



University of Western Ontario Pension Plans

Audit Planning Report to the Joint Pension Board

For the year ended **December 31, 2008**

February 9, 2009

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This Audit Planning Report (the "Report") for the year ended December 31, 2008 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.

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

Topic

Joint Pension Board action

Joint Pension Board input (page 1)	Raise potential concerns, questions and requests
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What has changed from last year (page 2)	Review
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Audit response to identified financial reporting risks (page 6)	Review and comment
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Joint Pension Board input/matters to be raised with the auditors

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

- Joint Pension 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

University Pension Plans – specific changes

■ Asset Backed Commercial Paper implications

- At July 31, 2007, the Pension Plans had investments in non-bank Asset Backed Commercial Paper ("ABCP") with a carrying value of approximately \$26 million. Subsequent to this date, market conditions called into question the liquidity, and therefore the valuation of such investments.

The market uncertainty made it difficult for one of the fund managers (Northwater) to sell its ABCP holdings. As a result, temporary restrictions on the redemption of some of these assets were put in place by the investment manager with the withheld units being placed in a special trust, i.e. identical "companion" funds which have no exposure to ABCPs. The following five funds are affected to some degree.

- Balanced Income Fund (Tier 1)
 - Balanced Growth Fund (Tier 1)
 - Diversified Equity Fund (Tier 2)
 - US Equity Hedged Fund (Tier 3)
 - US Equity Unhedged Fund (Tier 3)
- As at December 31, 2008, there is still much uncertainty surrounding ABCP as there is still no liquid market for the instruments which creates issues with the valuation of the instruments as at December 31, 2008. Since, the instruments did not become liquid prior to December 31, 2008 and there is still no active market, KPMG will need to have specialists assess the valuation of the ABCP investments.
 - In January 2009, approval was made to unfreeze the asset back commercial paper market. The end result is a plan to swap the frozen paper for new notes that will mature in about eight years' time and will have a measure of government backing in the interim.
 - KPMG will review management's assessment of the carrying value of these investments as at December 31, 2008, and at the time of the issuance of the financial statements. In addition, we will assess the impact of any potential legal liabilities.

Accounting standards

■ IFRS Update

It has been determined that pension plans will continue to adopt Canadian GAAP under Section 4400. The International standard is not considered to be as comprehensive as the Canadian Standard and therefore the International Accounting Board concluded that the Canadian Standard would continue to be followed.

Audit plan for Joint Pension Board consideration (continued)

Accounting standards

■ HB 3862, Financial Instruments – Disclosures

- greater emphasis on disclosures about risks related to recognized and unrecognized financial instruments and how those risks are managed.
- less prescriptive disclosures about the significance of financial instruments to the entity's financial position and performance.
- incremental disclosures on liquidity, currency and other price risks.
- net income sensitivity analysis disclosures for changes in market risk factors, not just interest rates
- Effective date- For the Plans' 2008 year end.

Audit plan for Joint Pension Board consideration (continued)

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 Joint Pension Board	February 9, 2009
Conduct year-end audit field work	April 6 – April 17, 2009
Present the Audit Findings Report, including our Independence Letter, to the Joint Pension Board	May 27, 2009
Final financial statements for the Master Trust, Academic and Administrative Staff approved by the Joint Pension Board and release of audit opinions.	May 27, 2009
Final financial statements for the Retirement Income Fund approved by the University's Audit Committee	June 17, 2009
Release audit opinion on the Retirement Income Fund financial statements	June 17, 2009

Audit plan for Joint Pension Board consideration (continued)

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 is estimated as follows, based on 1½% of total assets as at December 31, 2008:
 - Master Trust \$ 13,500,000
 - Academic Staff Plan 6,500,000
 - Administrative Staff Plan 4,700,000
 - RIF 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 \$675,000 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 plan for Joint Pension Board consideration (continued)

Audit response to identified financial reporting risks

Low financial reporting risks

Significant accounts and disclosures

Summary of planned audit approach

Cash	<i>Controls approach</i> <ul style="list-style-type: none">■ Review SAS 70 and/or section 5970 report for Northern Trust■ Review year-end bank reconciliation and investigate reconciling and unusual items■ Confirm cash balances with custodian■ Cut-off testing over cash
Investments	<i>Controls approach</i> <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	<i>Controls approach</i> <ul style="list-style-type: none">■ Review SAS 70 and, or section 5970 report for Northern Trust■ Substantive analytics over investment income■ Recalculate net unrealized change in fair value of investments■ Review Statement of Investment Policies and Procedures compliance■ Confirm investment income with custodian■ Confirm accrued income with custodian■ Confirm net realized gain(loss) with custodian

