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LIQUOR DISTRIBUTION BRANCH

BC LIQUOR DISTRIBUTION BRANCH

2012/2013 First Quarter Store Audit Summary Report

August 21, 2012

DISTRIBUTION:	Kelly Wilson	Executive Director, Retail Services
	Gary Branham	Director, Store Operations
	Roger M. Bissoondatt	A/General Manager
	Elaine Low	A/Chief Financial Officer
	Donna Morse	Director, Corporate Security
	Beverly Farmer	A/Director of Revenue
	Mark Fukuhara	Director, Regulatory
PREPARED BY:	Patrick Seeley	Director, Internal Audit

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Scope & Approach

This report summarizes the results of the six (6) Government Liquor Stores (GLS) which Internal Audit (IA) completed a full 100% count of on-hand liquor inventory and cash and reconciled results to Liquor Distribution Branch's (LDB's) financial records for accuracy and completeness. The stores were visited during the period April 1 to June 23, 2012 and included the following locations (audit engagements 1 - 6):

Audit #	Store #	Store Name	Area Manager	Audit Fieldwork Date
1	107	Westview Plaza	8	27-May-12
2	152	Capilano Mall	8	28-May-12
3	175	Caufield	8	6-Jun-12
4	133	Dollarton Village	8	12-Jun-12
5	77	Northgate	5	13-Jun-12
6	122	Whalley	2	20-Jun-12

Specific audit procedures performed included:

Inventory

1. Under the direction of the LDB Store Auditor, utilized a third party count team to perform a 100% count of all on-hand liquor inventory at each of the six (6) stores audited;
2. Compared actual on-hand liquor inventory to the on-hand stock per the store's computerized inventory sub-ledger as at the time the count was performed;
3. Reviewed and investigated all identified variances between actual on-hand inventory and the inventory sub-ledger;
4. With authorization from the GLS Manager and the assistance of the LDB Support Centre, facilitated the posting of all confirmed inventory variance adjustments to the GLS inventory system to reflect only confirmed on-hand inventory on the day following the completion of audit fieldwork.

Cash

Following the performance of a complete count of on-hand cash, a reconciliation of on-hand cash to approved cash balances per the LDB General Ledger was performed to ensure all cash has been properly reflected in the branch financial records.

Cycle Count Monitoring

In addition to the Inventory and Cash procedures, IA analyzes the timely completion of quarterly store inventory cycle counts in accordance with Branch policy (which requires each Store to count 100% of its inventory each quarter). However, subsequent to the implementation of Financial Business Improvement Project (FBIP) system changes in early 2012, IA has been unable generate monthly and ad-hock GLS inventory cycle count completion reports since December 2011. The inability to generate this information for the past six (6) months has prevented IA from providing Operations Management (Director Retail Operations, Area Managers, and Store Managers) inventory count percentage completion statistics at both a store system-wide perspective, by area, and by individual store.

IA continues to follow up with the Information Systems Department to determine when this statistical information is expected to be available, yet no formal delivery schedule has been provided.

Audit Results

<u>Inventory Count Results – Q1 Fiscal 2012/2013</u>

The following section summarizes the results of all six (6) inventory counts performed in the quarter based upon the following three measures:

1. Total SKUs adjusted;
2. Total inventory overages (in total display dollars and units);
3. Total inventory shortages (in total display dollars and units).

	$	%	Units	%
Total SKUs adjusted				
Total Inventory Overages			s.17	
Total Inventory Shortages				

Of the six (6) stores audited in the first quarter of fiscal 2012/2013, the top three (3) stores of each of the above categories are as follows:

Top 3 Stores with the most SKUs adjusted					
	#	Name	# of SKUs Adjusted	Total SKUs	% of Total SKUs
1	77	Northgate			
2	107	Westview Plaza	s.17	s.15	s.17
3	152	Capilano			

Top 3 Stores - Overages (Ranking based on display dollar value variance)								
	#	Name	$	Total Inventory	%	Units	Total Inventory	%
1	77	Northgate						
2	107	Westview Plaza	s.17	s.15	s.17		s.15	s.17
3	152	Capilano						

Top 3 Stores - Shortages (Ranking based on display dollar variance)								
	#	Name	$	Total Inventory	%	Units	Total Inventory	%
1	77	Northgate						
2	107	Westview Plaza	s.17	s.15	s.17		s.15	s.17
3	175	Caufield						

Please refer to Appendix A for detailed inventory audit results for all six (6) stores audited in the first quarter of 2012/2013.

Cash Count Results – Q1 Fiscal 2012/2013

The following table provides detailed results of all six (6) cash counts performed in the quarter.

				Imprest Cash		
Store Number	Store Name	Area Manager	Audit date	Total Approved per GL	Over / (Short)	%
107	Westview Plaza	8	27-May-12			
152	Capilano Mall	8	28-May-12			
175	Caulfeild	8	6-Jun-12			
133	Dollarton Village	8	12-Jun-12	s.15	s.17	
77	Northgate	5	13-Jun-12			
122	Whalley	2	20-Jun-12			
Totals						

Comparative Audit Results - 2010/2011, 2011/2012, and Q1 of 2012/2013

The following tables provide comparative audit results summarized by quarter for the two most recent fiscal years (2010/2011 & 2011/2012) and the first quarter of 2012/2013 for the following audit result categories:

1. Total SKU variances
2. Total inventory overage variances
3. Total inventory shortage variances
4. Total cash count variances.

SKU Variance Summary

	2012 / 2013 SKU Variance Summary			2011 / 2012 SKU Variance Summary			2010/ 2011 SKU Variance Summary		
	Total SKUs	SKUs Adjusted	% Adjusted	Total SKUs	SKUs Adjusted	% Adjusted	Total SKUs	SKUs Adjusted	% Adjusted
Q1	14,064			18,334			20,130		
Q2	NA	s.17		25,221			24,541		
Q3	NA			23,001	s.17		12,378	s.17	
Q4	NA			30,025			35,133		
Total	14,064			96,581			92,182		

Inventory Overage Variance Summary

	2012/ 2013 Inventory Overage Summary					
	Display $	Total Display $	%	Units	Total Units	%
Q1		$4,762,818			259,625	
Q2		NA			NA	
Q3	s.17	NA	s.17	s.17	NA	s.17
Q4		NA			NA	
Total		$4,762,818			259,625	

	2011 / 2012 Inventory Overage Summary						2010 / 2011 Inventory Overage Summary					
	Display $	Total Display $	%	Units	Total Units	%	Display $	Total Display $	%	Units	Total Units	%
Q1		$6,188,125			339,085			$7,430,016			408,346	
Q2		$8,742,520			455,833			$8,464,363			408,832	
Q3	s.17	$9,786,759	s.17	s.17	396,730	s.17	s.17	$4,041,241	s.17	s.17	213,644	s.17
Q4		$11,177,726			597,233			$17,473,697			707,065	
Total		$35,895,130			1,788,881			$37,409,317			1,737,887	

Inventory Shortage Variance Summary

	2012/ 2013 Inventory Shortages Summary					
	Display $	Total Display $	%	Units	Total Units	%
Q1		$4,762,818			259,625	
Q2		NA			NA	
Q3	s.17	NA	s.17	s.17	NA	s.17
Q4		NA			NA	
Total		$4,762,818			259,625	

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	2011 / 2012 Inventory Shortage Summary						2010 / 2011 Inventory Shortage Summary					
	Display $	Total Display $	%	Units	Total Units	%	Display $	Total Display $	%	Units	Total Units	%
Q1		$6,188,125			339,085			$7,430,016			408,346	
Q2		$8,742,520			455,833			$8,464,363			408,832	
Q3	s.17	$9,786,759	s.17	s.17	396,730	s.17	s.17	$4,041,241	s.17	s.17	213,644	s.17
Q4		$11,177,726			597,233			$17,473,697			707,065	
Total		$35,895,130			1,788,881			$37,409,317			1,737,887	

Cash Count Variance Summary

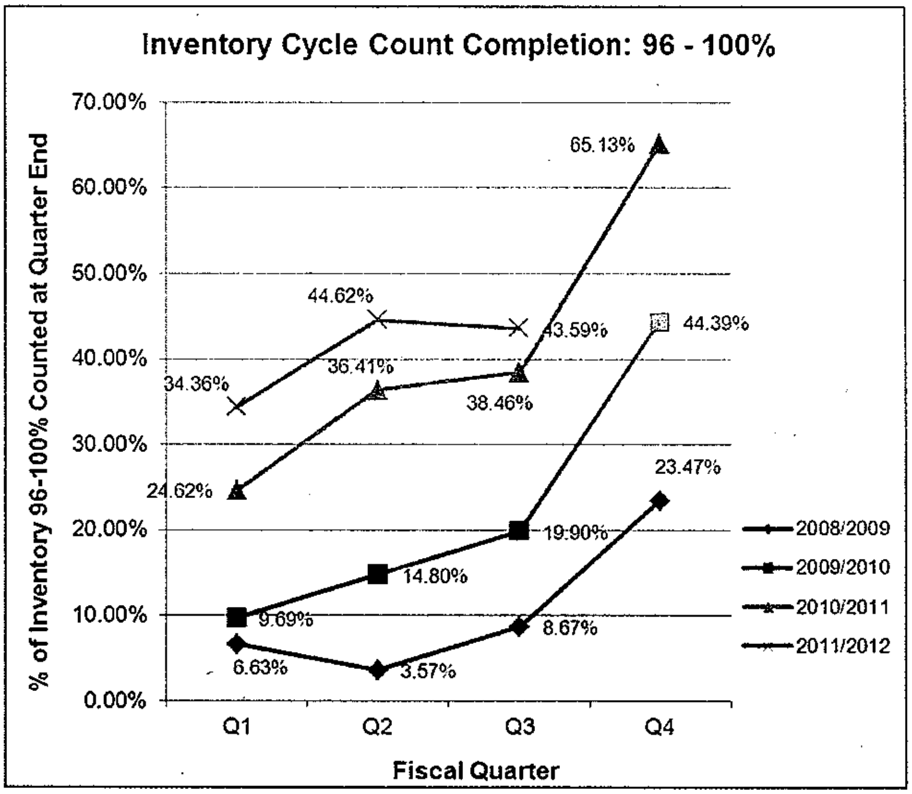
	2012/ 2013 Cash Adjustment Summary			2011/ 2012 Cash Adjustment Summary			2010/ 2011 Cash Adjustment Summary		
	Cash Adjusted	Cash per GL	%	Cash Adjusted	Cash per GL	%	Cash Adjusted	Cash per GL	%
Q1		$152,500			$207,339			$208,106	
Q2		NA			$298,072			$286,646	
Q3	s.17	NA	s.17	s.17	$236,601	s.17	s.17	$185,814	s.17
Q4		NA			$311,526			$415,851	
Total		$152,500			$1,053,538			$1,096,417	

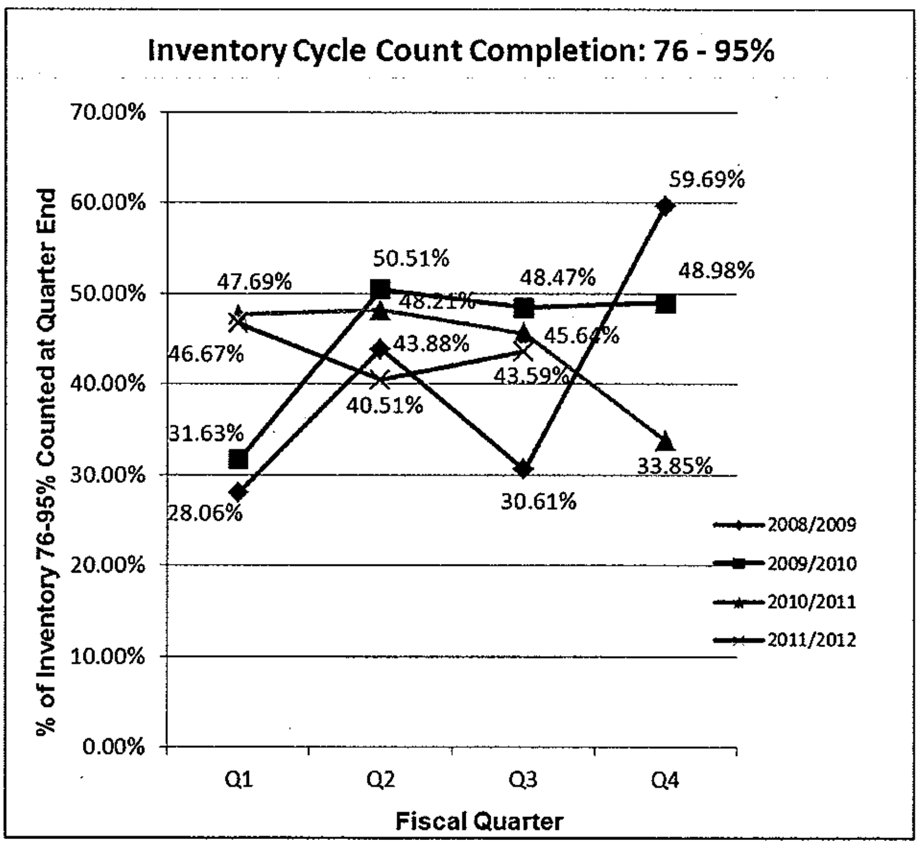
Cycle Count Monitoring

IA is including three (3) charts to provide a system wide view of actual inventory cycle count completion rates. The charts report quarter-end statistical information for the fiscal years 2008/2009, 2009/2010, 2010/2011, and for the first three (3) quarters of 2011/2012. As disclosed previously, cycle count completion information has not been available since December 2011 and as a result the following charts have not been updated since the third quarter of fiscal 2011/2012.

Each chart represents the actual % of inventory counted within each quarter categorized as follows:

- Chart 1 - % of stores which have counted 96-100% of total inventory within the quarter.
- Chart 2 - % of stores which have counted 76-95% of total inventory within the quarter.
- Chart 3 - % of stores which have counted 75% or less of total inventory within the quarter.





