



## 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, 2013, 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 the *Budget Transparency and Accountability Act* as set out in note 1(a) to the summary financial statements, 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 General’s Responsibility**

My responsibility is to express an opinion on these summary financial 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 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 management, as well as evaluating the overall presentation of the summary financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

### **Basis for Qualified Opinion**

*Full consolidation of the Transportation Investment Corporation is required*

Government has classified the Transportation Investment Corporation as a government business enterprise which is 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, 2013, 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.

Changes to the summary financial statements had the Transportation Investment Corporation been fully consolidated are as follows:

	Increase/(decrease) \$ millions	
	2013	2012
<i><b>Consolidated statement of financial position</b></i>		
Financial assets	(2,326)	(1,628)
Liabilities	286	393
Net liabilities	<u>2,612</u>	<u>2,021</u>
Non-financial assets	<u>2,684</u>	<u>2,133</u>
<b>Accumulated surplus</b>	<u>72</u>	<u>112</u>
<i><b>Consolidated statement of operations</b></i>		
Revenue	(35)	(82)
Expense	<u>25</u>	<u>15</u>
<b>Deficit for the year</b>	<u>60</u>	<u>97</u>

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.

The supporting summary financial statements by sector (pages 88 to 95) and the supporting statements for self-supported Crown corporations and agencies (pages 96 to 99) would also be impacted by this inappropriate classification of the Transportation Investment Corporation and by the summary financial statement changes described above.

*Inappropriate deferral of government transfers revenue*

For the year-ended March 31, 2013, changes to Canadian public sector accounting standards now require transfers from other governments to be recorded as revenues in the period the transfer is authorized and all eligibility criteria have been met, except when, and to the extent that the transfer gives rise to an obligation that meets the definition of a liability for the recipient government. These changes apply to transfers received during the fiscal year ended March 31, 2013, and also transfers received in prior years but not yet recognized as revenues.

However, Government's accounting treatment for funds received from other governments is to defer such transfers and recognize as revenue in the statement of operations on the same basis as the related expenditures occur or, in the case of funds for the purchase or construction of capital assets, 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.

Government has chosen to adopt this new accounting standard prospectively. Had an adjustment been made prospectively to record the effect of the transition to the new standard, liabilities as at March 31, 2013, would have been less by \$1,945 million, revenue would have been greater by \$1,945 million, net liabilities for the year would have been less by \$1,945 million and the deficit for the year then ended would have been less by \$1,945 million.

*Inappropriate deferral of restricted revenues*

Government's accounting treatment for externally restricted funds received from non-government sources is to defer such funds and recognize as revenue in the statement of operations on the same basis as the related expenditures occur or, in the case of funds for the purchase or construction of capital assets, to defer such funds 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 externally restricted revenues from non-government sources to be recorded as revenue in the period in which the funds are used for the purpose or purposes specified.

Had an adjustment been made prospectively, liabilities as at March 31, 2013, would have been less by \$1,010 million, revenue would have been greater by \$1,010 million, net liabilities for the year would have been less by \$1,010 million and the deficit for the year then ended would have been less by \$1,010 million.

*Impact of audit qualifications on the recorded net liabilities and deficit for the year*

If the summary financial statements were prepared fully in accordance with Canadian public sector accounting standards, the recorded net liabilities for the year would have been \$343 million lower and the recorded deficit for the year would have been \$2,895 million lower which would have resulted in a surplus for the year of \$1,749 million.

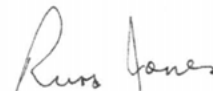
**Qualified Opinion**

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, 2013, and the results of its operations, change in its net liabilities, and its cash flows for the year then ended in accordance with the *Budget Transparency and Accountability Act* as set out in note 1(a) to the summary financial statements, which conform with Canadian public sector accounting standards.

**Report on Other Legal and Regulatory Requirements**

As required by section 11(2) of the *Auditor General Act*, I report that, except for the effects of the matters described in the Basis for Qualified Opinion paragraphs, the summary financial statements are presented fairly in accordance with Canadian public sector accounting standards, which is one of the financial reporting frameworks included in Canadian generally accepted accounting principles.

Victoria, British Columbia  
July 4, 2013



Russ Jones, MBA, 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, 2013, 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, 2013.

### **Management's Responsibility for the Debt-Related Statements**

Management 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. Management is also responsible for such internal control as management 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 management, 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.

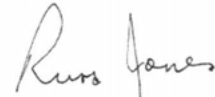
**Opinion**

I believe the summary of provincial debt as at March 31, 2013, 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*  
July 3, 2013



Russ Jones, MBA, CA  
Auditor General