Audit plan for Joint Pension Board consideration (continued)

Low financial reporting risks

Significant accounts and disclosures

Summary of planned audit approach

Operating Expenses and Accrued expenses	<i>Controls approach</i> <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
Contributions and Transfers In	<i>Controls approach</i> <ul style="list-style-type: none">■ Review SAS 70 and, or section 5970 report for Northern Trust■ Substantive analytical 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)	<i>Controls approach</i> <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

Audit plan for Joint Pension Board consideration (continued)

IT Advisory

Significant accounts and disclosures

Summary of planned audit approach

IT within the audit

HR Peoplesoft is utilized in the payroll system of the University – Contributions are automatically calculated by PeopleSoft and agree to remittance to North Trust (custodian)

Basis is the system used by the pension department to track the pension plan members balances and transactions

Controls approach

- Test controls over access to programs and data, including user authentication, access administration, and continued maintenance
- Test controls over program changes and updates, including authorization, testing and approval, as well as migration of changes
- Test controls over program development, as applicable
- Test controls over computer operations, including backup and recovery procedures, help desk, and system jobs
- Obtain an understanding and review configuration settings within the Basis system
- Obtain an understanding and perform a recalculation of pension plan member's contributions, for accuracy and appropriateness based upon pension plan member's attributes

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 sector and at the University
- 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>2008 Budget</u>	<u>2007 Actual</u>
Financial statement audit	\$31,850*	\$31,200*

* 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.

Additional time will be incurred in connection with the ABCP valuation (Estimate-\$5,000), preparation and attendance at the University's Audit Committee (Estimate-\$1,500) meeting regarding approval of the RIF financial statements. 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, 2008. As such, a new engagement letter will not be issued.

Appendix 2: Our audit process

<u>Phase</u>	<u>Activities</u>
Planning	■ Perform risk assessment procedures and identify significant accounts and disclosures and risks
	■ Determine audit strategy, including materiality for planning purposes
	■ 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
Control Evaluation	■ Understand accounting and reporting activities
	■ 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)
Substantive Testing	■ Plan and perform substantive procedures
	■ Evaluate misstatements
Completion	■ Evaluate the sufficiency and appropriateness of audit evidence
	■ Perform completion procedures
	■ Present Audit Findings Report to the Joint Pension Board
	■ Form and release audit opinion on financial statements

Appendix 3: KPMG's Audit Committee resources

IFRS Related

IFRS Related

- *IFRS Transition: Questions Audit Committees Should Be Asking*, Audit Committee Institute (06/2008)
- *IFRS compared to Canadian GAAP*, KPMG (11/2007)
- *Managing the Transition to IFRS: Clearing the Path to 2011*, KPMG (04/2008)
- *The Transition to IFRS: The Past Need Not Be the Future*, Audit Committee Institute (12/2007)
- *The Transition to IFRS: Implications for the Audit Committee*, Audit Committee Institute (05/2007)
- *Managing the Transition to IFRS: The Journey to 2011*, KPMG (05/2007)
- *Managing the Transition to IFRS: Special Considerations for SEC registrants*, KPMG (09/2007)
- KPMG IFRS Web site – www.kpmg.ca/ifrs

General

- *Audit Committee Update*, Issue 2008-01, Audit Committee Institute
- *Shaping the Canadian Audit Committee Agenda* (2006 edition), Audit Committee Institute
- *Canadian Survey of Audit Committee Members – 2007*, Audit Committee Institute (12/2007)
- *Our System of Audit Quality Controls*, KPMG (2006)
- *Accountability e-Lert* – periodic electronic newsletter. Subscribe at www.kpmg.ca/accountability
- *Certification of Internal Control: New Revised Certification Rules*, KPMG (05/2008)
- *Governance of Tax* – Discussion paper, KPMG (2007)
- *Focus on Financial Reporting*, KPMG (12/2007)
- Audit Committee Institute – Audit Committee Roundtables held each spring and fall
- Audit Committee Institute Web site – www.kpmg.ca/auditcommittee