
Board of Governors of Exhibition Place

*2013 year-end report
to the Finance and
Audit Committee*

*Prepared as of
May 2, 2014*





May 2, 2014

Members of the Finance and Audit Committee
Board of Governors of Exhibition Place

Dear Members of the Finance and Audit Committee:

We have substantially completed our audit of the financial statements of Board of Governors of Exhibition Place (the Board) prepared in accordance with Public Sector Accounting Standards (PSAS) for the year ended December 31, 2013. We propose to issue an unqualified report on those financial statements, pending resolution of outstanding items outlined on page 1. Our draft auditor's report is included in Appendix A.

We have issued the accompanying report to assist you in your review of the financial statements. It includes an update on the status of our work, as well as a discussion on the significant accounting and financial reporting issues dealt with during the audit process.

We propose to review the key elements of this report at the upcoming meeting and discuss with you our key findings.

We would like to express our sincere thanks to the management and the staff of the Board who have assisted us in carrying out our work and we look forward to our meeting on May 9, 2014. Should you have any questions or concerns prior to the Finance and Audit Committee meeting, please do not hesitate to contact me in advance.

Yours very truly,

PricewaterhouseCoopers LLP

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

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The matters raised in this and other reports that will flow from the audit are only those that have come to our attention arising from or relevant to our audit that we believe need to be brought to your attention. They are not a comprehensive record of all the matters arising and, in particular, we cannot be held responsible for reporting all risks in your business or all internal control weaknesses. This report has been prepared solely for your use and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted, as the report has not been prepared for, and is not intended for, any other purpose. Comments and conclusions should only be taken in context of the financial statements as a whole as we do not mean to express an opinion on any individual item or accounting estimate.

1. Executive summary

a. Status of the audit

We have substantially completed our audit of the 2013 financial statements (the financial statements). Our auditor's report will be issued once we receive and have completed our audit work on the outstanding items noted below.

This document includes the required communications between an auditor and Finance and Audit Committee, as required by Canadian generally accepted auditing standards (Canadian GAAS).

Our audit has been performed substantially in accordance with the plan and timeline previously communicated to you.

The following items will need to be completed/received prior to the issuance of our opinion. We will provide an update on the status of these items at our upcoming meeting.

Outstanding item	Status as at May 2, 2014
i. Receipt of confirmation from the City of Toronto relating to the Conference Centre Reserve and other reserve funds	Management is following up on this item
ii. Finalization of employee future benefits testing	Final assessment on actuarial assumptions to be provided by our internal expert
iii. Finalization of financial statements and certain disclosures	Management to provide information
iv. Legal letters	Management is following up on this item
v. Completion of subsequent events procedures	Discussion to be held with management prior to the finalization of our audit report
vi. Receipt of signed management representation letter	To be received prior to finalization
vii. Approval of the financial statements by the Board of Directors	To be approved

b. Key issues for discussion

Discussion item	Summary	For further reference
Significant audit, accounting and financial reporting matters	<ul style="list-style-type: none"> • We discussed the following significant audit, accounting and financial reporting matters with management: <ul style="list-style-type: none"> - revenue recognition - completeness and accuracy of transactions recorded with the City - employee future benefits payable - CNEA independence - management override of controls 	Section 2

Discussion item	Summary	For further reference
Summary of unadjusted items	<ul style="list-style-type: none">As a result of our audit, the unadjusted item we identified would not have a net impact on the deficit for the year ended December 31, 2013.Unadjusted items, including disclosure exceptions or items not impacting net income can be found in Section 3.In our opinion, the financial statements, taken as a whole, are free of material misstatement.	Section 3
Fraud	<ul style="list-style-type: none">No instances of fraud were noted as part of our audit procedures.We wish to reconfirm whether the Finance and Audit Committee is aware of any known, suspected or alleged incidents of fraud.	Section 4
Management representations	<ul style="list-style-type: none">Under Canadian GAAS, we are required to inform you of the representations we are requesting from management. A copy of the draft management representation letter is included in Appendix C.	Appendix C

2. Significant audit, accounting and financial reporting matters

Preparation of the financial statements requires management to select accounting policies, as well as make critical accounting estimates and disclosures that may involve significant judgment and measurement uncertainty. These matters can significantly impact the Board's reported results.

