



Royal Canadian Mint

Special review and assessment of
unaccounted for differences

June 23, 2009

Executive Summary

Background

The Royal Canadian Mint (“RCM”) performs a count of stock containing precious metals twice annually. The stock consists of both precious metals owned by RCM and precious metals owned by RCM customers that are stored on the premises of RCM. The stock is comprised of raw materials, work in process and finished goods. The count for year-end financial reporting purposes is performed at the end of October and is updated to the fiscal year end, December 31 to reflect transactions during that period. Following completion of the count of stock containing precious metals, the precise amount of precious metal within each specific stock item is calculated. This amount is compared and reconciled to the stockkeeping records maintained by RCM.

We understand that in the precious metals refining industry, the reconciliation between the count and the stockkeeping records is a complex, multi-month process because of the different process streams, the different forms of the metal and the wide range and concentrations of byproducts. In order to account for all precious metals present at the count date, the count procedures also involve cleaning out all processing equipment, sweeps of the floor areas, and processing chlorination slag which results from the refining process.

A precious metals reconciliation (“reconciliation”) that was commenced by RCM on the count date (October 26, 2008) and recently completed (after recently receiving the final results of precious metal content of chlorination slag, sweeps, and other byproducts on hand) indicates that there is an unaccounted for difference of approximately 17,500 troy ounces of gold, or approximately 0.32% of RCM’s throughput for the 2008 fiscal year. This difference represents stockkeeping records that reflect a higher amount of gold that should be on hand than the physical amount of gold counted. In addition, RCM also identified an unaccounted for difference related to silver.

Deloitte Engagement, Findings and Conclusion – Unaccounted for Difference of Gold

Deloitte was retained to investigate if the unaccounted for differences in gold were the result of an accounting and/or transaction recording error, specifically:

- an accounting error in the preparation of the reconciliation,
- an accounting error in the physical stock count schedules created at the count date and in the months thereafter,
- an accounting error in the recordkeeping of transactions related to the receipts into the RCM, shipments out of RCM during the year, and movements within RCM, or
- a combination of the above.

We undertook a phased approach to the engagement due to the level of complexity. Our initial phase was a preliminary scoping exercise that was conducted between March 16, 2009 and April 10, 2009. Based on our results from the preliminary scoping exercise, we developed a risk-based approach and workplan of investigative procedures to undertake a detailed review. Our second phase of the engagement was this detailed review and was carried out during the period April 13, 2009 to June 16, 2009. Consistent with our risk-based approach, we did review a substantial number of RCM precious metals transactions, however, we did not test one hundred percent of all transactions.

Based on our procedures performed to date, the unaccounted for difference in gold does not appear to relate to an accounting error in the reconciliation process, an accounting error in the physical stock count

schedules, or an accounting error in the recordkeeping of transactions during the year. We have identified only minor errors which, taken together, cause virtually no net overall impact on the unaccounted for difference of gold.

Precious Metals Reconciliation

We understand that two of RCM's four business lines (Bullion and Refinery, and Numismatics) are entrusted with the handling of precious metals and, as such, their transactions impact the precious metals reconciliation. The precious metals reconciliation does not relate to the Canadian Circulation and Foreign Coins business lines of RCM.

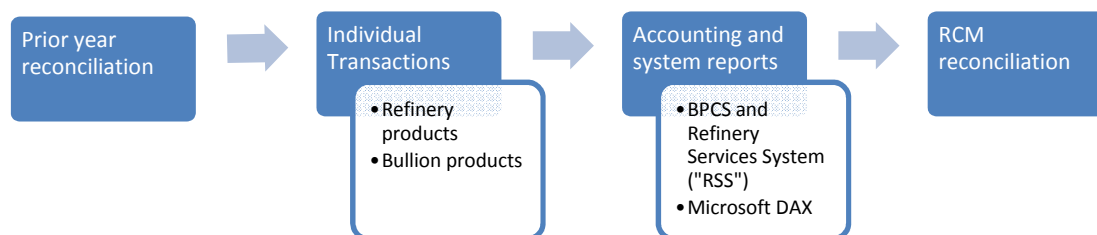
The precious metal reconciliation is comprised of the following components:

Components of Precious Metals Reconciliation					
Global precious metals reconciliation	A	Refinery metal stock	Refinery - Gold statement	G	Opening Metal Stock
	B	Production metal stock		H	Metal additions
	C	<u>Third party ownership accounts</u>		I	<u>Metal disbursed</u>
	D = A+B-C	RCM owned: calculated		J=G+H-I	Calculated ending metal stock
	E	<u>RCM owned: bookkeeping records</u>		K	<u>Physical ending metal stock</u>
	F=D-E	<i>Physical surplus (deficit)</i>		=K-J	<i>Refinery, Physical Surplus (Deficit)</i>

Most of the precious metals physically on hand are in the care and custody of RCM on behalf of third party customers, as recorded in ownership/pool accounts ("C", in table above). RCM has its own ownership of a small portion of the overall on hand metal. We did not identify any errors in the recording of third party customer's ownership account transactions. RCM has attributed the unaccounted for difference to their own ownership position.

