



INDEPENDENT AUDITOR'S REPORT

To the Legislative Assembly of the Province of British Columbia

Report on the Summary Financial Statements

I have audited the accompanying summary financial statements of the Government of the Province of British Columbia (“the Government”), which comprise the consolidated statement of financial position as at March 31, 2012, and the consolidated statements of operations, change in net liabilities and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Government’s Responsibility for the Summary Financial Statements

Government is responsible for the preparation and fair presentation of these summary financial statements in accordance with Canadian public sector accounting standards, and for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility under the *Auditor General Act* is to express an opinion based on my audit as to whether these summary financial statements are presented fairly in accordance with generally accepted accounting principles. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the summary financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the summary financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the summary 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 the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by government, as well as evaluating the overall presentation of the summary financial statements.

In my view, the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for Qualified Opinion

Failure to fully consolidate the Transportation Investment Corporation

Government has prematurely classified the Transportation Investment Corporation as a government business enterprise, now consolidated in these summary financial statements using the modified equity basis as described in note 1 (c). Under Canadian public sector accounting

standards, to be classified as a government business enterprise, an organization must maintain its operations and meet its liabilities from revenues received from outside the government reporting entity. As of March 31, 2012, the Transportation Investment Corporation does not have this characteristic and, therefore, is not properly classified as a government business enterprise. Had this organization been properly classified, it would have been accounted for using the full consolidation method and certain financial statement line items would have changed by a material amount.

Material changes to the summary financial statements, had the Transportation Investment Corporation been fully consolidated:

| | Increase/(decrease) | |
|---|---------------------|---------|
| | \$ millions | |
| | 2012 | 2011 |
| Consolidated statement of financial position: | | |
| Loans for purchase of assets, recoverable from agencies | (1,779) | (1,148) |
| Accounts payable and accrued liabilities | 519 | 440 |
| Taxpayer-supported debt | 1,779 | 1,148 |
| Self-supported debt | (1,779) | (1,148) |
| Tangible capital assets | 2,331 | 1,604 |
| Consolidated statement of operations: | | |
| Surplus (deficit) for the year | (97) | (20) |

The increase to the deficit for the year relates to realized losses on interest rate hedging transactions that would be recorded as an expense if fully consolidated. Other line items in the consolidated statements of financial position and operations were also impacted by lesser amounts.

The supporting consolidated summary financial statements by sector (pages 86 to 93) and the supporting statements for self-supported Crown corporations and agencies (pages 94 and 95) would also be impacted by this inappropriate classification of the Transportation Investment Corporation and by the summary financial statement changes described above.

Had the Transportation Investment Corporation been properly classified as a taxpayer-supported Crown corporation, the presentation of contractual obligations in note 26 (c) in these summary financial statements would also differ. Contractual obligations for taxpayer-supported Crown corporations (transportation) would have increased by \$661 million (2011: \$1,114 million), and contractual obligations for self-supported Crown corporations (transportation) would have decreased by \$661 million (2011: \$1,114 million).

Failure to provide for earned natural gas producer royalty credits

No provision has been made in the summary financial statements for royalty credits earned by natural gas producers under the government's deep-well drilling program. In this respect the summary financial statements are not in accordance with Canadian public sector accounting standards.

Had a provision been made prospectively, as required by Canadian public sector accounting standards when an issue is raised by an auditor in one period but not corrected until a subsequent period, accounts payable and accrued liabilities as at March 31, 2012, would have been greater by \$702 million, natural resources and economic development expenses for the year then ended would have been greater by \$702 million and the deficit for the year then ended would have been greater by \$702 million.

Inappropriate deferral of government transfers revenue

Government's accounting treatment for funds received from the Federal Government and other outside entities restricted for the purchase or construction of capital assets is to defer such transfers and recognize as revenue in the statement of operations on the same basis as the related assets are amortized. In this respect, the summary financial statements are not in accordance with Canadian public sector accounting standards which require transfers of a capital nature to be recorded in revenue when the funds provided have been used to purchase or construct the capital asset, or to the extent that stipulations imposed by the transferring entity give rise to an obligation, when the obligation is settled.