We are responsible for discussing with the Finance and Audit Committee our views about the significant qualitative aspects of the Board's accounting practices, including accounting policies, the accounting estimates, and financial statement disclosures.

Our comments and views included in this report should only be taken in the context of the financial statements as a whole and are not meant to express an opinion on any individual item or accounting estimate. We are sharing our views with you to facilitate an open dialogue of these matters.

Issue	Discussion
<p>Revenue recognition</p> <p>The Board has several significant revenue streams including (but not limited to):</p> <ul style="list-style-type: none"> • Building rentals and concessions; • Services; and • Parking. 	<p>We have performed, where possible, tests of controls and detailed testing over each of the different revenue streams as follows:</p> <p>Building rentals and concessions:</p> <ul style="list-style-type: none"> • Detailed testing over a sample of tenants and exhibitors to agree amounts recorded to their respective agreements and/or cash settlement. • Testing to ensure appropriate lease accounting for step rents and revenue recognition in accordance with PSAS. • Controls over the reconciliation of concessionaire payments received by third party manager to bank deposits. • Recalculation of concession revenue for a sample of concessionaires based on established agreements. <p>Services:</p> <ul style="list-style-type: none"> • Detailed testing over a sample of services sold by agreeing amounts recorded to their respective agreement and/or cash settlement. <p>Parking:</p> <ul style="list-style-type: none"> • Controls over the reconciliation of cash collected to amounts deposited for attended lots were tested with no exceptions noted. • Detailed testing over parking pass and pay and display lot revenues through reconciliations to third party service reports. <p>All exceptions and/or control recommendations have been included in Sections 3 and 5, respectively.</p>

Issue	Discussion
<p>Completeness and accuracy of transactions recorded with the City</p> <p>The Board engages in many transactions with the City of Toronto and its various Agencies, Boards, and Commissions (the City).</p>	<p>We have obtained and tested management's reconciliation of amounts due to/from the City. We have confirmed loan balances as well as amounts due to and from the City, and have investigated all significant reconciling items.</p> <p>Confirmations have also been obtained in relation to the reserve balances that are disclosed in the notes to the financial statements. As noted on page 1 of our report, we are awaiting the confirmation response relating to the Conference Centre Reserve and other reserve fund balances.</p>
<p>Employee future benefits payable</p> <p>The Board sponsors a defined benefit plan, providing retirement and post-employment benefits to its employees, for which the City of Toronto funds the obligation.</p>	<p>We have obtained the actuarial report as of December 31, 2013 from the Board's external actuary, Buck Consultants. Using this report, we tested the accuracy of information provided by management to the actuary to use in their report.</p> <p>We also utilized our internal expert to assess the appropriateness of the assumptions and estimates used by the actuary in developing their conclusions. As noted on page 1 of our report, we are awaiting the final conclusions from our internal expert.</p>
<p>CNEA Independence</p> <p>The CNEA became independent of the Board and the City, effective April 1, 2013. As a result, there are various implications to the financial statements of the Board as at December 31, 2013 and for the year then ended.</p>	<p>We have noted the following items resulting from the CNEA's independence:</p> <ul style="list-style-type: none"> • Several assets and liabilities were transferred to the CNEA on April 1, 2013. A summary of the value of the assets and liabilities transferred is included in note 13 of the financial statements; • No revenues or expenses have been recorded in the statement of operations and accumulated deficit in relation to the CNEA for the period of January 1 to March 31, 2013, as all expenses incurred during that period were recovered from the CNEA upon their independence settlement. There remains one small unresolved balance between parties at this time; and • The Board has recorded revenue received from the CNEA post-independence within the Exhibition Place line (Schedule 1) of the statement of operations and accumulated deficit in accordance with the signed Master Service Agreement.
<p>Management override of controls</p> <p>There is an inherent risk of misstatement due to management override of controls.</p>	<p>Using computer assisted auditing techniques, we have assessed significant and non-standard manual journal entries recorded in the year and selected a sample of items for testing to ensure that the entries represent valid and appropriately authorized transactions. No exceptions were noted from our testing.</p>

3. Summary of unadjusted items

We have concluded that the financial statements taken as a whole are free of material misstatement and (pending the completion, to our satisfaction, of the outstanding matters identified in section 1), we are prepared to issue an unqualified opinion on the financial statements.

Our responsibility is to issue an opinion as to whether the financial statements are free of material misstatement.

