



cutting through complexity

University of Alaska Audit Plan June 30, 2012

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June 8, 2012

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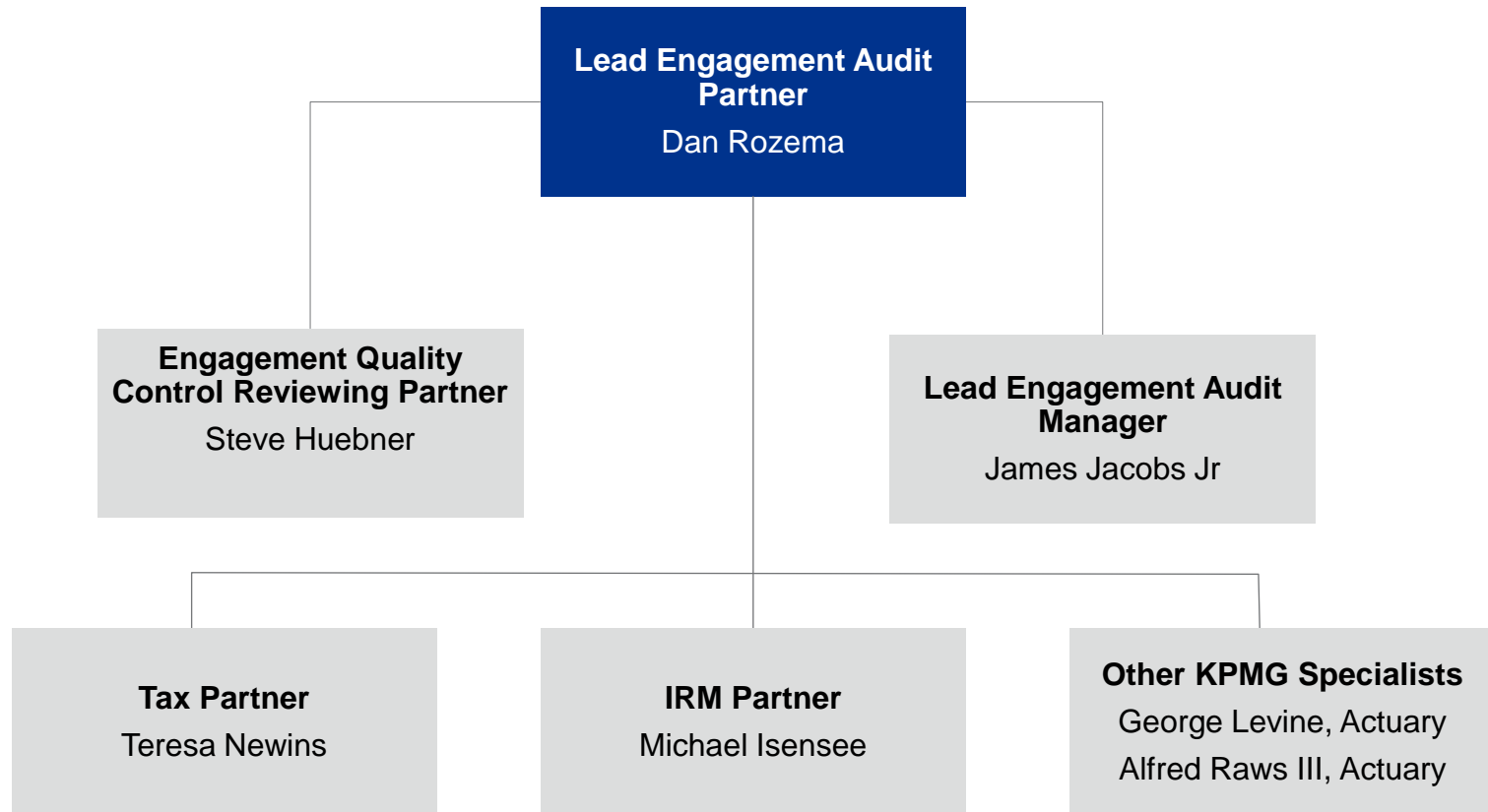
Appendix 3 KPMG's Audit Committee Institute

1.0

Client service team

Client service team

University audit team



2.0

KPMG's audit approach and methodology

KPMG's audit approach and methodology

1. Experienced team

We have an experienced team.