Had the correction been made prospectively, as required by Canadian public sector accounting standards when an issue is raised by an auditor in one period but not corrected until a subsequent period, deferred revenues as at March 31, 2012, would have been less by \$279 million, contributions from the federal government would have been greater by \$200 million, miscellaneous revenue would have been greater by \$79 million and the deficit for the year then ended would have been less by \$279 million.

Failure to disclose required government business enterprise financial information

In the other explanatory information, government is not disclosing condensed supplementary financial information about the financial position and results of operations of certain subsidiaries of government organizations that are accounted for as government business enterprises. In this respect the summary financial statements are not in accordance with Canadian public sector accounting standards.

Had this information been disclosed, the supporting statements for self-supported Crown corporations and agencies on pages 94 and 95 would have been different as follows:

- assets would have been greater by \$1,122 million;
- liabilities other than debt would have been greater by \$207 million;
- other debt would have been greater by \$655 million;

- equity would have been greater by \$260 million;
- revenues would have been greater by \$230 million;
- expenses would have been greater by \$148 million; and
- net earnings would have been greater by \$82 million.

Amounts in the condensed supplementary financial information reconciling net earnings of self-supported Crown corporations and agencies to equity in self-supported Crown corporations and agencies for the year would have also changed.

In addition, all of the investments in these subsidiaries should have been reported as investments in government business enterprises. Had this been done, equity in self-supported crown corporations and agencies, as reported on the consolidated statement of financial position, would have been greater by \$241 million, and other investments would have been less by \$241 million. The deficit for the year as reported in the consolidated statement of operations would not have been impacted.

Impact of audit qualifications on the recorded deficit for the year

If the summary financial statements were prepared fully in accordance with Canadian public sector accounting standards, the recorded deficit for the year would have been \$520 million higher. The actual deficit for the year would therefore have been \$2,360 million.

Qualified Opinion

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraphs, the summary financial statements present fairly, in all material respects, the financial position of the Government of the Province of British Columbia as at March 31, 2012, and the results of its operations, change in its net liabilities, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards, which is one of the financial reporting frameworks included in Canadian generally accepted accounting principles.

Basis of Accounting

Without modifying my opinion, I draw attention to Note 1(a) to the summary financial statements, which describes the basis of accounting used in the preparation of these financial statements. In this regard, I note that the basis of accounting under the *Budget Transparency and Accountability Act* is consistent in all respects with Canadian public sector accounting standards.

Victoria, British Columbia
June 29, 2012

John Doyle, MAcc, CA
Auditor General



INDEPENDENT AUDITOR'S REPORT

To the Legislative Assembly of the Province of British Columbia

Report on the Debt-Related Statements

I have audited the accompanying debt-related statements of the Government of the Province of British Columbia and its subsidiaries, which comprise the summary of provincial debt as at March 31, 2012, the key indicators of provincial debt and the summary of performance measures for the year then ended, and a summary of significant accounting policies.

Through these statements, the government reports to the Legislative Assembly on its debt management by presenting five years of information on provincial debt and debt indicators, and compares its actual results of performance measures to its target measures for the fiscal year ended March 31, 2012.

Government's Responsibility for the Debt-Related Statements

Government is responsible for determining the appropriateness of the stated basis of accounting as described in the notes of the debt-related statements and for the preparation of the debt-related statements in accordance with the stated basis of accounting. Government is also responsible for such internal control as it determines is necessary to enable the preparation of the debt-related statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these debt-related statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the debt-related statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the debt-related statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the debt-related statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the government's preparation and fair presentation of the debt-related 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 the government's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by government, as well as evaluating the overall presentation of the debt-related statements.

In my view, the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the summary of provincial debt as at March 31, 2012, the key indicators of provincial debt and the summary of performance measures for the year then ended, are prepared, in all material respects, in accordance with the basis of accounting as described in the notes to the debt-related statements.

Basis of Accounting

Without modifying my opinion, I draw attention to the basis of accounting, as described in the notes to the debt-related statements. The debt-related statements are provided to the Legislative Assembly to supplement the debt disclosures provided in the Summary Financial Statements of the Province of British Columbia and, as a result, may not be suitable for another purpose.

Victoria, British Columbia
June 29, 2012



John Doyle, MAcc, CA
Auditor General