Under Canadian GAAS, we are required to communicate to you the unadjusted items and the effect that they may have on our opinion and to request that unadjusted items be corrected. As a result of our audit, we identified certain items and have discussed these with management, and management adjusted the financial statements to reflect certain of these items. Management has concluded that the remaining unadjusted items, which are summarized in (a) below, are immaterial individually and in the aggregate.

We are also required to communicate the effects of any unadjusted items that relate to prior periods. We did not identify any such items.

Unadjusted items

Total unadjusted items have no net effect on the deficit for the year ended December 31, 2013 and are summarized below.

The materiality level for December 31, 2013 was \$931,000, with a threshold for reporting adjusted and unadjusted items in excess of \$93,100. This is an increase of \$72,000 and \$7,100, respectively, from the materiality levels reported to you in our audit plan and is a result of actual revenues exceeding the forecasted results.

Description	BALANCE SHEET - Debit (Credit)				DEFICIT
	Financial assets	Non-financial assets	Financial liabilities	Accumulated deficit	Deficit
Elimination of interco revenue markup charged by BOG to BMOF					
DR. Sales	-	-	-	-	115,672
CR. Expenses	-	-	-	-	(115,672)
Total unadjusted items	-	-	-	-	-

4. Other required communications

Canadian GAAS requires that the external auditor communicate certain matters to the Finance and Audit Committee that may assist you in overseeing management's financial reporting and disclosure process.

Below, we summarize these required communications as they apply to you:

Matter to be communicated	PwC's response
Management's representations	<ul style="list-style-type: none"> • Under Canadian GAAS, we are required to inform you of the representations we are requesting from management. A copy of the draft management representation letter is included in Appendix B.
Significant deficiencies in internal control	<ul style="list-style-type: none"> • Recent changes to Canadian GAAS require us to communicate to the Finance and Audit Committee internal control weaknesses identified as part of our audit that are considered to be significant deficiencies. • A significant deficiency is defined as an internal control deficiency that we consider merits the attention of the Finance and Audit Committee. • We have none to report, but have included our recommendations on improvements to the Board's internal controls.
Significant difficulties or disagreements that occurred during the audit	<ul style="list-style-type: none"> • No difficulties or disagreements occurred while performing our audit that requires the attention of the Finance and Audit Committee.
Fraud and illegal acts	<ul style="list-style-type: none"> • No fraud involving senior management, employees with a significant role in internal control or that would cause a material misstatement of the financial statements, came to our attention as a result of our audit procedures.

5. Internal control recommendations

The purpose of our audit was to enable us to express an opinion on the financial statements. The audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

During our audit, we identified the following control recommendations that we have discussed with management and wish to bring to your attention.

Current year recommendations - 2013

Item	Recommendation	Management's response
<p>Differences in Food & Beverage (F&B) revenue reconciliation not investigated - BMO Field</p> <p>Based on BMO Field policies over F&B revenue, a reconciliation is to be performed between total cash declared by a BMO supervisor and what is deposited by G4S, BMO's cash management service provider. Variances in excess of \$100 should be investigated and resolved.</p> <p>However, based on the procedures performed in the current year, there was no evidence of any investigation performed over variances in excess of the threshold above.</p>	<p>Although a reconciliation was prepared during the year, the absence of follow up and resolution of differences increases the risk of cash misappropriation.</p> <p>PwC recommends that management adhere to the established controls and ensure that all variances noted above the established threshold are investigated and their resolution is adequately evidenced on file.</p>	<p>PwC discussed this item with the Accounting Manager at BMO Field, who confirmed that this control was not carried out during the current year, but had been followed in prior years. He further stated that going forward all variances will be followed up on and resolved with appropriate detail kept on file.</p>

Update on prior year recommendations - 2012

Item	Recommendation	Management's response
<p>Authorization to post manual journal entries</p> <p>It was noted as part of our testing over manual journal entries that 2 payroll journal entries had been posted by an IT system administrator. Upon investigation, it was noted that this was a result of a system issue experienced by the Payroll Manager, whereby the payroll batch could not be posted to the general ledger. Authorization was then provided to the IT system administrator to post the entries on her behalf under the system administrator ID.</p>	<p>While the entries were validated against supporting documents and approved by the CFO, it is recommended that senior management review a log of user access on a periodic basis in order to detect any unauthorized entries that could have been made in a given period.</p>	<p>This instance was discussed with management who acknowledges that the granting of this type of access is not typical, but was required in the given circumstance. Furthermore, the manual journal entry was routed to the CFO as per the normal protocol for approval.</p>

Item	Recommendation	Management's response
2013 Update		
We did not note any similar instances as part of the testing performed over manual journal entries in the current year. As such, this item is deemed remediated and will not appear in our report going forward.		