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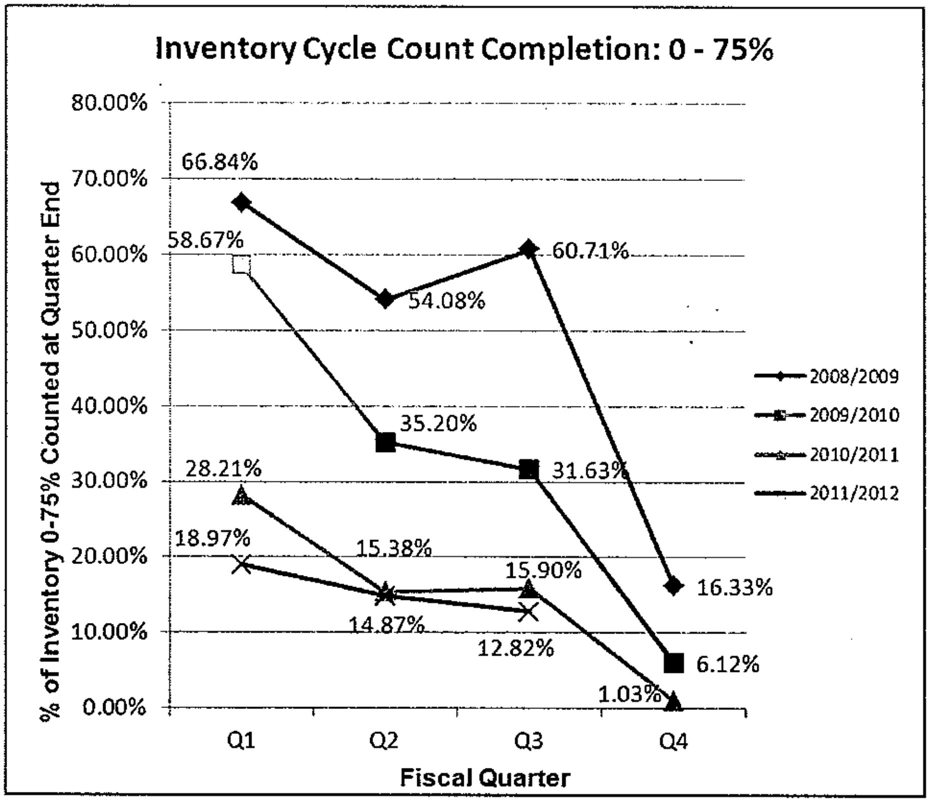

Comparative actual quarterly inventory cycle count completion rates based upon total number of stores is also presented below:

	# of Stores with 96 - 100% Completion Rates			
	Q1	Q2	Q3	Q4
2008/2009	13	7	17	46
2009/2010	19	29	39	87
2010/2011	48	71	75	127
2011/2012	67	87	85	**not available**
2012/2013	**not available**	NA	NA	NA
	# of Stores with 76 - 95% Completion Rates			
	Q1	**Q2**	**Q3**	**Q4**
2008/2009	55	86	60	117
2009/2010	62	99	95	96
2010/2011	93	94	89	66
2011/2012	91	79	85	**not available**
2012/2013	**not available**	NA	NA	NA
	# of Stores with Under 75% Completion Rates			
	Q1	**Q2**	**Q3**	**Q4**
2008/2009	131	106	119	32
2009/2010	115	69	62	12
2010/2011	55	30	31	2
2011/2012	37	29	25	**not available**
2012/2013	**not available**	NA	NA	NA

Audit Results Analysis – Q1 2012/2013

Liquor Inventory Count Analysis

From the six (6) GLS locations audited in the first quarter of 2012/2013, the combined trend in liquor inventory variances appear to be improving when compared to audit count inventory variance percentages for the two most recently ended fiscal years. Specifically, comparative variance percentages are as follows:

	SKU Variance Trend		Overage Variance Trend				Shortage Variance Trend			
	#	%	$	%	Units	%	$	%	#	%
Q1 2012/2013										
2011/2012					s.17					
2010/2011										

Cash Count Analysis

Combined cash count results for the six (6) GLS locations audited in the first quarter of 2012/2013 indicate insignificant variances between actual on hand cash and approved cash float balances. Specifically, comparative variance percentages are as follows:

	Cash Variance Trend	
	$	%
Q1 2012/2013		
2011/2012		s.17
2010/2011		

Inventory Cycle Count Monitoring Analysis

Since summary and detailed inventory cycle counting completion percentage information has not been available for the two most recent quarters (Q4 2011/2012 & Q1 2012/2013), IA is unable to provide an analysis of current cycle count completion rates.

Appendix A

Total SKU Adjustments by Store - Q1 2012/2013						
					SKUs	
Store Number	Store Name	Area Manager	Audit date	Total	Total Adjusted	% Adjusted
107	Westview Plaza	8	27-May-12			
152	Capilano Mall	8	28-May-12			
175	Caulfeild	8	6-Jun-12			
133	Dollarton Village	8	12-Jun-12	s.15		s.17
77	Northgate	5	13-Jun-12			
122	Whalley	2	20-Jun-12			
Totals						

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Appendix B

$ Over / (Short) Adjustments by Store - Q1 2012/2013

Store Number	Store Name	Area Manager	Audit date	Total Inventory Value	Inventory Value (In "Display" $) Over	%	Short	%
107	Westview Plaza	8	27-May-12					
152	Capilano Mall	8	28-May-12					
175	Caulfeild	8	6-Jun-12					
133	Dollarton Village	8	12-Jun-12	s.15			s.17	
77	Northgate	5	13-Jun-12					
122	Whalley	2	20-Jun-12					
Totals								

Unit Over / (Short) Adjustments by Store - Q1 2012/2013

Store Number	Store Name	Area Manager	Audit date	Units Total	Over	%	Short	%
107	Westview Plaza	8	27-May-12					
152	Capilano Mall	8	28-May-12					
175	Caulfeild	8	6-Jun-12					
133	Dollarton Village	8	12-Jun-12	s.15			s.17	
77	Northgate	5	13-Jun-12					
122	Whalley	2	20-Jun-12					
Totals								

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2012/2013 Second Quarter Store Audit Summary Report

December 17, 2012

DISTRIBUTION:	Kelly Wilson	Executive Director, Retail Services
	Gary Branham	Director, Store Operations
	Roger M. Bissoondatt	A/General Manager
	Elaine Low	A/Chief Financial Officer
	Donna Morse	Director, Corporate Security
	Elena Perlova	Director of Revenue
	Mark Fukuhara	Director, Regulatory
PREPARED BY:	Patrick Seeley	Director, Internal Audit

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Scope & Approach

This report summarizes the results of the eleven (11) Government Liquor Stores (GLS) which Internal Audit (IA) completed a full 100% count of on-hand liquor inventory and cash and reconciled results to Liquor Distribution Branch's (LDB's) financial records for accuracy and completeness. The stores were visited during the period July 9 to September 26, 2012 and included the following locations (audit engagements 7 - 17):

Audit #	Store #	Store Name	Area Manager	Audit Fieldwork Date
7	10	Courtenay	8	9-Jul-12
8	235	Comox	8	10-Jul-12
9	5	Campbell River	8	11-Jul-12
10	185	Willow Point	8	12-Jul-12
11	233	Robson Street	1	9-Sep-12
12	79	Kamloops Columbia Place	7	17-Sep-12
13	223	Kamloops North	7	18-Sep-12
14	135	Vernon	7	19-Sep-12
15	148	Kelowna Mission Park	7	20-Sep-12
16	27	Mission Hills	2	25-Sep-12
17	189	Abbotsford Village	2	26-Sep-12

Specific audit procedures performed included:

<u>Inventory</u>

1. Under the direction of the LDB Store Auditor, utilized a third party count team to perform a 100% count of all on-hand liquor inventory at each of the eleven (11) stores audited;
2. Compared actual on-hand liquor inventory to the on-hand stock per the store's computerized inventory sub-ledger as at the time the count was performed;
3. Reviewed and investigated all identified variances between actual on-hand inventory and the inventory sub-ledger;
4. With authorization from the GLS Manager and the assistance of the LDB Support Centre, facilitated the posting of all confirmed inventory variance adjustments to the GLS inventory system to reflect only confirmed on-hand inventory on the day following the completion of audit fieldwork.

<u>Cash</u>

Following the performance of a complete count of on-hand cash, a reconciliation of on-hand cash to approved cash balances per the LDB General Ledger was performed to ensure all cash has been properly reflected in the branch financial records.

<u>Cycle Count Monitoring</u>

In addition to the Inventory and Cash procedures, IA analyzes the timely completion of quarterly store inventory cycle counts in accordance with Branch policy (which requires each Store to count 100% of its inventory each quarter). However, subsequent to the implementation of Financial Business Improvement Project (FBIP) system changes in early 2012, IA has been unable generate monthly and ad-hoc GLS inventory cycle count completion reports since

December 2011. The inability to generate this information for the past eleven (11) months has prevented IA from providing Operations Management (Director Retail Operations, Area Managers, and Store Managers) inventory count percentage completion statistics at both a store system-wide perspective, by area, and by individual store.

IA continues to follow up with the Information Systems Department to determine when this statistical information is expected to be available, yet no formal delivery schedule has been provided.

Audit Results

Inventory Count Results – Q2 Fiscal 2012/2013

The following section summarizes the results of all eleven (11) inventory counts performed in the quarter based upon the following three measures:

1. Total SKUs adjusted;
2. Total inventory overages (in total display dollars and units);
3. Total inventory shortages (in total display dollars and units).

	$	%	Units	%
Total SKUs adjusted				
Total Inventory Overages		s.17		
Total Inventory Shortages				

Of the eleven (11) stores audited in the second quarter of fiscal 2012/2013, the top three (3) stores of each of the above categories are as follows:

Top 3 Stores with the most SKUs adjusted					
	#	Name	# of SKUs Adjusted	Total SKUs	% of Total SKUs
1	10	Courtenay			
2	79	Kamloops Col. Place	s.17	s.15	s.17
3	233	Robson Street			

Top 3 Stores - Overages (Ranking based on display dollar value variance)								
	#	Name	$	Total Inventory	%	Units	Total Inventory	%
1	79	Kamloops Col. Place						
2	10	Courtenay	s.17	s.15	s.17	s.17	s.15	s.17
3	5	Campbell River						

Top 3 Stores - Shortages (Ranking based on display dollar variance)								
	#	Name	$	Total Inventory	%	Units	Total Inventory	%
1	10	Courtenay						
2	5	Campbell River	s.17	s.15	s.17		s.15	s.17
3	79	Kamloops Col. Place						

Please refer to Appendix A for detailed inventory audit results for all eleven (11) stores audited in the second quarter of 2012/2013.

Cash Count Results – Q2 Fiscal 2012/2013

The following table provides detailed results of all eleven (11) cash counts performed in the quarter.

				Imprest Cash		
Store Number	Store Name	Area Manager	Audit date	Total Approved per GL	Over / (Short)	%
10	Courtenay	8	9-Jul-12			
235	Comox	8	10-Jul-12			
5	Campbell River	8	11-Jul-12			
185	Willow Point	8	12-Jul-12			
233	Robson Street	1	9-Sep-12			
79	Kamloops Col. Place	7	17-Sep-12			
223	Kamloops North	7	18-Sep-12	s.15	s.17	
135	Vernon	7	19-Sep-12			
148	Kelowna Mission Park	7	20-Sep-12			
27	Mission Hills	2	25-Sep-12			
189	Abbotsford Village	2	26-Sep-12			
Totals						

Comparative Audit Results - 2010/2011, 2011/2012, and Q1 & Q2 of 2012/2013

The following tables provide comparative audit results summarized by quarter for the two most recent fiscal years (2010/2011 & 2011/2012) and the first and second quarters of 2012/2013 for the following audit result categories:

1. Total SKU variances
2. Total inventory overage variances
3. Total inventory shortage variances
4. Total cash count variances.

SKU Variance Summary

	2012 / 2013 SKU Variance Summary			2011 / 2012 SKU Variance Summary			2010 / 2011 SKU Variance Summary		
	Total SKUs	SKUs Adjusted	% Adjusted	Total SKUs	SKUs Adjusted	% Adjusted	Total SKUs	SKUs Adjusted	% Adjusted
Q1	14,064			18,334			20,130		
Q2	25,804			25,221			24,541		
Q3	NA	s.17		23,001	s.17		12,378	s.17	
Q4	NA			30,025			35,133		
Total	39,868			96,581			92,182		

Inventory Overage Variance Summary

	2012 / 2013 Inventory Overage Summary					
	Display $	Total Display $	%	Units	Total Units	%
Q1		$4,762,818			259,625	
Q2		$8,400,619			451,815	
Q3	s.17	NA	s.17	s.17	NA	s.17
Q4		NA			NA	
Total		$13,163,437			711,440	

	2011 / 2012 Inventory Overage Summary						2010 / 2011 Inventory Overage Summary					
	Display $	Total Display $	%	Units	Total Units	%	Display $	Total Display $	%	Units	Total Units	%
Q1		$6,188,125			339,085			$7,430,016			408,346	
Q2		$8,742,520			455,833			$8,464,363			408,832	
Q3	s.17	$9,786,759	s.17	s.17	396,730	s.17	s.17	$4,041,241	s.17	s.17	213,644	s.17
Q4		$11,177,726			597,233			$17,473,697			707,065	
Total		$35,895,130			1,788,881			$37,409,317			1,737,887	

Inventory Shortage Variance Summary

	2012 / 2013 Inventory Shortages Summary					
	Display $	Total Display $	%	Units	Total Units	%
Q1		$4,762,818			259,625	
Q2		$8,400,619			$451,815	
Q3	s.17	NA	s.17	s.17	NA	s.17
Q4		NA			NA	
Total		$13,163,437			711,440	

	2011 / 2012 Inventory Shortage Summary						2010 / 2011 Inventory Shortage Summary					
	Display $	Total Display $	%	Units	Total Units	%	Display $	Total Display $	%	Units	Total Units	%
Q1		$6,188,125			339,085			$7,430,016			408,346	
Q2		$8,742,520			455,833			$8,464,363			408,832	
Q3	s.17	$9,786,759	s.17	s.17	396,730	s.17	s.17	$4,041,241	s.17	s.17	213,644	s.17
Q4		$11,177,726			597,233			$17,473,697			707,065	
Total		$35,895,130			1,788,881			$37,409,317			1,737,887	

Cash Count Variance Summary

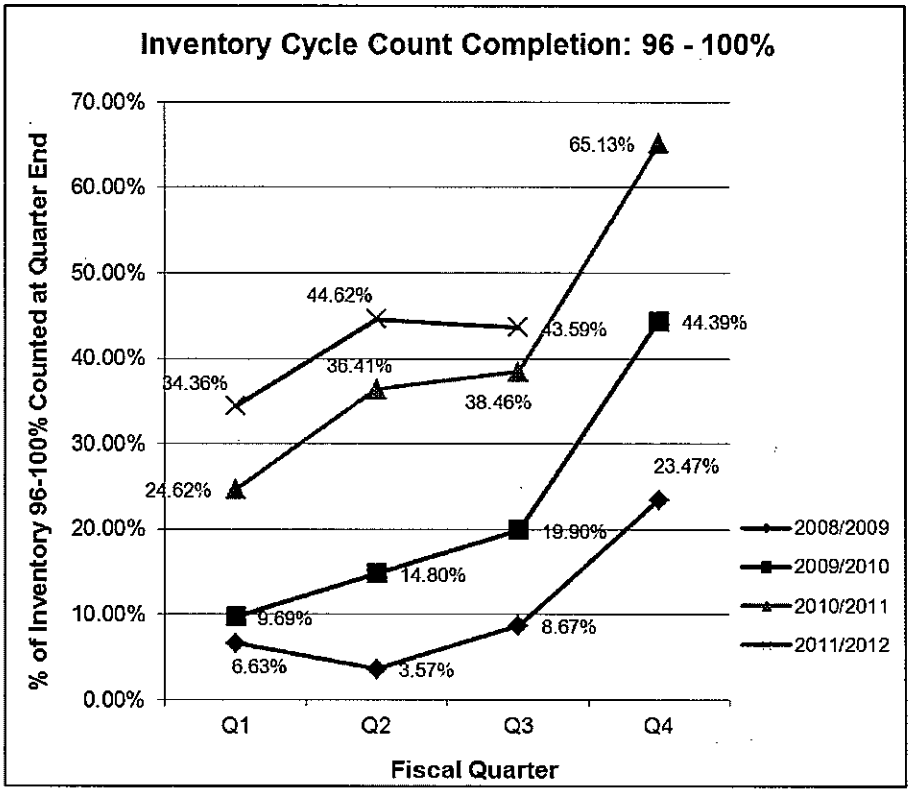
	2012 / 2013 Cash Adjustment Summary			2011 / 2012 Cash Adjustment Summary			2010 / 2011 Cash Adjustment Summary		
	Cash Adjusted	Cash per GL	%	Cash Adjusted	Cash per GL	%	Cash Adjusted	Cash per GL	%
Q1		$152,500			$207,339			$208,106	
Q2		$316,777			$298,072			$286,646	
Q3	s.17	NA	s.17	s.17	$236,601	s.17	s.17	$185,814	s.17
Q4		NA			$311,526			$415,851	
Total		$469,277			$1,053,538			$1,096,417	

