KPMG

The University of Western Ontario Pension Plans

Audit Findings Report to the Joint Pension Board for the year ending December 31, 2009

May 17, 2010

AUDIT

AUDIT ▪ TAX ▪ ADVISORY

Contents

This Audit Findings Report (the "Report") for the year ended December 31, 2009 provides an overview of the results of our audit.

KPMG LLP, Chartered Accountants, Licensed Public Accountants

Topics for discussion

Auditors initiating discussion with the Joint Pension Board

We have issued this Report to assist you in your review of the financial statements of the University’s Pension Plans.

The matters that we raise within this Report arise from the audit and are matters that we believe need to be brought to your attention.

We propose to highlight the following topics at the meeting of the Joint Pension Board. We welcome your questions and look forward to discussing our findings with you at this meeting.

Topic	Audit committee action
Joint Pension Board input (page 2)	Raise potential concerns, questions and requests
Audit status (page 3)	Review and discuss
Significant matters ■ Valuation of Asset-backed Commercial Paper (page 4) ■ Cash transfer (page 5) ■ Risk disclosures (page 6)	Review and discuss
Misstatements (page 6)	Review and discuss

Topics for discussion (continued)

Joint Pension Board input/matters to be raised with the auditors

This Report may not include all matters of interest to you. Please let us know of other areas you would like to discuss with us.

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

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

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Audit status

Audit Status: Substantially Complete

- We have not yet completed our audit of the financial statements of the 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, and Retirement Income Fund (collectively referred to as the "Pension Plans") as the following procedures remain to be performed:
  - completing our discussions with the Joint Pension Board and UWO Audit Committee for the RIF
  - obtaining the Board's approval of the financial statements.
  - obtaining the management representation letters.
- Until we complete our remaining procedures and the Committee approves these financial statements, it is possible that additional procedures or adjustments to the financial statements may be necessary.
- We will update the Joint Pension Board on matters, if any, arising from the completion of our audit when the remaining audit procedures have been completed.
- We will only be in a position to release our audit reports when our audit is complete.

Significant matters

Valuation of Asset-Backed Commercial Paper

- As noted in the our Audit Planning Report to the Joint Pension Board, the Pension Plans had investments in non-bank Asset-Backed Commercial Paper ("ABCP") with a carrying value of approximately $26 million at December 31, 2009. These investments were illiquid at year end.
- During the year, Kilgour become the investment manager for all of the ABCP Funds.
- The change in fair value associated with the ABCP Funds were reflected in the 2009 Northern Trust statements.
- The investment manager of the ABCP affected funds, Kilgour, determined the impairment as of December 31, 2009 was approximately 35%. This is an increase in value of approximately 13% compared to December 31, 2008 which resembles the value as of December 31, 2007.

Actions Taken by Management

- Management requested KPMG review the process undertaken by Kilgour to obtain support that their valuation model was appropriate and can be relied upon in determining the appropriate write-down.

Effect on the Audit

- KPMG Risk Management in Toronto visited Kilgour and examined the model being utilized to determine the write-down amounts for each fund. KPMG determined that the model being utilized by Kilgour was appropriate and the write-downs were reasonable based on the information available at year end.
- KPMG concurs with the amount recorded in the financial statements as of December 31, 2009 relating to the Asset backed commercial paper.

Significant Matters (continued)

Risk disclosures

- In June 2009, the Canadian Institute of Chartered Accountants amended Section 3862 – "Financial Instruments - Disclosures"..
- These standards require management to disclose fair value measurements to enhance liquidity risk disclosures.
- These amendments require a three hierarchy that reflects the significance of the inputs used in making the fair value measurements.
  - Level 1 relate to investments that use quoted prices in an active market for identical assets.
  - Level 2 relate to investments using other inputs other than quoted market prices for which all significant outputs are observable, either directly or indirectly.
  - Level 3 relate to investments that are based on inputs that are unobservable and significant to the overall fair value measurement.
- An example of the above items are as follows:
  - Individual active stocks are considered level one.
  - Pooled funds or Treasury bills are considered level two.
  - Items not readily bought or sold in the open market are considered level 3.

Actions Taken by Management

- KPMG discussed with Management the nature of these new handbook sections.
- Management provided KPMG the required quantitative analysis including support for any significant assumptions utilized in determining the values as required in the disclosure.

Effect on the Audit

- KPMG examined the quantitative analysis prepared by Management and concur with the final disclosures contained in the Plan's financial statements.
- KPMG examined the assumptions utilized by management and concurs with the assumptions utilized.

Misstatements

Misstatements

- Management is responsible for the financial statements and, accordingly, evaluates uncorrected misstatements to determine whether individually, and in the aggregate, these misstatements, in their judgement, are material to the financial statements.
- Management has represented to us that the uncorrected misstatements, individually and in the aggregate, are, in their judgement, not material to the financial statements.

Audit Differences

- Misstatements identified during the audit ("audit differences") are described in the next few pages and have been categorized as follows:
  - unrecorded audit differences
  - corrected audit differences
  - uncorrected and corrected omissions or other errors in presentation and disclosure.
- We have encouraged Management to correct these audit differences.

Discussion with the audit committee

- Correction of all audit differences
- Quantifying misstatements – income statement method.

Misstatements (continued)

Summary of uncorrected audit differences

Description	Assets $'000	Liabilities $'000	Net Assets available for Benefit $'000	Income Statement Method $'000
	Balance sheet effect, if corrected[1]			Change in Net Assets effect, if corrected[1]
Audit differences greater than $775 for the Master Trust individually				
None for 2009	-	-	-	-

[1] Debit (Credit)

Misstatements (continued)

Summary of corrected audit differences

	Balance sheet effect of correction			
Description	Assets $'000	Liabilities $'000	Net Assets available for Benefit $'000	Change in Net Assets effect of correction $'000
Audit differences greater than $775 individually				
- To adjust the unrealized/realized gain on investments.	-	-	-	(8,828)/8,828

Misstatements (continued)

Summary of omissions and other errors in presentation and disclosure

Description of corrected omissions or other errors

KPMG provided assistance with note disclosures throughout the audit process.

Description of uncorrected omissions or other errors

No significant omissions or other errors in presentation and disclosure noted.

Appendices

Appendix 1 – Independence letter

Appendix 2 – Glossary

Audit differences are proposed adjustments of misstatements in the financial statements that, in the auditor's professional judgement, may have not been detected except through the audit procedures performed. Any misstatement identified by Management during the audit and subsequently corrected is not considered an audit difference.

Income Statement Method (Rollover Method) is a method of quantifying misstatements. This method considers the impact of misstatements primarily from the income statement perspective. Misstatements are quantified as the amount by which the income statement is misstated. This method considers the reversing or correcting effect of prior year misstatements but ignores the accumulation of immaterial misstatements in the balance sheet over multiple periods.

Material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual financial statements will not be prevented or detected.

Misstatements generally consist of differences between the amount, classification, or presentation of a reported financial statement element, account, or item and the amount, classification, or presentation that would have been reported under the financial reporting framework.

Appendix 3 – KPMG's Audit Committee resources

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_ifrscdngaap.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

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