

AUDIT

## **University of Western Ontario Pension Plans**

Audit Findings Report to the Joint Pension Board  
For the year ending December 31, 2011

**KPMG LLP**, Chartered Accountants, Licensed Public  
Accountants

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Dear Board members,

We have prepared this audit findings report to assist the Joint Pension Board in your review of the financial statements and the carrying out of your oversight committee responsibilities. We are here to help. We encourage you to ask us for more information on any of the matters covered in this report—and beyond.

### ***Developments in the audit profession***

As part of our ongoing effort to keep you informed on issues critical to your responsibilities, we bring to your attention that the Public Company Accounting Oversight Board (PCAOB) issued two concept releases. The first release speaks to auditor independence and audit firm rotation, and requests input on ways auditor independence, objectivity, and professional skepticism could be enhanced. The primary focus of this first release is the issue of mandatory audit firm rotation. The second release discusses several alternatives for changing the auditor's reporting model that focus on increasing transparency and relevance to financial statement users, while not compromising audit quality.

The European Commission has proposed legislative changes covering many of the same issues, including those around independence, auditor rotation and audit firm concentration.

Both the PCAOB concept releases and the European Commission proposals are summarized in "International developments relating to auditing" in the appendices of this report.

KPMG is fully committed to the goal of enhancing auditor independence, objectivity, and professional skepticism. We will continue to be actively engaged with the PCAOB, Canadian Public Accountability Board, and other regulatory bodies to pursue actions that will improve audit quality and enhance market confidence in the independent audit.

### ***Audit quality***

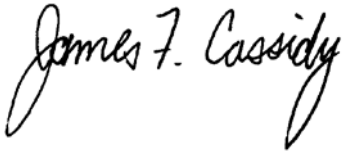
The quality of an audit and the resulting financial statements are receiving an increased level of scrutiny around the world. Audit quality is at the core of everything we do at KPMG, and we believe that it is not just about providing the right audit opinion, but also the steps we take to provide that audit opinion. One component of our efforts in this area is the development and implementation of the KPMG Audit Quality Framework to help ensure that every partner and professional concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent audit opinion. We invite you to review "KPMG's Audit Quality Framework", summarized in the appendices of this report.

**Reaching out to the Board**

KPMG's Audit Committee Institute holds Audit Committee Roundtables across the country twice yearly. You are cordially invited to attend. For information and registration, please visit [www.kpmg.ca/auditcommittee/roundtables.html](http://www.kpmg.ca/auditcommittee/roundtables.html).

We appreciate the assistance of management and staff in conducting our audit. We hope this audit findings report is of assistance to you as you carry out your agenda, and we look forward to discussing our findings and answering your questions at the upcoming audit committee 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](http://kpmg.ca/auditcommittee)



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## Executive summary

### Overview

The purpose<sup>1</sup> of this Audit Findings Report is to assist the Joint Pension Board in your review of the financial statements of the University's Master Trust and Pension Plans for the years ended December 31, 2011 and December 31, 2010.

### Status

As of the date of this report, we have completed the audit of the financial statements, with the exception of certain remaining procedures which include:

- obtaining the signed management representation letter
- completing our discussion with the Joint Pension Board
- obtaining evidence of the approval of the financial statements by the Joint Pension Board

Please refer to the Appendices for our draft audit report. We will update you on any significant matters arising from the completion of the audit, including completion of the above procedures. Our audit report will be dated upon completion of any remaining procedures.

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<sup>1</sup> This Audit Findings Report should not be used for any other purpose or by anyone other than the audit committee. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this Audit Findings Report has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.



## Significant audit, accounting and reporting matters

### Matters to discuss

Included in this report are matters we have highlighted for discussion at the upcoming audit committee meeting. We look forward to discussing these matters and our findings with you.

#### Transition to ASPP

- During the period ended December 31, 2011, the Master Trust and Pension Plans transitioned to Accounting Standards for Pension Plans ("ASPP") with an effective transition date of January 1, 2010. As a result of the transition, comparative information has also been presented under ASPP. The financial statements continue to be in accordance with the financial reporting provisions of Section 76 of the Regulations to the Pension Benefits Act (Ontario).
- In selecting or changing accounting policies that do not relate to its investment portfolio or pension obligations, the Plans have chosen to comply on a consistent basis with Accounting Standards for Private Enterprises ("ASPE").
- With respect to fair value measurements, management has elected to early adopt IFRS 13 (Fair Value Measurements). Early adoption of IFRS 13 allowed pension plans to continue to report using mid-market prices and removed the requirement for a restatement of 2010 valuations.
- Other items affected on transition include the following:
  - Presentation of investments in and investment income from the Master Trust as a single line item in the Statement of Net Assets and Statement of Changes in Net Assets Available for Benefits and Retirement Income Payments.