Item	Recommendation	Management's response
<p>Management oversight of financial processes managed by third parties</p> <p>The Board utilizes the services of a variety of third parties to manage various aspects of their operations. More notably, Maple Leafs Sports and Entertainment (MLSE) manages the operations of BMO Field on behalf of the Board.</p> <p>While management does perform some checks over the operations of BMO Field (through discussions of management reports, and site visits to view operating activities), random checks into the financial management of the field should be undertaken.</p>	<p>We recommend that the Board periodically review BMO Field to ensure that their financial and accounting practices coincide with the Board's policies and that MLSE is maintaining complete and accurate information.</p>	<p>Management believes that sufficient oversight is provided through periodic walkthroughs and the review of the budget, monthly financial reports and financial analysis of key areas, and analytical comparisons to prior year results. On the expenditure side, BMO Field receives payroll services directly from the Board, which forms a major portion of the expenditures; other major expenditures are contractual in nature and the Board is privy to such agreements and ensures to that they are properly reflected within the financial statements.</p>
2013 Update		
No update necessary as management believes that appropriate oversight is in place. However, we draw your attention to the current year deficiency noted.		

Item	Recommendation	Management's response
<p>Unrestricted access to staff members</p> <p>As part of our assessment over IT general controls, it was noted that members of the Finance department were granted "poweruser" roles which allowed them access to all areas in Great Plains (including payroll).</p>	<p>As a best practice, PwC recommends the following:</p> <ul style="list-style-type: none"> A specific role (access profile) be given to each employee to ensure segregation of duties. In particular, access to the Payroll module should be restricted to only those who need to access the Payroll module. 	<p>Microsoft Great Plains has templates for various roles. Given the nature of Exhibition Place business, the staff may have tasks that overlap with these pre-packaged roles. Poweruser status is only provided over the payroll accounting for time entry and not to the actual posting of payroll to the Board's payroll service provider, ADP. Only approved time entry batches can be posted to ADP by the Payroll Manager and only payroll staff have control over final posting to ADP.</p>

Item	Recommendation	Management’s response
	<ul style="list-style-type: none"> • Management level staff should have read-only access. • If needed, only one member of finance should be granted access. 	<p>The information in the payroll module is used for job costing of shows so individuals were granted access to payroll module. This approach was also taken to reduce downtime when a staff member is away, which can occur due to the small payroll team.</p> <p>Compensating controls are in place to mitigate risk primarily through detailed review of accounts against budgets and historical information.</p> <p>It should be noted that a change in user’s permissions for a particular item may affect their ability to update information that IT staff are not aware of (i.e. restriction in a particular field or table may prevent updates in some of the over 800 back-end system tables in Great Plains. Absolute documentation of all the fields, tables and permission settings are not readily available in Great Plains to guarantee a change or restriction does not impact other accounting or reporting functions.</p> <p>Despite many of the challenges discussed above, management has made an overall effort to restrict employee access to only the modules and tables needed for their respective job role. Employees in the accounting function have had their access to the payroll module removed and management is finalizing the process of implementing additional controls over preventing cheque writing ability for the employees in the payroll function.</p>

2013 Update

Based on our testing over IT general controls and through discussions with management, there continues to be individuals with “poweruser” access. In 2012, management has incorporated new user roles to better segregate access within the Finance and Payroll functions. For example, an “ASR” role was created for members of Finance which does not allow for any payroll posting. Similarly, a “PSR” role was created for payroll personnel with the intention of providing access to the payroll modules while preventing access to cheque writing. However, after internal testing and an upgrade to the Great Plains system, it was noted that the program tables did not allow for this type of segregation. In 2014 the Board will investigate the use of the GP Audit tool which will provide oversight internal control reports. Until then, those having access to the payroll module continue to also have access to the accounts payable module (and cheque writing ability) and reliance is being place on the compensating controls surrounding journal entry approvals, cheque signing controls, and reconciliation processes.

Appendix A: Draft financial statements

Appendix B: Draft management representation letter