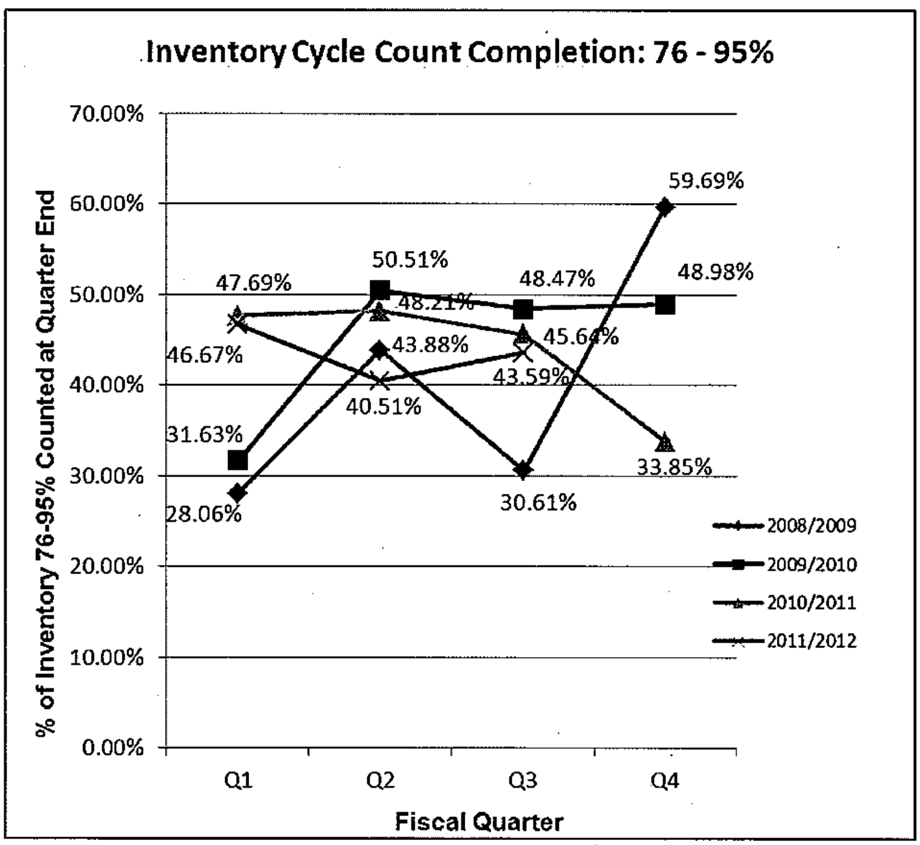
Cycle Count Monitoring

IA is including three (3) charts to provide a system wide view of actual inventory cycle count completion rates. The charts report quarter-end statistical information for the fiscal years 2008/2009, 2009/2010, 2010/2011, and for the first three (3) quarters of 2011/2012. As disclosed previously, cycle count completion information has not been available since December 2011 and as a result the following charts have not been updated since the third quarter of fiscal 2011/2012.

Each chart represents the actual % of inventory counted within each quarter categorized as follows:

- Chart 1 - % of stores which have counted 96-100% of total inventory within the quarter.
- Chart 2 - % of stores which have counted 76-95% of total inventory within the quarter.
- Chart 3 - % of stores which have counted 75% or less of total inventory within the quarter.





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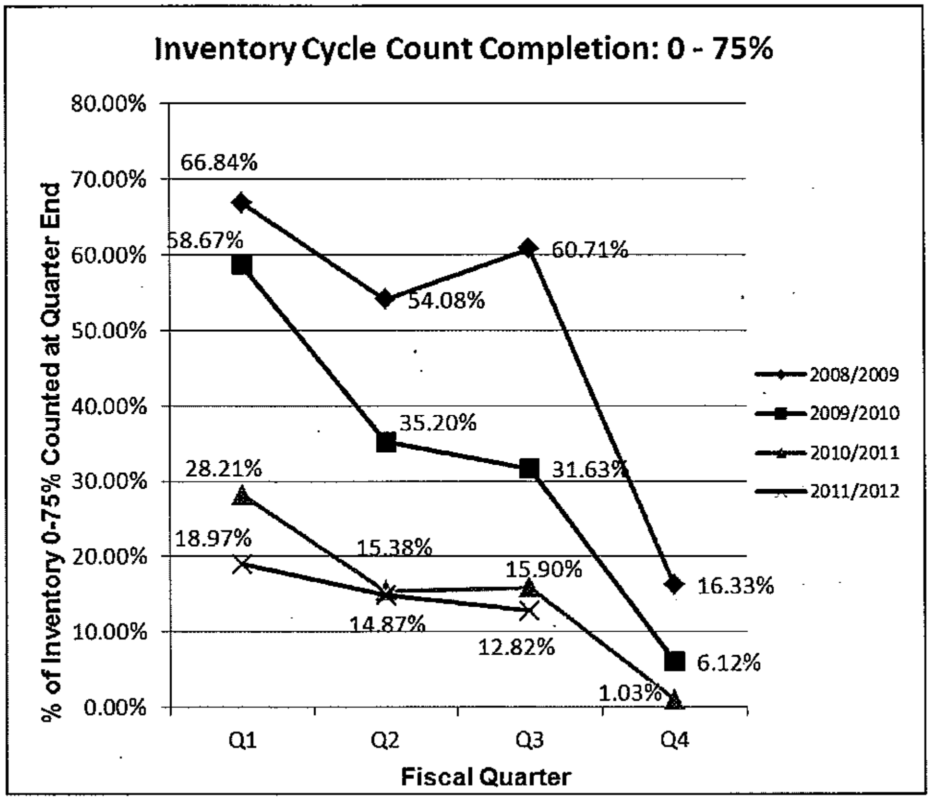

Comparative actual quarterly inventory cycle count completion rates based upon total number of stores is also presented below:

	# of Stores with 96 - 100% Completion Rates			
	Q1	**Q2**	**Q3**	**Q4**
2008/2009	13	7	17	46
2009/2010	19	29	39	87
2010/2011	48	71	75	127
2011/2012	67	87	85	not available
2012/2013	not available	not available	NA	NA
	# of Stores with 76 - 95% Completion Rates			
	Q1	**Q2**	**Q3**	**Q4**
2008/2009	55	86	60	117
2009/2010	62	99	95	96
2010/2011	93	94	89	66
2011/2012	91	79	85	not available
2012/2013	not available	not available	NA	NA
	# of Stores with Under 75% Completion Rates			
	Q1	**Q2**	**Q3**	**Q4**
2008/2009	131	106	119	32
2009/2010	115	69	62	12
2010/2011	55	30	31	2
2011/2012	37	29	25	not available
2012/2013	not available	not available	NA	NA

Audit Results Analysis – Q2 2012/2013

Liquor Inventory Count Analysis

From the eleven (11) GLS locations audited in the second quarter of 2012/2013, the combined trend in liquor inventory variances appear to be improving when compared to audit count inventory variance percentages for the two most recently ended fiscal years. Specifically, comparative variance percentages are as follows:

	SKU Variance Trend		Overage Variance Trend				Shortage Variance Trend			
	#	%	$	%	Units	%	$	%	Units	%
Q2 2012/2013										
2011/2012					s.17					
2010/2011										

Cash Count Analysis

Combined cash count results for the eleven (11) GLS locations audited in the second quarter of 2012/2013 indicate insignificant variances between actual on hand cash and approved cash float balances. Specifically, comparative variance percentages are as follows:

	Cash Variance Trend	
	$	%
Q2 2012/2013		
2011/2012		s.17
2010/2011		

Inventory Cycle Count Monitoring Analysis

Since summary and detailed inventory cycle counting completion percentage information has not been available for the three most recent quarters (Q4 2011/2012, Q1 & Q2 2012/2013), IA is unable to provide an analysis of current cycle count completion rates.

Appendix A

Total SKU Adjustments by Store – Q2 2012/2013						
					SKUs	
Store Number	Store Name	Area Manager	Audit date	Total	Total Adjusted	% Adjusted
10	Courtenay	8	9-Jul-12			
235	Comox	8	10-Jul-12			
5	Campbell River	8	11-Jul-12			
185	Willow Point	8	12-Jul-12			
233	Robson Street	1	9-Sep-12			
79	Kamloops Col. Place	7	17-Sep-12			
223	Kamloops North	7	18-Sep-12	s.15	s.17	
135	Vernon	7	19-Sep-12			
148	Kelowna Mission Park	7	20-Sep-12			
27	Mission Hills	2	25-Sep-12			
189	Abbotsford Village	2	26-Sep-12			
Totals						

Appendix B

$ Over / (Short) Adjustments by Store – Q2 2012/2013								
				Inventory Value (In "Display" $)				
Store Number	Store Name	Area Manager	Audit date	Total Inventory Value	Over	%	Short	%
10	Courtenay	8	9-Jul-12					
235	Comox	8	10-Jul-12					
5	Campbell River	8	11-Jul-12					
185	Willow Point	8	12-Jul-12					
233	Robson Street	1	9-Sep-12					
79	Kamloops Col. Place	7	17-Sep-12					
223	Kamloops North	7	18-Sep-12	s.15			s.17	
135	Vernon	7	19-Sep-12					
148	Kelowna Mission Park	7	20-Sep-12					
27	Mission Hills	2	25-Sep-12					
189	Abbotsford Village	2	26-Sep-12					
Totals								

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Appendix B

Unit Over / (Short) Adjustments by Store – Q2 2012/2013

Store Number	Store Name	Area Manager	Audit date	Units: Total	Units: Over	Units: %	Units: Short	Units: %
10	Courtenay	8	9-Jul-12					
235	Comox	8	10-Jul-12					
5	Campbell River	8	11-Jul-12					
185	Willow Point	8	12-Jul-12					
233	Robson Street	1	9-Sep-12					
79	Kamloops Col. Place	7	17-Sep-12					
223	Kamloops North	7	18-Sep-12	s.15			s.17	
135	Vernon	7	19-Sep-12					
148	Kelowna Mission Park	7	20-Sep-12					
27	Mission Hills	2	25-Sep-12					
189	Abbotsford Village	2	26-Sep-12					
Totals								

BRITISH COLUMBIA | LIQUOR DISTRIBUTION BRANCH

BC LIQUOR DISTRIBUTION BRANCH

2012/2013 Third Quarter Store Audit Summary Report

February 12, 2013

DISTRIBUTION:	Kelly Wilson	Executive Director, Retail Services
	Gary Branham	Director, Store Operations
	Roger M. Bissoondatt	A/General Manager
	Constantin Starck	A/Chief Financial Officer
	Donna Morse	Director, Corporate Security
	Elena Perlova	Director of Revenue
	Mark Fukuhara	Director, Regulatory
PREPARED BY:	Phil Stuart	Operational Audit Manager
REVIEWED BY:	Patrick Seeley	Director, Internal Audit

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Scope & Approach

This report summarizes the results of the nine (9) Government Liquor Stores (GLS) which Internal Audit (IA) completed a full 100% count of on-hand liquor inventory and cash and reconciled results to Liquor Distribution Branch's (LDB's) financial records for accuracy and completeness. The stores were visited during the period October 21 to November 14, 2012 and included the following locations (audit engagements 18 - 26):

Audit #	Store #	Store Name	Area Manager	Audit Fieldwork Date
18	117	Broadway & Maple	3	14-Oct-12
19	158	Langley	2	21-Oct-12
20	7	Chilliwack	5	22-Oct-12
21	170	Sardis	5	23-Oct-12
22	179	Whistler Market Place	1	28-Oct-12
23	177	8th & Cambie	1	29-Oct-12
24	241	Nordel Crossing	2	5-Nov-12
25	94	Bute Street	1	6-Nov-12
26	300	Broadway & Lillooet	1	13-Nov-12

Specific audit procedures performed included:

Inventory

1. Under the direction of the LDB Store Auditor, utilized a third party count team to perform a 100% count of all on-hand liquor inventory at each of the nine (9) stores audited;
2. Compared actual on-hand liquor inventory to the on-hand stock per the store's computerized inventory sub-ledger as at the time the count was performed;
3. Reviewed and investigated all identified variances between actual on-hand inventory and the inventory sub-ledger;
4. With authorization from the GLS Manager and the assistance of the LDB Support Centre, facilitated the posting of all confirmed inventory variance adjustments to the GLS inventory system to reflect only confirmed on-hand inventory on the day following the completion of audit fieldwork.

Cash

Following the performance of a complete count of on-hand cash, a reconciliation of on-hand cash to approved cash balances per the LDB General Ledger was performed to ensure all cash has been properly reflected in the branch financial records.

Cycle Count Monitoring

In addition to the Inventory and Cash procedures, IA has historically analyzed the timely completion of quarterly store inventory cycle counts in accordance with Branch policy (which requires each Store to count 100% of its inventory each quarter). However, subsequent to the implementation of Financial Business Improvement Project (FBIP) system changes in early 2012, IA has been unable generate monthly and ad-hoc GLS inventory cycle count completion reports since December 2011. The inability to generate this information for the past twelve (12) months has prevented IA from providing Operations Management (Director Retail Operations, Area Managers, and Store Managers) inventory count percentage completion statistics at both a store system-wide perspective, by area, and by individual store.

IA continues to follow up with the Information Systems Department to determine when this statistical information is expected to be available, yet no formal delivery schedule has been provided.

As a result, cycle count monitoring reports have no longer been included with this quarterly report. When the cycle count completion reports are reinstated by the Branch this monitoring and reporting will be reinstated.

<u>Additional Audit Procedures</u>

In addition to the above noted procedures, Internal Audit performs the following audit procedures:

1. Cash disbursements - review current month paid invoices to ensure all invoice are original, amounts agree to the amount recorded in the store cheque book, and all invoices appear to be for legitimate store expenditures;
2. Cycle count records – confirm the existence of cycle count performance records indicating regular cycle counts are being performed;
3. PCI compliance – confirm the existence of and use of visitor logs; observe pin pads are properly secured, have anti-tampering decals in place, and the decals have not been compromised; credit / debit receipts are properly secured.

For the purposes of this report, only exceptions to the above noted audit procedures have been reported.

Audit Results

<u>Inventory Count Results – Q3 Fiscal 2012/2013</u>

The following section summarizes the results of all nine (9) inventory counts performed in the quarter based upon the following three measures:

1. Total SKUs adjusted;
2. Total inventory overages (in total display dollars and units);
3. Total inventory shortages (in total display dollars and units).

	$	%	Units	%
Total SKUs adjusted				
Total Inventory Overages		s.17		
Total Inventory Shortages				

Of the nine (9) stores audited in the third quarter of fiscal 2012/2013, the top three (3) stores of each of the above categories are as follows:

	Top 3 Stores with the most SKUs adjusted				
	#	**Name**	**# of SKUs Adjusted**	**Total SKUs**	**% of Total SKUs**
1	177	8th & Cambie	s.17	s.15	s.17
2	094	Bute Street			
3	158	Langley			

	Top 3 Stores - Overages (Ranking based on display dollar value variance)							
	#	**Name**	**$**	**Total Inventory**	**%**	**Units**	**Total Inventory**	**%**
1	177	8th & Cambie	s.17	s.15	s.17		s.15	s.17
2	094	Bute Street						
3	158	Langley						

	Top 3 Stores - Shortages (Ranking based on display dollar variance)							
	#	**Name**	**$**	**Total Inventory**	**%**	**Units**	**Total Inventory**	**%**
1	177	8th & Cambie	s.17	s.15	s.17	s.17	s.15	s.17
2	094	Bute Street						
3	241	Nordel Crossing						

BCGLS#177 – 8th & Cambie has a significant variance in comparison to the other store results. This was caused from an earlier inventory count in which the physical count inventory file was incorrectly applied against the closing book inventory of the day after the count. This resulted in a significantly reduced adjusted book inventory. This count was done to correct the earlier large negative adjustments to the store's book inventory.

Please refer to Appendix A for detailed inventory audit results for all nine (9) stores audited in the second quarter of 2012/2013.

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Cash Count Results – Q3 Fiscal 2012/2013

The following table provides detailed results of all nine (9) cash counts performed in the quarter.

