



University of Western Ontario Pensions Plans

Audit Planning Report to the Joint Pension Board

For the year ending **December 31, 2009**

February 8, 2010

AUDIT

This Audit Planning Report (the "Report") for the year ending December 31, 2009 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.

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Contents

Topics for discussion	4
Audit plan for Joint Pension Board consideration	5
What has changed from last year	5
Milestones and deliverables	7
Audit process	8
Audit response to identified financial reporting risks	9
Executing the audit	11
Service team and multidisciplinary resources	11
Fees and assumptions	12
Appendices	13
Appendix 1: Engagement letter	13
Appendix 2: Our audit process	14
Appendix 3: Quality at KPMG	15
Appendix 4: KPMG's Audit Committee resources	16

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 9)	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.
- Kilgour is the investment manager dealing with all of the ABCP and as such a new valuation model is utilized to determine the value as of year-end.
 - Northern Trust will be reporting the same market value as Kilgour for ABCP.
 - The market value determined by Kilgour is approximately 65 cents on the dollar.
- Carve-out of Asset Backed Commercial Paper during October, 2009.
- Merging of A and B funds in November, 2009.

Accounting standards affecting the December 31, 2009 year

- None

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 also proposed new standards for pension plans that would be applicable to issuers of general purpose financial statements of pension plans.

The proposed 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.
- 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.

Audit Planning Report to the Joint Pension Board

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.

If the proposals are approved, 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.

Auditing standards

- No significant changes for 2009.

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 8, 2010
Conduct year-end audit field work	April 12 – 23, 2010
Present the Audit Findings Report, including our Independence Letter, to the Pension Board	May 17, 2010
Final financial statements for the Master Trust, Academic and Administrative Staff approved by the Joint Pension Board and release of audit opinions.	May 17, 2010
Final financial statements for the Retirement Income Fund approved by the University's Audit Committee	June 8, 2010
Release audit opinion on the Retirement Income Fund financial statements	June 8, 2010

Audit process

Our audit process, which takes a top-down, risk-based approach, is outlined in Appendix 3.

As part of the audit process, we consider materiality when determining the nature, timing, and extent of our audit procedures as well to evaluate the effect of misstatements.

Quantitative measure of materiality for planning purposes

- We define a level of materiality to provide a quantitative starting point for planning the nature, timing, and extent of our audit procedures. We define this as materiality for planning purposes.
- For the current year, materiality for planning purposes was established as follows, based on 1½ % of total assets as at December 31, 2009.
 - Master Trust \$15,500,000 (2008 - \$13,500,000)
 - Academic Staff Plan \$7,500,000 (2008 - \$6,500,000)
 - Administrative Staff Plan \$5,190,000 (2008 - \$4,700,000)
 - Retirement Income Fund \$2,800,000 (2008 - \$2,500,000)

Reporting materiality

- Reporting materiality is the threshold we use to evaluate the effect of misstatements at the completion of the audit. Reporting materiality will be approximately \$775,000 for the Master Trust.
- As part of our Audit Findings Report, we will communicate to you all corrected misstatements identified by us during the audit as well as uncorrected misstatements identified by us during the audit that Administration has determined to be immaterial.

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
ABCP Investments	<ul style="list-style-type: none"> • KPMG will utilize, Valuation specialist Diana Lowe, Associate Partner in the Toronto Office assist in evaluating the valuation model utilized by Kilgour.
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

Significant accounts and disclosures

Summary of planned audit approach

	<ul style="list-style-type: none"> • Substantive test of details over accrued expenses • Substantive test of details over administrative costs recovered by the University
Contributions and Transfers In	<p><i>Controls approach</i></p> <ul style="list-style-type: none"> ■ 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)	<p><i>Controls approach</i></p> <ul style="list-style-type: none"> • 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

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Fees and assumptions

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

	<u>2009 Budget</u>	<u>2008 Actual</u>
Financial Statement audit	\$ 33,000	\$ 31,850

* This represents the base fee for the audit and does not include events outside the normal course of the audit such as the assessment of the Asset backed commercial paper and attendance at the RIF Audit committee meeting.

Additional time will be incurred in connection with the ABCP valuation (Estimate-\$2,500-10,000. Prior year actual – \$2,215), preparation and attendance at the University’s Audit Committee meeting regarding approval of the RIF financial statements. (Estimate-\$1,500. Prior year actual \$1,000) Where these and other matters arise and require research, consultation and work beyond that included in the estimated base audit fee, the University and KPMG will agree upon additional fees prior to commencement of any work, determined with estimated hours to be incurred and previously agreed upon billing rates.

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: Engagement letter

Our engagement letter dated February 15, 2008 for the University of Western Ontario Pension Plans remains in effect for the audit of the financial statements for the year ended December 31, 2009. As such, a new engagement letter will not be issued.

