets of the University of Western Ontario Pension Plans in accordance with Canadian Generally Accepted Accounting Principles.

In planning our audit, we have considered the level of audit work required to support our opinion, including each of the following matters:

Our responsibilities

- Our responsibilities in carrying out our audit, as well as management's responsibilities will be set out in our engagement letter with the Plan.

Materiality

- We determine materiality in order to plan and perform the audit and to evaluate the effects of identified misstatements on the audit and of any uncorrected misstatements on the financial statements.
- For the current period, materiality of \$16,000,000 (2010 - \$16,000,000) has been determined based on the engagement Partner's professional judgment using assets as a benchmark.
- We will reassess materiality at period-end to confirm whether it remains appropriate for evaluating the effects of uncorrected misstatements on the financial statements.
- We will communicate uncorrected misstatements to you which exceed \$800,000 of net income or \$2,000,000 for reclassification differences.
- Should uncorrected misstatements remain, in accordance with professional standards, we will:
 - request that all uncorrected misstatements be corrected.
 - communicate the effect that uncorrected misstatements, individually or in aggregate, may have on our audit opinion.

Significant financial reporting captions

As part of our audit planning, we identify significant financial reporting risks that, by their nature, require special audit consideration. By focusing on these risks, we are able to target our procedures and deliver a high quality audit that is both efficient and effective.

The significant financial reporting captions identified during our audit planning are listed below:

Significant accounts and disclosures

Summary of planned audit approach

Investments	<ul style="list-style-type: none">■ Update our understanding of the activities over the initiation, authorization, processing, recording and reporting. <p><i>Controls approach</i></p> <ul style="list-style-type: none">■ Review SAS 70 and/or section 5970 report (now ISAE 3402 and SSAE 16) for Northern Trust■ 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	<ul style="list-style-type: none">■ Update our understanding of the activities over the initiation, authorization, processing, recording and reporting. <p><i>Substantive approach</i></p> <ul style="list-style-type: none">■ Perform substantive procedures over investment income.■ Recalculate net unrealized change in fair value of investments.
Benefits	<ul style="list-style-type: none">■ Update our understanding of the activities over the initiation, authorization, processing, recording and reporting. <p><i>Substantive approach</i></p> <ul style="list-style-type: none">■ Perform a 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.

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

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Fees and assumptions

In determining the fees for our services, we have considered the nature, extent and timing of our planned audit procedures as described above. Our fee analysis has been reviewed and agreed upon by management.

Our fees are estimated as follows:

	2011 Budget	2010 Actual
Audit of the annual financial statements	\$35,000	\$33,600

Timing of the audit

We have discussed the key audit deliverables with management and the expected dates indicated below have been agreed upon:

Key deliverables and expected dates	
Deliverables	Expected date(s)
Present the Audit Plan	February 13, 2012
Conduct year-end audit field work	April 2 – April 13, 2012
Present the Audit Findings Report to the Joint Pension Board	May 2012

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