



January 15, 2003

EXHIBITION PLACE

To: The Board of Governors of Exhibition Place

From: Dianne Young
General Manager & CEO

Subject: **Audit Planning Document - 2002 Financial Statements**

Recommendation:

It is recommended that this report be received for information.

Background/Discussion:

The consolidated financial statements for Exhibition Place are currently being prepared by staff and it is expected that they will be formally presented to the Board of Governors at the April, 2003 meeting. Because of the problems with corporate financial reporting that have recently been discovered, primarily in the United States, professional accounting bodies have issued new guidelines and recommendations for the performance of auditing activities.

This report represents one of these new procedures which is a direct communication from Exhibition Place's external auditors, Ernst & Young LLP, to the Board of Governors and outlines some important issues and concerns of the auditors as they undertake their work on auditing the 2002 financial statements. The main topics of the document are as follows:

- Terms of engagement and deliverables
- Audit approach and timetable
- New developments in accounting and auditing standards
- Current year developments at Exhibition Place

Conclusion:

This report presents an audit planning document to the Board of Governors from Ernst & Young LLP, the external auditors for 2002 for Exhibition Place.

Contact:

Paul Egli, Director of Finance
Telephone: 416 263-3612
Fax: 416 263-3690
e-mail: PEgli@Explace.on.ca

Submitted by:

Dianne Young
Dianne Young

General Manager & CEO

THE BOARD OF GOVERNORS OF EXHIBITION PLACE

January 8, 2003

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

We are pleased to discuss with you our audit approach for the Board the Governors of Exhibition Place ("Exhibition Place"). This report outlines the scope of the work, our team and what we see as the key issues affecting the December 31, 2002 audit.

We are in the process of completing the planning phase of our audit of the financial statements of Exhibition Place for the year ended December 31, 2002. Our letter is a forum to validate our understanding of these issues as well as to confirm your expectations.

Our audit process continually enhances our understanding of Exhibition Place's business, the risks it faces, and the processes that its leadership uses to manage them. Driven by value defined in your terms, our proposed audit approach combines an historical perspective with an increasing focus on the Exhibition Place's current and emerging business needs. As always, this audit will provide the objectivity and independence that you, management, and the community expect.

Very truly yours,

Diana M. Brouwer / Carla A. Jones
905-882-3037 / 416-943-3031

cc: Dianne Young
Paul Egli

Contents

<u>TERMS OF OUR ENGAGEMENT</u>	1-2
<u>AUDIT APPROACH</u>	4-5
<u>NEW DEVELOPMENTS IN ACCOUNTING OR AUDITING STANDARDS</u>	6
<u>CURRENT YEAR DEVELOPMENTS</u>	7
<u>ENGAGEMENT LETTER</u>	8-14

Terms of Our Engagement

Discussion

Overview

- We will perform an examination of Exhibition Place's December 31, 2002 financial statements in accordance with Canadian generally accepted auditing standards. The objective of our audit is to obtain reasonable - not absolute - assurance that the financial statements are free from material misstatement. The preparation of the financial statements and the accompanying notes are the responsibility of management.
- While the primary objective of our audit examination will be to render an opinion on the fairness of the financial statements as a whole, we consider internal accounting procedures and systems of internal controls to the extent necessary to determine our auditing procedures. Our work does not provide assurance on the internal control structure, nor do our procedures necessarily cover all control systems upon which management may be relying.
- The detailed terms of our engagement are outlined in our engagement letter issued to the City of Toronto and signed back by the CFO and Treasurer. The detailed terms and conditions are in line with our original 5-year contract with the City.

Year-End Report

- Ernst & Young will report the results of our 2002 audit to the Finance Committee at the completion of our audit fieldwork. This audit results package will address matters of significance to the Committee including the following:
 - Any changes in or initial selection of accounting policies;
 - Areas where management must make significant judgments or estimates;
 - Any disagreements with management on financial accounting and reporting matters;
 - Details of any unusual transactions;
 - Any serious difficulties encountered in performing the audit;
 - Adjusted and unadjusted errors; and
 - Details of all audit and non-audit services provided.

Terms of Our Engagement (continued)

Discussion

Fees

- We continue to work with management to provide cost-effective service. The following agreed-upon audit fees reflect our commitment to provide high value and excellent service at reasonable, market-sensitive pricing for the audit of the Exhibition Place, Canadian National Exhibition, and the Canadian National Exhibition Foundation.

2002

\$

2001

\$

Annual audit fees (per contract)

➤ Board of Governors of Exhibition Place	12,270
	12,270
➤ C.N.E.A.	7,550
	7,550
➤ National Trade Centre	

9,440

9,440

➤ C.N.E. Foundation

1,890

1,890

31,150

31,150

- **Audit fees are inclusive of all expenses but exclude GST.**

Audit Approach

Discussion

Overview

- Audit risk is influenced by business risk. Our audit methodology is a risk-based approach that focuses on the drivers of the business, the associated risks, and the potential effects on financial statement accounts. It emphasizes the importance of understanding Exhibition Place's business, including critical business processes. As part of our audit, we gain an understanding of the factors that could affect Exhibition Place's operations and business risks.
- Our approach also focuses on the identification and testing of the client's internal controls including information technology controls. Ernst & Young will review and evaluate the overall internal control environment, assess the computer environment, and the specific internal controls upon which we place reliance in expressing our opinion on the financial statements. We will report in writing to the Finance Committee any material observations resulting from our audit. Where the audit plan is dependent on an understanding or reliance on internal controls, we will document and test the specific internal control. This approach will result in the most effective external audit, providing you with maximum benefits at a lower cost (both in fees and in financial management support time). Due to the insensitivity and ease of verification, cash, accounts payable, accrued liabilities, revenues and accounts receivable are verified substantively.
- Our understanding of the business and controls provides the basis for our audit risk assessments, and the identification of audit procedures responsive to those risk assessments. Our balanced approach is designed to focus comparatively more audit effort on complex, higher-risk areas than on those assessed as lower risk.
- For fiscal 2002, we intend to identify and test controls so that we can rely on controls in connection with our audit of payroll and other disbursements.