Our team includes the following specialists: Information Risk Management (IRM) and Actuaries.

6. Compliance with applicable professional standards

KPMG has systems and processes in place to monitor compliance with professional standards.

5. Consistent audit methodology worldwide

Consistent audit methodology and technology used by KPMG member firms worldwide.



2. Tailored to the University's business strategies and activities

In developing our audit plan for June 30, 2012, we have based our approach on our understanding of University's objectives and strategies and the challenges facing the business in 2012.

3. Top-down, risk-based approach

We work closely with management to understand the business challenges and changes in the business during the year with respect to the impact on our audit approach.

Our audit plan outlines our assessment of audit risk and highlights specific areas of focus for 2012.

4. Effective and efficient audit

Our audit approach involves interaction with all levels of management throughout the year to identify issues.

Our audit approach is based on communication and coordination with management and Internal Audit.

KPMG's audit approach and methodology (continued)

Technology enabled audit work flow

Engagement Setup

- Tailor the eAudit work flow to your circumstances
- Access global knowledge specific to your industry

Completion

- Verify accuracy, completeness, and appropriate presentation and disclosure of financial statements
- Form and issue audit opinion on financial statements
- Issue management letter
- Debrief audit process



Risk Assessment

- Understand your business and financial processes
- Identify significant risks
- Determine audit approach
- Evaluate design and implementation of your internal controls

Testing

- Test effectiveness of your internal controls
- Perform substantive tests

3.0

Risk assessment

Risk assessment

Based on our understanding of the University's business, industry, and environment (including internal controls), the following are risks that may result in a material misstatement (due to fraud or error) in the financial statements and our planned audit approach in response to such risks:

Risk	Financial statement impact	Planned audit approach
Revenue recognition	Adequacy of tuition allowance	Update our understanding of management's process, assess methodology and assumptions used, and test data used
Self-insurance liabilities	Valuation of liability	Test claims data sent to University's actuary, KPMG actuary to review actuary report
Misuse of Federal grant funds	Grant revenue and receivables	Perform control and compliance test work over major programs
Investment portfolio improperly valued	Valuation of non-readily marketable securities	Update our understanding of management's process for determining fair value, test valuation