Deloitte Procedures

Our workplan was holistic in that we examined in detail the reconciliation process, as well as the many components of the reconciliation. Each component of the reconciliation is derived from a series of individual transactions as compiled in the RCM accounting and reporting systems. Our examination, testing and analysis went from the macro level (reconciliation) to the micro level (individual transactions), as well as tracing through each interim step.



We have incorporated our risk-based approach such that a substantial amount of individual refinery transactions that impact the reconciliation have been examined and a sampling of bullion and numismatic transactions were reviewed. Using a complete data extraction of all refinery system transactions, we performed extensive analytics and generated detailed reports, such that we could test the accuracy and completeness of the non-customized reports generated by the refinery systems, and which were used by RCM in preparing their reconciliation.

The following procedures summarize the work completed:

Precious metals reconciliation - We reviewed the mathematical integrity of the RCM reconciliation schedules and all of the related sub-schedules, and performed a critical review of RCM schedules to ensure consistency of logic and approach. We reviewed the underlying accounting and transaction reports which were relied on by RCM to prepare the reconciliation.

Refinery physical count - We conducted a detailed review of the completeness and accuracy of the refinery stock count documentation and schedules, including both the gross weight of material on hand and the fine weight, after accounting for the precious metal content of each item. We reviewed and tested in detail the mathematical accuracy of the stock on hand schedules, as well as traced the schedules to all source documentation of gross and fine weights.

Prior year refinery physical count - We reviewed in detail the mathematical accuracy of the prior year on-hand stock schedules, applied the knowledge acquired with respect to the October 2008 count to assess the reasonableness of October 2007 count schedules, and conducted interviews with RCM representatives knowledgeable about the process followed for the prior year stock count.

Refinery – Metal received – RCM receives precious metal in either a rough form, from a mine or from scrap jewelers, or previously refined metal as a direct deposit. We reconciled the number of metal deposits from the manual receiving log to the customer receipts listing, where the deposits are recorded for accounting purposes. We tested in detail a sample of 91% of all rough deposits received and 87% of all direct deposits received by the RCM refinery. This includes a review of all transactions occurring since January 1, 2008. For the receipts reviewed, we verified both the gross weight, as well as the fine weight which is determined after applying the formulated assay rate, to the deposit. We did not verify or review the scientific assay procedures performed by RCM.

Refinery – Metal disbursed to customers – We tested in detail every shipment from the refinery that was recorded in the system. We examined the completeness of the recorded shipments by examining the shipping document/bill of lading registers used by RCM. We conducted additional detailed review of shipments disbursed to customers through RCM consignees.

Refinery – Metal disbursed through outside refiners – We tested in detail every settlement of byproducts processed offsite by third party refiners.

Refinery – Transfers to and from RCM production – The RCM refinery ships refined metal to its production facility which is used to produce gold bullion and numismatic products. Metal which is left over from this process is shipped back to the refinery from production to be re-refined. We reconciled shipments to and from production between the Refinery system and the Production system and reviewed in detail every reconciling item.

Production disbursements – We reviewed the completeness of recorded bullion sales and performed cut-off testing around current year and prior year physical count dates.

Ownership accounts – We tested in detail ownership accounts to determine that recorded transactions appropriately reflect the RCM recorded related physical transactions and movements of precious metals.

Other areas for consideration

As discussed previously, we undertook a phased approach to investigate whether the unaccounted for differences in gold were the result of an accounting and/or transaction recording error. Based on our procedures performed, we have not found an accounting or transaction recording error which would explain the unaccounted for difference between gold actually on hand and the amount of gold recorded as being on hand in RCM's records. Given the nature and extent of our work undertaken, we have identified three other areas for consideration to be examined and analyzed.

These additional areas include, but should not be limited to, the following:

1) Technical reviews

We understand that the RCM applies scientific processes and scientifically derived formulae to various aspects of refining, such as process losses. Certain of these processes/formulae are subject to benchmarking and/or third party studies. The reasonableness of these technical processes and formulae were outside the scope of our review. The RCM may wish to review and

update its benchmarking and/or third party studies regarding such technical processes and formulae.

2) *Accounting review*

Assessment of prior periods

Precious metal reconciliations have been performed by RCM twice annually in prior years. This reconciliation serves as an internal control to ensure potential precious metal surpluses and/or deficits are identified in a timely manner. A review of the transactions included in these prior reconciliations is outside the scope of our review. Although, in theory, revisiting prior period reconciliations could explain some of the difference, it would be difficult to complete such a review due to the passage of time, availability of supporting documentation, and the turnover of RCM staff who participated in recording the transactions and carrying out the stock counts.

3) *Security reviews*

Assessment of physical security controls

To identify theft opportunities of material on hand and material held offsite.

Assessment of systems security and assessment of potential inappropriate activities by both internal and/or external parties

To identify opportunities for accidental or deliberate manipulation of the manual accounting records or of the recordkeeping systems and data.

The objective of this phase of our assignment was to comment on non-deliberate, erroneous transactions or recordkeeping. We suggest a more in depth review be undertaken to assess potential inappropriate activity.