Store Number	Store Name	Area Manager	Audit date	Imprest Cash: Total Approved per GL	Imprest Cash: Over / (Short)	Imprest Cash: %
117	Broadway & Maple	3	14-Oct-12			
158	Langley	2	21-Oct-12			
7	Chilliwack	5	22-Oct-12			
170	Sardis	5	23-Oct-12			
179	Whistler Market Place	1	28-Oct-12	s.15	s.17	
177	8th & Cambie	1	29-Oct-12			
241	Nordel Crossing	2	5-Nov-12			
94	Bute Street	1	6-Nov-12			
300	Broadway & Lillooet	1	13-Nov-12			
Totals						

Comparative Audit Results - 2010/2011, 2011/2012, and Q1 to Q3 of 2012/2013

The following tables provide comparative audit results summarized by quarter for the two most recent fiscal years (2010/2011 & 2011/2012) and the first three quarters of 2012/2013 for the following audit result categories:

1. Total SKU variances
2. Total inventory overage variances
3. Total inventory shortage variances
4. Total cash count variances.

SKU Variance Summary

	2012 / 2013 SKU Variance Summary			2011 / 2012 SKU Variance Summary			2010/ 2011 SKU Variance Summary		
	Total SKUs	SKUs Adjusted	% Adjusted	Total SKUs	SKUs Adjusted	% Adjusted	Total SKUs	SKUs Adjusted	% Adjusted
Q1	14,064			18,334			20,130		
Q2	25,804			25,221			24,541		
Q3	21,965	s.17	s.17	23,001	s.17		12,378	s.17	
Q4	NA			30,025			35,133		
Total	**61,833**			**96,581**			**92,182**		

Inventory Overage Variance Summary

	2012 / 2013 Inventory Overage Summary					
	Display $	Total Display $	%	Units	Total Units	%
Q1		$4,762,818			259,625	
Q2		$8,400,619			451,815	
Q3	s.17	$7,612,261		s.17	384,565	s.17
Q4		NA			NA	
Total		$20,775,698			1,096,005	

	2011 / 2012 Inventory Overage Summary						2010 / 2011 Inventory Overage Summary					
	Display $	Total Display $	%	Units	Total Units	%	Display $	Total Display $	%	Units	Total Units	%
Q1		$6,188,125			339,085			$7,430,016			408,346	
Q2		$8,742,520			455,833			$8,464,363			408,832	
Q3	s.17	$9,786,759	s.17		396,730		s.17	$4,041,241		s.17	213,644	s.17
Q4		$11,177,726			597,233			$17,473,697			707,065	
Total		$35,895,130			1,788,881			$37,409,317			1,737,887	

Inventory Shortage Variance Summary

	2012 / 2013 Inventory Shortage Summary					
	Display $	Total Display $	%	Units	Total Units	%
Q1		$4,762,818			259,625	
Q2		$8,400,619			451,815	
Q3	s.17	$7,612,261	s.17	s.17	384,565	s.17
Q4		NA			NA	
Total		$20,775,698			1,096,005	

	2011 / 2012 Inventory Shortage Summary						2010 / 2011 Inventory Shortage Summary					
	Display $	Total Display $	%	Units	Total Units	%	Display $	Total Display $	%	Units	Total Units	%
Q1		$6,188,125			339,085			$7,430,016			408,346	
Q2		$8,742,520			455,833			$8,464,363			408,832	
Q3	s.17	$9,786,759	s.17		396,730		s.17	$4,041,241		s.17	213,644	s.17
Q4		$11,177,726			597,233			$17,473,697			707,065	
Total		$35,895,130			1,788,881			$37,409,317			1,737,887	

Cash Count Variance Summary

	2012/ 2013 Cash Adjustment Summary			2011/ 2012 Cash Adjustment Summary			2010/ 2011 Cash Adjustment Summary		
	Cash Adjusted	Cash per GL	%	Cash Adjusted	Cash per GL	%	Cash Adjusted	Cash per GL	%
Q1		$152,500			$207,339			$208,106	
Q2		$316,777			$298,072			$286,646	
Q3	s.17	$248,650	s.17	s.17	$236,601	s.17	s.17	$185,814	s.17
Q4		NA			$311,526			$415,851	
Total		$717,927			$1,053,538			$1,096,417	

Audit Results Analysis – Q3 2012/2013

Liquor Inventory Count Analysis

From the nine (9) GLS locations audited in the third quarter of 2012/2013, the combined trend in liquor inventory variances appear to be improving when compared to audit count inventory variance percentages for the two most recently ended fiscal years. Specifically, comparative variance percentages are as follows:

	SKU Variance Trend		Overage Variance Trend				Shortage Variance Trend			
	#	%	$	%	Units	%	$	%	Units	%
Q3 2012/2013						s.17				
2011/2012										
2010/2011										

Cash Count Analysis

Combined cash count results for the nine (9) GLS locations audited in the third quarter of 2012/2013 indicate insignificant variances between actual on hand cash and approved cash float balances. Specifically, comparative variance percentages are as follows:

	Cash Variance Trend	
	$	%
Q3 2012/2013	s.17	
2011/2012		
2010/2011		

Inventory Cycle Count Monitoring Analysis

Since summary and detailed inventory cycle counting completion percentage information has not been available for the last four quarters (Q4 2011/2012, Q1 to Q3 2012/2013), IA is unable to provide an analysis of current cycle count completion rates.

Additional Audit Procedures

No exceptions were noted.

Appendix A

Total SKU Adjustments by Store - Q3 2012/2013						
					SKUs	
Store Number	Store Name	Area Manager	Audit date	Total	Total Adjusted	% Adjusted
117	Broadway & Maple	3	14-Oct-12	s.15	s.17	
158	Langley	2	21-Oct-12			
7	Chilliwack	5	22-Oct-12			
170	Sardis	5	23-Oct-12			
179	Whistler Market Place	1	28-Oct-12			
177	8th & Cambie	1	29-Oct-12			
241	Nordel Crossing	2	5-Nov-12			
94	Bute Street	1	6-Nov-12			
300	Broadway & Lillooet	1	13-Nov-12			
Totals						

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Appendix B

$ Over / (Short) Adjustments by Store - Q3 2012/2013								
				Inventory Value (In "Display" $)				
Store Number	Store Name	Area Manager	Audit date	Total Inventory Value	Over	%	Short	%
117	Broadway & Maple	3	14-Oct-12					
158	Langley	2	21-Oct-12					
7	Chilliwack	5	22-Oct-12					
170	Sardis	5	23-Oct-12					
179	Whistler Market Place	1	28-Oct-12					
177	8th & Cambie	1	29-Oct-12	s.15		s.17		
241	Nordel Crossing	2	5-Nov-12					
94	Bute Street	1	6-Nov-12					
300	Broadway & Lillooet	1	13-Nov-12					
Totals								

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Appendix B - Continued

Unit Over / (Short) Adjustments by Store - Q3 2012/2013								
				Units				
Store Number	Store Name	Area Manager	Audit date	Total	Over	%	Short	%
117	Broadway & Maple	3	14-Oct-12					
158	Langley	2	21-Oct-12					
7	Chilliwack	5	22-Oct-12					
170	Sardis	5	23-Oct-12					
179	Whistler Market Place	1	28-Oct-12	s.15			s.17	
177	8th & Cambie	1	29-Oct-12					
241	Nordel Crossing	2	5-Nov-12					
94	Bute Street	1	6-Nov-12					
300	Broadway & Lillooet	1	13-Nov-12					
Totals								

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LIQUOR
DISTRIBUTION
BRANCH

BC LIQUOR DISTRIBUTION BRANCH

2012/2013 Fourth Quarter Store Audit Summary Report

June 26, 2013

Distribution:	Kelly Wilson	Executive Director, Retail & Wholesale Services
	Gary Branham	Director, Store Operations
	Mark Fukuhara	Director, Regulatory
	Elena Perlova	Director, Revenue
	Roger Bissoondatt	Executive Director & Chief Financial Officer
	Don Farley	Executive Director, Information Systems
	Blain Lawson	General Manager & Chief Executive Officer
	Donna Morse	Director, Corporate Security
	Maria Patten	Director, Corporate Projects
	Mike Procopio	Executive Director, Human Resources
	Catherine Sloan	Legal Counsel
Prepared by:	Patrick Seeley	Director, Internal Audit

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Executive Summary

This report provides the detailed audit findings of eleven (11) GLS audits performed in the fourth quarter of fiscal 2012/2013. The audit procedures performed include a 100% count of on hand liquor, with comparison to the stores perpetual inventory system, as well as counts of on hand cash, with comparison to approved cash floats. Additionally, other audit procedures were performed to determine if store level control procedures appear to be in place and operating effectively including:

- ✓ Reviewing recent cash disbursements to ensure expenditures appear to be for legitimate business purposes;
- ✓ Reviewing recent inventory cycle count completion records to ensure timely performance of counts;
- ✓ Ensuring a Visitor Log Books exists and is being used, and;
- ✓ Confirming Pin Pad security and tampering decals are in place.

The summary of results for the quarter and comparative audit results for fiscal 2010/2011, 2011/2012, and 2012/2013 are as follows:

- On average s.17 % of all SKUs required adjustment of the stores audited in Q4 of fiscal 2012/2013, which is higher than annual averages for the three most recent fiscal years, as follows:
  - ✓ 2010/2011 –
  - ✓ 2011/2012 – s.17
  - ✓ 2012/2013 –
- For Q4 of fiscal 2012/2013 total units and related display values for identified overages and shortages include:
  - ✓ s.17 over (s.17 % of total on hand units) valued at $ s.17 % of total display value);
  - ✓ s.17 units short (s.17 % of total on hand units) valued at $ s.17 % of total display value)
- For Q4 and for the entire fiscal 2012/2013 year the average percentage of overages (in units and display value) appear to be consistent with annual percentages for the three most recent fiscal years, as follows:
  - ✓ 2010/2011 – s.17 % of total on hand units valued at $ s.17 % of total display value);
  - ✓ 2011/2012 – s.17 % of total on hand units valued at $ s.17 % of total display value);
  - ✓ 2012/2013 – s.17 % of total on hand units valued at $ s.17 % of total display value).
- For Q4 and for the entire fiscal 2012/2013 year the average percentage of shortages (in units and display value) appear to be consistent with the three most recent fiscal years, as follows:
  - ✓ 2010/2011 – s.17 % of total on hand units valued at $ s.17 % of total display value);
  - ✓ 2011/2012 – s.17 % of total on hand units valued at $ s.17 % of total display value);
  - ✓ 2012/2013 – s.17 % of total on hand units valued at $ s.17 % of total display value).

- Cash variances identified in Q4 of fiscal 2012/2013 totalled $ s.17 or s.17 % (net variance) of total approved cash. For Q4 of fiscal 2012/2013 and for the three most recent fiscal years total cash variances have been insignificant (less than s.17% of total approved cash), as follows:
  - ✓ 2010/2011 – $ s.17 net shortage s.17 % of total approved cash floats)
  - ✓ 2011/2012 – $ s.17 net shortage s.17 % of total approved cash floats)
  - ✓ 2012/2013 – $ s.17 net overage (s.17 % of total approved cash floats)
- For all other procedures performed during Q4 fiscal 2012/2013 GLS audits reportable exceptions include:
  - ✓ 8 of 69 pin pads (11.59%) failed to have an anti-tampering sticker, had stickers that were peeling off, or had stickers that were not readable; and
  - ✓ 1 store had gift cards incorrectly recorded in the RMS perpetual inventory system.

Scope & Approach

This report summarizes the results of the eleven (11) Government Liquor Stores (GLSs) which Internal Audit (IA) completed a count of on-hand liquor inventory and cash and reconciled results to Liquor Distribution Branch's (LDB's) financial records for accuracy and completeness. The stores were visited during the period February 6 through April 7, 2013 and included the following locations (audit engagements 27 - 37):

Audit #	Store #	Store Name	Area Manager	Audit Fieldwork Date
27	123	Kingsgate Mall	1	6-Feb-13
28	244	Richmond Seafair	3	13-Feb-13
29	89	Nicola Station	5	17-Feb-13
30	129	Alberni & Bute	1	3-Mar-13
31	163	Westwood Centre	5	10-Mar-13
32	231	Victoria Wholesale Cust. Ctr.	10	23-Mar-13
33	218	Fort Street	4	24-Mar-13
34	124	Gorge & Tillicum	4	25-Mar-13
35	178	Fairfield	4	26-Mar-13
36	50	Sidney	4	27-Mar-13
37	160	39th & Cambie	5	7-Apr-13

Specific audit procedures performed included:

<u>Inventory</u>

1. Under the direction of the LDB Store Auditor, utilized a third party count team to perform a 100% count of all on-hand liquor inventory at each of the eleven (11) stores audited;
2. Compared actual on-hand liquor inventory to the on-hand stock per the store's computerized inventory sub-ledger as at the time the count was performed;
3. Reviewed and investigated identified variances between actual on-hand inventory and the inventory sub-ledger; and
4. With authorization from the GLS Manager and the assistance of the LDB Support Centre, facilitated the posting of inventory variance adjustments to the GLS inventory system to reflect on-hand inventory.

<u>Cash</u>

Following the performance of a count of on-hand cash, a reconciliation of on-hand cash to approved cash balances per the LDB General Ledger was performed to ensure cash has been properly reflected in the branch financial records.

<u>Cycle Count Monitoring</u>

In addition to the Inventory and Cash procedures, IA has historically analyzed the timely completion of quarterly store inventory cycle counts in accordance with Branch policy (which requires each Store to count 100% of its inventory each quarter). However, subsequent to the implementation of the Financial Business Improvement Project (FBIP) system in early 2012, the application utilized to obtain this information lost its functionality and has yet to be re-established. The inability to generate this information has prevented both IA and Retail Operations from monitoring cycle count completion activity on a system wide, area, and on an individual store basis. IA continues to follow up with the Information Systems Department to determine when this statistical information is expected to be available.

Additional Audit Procedures

In addition to the above noted procedures, Internal Audit performs the following additional audit procedures when performing a store audit:

1. Cash disbursements - review current month paid invoices to ensure the payment is support by the original invoice , the invoice amount agrees to the amount recorded in the store cheque book, and all invoices appear to be for legitimate store expenditures;
2. Cycle count records – confirm the existence of cycle count performance records indicating regular cycle counts are being performed;
3. PCI compliance – confirm the existence of and use of visitor logs; observe pin pads are properly secured, have anti-tampering decals in place, and the decals have not been compromised; credit / debit receipts are properly secured; and
4. Other issues as encountered through the performance of the store audit.

Audit Results

Inventory Count Results – Q4 Fiscal 2012/2013

The following section summarizes the results of all nine (9) inventory counts performed in the quarter based upon the following three measures:

- ✓ Total SKUs adjusted;
- ✓ Total inventory overages and shortages (in total display dollars); and
- ✓ Total inventory overages and shortages (in units).