4.0 Audit plan

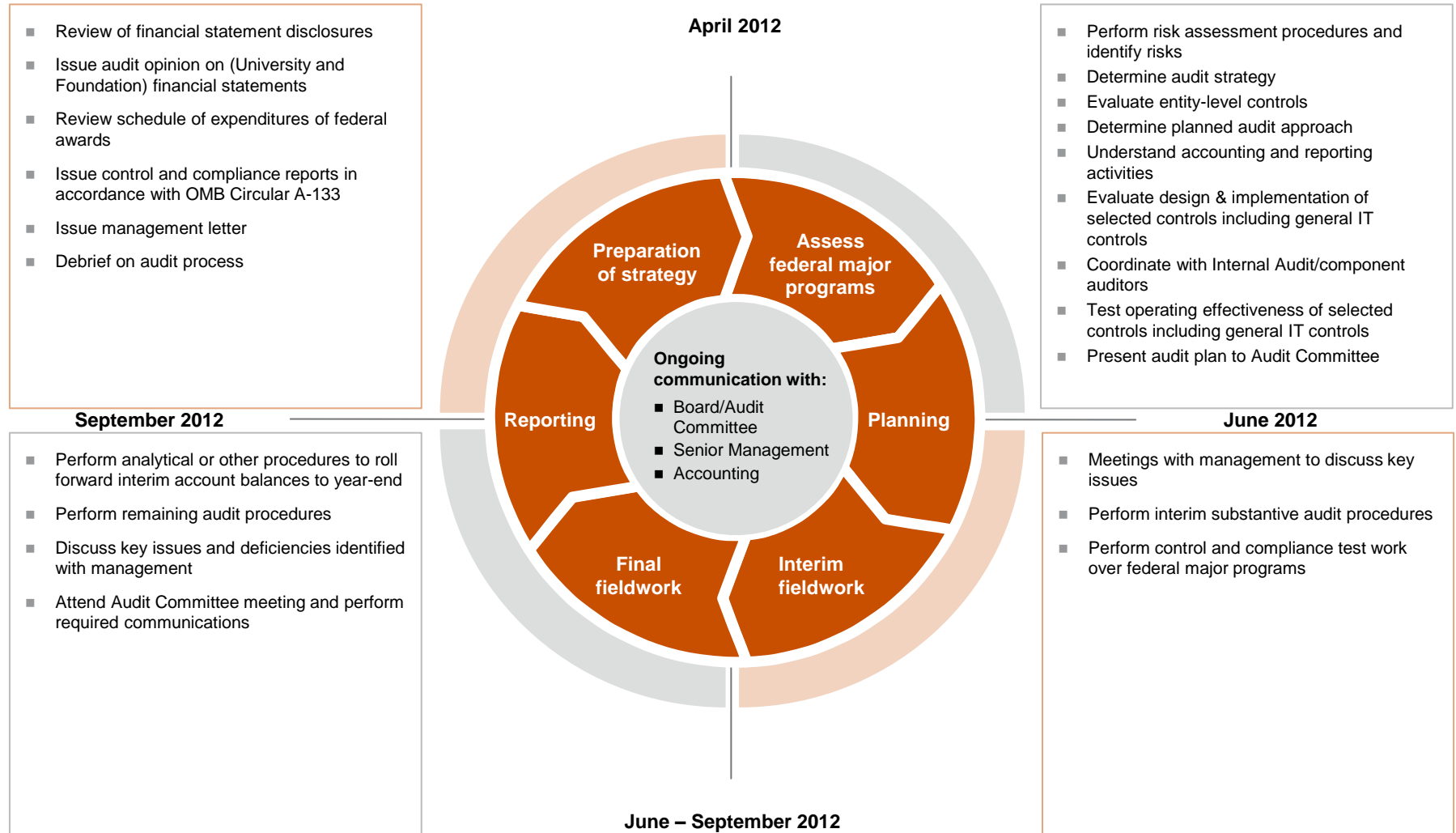
Audit plan – Scope

Scope of work	<i>Audit of the financial statements Federal Single Audit in accordance with OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations</i>
Applicable financial reporting framework	<i>U.S. generally accepted accounting principles applicable for Governmental Universities</i>
Applicable auditing standards	<i>Standards of the AICPA Government Auditing Standards OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations</i>
Other terms of engagement	<i>Compliance letter related to debt agreements</i>

Audit plan – Materiality

- Professional standards require that we exercise professional judgment when we consider materiality and its relationship with audit risk when determining the nature, timing, and extent of our audit procedures, and when evaluating the effect of misstatements.
- Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.
- Materiality depends on the size and nature of the item or error judged in the particular circumstances of its omission or misstatement.