#### KPMG comments

- We obtained management's financial information with respect to presentation and disclosures under ASPP. No significant changes in disclosures or presentation were noted as a result of transitioning to ASPP.
- Changes in presentation and disclosure were applied retrospectively. No issues were noted with respect to comparative information presented under ASPP.
- We noted that management has elected not to present the pension obligation on the statement of net assets or a statement of changes in pension obligations. This is permitted under Section 76 of the Regulation of the Pension Benefits Act (Ontario). We concur with management that presentation of the obligation on the statement of net assets would not fairly represent the financial position of the plans, as the majority of the plans are defined contribution. Disclosure of the pension obligations have been recorded in the notes to the individual plan statements.



## Significant qualitative aspects of accounting practices

The following are the significant qualitative aspects of accounting practices that we plan to discuss with you:

<p><b>Significant accounting policies</b></p>	<ul style="list-style-type: none"> <li>• All significant accounting policies are disclosed in the notes to the financial statements. Any new significant accounting policies have been chosen as a result of the transition to ASPP.</li> <li>• KPMG reviewed accounting policies adopted by management, including management’s assessment of all accounting policies adopted by the plans, and all are considered appropriate</li> </ul>
<p><b>Significant accounting estimates</b></p>	<ul style="list-style-type: none"> <li>• Management's identification of accounting estimates.</li> <li>• Management's process for making accounting estimates.</li> <li>• There are no indicators of management bias as a result of our audit over estimates.</li> <li>• Disclosure of estimation uncertainty in the financial statements is included in all financial statement as <i>Estimates</i>. This note provides information on areas in the financial statements that include estimates.</li> <li>• Management evaluates these estimates on a regular basis to ensure they are appropriate.</li> </ul>
<p><b>Significant disclosures</b></p>	<ul style="list-style-type: none"> <li>• Overall neutrality, consistency, and clarity of the disclosures in the financial statements.</li> <li>• Potential effect on the financial statements of significant risks, exposures and uncertainties.</li> <li>• Otherwise, all disclosure is as requires in accordance with ASPP and is not considered to be significant or sensitive in nature.</li> <li>• Overall, the disclosure in the financial statements is clear and provides comparable information for the prior periods after transition to ASPP.</li> </ul>



## Misstatements

### **Identification of misstatements**

Misstatements identified during the audit have been categorized as follows:

- uncorrected misstatements, including disclosures
- corrected misstatements, including disclosures.

### **Uncorrected misstatements**

We have not identified misstatements that remain uncorrected.

### **Corrected misstatements**

Please refer to the Summary of Corrected Audit Misstatements in the Management Representation Letter.





## Appendices

**Independence letter**

**Management representation letter**

**KPMG's Audit Quality Framework**

# Independence letter



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Joint Pension Board  
The University of Western Ontario  
Stevenson Lawson Building  
London, ON N6A 5B8

May 11, 2012

To the members of the Board:

Professional standards specify that we communicate to you in writing, at least annually, all relationships between The University of Western Ontario Pension Plan for Members of the Academic Staff, Pension Plan for Members of the Administrative Staff and Master Trust for the Pension Plans for the Academic and Administrative Staff ("the Plans") (and its related entities) and our firm, that may reasonably be thought to bear on our independence.

In determining which relationships to report, we are required to consider relevant rules and related interpretations prescribed by the Institute of Chartered Accountants of Ontario (the "ICAO") and any applicable legislation or regulation, covering such matters as:

- a) provision of services in addition to the audit engagement
- b) other relationships such as:
  - holding a financial interest, either directly or indirectly, in a client
  - holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of a client
  - personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client
  - economic dependence on a client.

We have prepared the following comments to facilitate our discussion with you regarding independence matters arising since our last letter dated May 10, 2011.



## **PROVISION OF SERVICES**

The following summarizes the professional services rendered by us to the Plans (and its related entities) up to the date of this letter:

<b>Description of Professional Services</b>
Audit of the Combined Financial Statements of the University of Western Ontario

Professional standards require that we communicate the related safeguards that have been applied to eliminate identified threats to independence or to reduce them to an acceptable level. Although we have policies and procedures to ensure that we did not provide any prohibited services and to ensure that we have not audited our own work, we have applied the following safeguards regarding to the threats to independence listed above:

- We did not assume the role of management by instituting policies and procedures to prohibit us from making management decisions or assuming responsibility for such decisions
- We obtained pre-approval of non-audit services and during this pre-approval process we discussed the nature of the engagement, extent of fees charged, and other independence issues related to the services
- We obtained management's acknowledgement of responsibility for the results of the work performed by us regarding non-audit services and we have not made any management decisions or assumed responsibility for such decisions

## **OTHER RELATIONSHIPS**

We are not aware of any other relationships between our firm and the Plans (and its related entities) that may reasonably be thought to bear on our independence up to the date of this letter.