Total SKUs Adjusted

Total SKU Adjustments by Store - Q4 2012/2013							
Audit #	Store Number	Store Name	Area Manager	Audit date	Total	Total Adjusted	% Adjusted
27	123	Kingsgate Mall	1	6-Feb-13			
28	244	Richmond Seafair	3	13-Feb-13			
29	89	Nicola Station	5	17-Feb-13			
30	129	Alberni & Bute	1	3-Mar-13			
31	163	Westwood Centre	5	10-Mar-13			
32	231	Victoria Wholesale Cust. Ctr.	10	23-Mar-13	s.15		s.17
33	218	Fort Street	4	24-Mar-13			
34	124	Gorge & Tillicum	4	25-Mar-13			
35	178	Fairfield	4	26-Mar-13			
36	50	Sidney	4	27-Mar-13			
37	160	39th & Cambie	5	7-Apr-13			
	Totals						

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Total Inventory Overages and Shortages (in Units)

Inventory Over / Short Adjustments by Store (Units) - Q4 2012/2013									
					Units				
Audit #	Store Number	Store Name	Area Manager	Audit date	Total Units	Over	%	Short	%
27	123	Kingsgate Mall	1	6-Feb-13					
28	244	Richmond Seafair	3	13-Feb-13					
29	89	Nicola Station	5	17-Feb-13					
30	129	Alberni & Bute	1	3-Mar-13					
31	163	Westwood Centre	5	10-Mar-13					
32	231	Victoria Wholesale Cust. Ctr.	10	23-Mar-13	s.15			s.17	
33	218	Fort Street	4	24-Mar-13					
34	124	Gorge & Tillicum	4	25-Mar-13					
35	178	Fairfield	4	26-Mar-13					
36	50	Sidney	4	27-Mar-13					
37	160	39th & Cambie	5	7-Apr-13					
	Totals								

Total Inventory Overages and shortages (in Display $)

Inventory Over / Short Adjustments by Store ($) - Q4 2012/2013									
					In "Display" $				
Audit #	Store Number	Store Name	Area Manager	Audit date	Total Inventory Value	Over	%	Short	%
27	123	Kingsgate Mall	1	6-Feb-13					
28	244	Richmond Seafair	3	13-Feb-13					
29	89	Nicola Station	5	17-Feb-13					
30	129	Alberni & Bute	1	3-Mar-13					
31	163	Westwood Centre	5	10-Mar-13					
32	231	Victoria Wholesale Cust. Ctr.	10	23-Mar-13	s.15			s.17	
33	218	Fort Street	4	24-Mar-13					
34	124	Gorge & Tillicum	4	25-Mar-13					
35	178	Fairfield	4	26-Mar-13					
36	50	Sidney	4	27-Mar-13					
37	160	39th & Cambie	5	7-Apr-13					
	Totals								

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Cash Count Results – Q4 Fiscal 2012/2013

The following table provides detailed results of all eleven (11) cash counts performed in the quarter.

Imprest Cash Over / (Short) by Store - Q4 2012/2103									
Audit #	Store Number	Store Name	Area Manager	Audit date	Total Approved per GL	Over	%	(Short)	%
27	123	Kingsgate Mall	1	6-Feb-13					
27	244	Richmond Seafair	3	13-Feb-13					
28	89	Nicola Station	5	17-Feb-13					
29	129	Alberni & Bute	1	3-Mar-13					
30	163	Westwood Centre	5	10-Mar-13					
31	231	Victoria Wholesale Cust. Ctr.	10	23-Mar-13	s.15			s.17	
32	218	Fort Street	4	24-Mar-13					
33	124	Gorge & Tillicum	4	25-Mar-13					
34	178	Fairfield	4	26-Mar-13					
35	50	Sidney	4	27-Mar-13					
36	160	39th & Cambie	5	7-Apr-13					
	Totals								

Audit Results Analysis

Top Three GLS Locations by Category

Of the eleven (11) stores audited in the fourth quarter of fiscal 2012/2013, the top three (3) stores of each of the above categories are as follows:

	Top 3 Stores with the most SKUs adjusted (Based on % of SKUs adjusted)				
	#	Name	# of SKUs Adjusted	Total SKUs	% of Total SKUs
1	129	Alberni & Bute			
2	160	39th & Cambie	s.17	s.15	s.17
3	163	Westwood Centre			

	Top 3 Stores - Overages (Ranking based on $ % variance)							
	#	Name	$	Total Inventory	%	Units	Total Inventory	%
1	129	Alberni & Bute						
2	163	Westwood Centre	s.17	s.15	s.17		s.15	s.17
3	123	Kingsgate Mall						

	Top 3 Stores - Shortages (Ranking based on $ % variance)							
	#	Name	$	Total Inventory	%	Units	Total Inventory	%
1	123	Kingsgate Mall						
2	129	Alberni & Bute	s.17	s.15	s.17		s.15	s.17
3	163	Westwood Centre						

	Top 3 Stores - Cash Over / (Short) (Ranking based on absolute $ variance)				
	#	Name	Cash Variance	Total approved Cash	%
1	163	Westwood Centre			
2	89	Nicola Station	s.17	s.15	s.17
3	129	Alberni & Bute			

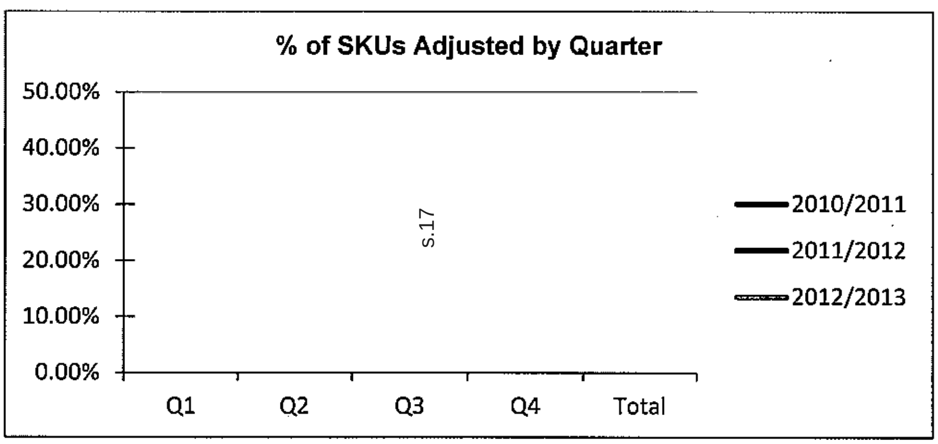
Comparative Audit Results and Analysis - 2010/2011, 2011/2012, and 2012/2013

The following graphs provide comparative audit results by quarter for the three most recent fiscal years for the following audit findings:

- ✓ Total % of SKUs adjusted;
- ✓ Total inventory overage variances;
- ✓ Total inventory shortage variances; and
- ✓ Total cash count variances

Following each graph are tables disclosing the detailed audit results data for fiscal 2012/2013, 2011/2012, and 2010/2011.

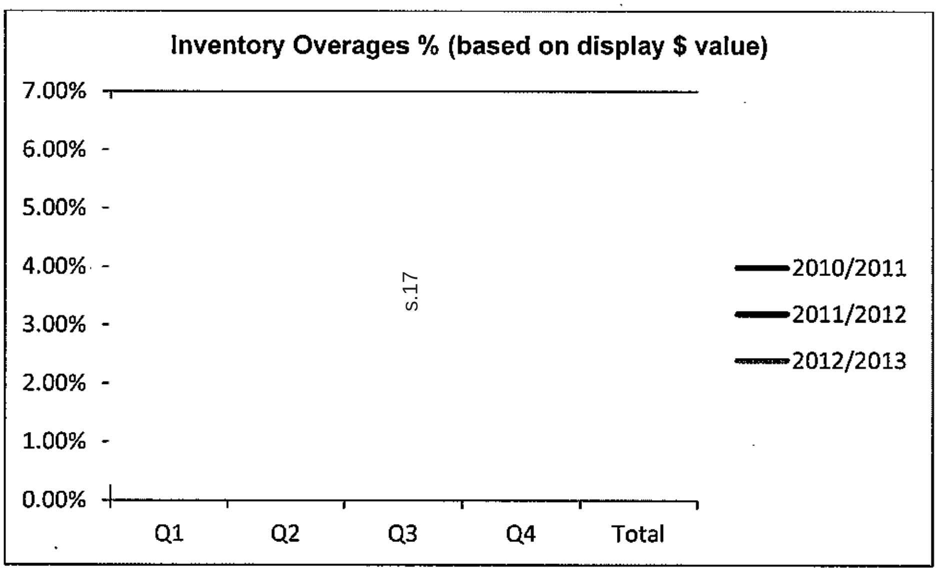
SKU Variance Summary

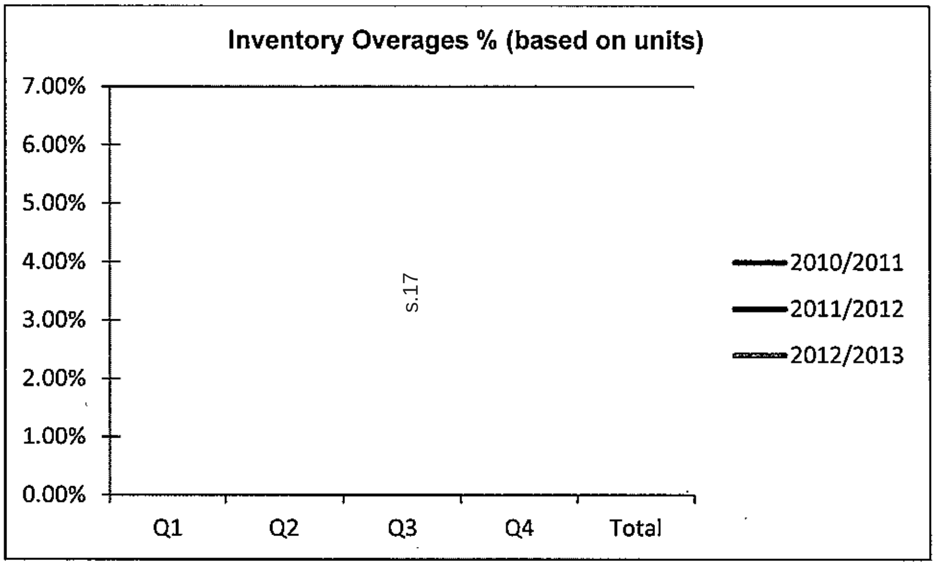


	2012 / 2013 SKU Variance Summary		
	Total SKUs	SKUs Adjusted	% Adjusted
Q1	14,064		
Q2	25,804	s.17	
Q3	21,965		
Q4	31,135		
Total	92,968		

	2011 / 2012 SKU Variance Summary			2010/ 2011 SKU Variance Summary		
	Total SKUs	SKUs Adjusted	% Adjusted	Total SKUs	SKUs Adjusted	% Adjusted
Q1	18,334			20,130		
Q2	25,221	s.17		24,541	s.17	
Q3	23,001			12,378		
Q4	30,025			35,133		
Total	96,581			92,182		

Inventory Overage Variance Summary

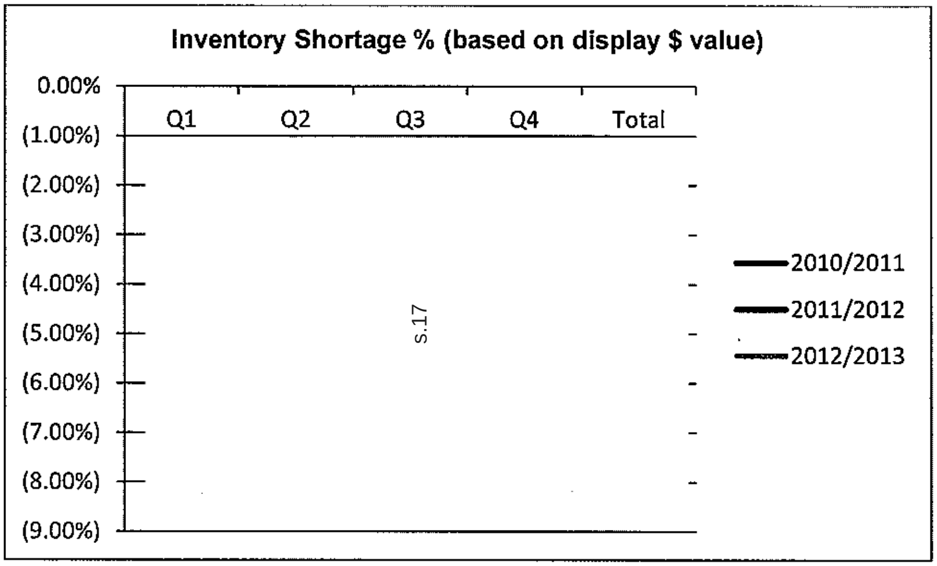


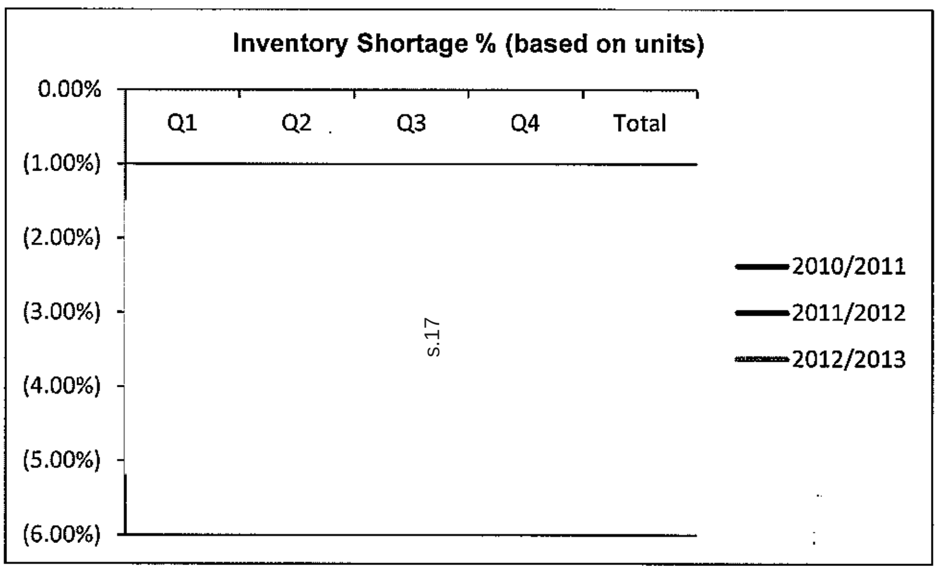


	2012 / 2013 Inventory Overage Summary					
	Display $	Total Display $	%	Units	Total Units	%
Q1		$4,762,818			259,625	
Q2		$8,400,619			451,815	
Q3	s.17	$7,612,261	s.17	s.17	384,565	s.17
Q4		$18,287,465			652,824	
Total		**$39,063,163**			**1,748,829**	

	2011 / 2012 Inventory Overage Summary						2010 / 2011 Inventory Overage Summary					
	Display $	Total Display $	%	Units	Total Units	%	Display $	Total Display $	%	Units	Total Units	%
Q1		$6,188,125			339,085			$7,430,016			408,346	
Q2		$8,742,520			455,833			$8,464,363			408,832	
Q3	s.17	$9,786,759	s.17		396,730		s.17	$4,041,241		s.17	213,644	s.17
Q4		$11,177,726			597,233			$17,473,697			707,065	
Total		**$35,895,130**			**1,788,881**			**$37,409,317**			**1,737,887**	

Inventory Shortage Variance Summary





	2012 / 2013 Inventory Shortage Summary					
	Display $	Total Display $	%	Units	Total Units	%
Q1		$4,762,818			259,625	
Q2		$8,400,619			451,815	
Q3	s.17	$7,612,261		s.17	384,565	s.17
Q4		$18,287,465			652,824	
Total		$39,063,163			1,748,829	

CONFIDENTIAL

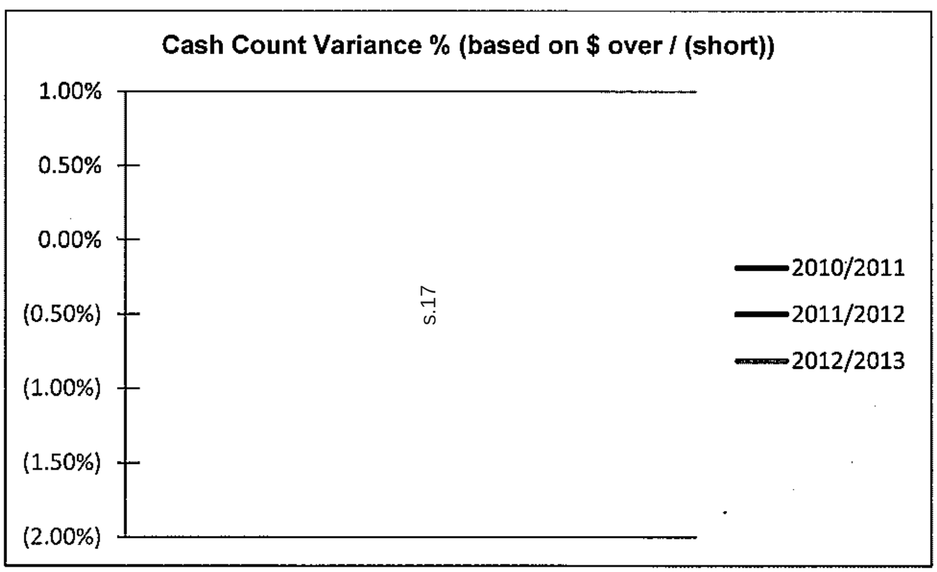
	2011 / 2012 Inventory Shortage Summary						2010 / 2011 Inventory Shortage Summary					
	Display $	Total Display $	%	Units	Total Units	%	Display $	Total Display $	%	Units	Total Units	%
Q1		$6,188,125			339,085			$7,430,016			408,346	
Q2		$8,742,520			455,833			$8,464,363			408,832	
Q3	s.17	$9,786,759		s.17	396,730		s.17	$4,041,241		s.17	213,644	s.17
Q4		$11,177,726			597,233			$17,473,697			707,065	
Total		$35,895,130			1,788,881			$37,409,317			1,737,887	

Liquor Inventory Adjustments Trend Analysis

From the eleven (11) GLS locations audited in the fourth quarter and consistently for each of the three most recent fiscal years, there is a significant number of SKUs requiring adjustment to ensure on hand inventory per the GLSs inventory sub-ledger agrees to actual on-hand liquor inventory s.17 % of all SKUs on-hand). Additionally, inventory overages and shortages identified during internal audit counts of liquor inventory reveal a consistent rate of overages and shortages (between s.17) when comparing the Q4 and fiscal 2012/2013 results to the fiscal 2011/2012 and 2010/2011 results.

