The University of Western Ontario Pension Plans

Audit Findings Report to the Joint Pension Board for the year ending December 31, 2008

May 27, 2009

AUDIT

AUDIT ▪ TAX ▪ ADVISORY

Contents

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

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

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, 2008. These investments were illiquid at year end.
- The investment manager of the ABCP affected funds, Northwater, determined the impairment as of December 31, 2008 was approximately 48% associated with Rocket Trust and 47% for all other trusts. This is an increase from the 12%-15% write-down which was made by Northwater as of December 31, 2007.
- In 2008, Northwater did not apply the 48% write-down to individual fund statements provided to its clients as it did with the 2007 fund statements. As a result, the statements provided to management and KPMG did not reflect the fair value of the securities after the write-down, but rather showed the transactional value of the securities. This was based on Northwater's assessment that the fair value as determined by GAAP does not reflect the expected value that will be realized by long-term note holders.

Actions Taken by Management

- Management requested KPMG review the process undertaken by Northwater to obtain support that their valuation model was appropriate and can be relied upon in determining the appropriate write-down.
- Management determined the impact of applying the write-down of the ABCP securities amounted to an adjustment of $9.3 million. Management made the change to the financial statements by writing down the investment values by $9.3 million as required by GAAP.
- Management provided additional note disclosure to reconcile the Northwater transactional value to the investment value reported by the Master Trust in accordance with GAAP.

Effect on the Audit

- KPMG Risk Management in Toronto visited Northwater and examined the model being utilized to determine the write-down amounts for each fund. KPMG determined that the model being utilized by Northwater was appropriate and the write-downs were reasonable based on the information available at year end.
- KPMG examined documentation from Northwater indicating they were not reflecting the write-down on the investment manager statements provided to plans such as the Master Trust. KPMG also examined the calculations surrounding the appropriate fair value adjustment to ABCP prepared by management, and as disclosed in the notes to the financial statements.

Cash Transfer

- Towards the end of the 2008, management requested that one of the investment managers, Harris Associates, transfer approximately $1 million of cash out of the fund.
- Management was informed by the investment manager that the transfer had been initiated and performed prior to year-end, although the funds were not received by Northern Trust until January 2009.

Actions Taken by Management

- Management recorded the entry associated with the outstanding request by increasing the cash balance of $1million with the offsetting entry to a new receivable account on the statements of changes in net assets.
- Management assisted KPMG in contacting the investment manager to obtain the actual timing the transfer occurred.

Effect on the Audit

- KPMG obtained confirmation from the investment manager that the cash was not transferred until January 2009. As a result, the cash was not in transit as of December 31, 2008.
- KPMG discussed the entry with management, and the adjustment was recorded. This entry is summarized on the summary of corrected audit differences.

Significant Matters (continued)

Risk disclosures

- In 2007, the Canadian Institute of Chartered Accountants issued Section 3861 – "Financial Instruments – Disclosure and presentation", Section 3862 – "Financial Instruments, disclosures", Section 3863 – "Financial Instruments – Presentation" and Section 1535 – "Capital Disclosures" within the CICA handbook which had various disclosure requirements which had to be adopted by the Plans at various times between 2007 and 2008.
- These standards require management to disclose basic risks related to market price, foreign currency, exchange rate and liquidity. The 2007 implementation required disclosure of the qualitative risks while the 2008 disclosure standards also requires the risk to be quantified.

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	Balance sheet effect, if corrected[1] Assets $'000	Liabilities $'000	Net Assets available for Benefit $'000	Change in Net Assets effect, if corrected[1] Income Statement Method $'000
Audit differences greater than $683 for the Master Trust individually				
None for 2008	-	-	-	-

[1] Debit (Credit)

Misstatements (continued)

Summary of corrected audit differences

Description	Balance sheet effect of correction			Change in Net Assets effect of correction $'000
	Assets $'000	Liabilities $'000	Net Assets available for Benefit $'000	
Audit differences greater than $683 individually				
- To eliminate the cash receivable balance as the transfer had not occurred prior to December 31.	(1,054)		1,054	1,054

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

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Joint Pension Board
The University of Western Ontario
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London ON N6A 5B8

May 27, 2009

To the members of the Board:

We have been engaged to express an opinion on the financial statements of The University of Western Ontario Pension Plan for Members of the Academic Staff, Pension Plan for Members of the Administrative Staff, Retirement Income Funds Program, and the Master Trust for the Pension Plans for the Academic and Administrative Staff and Retirement Income Funds Program ("the Plans") as at and for the period ended December 31, 2008.

Professional standards specify that we communicate to you in writing, at least annually, all relationships between 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 Chartered Accountants of Ontario 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 the date of our last letter. We have prepared the following comments to facilitate our discussion with you regarding independence matters.

Provision of Services

- The following summarizes the professional services rendered by us to the Plans (and its related entities) for the year ended December 31, 2008.

Description of Service	Fees
Audit	
Audit financial statements for the year ended December 31, 2008.	$31,850
Estimated special billings for services related to:	
ABCP (valuation, process, presentation & disclosure)	$5,000
Audit Committee	$1,500

There are no other professional services rendered by us to the Plans (and its related entities)

Other Relationships

We are not aware of any relationships between our firm and the Plans (and its related entities) that may reasonably be thought to bear on our independence during the period from April 25, 2008 to April 17, 2009.

Confirmation of Independence

Professional standards require that we confirm our independence to you in the context of the Rules of Professional Conduct/Code of Ethics of the Chartered Accountants of Ontario.

Accordingly, we hereby 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 Chartered Accountants of Ontario as of April 17, 2009.

OTHER MATTERS

This letter is confidential and intended solely for use by those with oversight responsibility for the financial reporting process in carrying out and discharging their 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 letter has not been prepared for, and is not intended for, any other purpose. This letter should not be distributed to others outside the Plans without our prior written consent.

We look forward to discussing with you the matters addressed in this letter as well as other matters that may be of interest to you. We will be prepared to answer any questions you may have regarding our independence as well as other matters.

Yours very truly,

KPMG LLP

Chartered Accountants, Licensed Public Accountants

JFC:mf

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

- *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: Final Certification Rules*, KPMG (08/2008)
- *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