## **CONFIRMATION OF INDEPENDENCE**

We confirm that we are independent with respect to the Plans (and its related entities) within the meaning of the Rules of Professional Conduct/Code of Ethics of the ICAO as of the date of this letter.



**OTHER MATTERS**

This letter is confidential and intended solely for use by those charged with governance in carrying out and discharging their responsibilities and should not be used for any other purposes.

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

Yours very truly,

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a horizontal line that starts under the 'K' and ends under the 'P', with a small upward tick at the end.

Chartered Accountants, Licensed Public Accountants

# Management representation letter

KPMG LLP  
Chartered Accountants  
140 Fullarton Street, Suite 1400  
London, Ontario  
N6A 5P2

May 22, 2012

Ladies and Gentlemen:

We are writing at your request to confirm our understanding that your audits were for the purpose of expressing an opinion on the financial statements (hereinafter referred to as “financial statements”) of The University of Western Ontario Pension Plan for Members of the Academic Staff, Pension Plan for Members of the Administrative Staff, and the Master Trust for the Pension Plans for the Academic and Administrative Staff (the “Plans”), which comprise the statements of net assets as at December 31, 2011 and December 31, 2010, the statements of changes in net assets available for benefits for the years ended December 31, 2011 and December 31, 2010, and notes, comprising a summary of significant accounting policies and other explanatory information. These financial statements were prepared in accordance with Accounting Standards for Pension Plans.

We confirm that the representations we make in this letter are in accordance with the definitions as set out in **Attachment I** to this letter.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

**GENERAL:**

- 1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated January 26, 2011 and amended April 2, 2012, for:
  - a) the preparation and fair presentation of the financial statements
  - b) providing you with all relevant information and access
  - c) such internal control as management determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error

- d) ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements.

**INTERNAL CONTROL OVER FINANCIAL REPORTING:**

- 2) We have communicated to you all deficiencies in the design and implementation or maintenance of internal control over financial reporting of which management is aware.

**FRAUD & NON-COMPLIANCE WITH LAWS AND REGULATIONS:**

- 3) We have disclosed to you:
  - a) the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
  - b) all information in relation to fraud or suspected fraud that we are aware of and that affects the Plans and involves: management, employees who have significant roles in internal control, or others, where the fraud could have a material effect on the financial statements.
  - c) all information in relation to allegations of fraud, or suspected fraud, affecting the Plans' financial statements, communicated by employees, former employees, analysts, regulators, or others.
  - d) all known instances of non-compliance or suspected non-compliance with laws and regulations, including all aspects of contractual agreements, whose effects should be considered when preparing financial statements.
  - e) all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

**COMMITMENTS & CONTINGENCIES:**

- 4) There are no:
  - a) other liabilities that are required to be recognized and no other contingent assets or contingent liabilities that are required to be disclosed in the financial statements in accordance with the relevant financial reporting framework, including liabilities or contingent liabilities arising from illegal acts or possible illegal acts, or possible violations of human rights legislation

**SUBSEQUENT EVENTS:**

- 5) All events subsequent to the date of the financial statements and for which the relevant financial reporting framework requires adjustment or disclosure in the financial statements have been adjusted or disclosed.



**RELATED PARTIES:**

- 6) We have disclosed to you the identity of the Plans' related parties and all the related party relationships and transactions of which we are aware and all related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

**ESTIMATES:**

- 7) Measurement methods and significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

**NON-SEC REGISTRANTS OR NON-REPORTING ISSUERS:**

- 8) We confirm that the Plans is not a Canadian reporting issuer (as defined under any applicable Canadian securities act) and is not a United States Securities and Exchange Commission ("SEC") Issuer (as defined by the Sarbanes-Oxley Act of 2002). We also confirm that the financial statements of the Plans will not be included in the consolidated financial statements of a Canadian reporting issuer audited by KPMG or an SEC Issuer audited by any member of the KPMG organization.

**MISSTATEMENTS:**

- 9) We approve the corrected misstatements identified by you during the audit described in Attachment II.