Audit plan – Deliverables and time line



Audit plan – Fraud risks

Identification of fraud risks:

- Perform risk assessment procedures to identify fraud risks, both at the financial statement level and at the assertion level
- Discuss among the engagement team the susceptibility of the entity to fraud
- Perform fraud inquiries of management, the Audit Committee, and others
- Evaluate the Company's broad programs/controls that prevent, deter, and detect fraud

Response to identified fraud risks:

- Evaluate design and implementation of antifraud controls
- Test effectiveness of antifraud controls
- Address revenue recognition and risk of management override of controls
- Perform specific substantive audit procedures (incorporate elements of unpredictability)
- Evaluate audit evidence
- Communicate to management and the Audit Committee

Audit plan – Fraud risks (continued)

Fraud risks identified in planning	Impact on financial statements	Planned audit approach
<ul style="list-style-type: none">■ Risk of management override of controls<ul style="list-style-type: none">– Journal entries and adjustments– Significant accounting estimates– Significant unusual transactions	Presumed risks for financial statements by SAS 99	<ul style="list-style-type: none">■ Testing of journal entries and adjustments at period-end and throughout the fiscal year■ Audit of significant accounting estimates■ Audit of significant unusual transactions

Audit plan – Material weakness and significant deficiency

Material weakness

A deficiency, or combination of deficiencies, in ICFR, such that there is a reasonable possibility that a material misstatement of the Company's annual financial statements will not be prevented or detected on a timely basis

Significant deficiency

A deficiency, or combination of deficiencies, in ICFR that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of the Company's financial reporting

Audit plan – Material weakness and significant deficiency (continued)

Additional considerations

- Evaluation of the severity of a deficiency, individually or in combination, considers both qualitative and quantitative factors.
- The severity of a deficiency does not depend on whether a misstatement has actually occurred, but rather on whether there is a reasonable possibility that the Company's controls will fail to prevent or detect a material misstatement on a timely basis.
- More attention is given to the evaluation of deficiencies with the most potential to be material or important enough to merit the attention by those with oversight responsibility for the Company's financial reporting.

Audit plan – Involvement of others

Internal Audit	Assistance provided to reduce costs
Significant account/disclosure	Cash, Accounts Payable, Inventory, Auxiliary Revenues, Year-end cutoff
Description of work/output	<i>Internal audit will assist with procedures to be performed over the above items. These procedures will include sampling items, internal control test work, and inventory observations.</i>
Timing	June through September
External expert	PricewaterhouseCoopers and Milliman
Significant account/disclosure/issue	Employee benefit – insurance liabilities Tuition value guarantees
Description of work/output	Calculation of liabilities
Timing	July - August

Audit plan – Involvement of others (continued)

Service organization	Blue Cross Blue Shield and Caremark
Significant account/disclosure	Employee benefits - insurance liabilities
Description of services	<i>The service organizations assist in processing health and pharmacy claims.</i>
Audit procedures	<i>KPMG will test the user control considerations identified by the service organizations</i>
Timing	June

5.0 Independence

Independence

Non-audit services or other relationships that may reasonably be thought to bear on independence include:

- Routine tax advice related to unrelated business income tax issues

In our professional judgment, we are independent with respect to the University, as that term is defined by the professional standards.

6.0

New pronouncements

New pronouncements

Pronouncements	Comments
Effective: Year ended June 30, 2012	
GASB Statement No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans	No impact on the University
GASB Statement No. 64, Derivative Instruments: Application of Hedge Accounting Termination Provisions	No impact on the University

Appendix 1

Objective of an audit

Objective of an audit

- The objective of an audit of financial statements is to enable the auditor to express an opinion about whether the financial statements that have been prepared by management with the oversight of the Audit Committee are presented fairly, in all material respects, in conformity with generally accepted accounting principles.
- We plan and perform the audit to provide reasonable, not absolute, assurance that the financial statements taken as a whole are free from material misstatement, whether from error or fraud.
- We design tests of controls to obtain sufficient evidence to support the auditors' control risk assessments for purposes of the audit of the financial statements.