Appendix 2: Our audit process

<u>Phase</u>	<u>Activities</u>
Planning	<ul style="list-style-type: none">• Perform risk assessment procedures and identify significant accounts and disclosures and risks• Determine audit strategy, including materiality for planning purposes
	<ul style="list-style-type: none">• Evaluate the design and implementation of entity level controls• Determine planned audit approach for significant accounts and disclosures• Present Audit Planning Report to the Joint Pension Board <hr/>
	<ul style="list-style-type: none">• Understand accounting and reporting activities
	<ul style="list-style-type: none">• Evaluate the design and implementation of selected activity level controls, including IT general controls (for certain significant accounts and disclosures)• Test operating effectiveness of selected activity level controls, including IT general controls (for certain significant accounts and disclosures) <hr/>
	<ul style="list-style-type: none">• Plan and perform substantive procedures <hr/>
Substantive Testing	<ul style="list-style-type: none">• Evaluate misstatements• Evaluate the sufficiency and appropriateness of audit evidence
	<ul style="list-style-type: none">• Perform completion procedures• Present Audit Findings Report to the Joint Pension Board• Form and release audit opinion on financial statements <hr/>

Appendix 3: Quality at KPMG

Key components of KPMG's quality control system

Integrity and ethics

We have developed a formal Code of Conduct that defines the values and standards by which we do business. Partners and employees annually confirm their compliance with the Code, and we have created an independent Ethics and Compliance Hotline to help KPMG people in reporting any concerns.

Client acceptance and continuance

Specific policies and procedures help our partners in deciding whether to accept or continue a client relationship, and whether to perform a specific engagement for a client.

Personal independence of KPMG partners and employees

Our independence policies and procedures help ensure that our partners and employees act with integrity and objectivity. Our adherence to these policies is supported by integrated, Web-based systems that help our professionals maintain and monitor their compliance with independence requirements.

Engagement performance

We have established policies and guidance to ensure that the work of our engagement teams meets the firm's quality standards as well as applicable professional standards and regulatory requirements. Oversight of professional performance involves supervision, review and support processes, including engagement quality control partner reviews and our internal Quality Performance Review Program in which a sampling of partners and audit engagements are reviewed each year for quality and compliance.

Quality control structure

KPMG has separated risk management and quality oversight from its business management activity. Our National Risk Management Partner reports directly to the CEO, and is supported by Professional Practice Partners who provide quality leadership in each business unit, as well as National Assurance and Professional Practice, a dedicated group of partners, senior managers, and other professionals who provide ongoing technical guidance and support for field professionals on a real-time basis.

Industry Groups

KPMG maintains specific industry groups of Audit Partners and other professionals that discuss the specific implications of new or revised accounting standards, auditing standards, regulatory requirements, as well as the political and economic environment, of their industry.

Appendix 4: KPMG's Audit Committee resources

General

- *Audit Committee Update*, Issue 2009-01, Audit Committee Institute
<http://www.kpmg.ca/auditcommittee/update.html>
- Audit Committee Roundtables held each spring and fall, Audit Committee Institute
<http://www.kpmg.ca/auditcommittee/roundtables.html>
- *Shaping the Canadian Audit Committee Agenda* (2006 edition), Audit Committee Institute
<http://www.kpmg.ca/auditcommittee/shaping.html>
- *Accountability e-Lert* – periodic electronic newsletter. Subscribe at
www.kpmg.ca/accountability
- Audit Committee Institute Web site – www.kpmg.ca/auditcommittee

IFRS Related

- *Overseeing IFRS Transition: Implications for CEO/CFO control certifications*, Audit Committee Institute (04/2009)
- *Managing the Transition to IFRS: Moving forward*, KPMG (01/2009) Fourth publication in this series <http://www.kpmg.ca/en/ms/ifrs/timepassing.html>
- *IFRS compared to Canadian GAAP: An overview*, Second edition 2008-09, KPMG
http://www.kpmg.ca/en/ms/ifrs/tools_ifrscdnngaap.html
- *IFRS Transition: What Audit Committees Should Be Asking*, Audit Committee Institute (06/2008) http://www.kpmg.ca/en/ms/auditcommittee/publications_ifrs_transition.html
- *Managing the Transition to IFRS: Clearing the Path to 2011*, KPMG (04/2008) Third publication in the series <http://www.kpmg.ca/en/ms/ifrs/clearing.html>
- *The Transition to IFRS: The Past Need Not Be the Future*, Audit Committee Institute (12/2007) http://www.kpmg.ca/en/ms/auditcommittee/publications_transitions.html
- KPMG IFRS Web site – www.kpmg.ca/ifrs