Yours very truly,

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Jane O'Brien, Associate Vice President, Human Resources

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Louise Koza, Director, Human Resources (Total Compensation)

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Martin Bélanger, Director, Investments

## **Attachment I – Definitions**

### **MATERIALITY**

Certain representations in this letter are described as being limited to matters that are material. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both.

### **FRAUD & ERROR**

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of the Plans' assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorization.

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

### **RELATED PARTIES**

In accordance with Accounting Standards for Private Enterprises, a *related party* is defined as:

- When one party has the ability to exercise, directly or indirectly, control, joint control or significant influence over the other. Two or more parties are related when they are subject to common control, joint control or common significant influence. Related parties also include management and immediate family members.

In accordance with Accounting Standards for Private Enterprises, a *related party transaction* is defined as:

- A transfer of economic resources or obligations between related parties, or the provision of services by one party to a related party, regardless of whether any consideration is exchanged. The parties to the transaction are related prior to the transaction. When the relationship arises as a result of the transaction, the transaction is not one between related parties.

**Attachment II – Summary of Audit Misstatements Schedule(s)**

**The University of Western Ontario Pension Plans  
December 31, 2011  
Summary of uncorrected audit differences**

<u>Description</u>	<u>Statement of Net Assets effect, if corrected \$<sup>1</sup></u>			<u>Statement of changes in net assets effect, if corrected \$</u>
	<u>Assets</u>	<u>Liabilities</u>	<u>Net Assets</u>	
None noted	-	-	-	-

**The University of Western Ontario Pension Plans  
December 31, 2011  
Summary of corrected audit differences**

<u>Description</u>	<u>Statement of Net Assets effect of correction \$</u>			<u>Statement of changes in net assets effect of correction \$</u>
	<u>Assets</u>	<u>Liabilities</u>	<u>Net Assets</u>	
Reclassification of \$5,111,526 between maturity dates in the notes to the financial statements (note 4c). Reclassification affected disclosure only.	-	-	-	-

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<sup>1</sup> Debit (Credit)

**The University of Western Ontario Pension Plans  
December 31, 2010  
Summary of uncorrected audit differences**

<u>Description</u>	<u>Statement of Net Assets effect, if corrected \$<sup>2</sup></u>			<u>Statement of changes in net assets effect, if corrected \$</u>
	<u>Assets</u>	<u>Liabilities</u>	<u>Net Assets</u>	
None noted	-	-	-	-

**The University of Western Ontario Pension Plans  
December 31, 2010  
Summary of corrected audit differences**

<u>Description</u>	<u>Statement of Net Assets effect of correction \$</u>			<u>Statement of changes in net assets effect of correction \$</u>
	<u>Assets</u>	<u>Liabilities</u>	<u>Net Assets</u>	
To reduce the transaction costs with a corresponding decrease to realized gains.	-	-	2,993 (2,993 )	-

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<sup>2</sup> Debit (Credit)

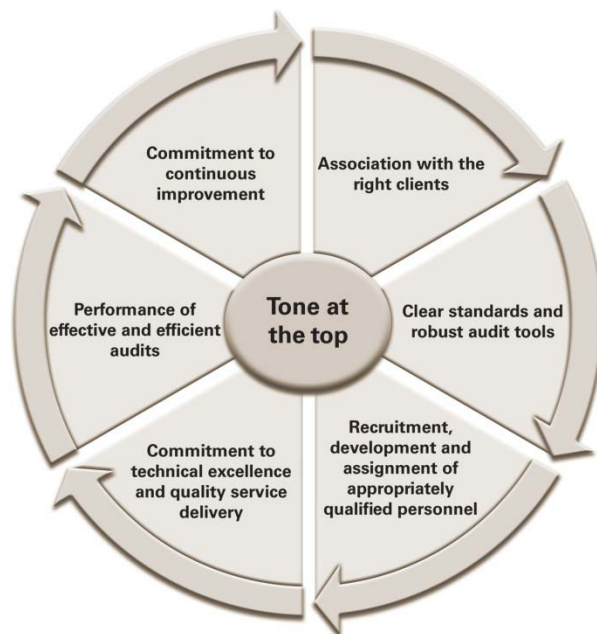
# KPMG's Audit Quality Framework

Audit quality, and the respective roles of the auditor and audit committee, is fundamental to the integrity of financial reporting in our capital markets.

This is why audit quality is at the core of everything we do at KPMG. And we believe that it is not just about reaching the right opinion, but how we reach that opinion.

To help ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework.

The framework comprises seven key drivers of audit quality.