	SKU Variance Trend		Overage Variance Trend				Shortage Variance Trend			
	#	%	$	%	Units	%	$	%	Units	%
Q4 2012/2013										
2012/2013						s.17				
2011/2012										
2010/2011										

Comparative Cash Count Audit Results & Analysis – 2010/2011, 2011/2012, 2012/2013



	2012/ 2013 Cash Adjustment Summary			2011/ 2012 Cash Adjustment Summary			2010/ 2011 Cash Adjustment Summary		
	Cash Variance	Cash per GL	%	Cash Variance	Cash per GL	%	Cash Variance	Cash per GL	%
Q1		$152,500			$207,339			$208,106	
Q2		$316,177			$298,072			$286,646	
Q3	s.17	$248,650		s.17	$236,601		s.17	$185,814	s.17
Q4		$365,822			$311,526			$415,851	
Total		$1,083,149			$1,053,538			$1,096,417	

Cash Variances Trend Analysis

Combined cash count results for the eleven (11) GLS locations audited in the fourth quarter of 2012/2013 reveal insignificant variances between actual on hand cash and approved cash balances (less than 1%). Further, on a comparative basis for fiscal 2012/2013, 2011/2012, and 2010/2011 cash over/short variances have been under 1% consistently as indicated in the following table.

	Total Net Cash Variance Trend	
	$	%
Q4 2012/2013		
2012/2013	s.17	
2011/2012		
2010/2011		

Additional Audit Findings

Cash Disbursements

Of the eleven (11) stores audited, no disbursements were identified as potentially non-LDB expenditures.

Cycle Count Records

All eleven stores (11) maintained records indicating regular inventory cycle counts were being performed.

PCI Compliance

Of the eleven (11) stores audited:

- stores have visitor logs present and it appears all are being maintained properly;
- 69 pin pads were observed revealing:
  - ✓ all were properly secured to counters;
  - ✓ 1 pin pad failed to have an anti-tampering sticker present (#129 - Alberni & Bute);
  - ✓ 4 pin pads had anti-tampering stickers that were peeling off (all 4 at #129 – Alberni & Bute); and
  - ✓ 3 pin pads had anti-tampering stickers which were not readable (1 at #163 Westminster, 1 at #218 Fort Street, and 1 at #244 Richmond Seafair).

Other Observations / Findings

At one of the eleven (11) stores audited (#124 Gorge & Tillicum) gift cards were recorded incorrectly in the RMS perpetual inventory system.

KPMG

cutting through complexity™

AUDIT

The Family Maintenance Enforcement Program

Audit Findings Report

For the year ending March 31, 2012

KPMG LLP, Chartered Accountants

kpmg.ca

Dear Directors of Themis Program Management and Consulting Limited and the Ministry of Attorney General, Province of British Columbia,

We have prepared this audit findings report to assist you with your review of the financial statements and the carrying out of your oversight responsibilities. We are here to help. We encourage you to ask us for more information on any of the matters covered in this report—and beyond.

Audit quality

The quality of an audit and the resulting financial statements are receiving an increased level of scrutiny around the world. Audit quality is at the core of everything we do at KPMG, and we believe that it is not just about providing the right audit opinion, but also the steps we take to provide that audit opinion. One component of our efforts in this area is the development and implementation of the KPMG Audit Quality Framework to help ensure that every partner and professional concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent audit opinion. We invite you to review "KPMG's Audit Quality Framework", summarized in the appendices of this report.

Reaching out to audit committees

KPMG's Audit Committee Institute holds Audit Committee Roundtables across the country twice yearly. You are cordially invited to attend. For information and registration, please visit www.kpmg.ca/auditcommittee/roundtables.html.

We appreciate the assistance of management and staff in conducting our audit. We hope this audit findings report is of assistance to you as you carry out your agenda, and we look forward to discussing our findings and answering your questions.

Yours sincerely,

KPMG LLP

Lenora Lee

Partner

Contents

Summary of audit procedures

Our audit focused on the areas identified during our audit planning as listed below:

- Cash balances were confirmed with the respective financial institution.
- Receivables and payables were tested through substantive tests of details and analytical procedures, inspecting source documentation and comparing expectations of year end balances to actual.
- Trust cash balances were confirmed with the respective financial institution and reconciled to the trust accounts.
- Revenues were confirmed with Maintenance Enforcement and Locate Services.
- Expenses were tested substantively, with a sample agreed to supporting documentation and assessed whether eligible under Schedule "C" of the FMEP Services Agreement.
- Controls over payroll were tested for evidence of controls over the allocation of payroll expenses to operational and non-operational general ledger accounts, review and authorization of payroll expenses by designated authority prior to payment, and management review of allocation of payroll expenses to operational and non-operational general ledger accounts.
- Controls over non-payroll expenditures were tested for evidence of approval of allocation of expenses to operational and non-operational general ledger accounts, review and authorization of disbursements by designated authority prior to payment.
- Disclosures were reviewed for appropriateness of presentation and disclosure under Canadian generally accepted accounting standards.

Significant audit, accounting and reporting matters

Matters to discuss

Included in this report are matters we have highlighted for discussion. We look forward to discussing these matters and our findings with you.

Severance cap

- Subject to the overall maximum of $1,700,000 set out in the definitions of subparagraph 1.01(z) of the contract dated March 26, 2002, any severance obligation to employees of Themis arising on the termination of the Program on or before March 31, 2013 will be borne by the Province.
- At March 31, 2012, the calculated potential severance liability was estimated at $1,733,000; therefore exceeded the maximum amount under the contract.
- Management has not accrued a liability to be borne by Themis for the amount in excess of the contractual severance cap amount.
- Subsequent to year end, a contract modification with the Province was signed, increasing the severance cap from $1,700,000 to $1,900,000.

KPMG's comments

- KPMG inspected management's calculation and accrual at year end and determined the assumptions to be reasonable.
- The liability estimate at March 31, 2012 in excess of $1,700,000 is not considered material to warrant accrual in the financial statements of FMEP. Further, management indicated the likelihood of the contract being terminated before March 31, 2013 is unlikely.
- We recommended additional disclosure in the notes to the financial statements regarding the estimated severance liability and severance cap.
- KPMG inspected the contract extension increasing the severance cap and recommended subsequent event disclosure noting the contract modifications, which has been included by management in the financial statements.

Specified audit procedures
• The Office of the Auditor General inquired during the year regarding the nature of the management fee paid to Themis and the potential for duplication of expenses incurred and funded by the Province. • KPMG was requested to test a sample of expenses for congruence with approved categories of the contract and to test the existence of duplicate payment for expenses that are meant to be funded by the contract management fee.
KPMG's comments
• We tested a sample of expense batches to determine if supporting document exists, is reviewed by a designated individual prior to payment and if expenses qualify as eligible expenses based on contract terms. • We tested a sample of payroll disbursements to determine if the allocation of time by Themis employees to FMEP and non-FMEP projects agreed to underlying documentation and that payroll disbursements are reviewed by a designated individual prior to payment. • We agreed the amounts recorded in the financial statements of FMEP to the program expenses recorded in the financial statements of Gaea Management Ltd. • We inspected the consolidation workbook of Gaea Management Ltd. and determined no additional management fees other than those specifically noted in the services agreements have been charged to FMEP. • We noted controls tested were operating effectively, and no audit misstatements were noted during the course of the procedures performed. • KPMG will be issuing correspondence to the Ministry and management noting the results of procedures performed.

Significant qualitative aspects of accounting practices

The following are the significant qualitative aspects of accounting practices that we plan to discuss with you:

Significant accounting policies	There were no new significant accounting policies adopted in the year.
Significant accounting estimates	There were no significant accounting estimates noted in the preparation of the financial statements.
Significant disclosures	There were no significant disclosure changes noted during the year.

Misstatements

Identification of misstatements

Misstatements identified during the audit have been categorized as follows:

- uncorrected misstatements, including disclosures
- corrected misstatements, including disclosures.

Uncorrected misstatements

We have not identified misstatements that remain uncorrected.

Corrected misstatements

We have not identified any corrected misstatements. We provided minor suggestions concerning presentation and disclosure that management has incorporated in the financial statements.

Control deficiencies

Background and professional standards

As your auditors, we are required to obtain an understanding of internal control over financial reporting (ICFR) relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on internal control. Accordingly, we do not express an opinion on the effectiveness of internal control.

Our understanding of ICFR was for the limited purpose described above and was not designed to identify all control deficiencies that might be significant deficiencies and therefore, there can be no assurance that all significant deficiencies

Our awareness of control deficiencies varies with each audit and is influenced by the nature, timing, and extent of audit procedures performed, as well as other factors.

Identification

We did not identify any control deficiencies that we determined to be significant deficiencies in ICFR.

Appendices

Draft audit report

Independence letter

Management representation letter

KPMG's Audit Quality Framework

Other written communications

Draft audit report

To the Directors of Themis Program Management and Consulting Limited and the Ministry of Attorney General, Province of British Columbia

We have audited the accompanying financial statements of The Family Maintenance Enforcement Program, which comprise the statement of financial position as at March 31, 2012, the statements of revenue and expenses and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management in accordance with the financial reporting provisions of the contract dated March 26, 2002 between Themis Program Management and Consulting Limited and the Province of British Columbia.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of the contract dated March 26, 2002 between Themis Program Management and Consulting Limited and the Province of British Columbia, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we 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 financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's 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 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements as at and for the year ended March 31, 2012 are prepared, in all material respects, in accordance with the financial reporting provisions of the contract dated March 26, 2002 between Themis Program Management and Consulting Limited and the Province of British Columbia.

Basis of Accounting and Restriction on Use

Without modifying our opinion, we draw attention to Note 2 to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist Themis Program Management and Consulting Limited to meet the requirements of the Province of British Columbia. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for Themis Program Management and Consulting Limited and the Province of British Columbia and should not be used by parties other than Themis Program Management and Consulting Limited or the Province of British Columbia.

Independence letter

KPMG LLP
Chartered Accountants
St. Andrew's Square II
800-730 View Street
Victoria BC V8W 3Y7

Telephone (250) 480-3500
Telefax (250) 480-3539
Internet www.kpmg.ca

Directors of Themis Program Management and Consulting Limited and the Ministry of Attorney General, Province of British Columbia

September 27, 2012

Professional standards specify that we communicate to you in writing, at least annually, all relationships between The Family Maintenance Enforcement Program (the "Entity") (and its related entities) and our firm, that may reasonably be thought to bear on our independence.

In determining which relationships to report, we are required to consider relevant rules and related interpretations prescribed by the Institute of Chartered Accountants of British Columbia and any applicable legislation or regulation, covering such matters as:

a) provision of services in addition to the audit engagement

b) other relationships such as:

- holding a financial interest, either directly or indirectly, in a client
- holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of a client
- personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client
- economic dependence on a client.

We have prepared the following comments to facilitate our discussion with you regarding independence matters arising since the date of our last letter dated July 25, 2011.

PROVISION OF SERVICES

The following summarizes the professional services rendered by us to the Entity (and its related entities) up to the date of this letter:

- Audit of the Entity's March 31, 2012 financial statements
- Specified procedures over the controls in operation and expenses incurred by the Entity for the year ending March 31, 2012 for reporting to the Office of the Auditor General
- Audit of Themis Program Management & Consulting Ltd. Pension Plan's March 31, 2012 financial statements
- Review of Gaea Management Ltd's consolidated March 31, 2012 financial statements

- Advisory and Tax services with respect to Gaea Management Ltd., Themis Program Management and Consulting Ltd., Themis Program Management & Consulting (Ontario) Ltd., MAXIMUS Canada II, Inc., MAXIMUS, Inc., MAXIMUS BC Health Inc., MAXIMUS BC Health Benefit Operations, Inc., DeltaWare Systems, Inc.

Professional standards require that we communicate the related safeguards that have been applied to eliminate identified threats to independence or to reduce them to an acceptable level. Although we have policies and procedures to ensure that we did not provide any prohibited services and to ensure that we have not audited our own work, we have applied the following safeguards regarding to the threats to independence listed above:

- We did not assume the role of management by instituting policies and procedures to prohibit us from making management decisions or assuming responsibility for such decisions

- We obtained management's acknowledgement of responsibility for the results of the work performed by us regarding non-audit services and we have not made any management decisions or assumed responsibility for such decisions

OTHER RELATIONSHIPS

We are not aware of any other relationships between our firm and the Entity (and its related entities) that may reasonably be thought to bear on our independence up to the date of this letter.

CONFIRMATION OF INDEPENDENCE

We confirm that we are independent with respect to the Entity (and its related entities) within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of British Columbia as of the date of this letter.

OTHER MATTERS

This letter is confidential and intended solely for use by those charged with governance in carrying out and discharging their responsibilities and should not be used for any other purposes.

KPMG shall have no responsibility for loss or damages or claims, if any, to or by any third party as this letter has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Yours very truly,

KPMG LLP

Chartered Accountants

Management representation letter

Prior to release of the auditors' report, the Managing Director and Controller will be providing KPMG with a letter confirming the conclusion that the accounts are fairly presented, complete and accurately reported in the financial statements. A draft copy of this letter is attached.

THE FAMILY MAINTENANCE ENFORCEMENT PROGRAM
2ND FLOOR, 609 BROUGHTON STREET
VICTORIA, BC V8W 1C8

KPMG LLP
Chartered Accountants
St. Andrew's Square II
800-730 View Street
Victoria, BC V8W 3Y7
Canada

September 27, 2012

Ladies and Gentlemen:

We are writing at your request to confirm our understanding that your audit was for the purpose of expressing an opinion on the financial statements (hereinafter referred to as "financial statements") of The Family Maintenance Enforcement Program ("the Entity") as at and for the period ended March 31, 2012.