Appendix 2

Responsibilities

Responsibilities

Management is responsible for:

- Adopting sound accounting policies
- Fairly presenting the financial statements in conformity with generally accepted accounting principles
- Establishing and maintaining effective internal control over financial reporting (ICFR)
- Identifying and confirming that the Company complies with laws and regulations applicable to its activities
- Making all financial records and related information available to the auditor
- Providing the auditor with a letter confirming certain representations made during the audit that includes, but are not limited to, management's:
 - Disclosure of all significant deficiencies, including material weaknesses, in the design or operation of ICFR that could adversely affect the Company's ability to initiate, authorize, record, process, or report financial data
 - Acknowledgement of their responsibility for the design and implementation of programs and controls to prevent, deter, and detect fraud

Responsibilities (continued)

The Audit Committee is responsible for:

- Oversight of the financial reporting process and oversight of ICFR

Management and the Audit Committee are responsible for:

- Establishing and maintaining internal controls to prevent, deter, and detect fraud
- Setting the proper tone and creating and maintaining a culture of honesty and high ethical standards

The audit of the financial statements does not relieve management or the Audit Committee of their responsibilities.

Responsibilities (continued)

KPMG is responsible for:

- Forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the Audit Committee are presented fairly, in all material respects, in conformity with generally accepted accounting principles
- Planning and performing the audit to obtain reasonable—not absolute—assurance about whether the financial statements are free of material misstatement, whether caused by fraud or error. Because of the nature of audit evidence and the characteristics of fraud, we are able to obtain reasonable, but not absolute, assurance that material misstatements will be detected. Our audit is not designed to detect error or fraud that is immaterial to the financial statements.
- Evaluating whether the Company’s controls sufficiently address:
 - a) Identified risks of material misstatement due to fraud
 - b) The risk of management override of other controls
- Communicating to the Audit Committee in writing all significant deficiencies and material weaknesses in internal control identified in the audit and reporting to management deficiencies that, in our professional judgment, are of sufficient importance to merit management’s attention
- Conducting our audit in accordance with professional standards
- Complying with the rules and regulations of the Code of Professional Conduct of the AICPA, and the ethical standards of relevant CPA societies and relevant state boards of accountancy
- Planning and performing our audit with an attitude of professional skepticism
- Communicating all required information, including significant matters, to management and the Audit Committee

Responsibilities (continued)

Other information in documents containing audited financial statements

- The auditors' report on the financial statements does not extend to other information in documents containing audited financial statements, excluding required supplementary information.
- We are required to read the other information to identify material inconsistencies or misstatement of facts, if any, with the audited financial statements and make appropriate arrangements with management or the Audit Committee to obtain the other information prior to the date of the auditors' report.
- Any material inconsistencies or misstatement of facts that are not resolved prior to the report release date, and that require revision of the other information, may result in the auditor modifying or withholding the auditors' report or withdrawing from the engagement.

Appendix 3
KPMG's Audit Committee
Institute

KPMG's Audit Committee Institute (ACI)

Communicating with Audit Committees Since 1999

Upcoming Events

- 3rd Annual Audit Committee Issues Conference

- Anchorage – May 3, 2012

This conference brings together Audit Committee members from various Alaska Native Corporations to discuss challenges, practices, and priorities shaping Audit Committees and Board agendas. Also included in the agenda will be KPMG's national partner for government contracting and a transactions services partner. They will be discussing the risks audit committees and board should consider.

- Audit Committee Quarterly Webcast Series – 2012

- Dates TBA (11:00am-12:15pm EST)

A quarterly webcast providing updates and insights into issues affecting Audit Committee/Board oversight – from key accounting and regulatory changes to developments in risk oversight.

Recent Publications

- ACI's Ten To-Do's for Audit Committees in 2012 – released December 2011

- Is Governance Keeping Pace With Technology, Business Change? – released March 2012

Resources

- *Audit Committee Insights – U.S. and International editions (biweekly electronic publications):* www.kpmginsights.com

- ACI Website: www.auditcommitteeinstitute.com

- ACI mailbox: auditcommittee@kpmg.com

- ACI hotline: [1-877-KPMG-ACI](tel:1-877-KPMG-ACI)



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