## The seven key drivers of audit quality

Driver	What it does	What it means to you
<b>Tone at the top</b>	<p><b>Audit quality is part of our culture and our values and therefore non-negotiable</b></p> <p>Allows the right behaviours to permeate across our entire organization and each of our engagements</p>	<p><b>Assures you that:</b></p> <ul style="list-style-type: none"> <li>• Our culture supports our promise to you of excellent client service and a high quality audit—consistently</li> <li>• You're receiving an independent, transparent, audit opinion</li> <li>• You're receiving an efficient and high quality audit that will help you maintain investor confidence in your financial statements.</li> </ul> <p><b>Provides you with:</b></p> <ul style="list-style-type: none"> <li>• An engagement team handpicked for your business needs – a team with relevant professional and industry experience</li> <li>• An audit engagement team whose qualifications evolve as your business grows and changes</li> </ul>
<b>Association with the right clients</b>	<p><b>Ethics above all</b></p> <p>Eliminates any potential independence and conflict-of-interest issues</p>	
<b>Clear standards and robust audit tools</b>	<p><b>A solid rule book</b></p> <p>Rigorous internal policies and guidance that help ensure our work meets applicable professional standards, regulatory requirements, and KPMG's standards of quality</p>	
<b>Recruitment, development and assignment of appropriately qualified personnel</b>	<p><b>People who add value</b></p> <p>Helps us attract and retain the best people and reinforces the importance of developing their talents</p> <p>Assigns Partners' portfolios based on their specific skill sets</p>	

Driver	What it does	What it means to you
<p><b>Commitment to technical excellence and quality service delivery</b></p>	<p><b>The right tools for the right job</b></p> <p>Promotes technical excellence and quality service delivery through training and accreditation, developing business understanding and industry knowledge, investment in technical support, development of specialist networks, and effective consultation processes</p>	<ul style="list-style-type: none"> <li>• An audit opinion that continues to meet your needs as a participant in the capital markets</li> </ul> <p><b>Assists you with:</b></p> <ul style="list-style-type: none"> <li>• Assessing the effectiveness and efficiency of the audit</li> </ul>
<p><b>Performance of effective and efficient audits</b></p>	<p><b>We understand that how an audit is conducted is as important as the final result.</b></p> <p>A code of conduct, audit delivery tools, and internal policies and procedures that help ensure the work performed by engagement personnel meets applicable professional standards, regulatory requirements, and our standards of quality</p>	<ul style="list-style-type: none"> <li>• Performing your governance role with confidence.</li> </ul>
<p><b>Commitment to continuous improvement</b></p>	<p><b>Comprehensive and effective monitoring</b></p> <p>We solicit our clients regularly for feedback. Our robust internal quality review program ensures the work of each partner is reviewed every three years. Additionally, our procedures and a sample of our audits of listed clients are reviewed by the Canadian Public Accountability Board (CPAB), the independent regulator of the accountancy profession in Canada. The Public Accountability Oversight Board (PCAOB) in the US also conducts an annual inspection of a sample of our audits of SEC registrants. Finally, a sample of other audits and reviews is undertaken annually by the various provincial institutes in Canada. We consider the recommendations that come from these reviews and implement actions to strengthen our policies and procedures, as appropriate.</p>	

## **The regulatory landscape is changing**

Uncertain economic forecasts and a changing regulatory environment define today's world; reliable financial information and high-quality audits have never been more essential.

We believe that high quality audits contribute directly to market confidence and we share your objectives of credible and transparent financial reporting.

Our Audit Quality Framework is particularly relevant to Audit Committees, and we see our role in being transparent to you as a key mechanism to support you in the execution of your responsibilities.

## **Our commitment to quality**

The independence, judgment and professional skepticism of your auditors add value to your financial statements, and we believe it is important to be transparent about the processes we follow to develop a KPMG audit report. We want you to have absolute confidence in us and in the quality of your audit.

Our own professional standards dictate technical requirements for reaching and communicating an audit opinion. And we live and abide by these requirements. We invest heavily in our quality, and the Audit Quality Framework helps ensure these investments are the right ones—that they help us continuously drive and maximize our quality improvements. But we feel it is also important that we communicate to you how we view and implement audit quality. The seven key drivers outlined here, combined with the commitment of each individual in KPMG, are meant to do just that.

KPMG member firms across the world use this audit quality framework to describe, focus on and enhance audit quality for the benefit of our clients and in support of the efficacy of our capital markets.

It is our hope that sharing our vision of what audit quality means is a significant step in building confidence in the value of our audits.

**Audit quality is fundamental to the way we work – it is non-negotiable.**



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