We confirm that the representations we make in this letter are in accordance with the definitions as set out in Attachment I to this letter.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

GENERAL:

1) We have fulfilled our responsibilities, as set out in the terms of the engagement letter dated May 27, 2011, for:

   a) the preparation and fair presentation of the financial statements and believe that these financial statements have been prepared and present fairly in accordance with the relevant financial reporting framework.
   b) determining that the basis of accounting is an acceptable basis for the preparation of the financial information in the circumstances.
   c) providing you with all relevant information and access, such as all financial records and related data and complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared, of shareholders, board of directors and committees of the board of directors that may affect the financial statements, and access to such relevant information.
   d) such internal control as management determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
   e) ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements.

INTERNAL CONTROL OVER FINANCIAL REPORTING:

2) We have communicated to you all deficiencies in the design and implementation or maintenance of internal control over financial reporting of which management is aware.

FRAUD & NON-COMPLIANCE WITH LAWS AND REGULATIONS:

3) We have disclosed to you:

   a) the results of our assessment of the risks that the financial statements may be materially misstated as a result of fraud.
   b) all information in relation to fraud or suspected fraud that we are aware of and that affects the Entity and involves: management, employees who have significant roles in internal control, or others, where the fraud could have a material effect on the financial statements.
   c) all information in relation to allegations of fraud, or suspected fraud, affecting the Entity's financial statements, communicated by employees, former employees, regulators, or others.
   d) all known instances of non-compliance or suspected non-compliance with laws and regulations, including all aspects of contractual agreements, whose effects should be considered when preparing financial statements.
   e) all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

SUBSEQUENT EVENTS:

4) All events subsequent to the date of the financial statements and for which the relevant financial reporting framework requires adjustment or disclosure in the financial statements have been adjusted or disclosed.

RELATED PARTIES:

5) We have disclosed to you the identity of the Entity's related parties and all the related party relationships and transactions of which we are aware and all related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

ESTIMATES:

6) Measurement methods and significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

NON-SEC REGISTRANTS OR NON-REPORTING ISSUERS:

7) We confirm that the Entity is not a Canadian reporting issuer (as defined under any applicable Canadian securities act) and is not a United States Securities and Exchange Commission ("SEC") Issuer (as defined by the Sarbanes-Oxley Act of 2002). We also confirm that the financial statements of the Entity will not be included in the consolidated financial statements of a Canadian reporting issuer audited by KPMG or an SEC Issuer audited by any member of the KPMG organization.

OTHER:

8) The specified-purpose financial statements have not been, and were not intended to be, prepared in accordance with Canadian generally accepted accounting principles. The basis of accounting used to prepare the specified-purpose financial statements includes:

Capital expenditures are charged to operations in the year the assets are acquired. Capital expenditures are not recorded as assets of the Program and amortization is not recorded.

It is understood that the specified-purpose financial statements will be prepared to comply with the contract dated March 26, 2002 with the Ministry of the Attorney General, Province of British Columbia to ensure family maintenance payments are made pursuant to the Family Maintenance Enforcement Act.

The financial statements referred to above are specified purpose financial statements and are not general purpose financial statements, regardless of their distribution. Should the specified purpose financial statements to the used for general purpose financial statements, our report will contain a reservation of opinion.

The financial statements referred to above do not comply with and will not satisfy the Program's incorporating or other governing legislation.

Those with oversight responsibility for the financial reporting process should consider the financial and other implications of such non-compliance, and may wish to obtain legal advice.

We accept no responsibility for any implications of potential non-compliance with incorporating or other governing legislation.

9) The specified-purpose financial statements are solely for the information and use of the addressee and Her Majesty the Queen in the Right of the Province of British Columbia to comply with the FMEP services Agreement with Her Majesty the Queen in the Right of the Province of British Columbia. These specified-purpose financial statements are not intended for distribution to anyone other than the specified-user(s) indicated above. We acknowledge that you accept no responsibility for the distribution or use of the specified-purpose financial statements, should we extend the distribution beyond the specified users.

Yours very truly,

THE FAMILY MAINTENANCE ENFORCEMENT PROGRAM

____

By: Ms. Hannah Roots, Managing Director

____

By: Ms. Susan Rudosky, Controller

Attachment I – Definitions

MATERIALITY

Certain representations in this letter are described as being limited to matters that are material. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both.

FRAUD & ERROR

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorization.

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

RELATED PARTIES

In accordance with CICA 3840(g) related party is defined as:

- when one party has the ability to exercise, directly or indirectly, control, joint control or significant influence over the other. Two or more parties are related when they are subject to common control, joint control or common significant influence. Related parties also include management and immediate family members

In accordance with CICA 3840(h) a related party transaction is defined as:

- a transfer of economic resources or obligations between related parties, or the provision of services by one party to a related party, regardless of whether any consideration is exchanged. The parties to the transaction are related prior to the transaction. When the relationship arises as a result of the transaction, the transaction is not one between related parties

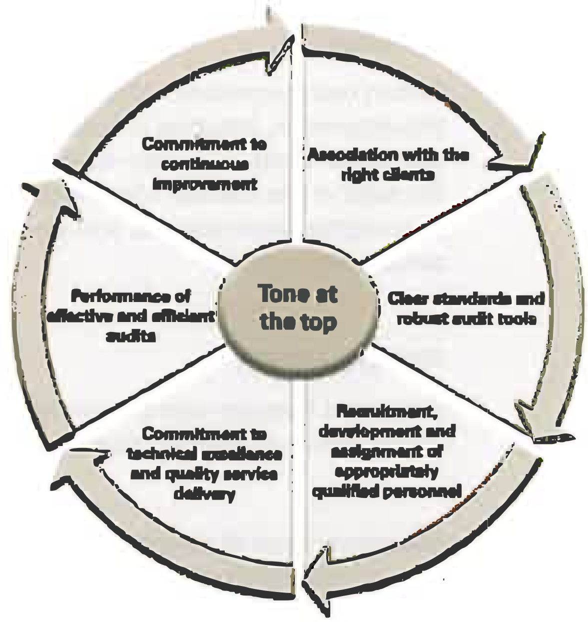
KPMG's Audit Quality Framework

Audit quality, and the respective roles of the auditor and audit committee, is fundamental to the integrity of financial reporting in our capital markets.

This is why audit quality is at the core of everything we do at KPMG. And we believe that it is not just about reaching the right opinion, but how we reach that opinion.

To help ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework.

The framework comprises seven key drivers of audit quality.



The seven key drivers of audit quality

Driver	What it does	What it means to you
Tone at the top	**Audit quality is part of our culture and our values and therefore non-negotiable** Allows the right behaviours to permeate across our entire organization and each of our engagements	**Assures you that:** • Our culture supports our promise to you of excellent client service and a high quality audit—consistently • You're receiving an independent, transparent, audit opinion • You're receiving an efficient and high quality audit that will help you maintain investor confidence in your financial statements. **Provides you with:** • An engagement team handpicked for your business needs – a team with relevant professional and industry experience
Association with the right clients	**Ethics above all** Eliminates any potential independence and conflict-of-interest issues	
Clear standards and robust audit tools	**A solid rule book** Rigorous internal policies and guidance that help ensure our work meets applicable professional standards, regulatory requirements, and KPMG's standards of quality	
Recruitment, development and assignment of appropriately qualified personnel	**People who add value** Helps us attract and retain the best people and reinforces the importance of developing their talents Assigns Partners' portfolios based on their	

Driver	What it does	What it means to you
	specific skill sets	• An audit engagement team whose qualifications evolve as your business grows and changes
Commitment to technical excellence and quality service delivery	**The right tools for the right job** Promotes technical excellence and quality service delivery through training and accreditation, developing business understanding and industry knowledge, investment in technical support, development of specialist networks, and effective consultation processes	• An audit opinion that continues to meet your needs as a participant in the capital markets **Assists you with:**
Performance of effective and efficient audits	**We understand that how an audit is conducted is as important as the final result.** A code of conduct, audit delivery tools, and internal policies and procedures that help ensure the work performed by engagement personnel meets applicable professional standards, regulatory requirements, and our standards of quality	• Assessing the effectiveness and efficiency of the audit • Performing your governance role with confidence
Commitment to continuous improvement	**Comprehensive and effective monitoring** We solicit our clients regularly for feedback. Our robust internal quality review program ensures the work of each partner is reviewed every three years. Additionally, our procedures and a sample of our audits of listed clients are reviewed by the Canadian Public Accountability Board (CPAB), the independent regulator of the accountancy profession in Canada. The Public Accountability Oversight Board (PCAOB) in the US also conducts an annual inspection of a sample of our audits of SEC registrants. Finally, a sample of other audits and reviews is undertaken annually by the various provincial institutes in Canada. We consider the recommendations that come from these reviews and implement actions to strengthen our policies and procedures, as appropriate.	

The regulatory landscape is changing

Uncertain economic forecasts and a changing regulatory environment define today's world; reliable financial information and high-quality audits have never been more essential.

We believe that high quality audits contribute directly to market confidence and we share your objectives of credible and transparent financial reporting.

Our Audit Quality Framework is particularly relevant to Audit Committees, and we see our role in being transparent to you as a key mechanism to support you in the execution of your responsibilities.

Our commitment to quality

The independence, judgment and professional skepticism of your auditors add value to your financial statements, and we believe it is important to be transparent about the processes we follow to develop a KPMG audit report. We want you to have absolute confidence in us and in the quality of your audit.

Our own professional standards dictate technical requirements for reaching and communicating an audit opinion. And we live and abide by these requirements. We invest heavily in our quality, and the Audit Quality Framework helps ensure these investments are the right ones—that they help us continuously drive and maximize our quality improvements. But we feel it is also important that we communicate to you how we view and implement audit quality. The seven key drivers outlined here, combined with the commitment of each individual in KPMG, are meant to do just that.

KPMG member firms across the world use this audit quality framework to describe, focus on and enhance audit quality for the benefit of our clients and in support of the efficacy of our capital markets.

It is our hope that sharing our vision of what audit quality means is a significant step in building confidence in the value of our audits.

Audit quality is fundamental to the way we work – it is non-negotiable.

Other written communications

An engagement letter describing the services we have been engaged to provide has been signed by the Managing Director. A signed copy of this letter is attached.

www.kpmg.ca

KPMG LLP, the audit, tax and advisory firm (kpmg.ca), a Canadian limited liability partnership established under the laws of Ontario, is the Canadian member firm of KPMG International Cooperative ("KPMG International"). KPMG International's member firms have 140,000 professionals, including more than 7,900 partners, in 146 countries.

The independent member firms of the KPMG network are affiliated with KPMG International, a Swiss entity. Each KPMG firm is a legally distinct and separate entity, and describes itself as such.

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KPMG

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Hannah Roots, Managing Director
The Family Maintenance Enforcement Program
2nd Floor, 609 Broughton Street
Victoria, BC V8W 1C8

May 27, 2011

Dear Ms Roots

The purpose of this letter is to outline the terms of our engagement to express an opinion on the specified-purpose financial statements (hereinafter referred to as "annual financial statements") of The Family Maintenance Enforcement Program ("the Entity" or "FMEP") as at and for the period ending March 31, 2011.

The annual financial statements referred to above will be presented in accordance with a basis of accounting other than Canadian generally accepted accounting principles (hereinafter referred to as the "financial reporting framework"). These financial statements will be prepared to comply with the FMEP service agreement for/with her majesty the Queen in right of the Province of British Columbia and as such are specified-purpose financial statements and are not general-purpose financial statements, regardless of their distribution.

The basis of accounting to be used for these financial statements is as follows:

The financial statements have been prepared in accordance with the terms set out in the contract dated March 26, 2002 between Themis and the Ministry of the Attorney General, Province of British Columbia.

The basis of accounting used in these financial statements materially differs from Canadian generally accepted accounting principles because:

Capital expenditures are charged to operations in the year the assets are acquired. Capital expenditures are not recorded as assets of the program and amortization is not recorded. Also, certain prepaid amounts are recorded as expenditures of the program.

It is understood that the specified-purpose financial statements will be prepared to comply with the contract dated March 26, 2002 with the Ministry of the Attorney General, Province of British Columbia to ensure family maintenance payments are made pursuant to the Family Maintenance Enforcement Act.

The financial statements referred to above are specified purpose financial statements and are not general purpose financial statements, regardless of their distribution. Should the specified purpose financial statements be used for general purpose financial statements, our report will contain a reservation of opinion.

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KPMG Canada provides services to KPMG LLP

The financial statements referred to above do not comply with and will not satisfy the program's incorporating or other governing legislation.

Those with oversight responsibility for the financial reporting process should consider the financial and other implications of such non-compliance, and may wish to obtain legal advice;

We accept no responsibility for any implications of potential non-compliance with the incorporating or other governing legislation.

This letter supersedes our previous letter to the Entity dated June 19, 2009. The terms of the engagement outlined in this letter will continue in effect from period to period, unless amended or terminated in writing. The attached Terms and Conditions form an integral part of the terms of this engagement and are incorporated herein by reference (collectively the "Engagement Letter").

MANAGEMENT'S RESPONSIBILITIES

Management acknowledges and understands that they are responsible for:

- the preparation and fair presentation of the financial statements in accordance with the financial reporting framework referred to above.
- ensuring that all transactions have been recorded and are reflected in the financial statements.
- such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. Management also acknowledges and understands that they are responsible for the design, implementation and maintenance of internal control to prevent and detect fraud.
- providing us with access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters.
- providing us with additional information that we may request from management for the purpose of the audit.
- providing us with unrestricted access to persons within the Entity from whom we determine it necessary to obtain audit evidence.
- providing us with written representations required to be obtained under professional standards and written representations that we determine are necessary. Management also acknowledges and understands that professional standards require that we disclaim an audit opinion when management does not provide certain written representations required.

An audit does not relieve management or those charged with governance of their responsibilities.

Management has informed us of all steps taken to determine that the applicable financial reporting framework is acceptable in the circumstances.

AUDITORS' RESPONSIBILITIES

Our function as auditors of the Entity is:

- to express an opinion on whether the Entity's annual financial statements, prepared by management with the oversight of those charged with governance, are, in all material respects, in accordance with the financial reporting framework referred to above and
- to report on the annual financial statements.

We will conduct the audit of the Entity's annual financial statements in accordance with Canadian generally accepted auditing standards and relevant ethical requirements, including those pertaining to independence (hereinafter referred to as applicable "professional standards"). We will plan and perform the audit to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Accordingly, we will, among other things:

- identify and assess risks of material misstatement, whether due to fraud or error, based on an understanding of the Entity and its environment, including the Entity's internal control. In making those risk assessments, we consider internal control relevant to the Entity's 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 the Entity's internal control.
- obtain sufficient appropriate audit evidence about whether material misstatements exist, through designing and implementing appropriate responses to the assessed risks.
- form an opinion on the Entity's annual financial statements based on conclusions drawn from the audit evidence obtained.
- communicate matters required by professional standards, to the extent that such matters come to our attention, to the appropriate level of management, those charged with governance and/or the board of directors. Refer to Appendix B for a listing of such matters and the form and timing of such communication.

AUDITORS' DELIVERABLES

The expected form and content of our audit report(s) are provided in Appendix A. However, there may be circumstances in which a report may differ from its expected form and content.

OTHER MATTERS

One of the underlying principles of our profession is a duty of confidentiality with respect to client affairs. Accordingly, except for information that is in or enters the public domain, we will not provide any third party with confidential information concerning the affairs of the Entity without the Entity's prior consent, unless required to do so by law or our Rules of Professional Conduct or orders from professional, securities or other regulatory or governmental authorities (both in Canada and abroad).