Audit Approach (continued)

Discussion	
Timetable	<ul style="list-style-type: none"> • The following timetable highlights those major activities which are key elements of our audit plan:
	Understanding Internal/External Factors
	<ul style="list-style-type: none"> ➤ Meet with senior management to discuss new developments/industry issues Ongoing ➤ Meet with Exhibition Place's personnel regarding operating, accounting and reporting matters Ongoing ➤ Meet to understand management expectations and business strategies and objectives November ➤ Letter to Finance Committee -overview of planning/scope January
	Business Risk Assessment
	<ul style="list-style-type: none"> ➤ Perform business risk assessment and develop custom audit approach November ➤ Update our understanding of Exhibition Place's systems and develop overall audit plan December ➤ Testing of specific internal control systems February/March ➤ Update control testing and perform year-end procedures February/March
	Deliverables
	<ul style="list-style-type: none"> ➤ Complete review of final audited financial statements March ➤ Discussion of audit results with senior management March ➤ Report to Finance Committee on audit results March/April

Audit Approach (continued)

Materiality	Discussion
	<ul style="list-style-type: none">• Our evaluation of areas of audit significance is made relative to “materiality”. An understanding of what is significant or material in relation to the overall results of Exhibition Place is critical to the performance of an effective and efficient audit. An item is considered material if its impact might reasonably be expected to affect the decisions of a reader of the financial statements.• The level at which materiality is set affects the following audit planning decisions:<ul style="list-style-type: none">➢ extent of evaluation of internal accounting controls➢ extent and nature of audit evidence (i.e., extent of testing) to be examined• Materiality for non-profit entities is generally measured in terms of a range between 1/2% and 2% of revenues. This range corresponds with the recommendations in the CICA Handbook guideline which deals with materiality and audit risk.• Our experience is that most governmental agencies audits in North America are based on a materiality in the higher end of this range. As a result, an amount greater than \$750 thousand, which represents approximately 2% of Exhibition Place’s total projected revenues of \$38 million, will be considered material. Of course, the final determination of items to be reported will also be affected by the item’s sensitivity and whether the item is of a routine nature. For the purposes of reporting to the Finance & Audit Committee, amounts greater than \$37 thousand will be addressed.
Use of Specialists	<ul style="list-style-type: none">• We rely on Mercer Consulting for costs associated with the defined benefit plan.
Other Issues	<ul style="list-style-type: none">• We will co-ordinate our work with your internal auditors to ensure we take into consideration the work they have completed in the planning of our detailed procedures.

New Developments in Accounting or Auditing Standards

Each year, we review changes in professional standards, legislation and stakeholder requirements that may have an impact on our audit, including the presentation or disclosure of items in the financial statements, our audit scope, and matters requiring communication.

	Discussion	Preliminary Evaluation
Fraud and Error	<ul style="list-style-type: none"> • The CICA has established new standards related to fraud and error which are effective for audits of financial statements and other financial information relating to periods ending on or after December 15, 2002. • These standards require that we make enquiries of management to obtain an understanding of management's assessment of risk that the financial statements may be misstated because of fraud, and the internal controls in place to detect and prevent errors and misstatements as a result of fraud. In addition, we are required to determine whether management is aware of any fraud or has discovered any material errors during the year. 	<ul style="list-style-type: none"> • Ernst & Young LLP will ensure that all aspects of the new standards are met.
Auditors' Communication with Board Committees	<ul style="list-style-type: none"> • The CICA has revised its guidance related to the auditors' communications with those having oversight responsibility for the financial reporting process. These recommendations are effective with respect to audits of financial statements relating to periods ending on or after December 15, 2002. 	<ul style="list-style-type: none"> • Ernst & Young LLP will ensure that all required matters are included in our communications with the Finance and Audit Committee.
Corporate Governance	<ul style="list-style-type: none"> • The Sarbanes-Oxley Act has significantly heightened the sensitivity and requirements around corporate governance, auditor independence and board responsibilities in the U.S. private sector. Canadian regulators and professional bodies are currently evaluating their approach to this area. 	<ul style="list-style-type: none"> • While the Sarbanes-Oxley Act does not apply to the public sector, the principles it encompasses, particularly with respect to governance, independence and internal control, will be incorporated into our audit planning and communication in the future.

Current Year Developments

Each year in preparing our audit planning, we review significant developments within Exhibition Place and the external environment in which it operates. This review enables us to better understand the issues that Exhibition Place is facing and to ensure that our audit plan appropriately and effectively addresses all areas of concern. To date, in fiscal 2003, we have noted and discussed with management the following areas which are of significance:

Accounting/Audit Issues	Discussion	Preliminary Evaluation
Accounting Staff Downsizing	During 2001 a reduction of personnel took place at the management level in the accounting department. Whenever this occurs there is the potential that control weaknesses are created as processes are changed in an effort to become more efficient and decrease costs.	<ul style="list-style-type: none">• We have considered the changes in processes that were implemented and are not aware of any material control weaknesses. We will continue to monitor this during our year-end audit and report any findings to you at that time.