Auditors conducting an audit in accordance with professional standards obtain reasonable assurance that the annual financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. It is important to recognize that auditors cannot obtain absolute assurance that material misstatements in the annual financial statements will be detected, because of factors such as: the use of judgment; the use of testing of the data underlying the annual financial statements; the inherent limitations of internal control over financial reporting; and the fact that much of the audit evidence available to the auditor is persuasive rather than conclusive in nature. Furthermore, because of the nature of fraud, including attempts at concealment through collusion and forgery, an audit designed and executed in accordance with professional standards may not detect a material fraud.

While effective internal control over financial reporting reduces the likelihood that misstatements will occur and remain undetected, it does not eliminate that possibility. For these reasons, we cannot guarantee that fraud, error or illegal acts, if present, will be detected when conducting an audit in accordance with professional standards.

In addition, we cannot provide assurance that an unqualified opinion on the annual financial statements will be rendered. Circumstances may arise in which it is necessary for us to include a reservation in our report or to withdraw from the engagement. In such circumstances, our findings or reasons for withdrawal will be communicated to management and those with oversight responsibility for the financial reporting process.

Since these are specified-purpose financial statements, the financial statements referred to above do not comply with and will not satisfy the Entity's incorporating or other governing legislation. Those with oversight responsibility for the financial reporting process should consider the financial and other implications of such non-compliance, and may wish to obtain legal advice. We accept no responsibility for any implications of potential non-compliance with the incorporating or other governing legislation. These financial statements are not intended to be and should not be used by anyone other than the specified users or for any other purpose.

When public documents contain or incorporate by reference either full or summarized annual financial statements that we have audited ("designated public documents"), professional standards require the performance of certain procedures, including determining whether the annual financial statements and our audit report(s) have been accurately reproduced, reading the designated public documents and assessing whether any of the information appears to be inconsistent. Management is responsible for providing us with copies of any designated public documents prior to their release and with adequate notice of the preparation of such documents as well as advising us of any electronic filings of designated public documents.

Income Tax Compliance And Advisory Services

Tax compliance and advisory services are outside the scope of this letter. These services will be subject to the terms and conditions of a separate engagement letter.

Fees

Our fees for the services described in this letter will be based on standard hourly rates.

* * * * * * * * * *

We are available to assist the Entity, upon request, with a wide range of services beyond those outlined above. Additional services are subject to separate terms and arrangements.

KPMG

We are proud to serve you and we appreciate your confidence in our work. We shall be pleased to discuss this letter with you at any time. If the arrangements outlined are in accordance with your requirements and if the above terms are acceptable to the Entity, please sign the duplicate of this letter in the space provided and return it to us.

Yours very truly,

KPMG LLP

Chartered Accountants
Ray Kolla, CA
Office Managing Partner
250.480.3512
rkolla@kpmg.ca
Partner responsible for the engagement and its performance, and for the report that is issued on behalf of KPMG LLP, and who, where required, has the appropriate authority from a professional, legal or regulatory body.

RK/st
Enclosure

The terms of the engagement set out are as agreed:

Per: ______________________ Date: June 6 2011
Hannah Roots, Managing Director

KPMG

Appendix A—Expected Form of Report

INDEPENDENT AUDITORS' REPORT

Auditors' Report to the Ministry of Attorney General, Province of British Columbia

We have audited the accompanying financial statements of The Family Maintenance Enforcement Program ("FMEP") (operated by Themis Program Management and Consulting Limited ("Themis") which comprise the statement of financial position as at March 31, 2011, the statements of revenue and expenses and cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Except as explained in the following paragraph, we conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

In the course of providing service under the terms of the contract referred to above, funds are often received by Themis on behalf of the intended recipient. These funds are held in trust in a Provincial Government account and represent monies received from or on behalf of debtors which, in turn, are payable to creditors and/or debtors enrolled in the Program. These funds are administered by Themis, but are not the property of Themis or the FMEP. An audit of these trust funds was considered to be outside the scope of our examination and, accordingly, we were not able to determine whether any adjustments to trust fund balances might be necessary.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation 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 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Appendix A—Expected Form of Report (cont)

Opinion

In our opinion, except for effects of adjustments, if any, which we might have determined to be necessary had the scope of our examination included an audit of trust fund balances, these financial statements present fairly, in all material respects, the financial position of the Program as at March 31, 2011 and the results of its operations and its cash flows for the year then ended in accordance with the basis of accounting described in note 2 to the financial statements.

These financial statements, which have not been and were not intended to be, prepared in accordance with Canadian generally accepted accounting principles, are solely for the information and use of the Ministry of the Attorney General, Province of British Columbia and the Directors of Themis for complying with the above-noted contract (see note 2). The financial statements are not intended to be and should not be used by anyone other than the specified users or for any other purpose.

KPMG

Appendix B—Matters to Communicate

Matters required to be communicated under professional standards to the appropriate level of management include:

Engagement partner

- identity and role of the engagement partner.

Fraud and non-compliance with laws and regulations

- any identified fraud or any information obtained that indicates that a fraud may exist.
- any identified non-compliance with laws or regulations or suspected non-compliance.

Control deficiencies

- any significant deficiencies in the Entity's internal control that we intend to communicate to those charged with governance unless it would be inappropriate to communicate directly to management in the circumstances.
- other deficiencies in internal control that have not been communicated to management by other parties and that, in our professional judgment, are of sufficient importance to merit management's attention.

Misstatements

- any accumulated misstatements, other than those that are clearly trivial. Furthermore, we request that management correct all misstatements communicated.

Matters required to be communicated, on a timely basis, under professional standards to those charged with governance include:

Engagement partner

- identity and role of the engagement partner.

Audit approach

- an overview of the planned scope and timing of the audit.

Fraud and non-compliance with laws and regulations

- any identified fraud or suspected fraud that may exist involving management, employees who have significant roles in internal control, or others where the fraud results in a material misstatement in the annual financial statements.
- any matters related to fraud that are, in our judgment, relevant to your responsibilities.
- any identified non-compliance with laws or regulations or suspected non-compliance, other than when the identified or suspected non-compliance is clearly inconsequential.

Control deficiencies

- any significant deficiencies, in writing, in the Entity's internal control.

KPMG

Appendix B—Matters to Communicate (cont)

Misstatements

- any accumulated uncorrected misstatements (amounts or disclosures) other than those that are clearly trivial. Furthermore, we request all uncorrected misstatements be corrected.

Accounting practices

- our views about significant qualitative aspects of the accounting practices including accounting policies, accounting estimates and financial statement disclosures.

Significant difficulties

- any significant difficulties that we encountered during the audit. For example, if we conclude that management's refusal to allow us to send a confirmation request is unreasonable or when we are unable to obtain relevant and reliable audit evidence from alternative audit procedures.

Significant matters

- significant matters, if any, arising from the audit that were discussed, or subject to correspondence with management (e.g., management's consultation with other accountants, major issues discussed with management prior to retention or any disagreements with management, whether or not satisfactorily resolved, about matters that individually or in the aggregate could be significant to the financial statements or report thereon).
- other significant matters arising from the audit , if any, that, in our professional judgment, are significant to the oversight of the financial reporting process, including those significant matters arising from the audit in connection with the Entity's related parties.
- instances where our evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work.
- any limitations on the group audit, for example, where our access to information may have been restricted.

Management representations

- copies of written representations requested from management.

Going concern

- events or conditions identified that may cast significant doubt on the Entity's ability to continue as a going concern.

Reporting

- any expected modifications to the audit report.
- any expected emphasis of matter or other paragraphs in the audit report.
- management refuses to remove a scope limitation in the audit.

Other information

- any revision necessary to, or material misstatement of fact included in, financial and non-financial information which is included, either by law, regulation or custom, in a

Appendix B—Matters to Communicate (cont)

document containing the audited financial statements and our audit report thereon ("other information") that we identified when reading such information, which management refuses to correct.

- any significant matters resulting from the procedures performed in accordance with professional standards on the other information.
- our responsibilities with respect to other information in documents containing audited financial statements.

Note: Significant findings from the audit will be communicated in writing if, in our professional judgment, oral communication would not be adequate.

Matters required to be communicated under professional standards to the board of directors include:

- any identified non-compliance with laws or regulations or suspected non-compliance where we suspect that management or those charged with governance are involved.

KPMG

Appendix C—Terms and Conditions for Assurance Engagements

The Terms and Conditions are an integral part of the accompanying engagement letter from KPMG that identifies the engagement to which they relate (and collectively form the "Engagement Letter"). The Engagement Letter supersedes all written or oral representations on this matter.

1. SEVERABILITY.

If any of the provisions of this Engagement Letter are determined to be invalid or unenforceable, the remaining provisions shall remain in effect and be binding on the parties to the fullest extent permitted by law.

2. GOVERNING LAW.

This Engagement Letter shall be subject to and governed by the laws of the province where KPMG's principal office performing this engagement is located (without regard to such province's rules on conflicts of law) and all disputes arising hereunder or related thereto shall be subject to the exclusive jurisdiction of the courts of such province of Canada.

3. LLP STATUS.

KPMG LLP is a registered limited liability Partnership ("LLP") established under the laws of the Province of Ontario and, where applicable, has been registered extra-provincially under provincial legislation. KPMG is a partnership, but its partners have a degree of limited liability. A partner is not personally liable for any debts, obligations or liabilities of the LLP that arise from a negligent act or omission by another partner or of any other person under that other partner's direct supervision or control. The legislation relating to limited liability partnerships does not, however, reduce or limit the liability of the firm. The firm's insurance exceeds the mandatory professional indemnity insurance requirements established by the various Institutes/Ordre of Chartered Accountants. Subject to the other provisions hereof, all partners of the LLP remain personally liable for their own actions and/or actions of those they directly supervise or control.

4. DOCUMENTS AND CONFIDENTIAL INFORMATION.

Management's cooperation in providing us with documents and related information and agreed-upon assistance on a timely basis is an important factor in being able to issue our report. KPMG shall be entitled to share all confidential information with all member firms of KPMG International performing services hereunder. All work papers, files and other internal materials created or produced by KPMG during the engagement and all copyright and intellectual property rights in our work papers are the property of KPMG.

5. INFORMATION PROCESSING OUTSIDE OF CANADA.

Personal and/or confidential information (e.g. entries into KPMG's time and billing system and into KPMG's conflicts database) collected by KPMG during the course of this engagement may be processed and stored outside of Canada by KPMG, KPMG International member firms performing services hereunder or third party processors. Such personal and/or confidential information may be subject to disclosure in accordance with the laws applicable in the jurisdiction in which the information is processed or stored which laws may not provide the same level of protection for such information as will Canadian laws.

6. PERSONAL INFORMATION CONSENTS AND NOTICES.

KPMG may be required to collect, use and disclose personal information about individuals during the course of this engagement. The Entity represents and warrants that: (i) it will obtain from individuals all consents required by law to permit KPMG to collect, use and disclose all personal information reasonably required in the course of the engagement, and (ii) it has provided notice of KPMG's potential processing of information outside of Canada (as described in paragraph 5 above) to all individuals whose personal information is disclosed to KPMG.

7. OFFERS OF EMPLOYMENT.

In order to allow issues of independence to be addressed, management agrees that prior to extending an offer of employment to any KPMG partner, employee or contractor, the matter is communicated to the engagement partner or associate partner.

8. OFFERING DOCUMENTS.

If the Entity wishes to include or incorporate by reference the financial statements and our report thereon in an offering document, we will consider consenting to the use of our report and the terms thereof at that time. Prior to issuing any consent, comfort or advice letter, if any, we will be required to perform procedures as required by professional standards. Management agrees to provide us with adequate notice of the preparation of such documents.

9. FEE ARRANGEMENTS.

KPMG's estimated fee is based on the quality of the Entity's accounting records, the agreed-upon level of preparation and assistance from the Entity's personnel, and adherence to the agreed-upon timetable. KPMG's estimated fee also assumes that the Entity's financial statements are in accordance with the applicable financial reporting framework and that there are no significant new or changed accounting policies or issues, or

financial reporting, internal control over financial reporting or other reporting issues. KPMG will inform the Entity on a timely basis if these factors are not in place.

Additional time may be incurred for such matters as significant issues, significant unusual and/or complex transactions, informing management about new professional standards, and any related accounting advice. Where these matters arise and require research, consultation and work beyond that included in the estimated fee, the Entity and KPMG agree to revise the estimated fee. No significant additional work will proceed without management's concurrence, and, if applicable, without the concurrence of those charged with governance. Upon completion of these services KPMG will review with the Entity any fees and expenses incurred in excess of KPMG's estimate, following which KPMG will render the final billing. Routine administrative expenses such as long distance telephone calls, photocopies, fax charges, printing of statements and reports, postage and delivery and secretarial and report department assistance will be charged on the basis of a percentage of KPMG's professional costs. Other disbursements for items such as travel, accommodation and meals will be charged based on KPMG's actual disbursements.

KPMG's invoices are due and payable upon receipt. Amounts overdue are subject to interest. In order to avoid the possible implication that unpaid fees might be viewed as creating a threat to KPMG's independence, it is important that KPMG's bills be paid promptly when rendered. If a situation arises in which it may appear that KPMG's independence is threatened because of significant unpaid bills, KPMG may be prohibited from signing the report and, if applicable, any consent.

Fees for any other services will be billed separately from the services described in this engagement letter and may be subject to written terms and conditions supplemental to those in this letter.

10. LEGAL PROCESSES.

The Entity on its own behalf acknowledges and agrees to cause its subsidiaries and its affiliates to acknowledge that KPMG may, from time to time:

- be required, pursuant to subpoena or other legal process, or may agree to a request by the Entity, to provide information and copies of documents in KPMG's files, including KPMG's working papers and other work-product relating to the Entity, its subsidiaries and/or its affiliates ("Information and Documentation") in judicial or administrative proceedings to which KPMG is not a party; and
- receive requests or orders from judicial, administrative,
  professional, securities or other regulatory or governmental authorities (both in Canada and abroad, including without limitation the Canadian Public Accountability Board) ("Requesting Authority") to provide them with Information and Documentation.

In such situations, the Entity on its behalf consents and agrees to cause its subsidiaries and affiliates to consent to KPMG providing Information and Documentation without further reference to, or authority from, the Entity or its subsidiaries and affiliates. If a request or order is directly related to an inspection or investigation of the Entity or its subsidiaries and affiliates, KPMG will advise the Entity or its subsidiaries and affiliates of the request or order, except where prohibited by law from doing so.

KPMG will not provide to the Requesting Authority Information and Documentation over which the Entity or its subsidiaries and affiliates have expressly asserted privilege, except a) with the Entity's consent, b) where required by law, or c) where requested by a provincial Institute/Ordre of Chartered Accountants pursuant to its statutory authority. The Entity or its subsidiaries and affiliates will mark any document over which the Entity or its subsidiaries and affiliates assert privilege as "privileged".

KPMG may also be required to provide Information and Documentation to a Requesting Authority relating to the fees that KPMG charges or collects from the Entity or its subsidiaries and affiliates for the provision of audit services, other accounting services and non-audit services, and the Entity on its behalf consents and agrees to cause its subsidiaries and affiliates to consent to the disclosure of that Information and Documentation to that Requesting Authority.

The Entity or its subsidiaries and affiliates shall reimburse KPMG at standard billing rates for its professional time and expenses, including reasonable legal fees, incurred in dealing with the matters described above.

11. KPMG INTERNATIONAL MEMBER FIRMS.

The Entity agrees that any claims that may arise out of this engagement will be brought solely against KPMG, the contracting party and not against any other KPMG International Cooperative ("KPMG International") member firms participating in this engagement.

12. CONNECTING TO THE ENTITY'S IT NETWORK.

KPMG personnel are authorized to connect their computers to the Entity's IT Network, subject to any restrictions communicated to KPMG from time to time. Connection to the Entity's IT Network or the Internet via the Network, while at the Entity's premises, will be for the express purpose of conducting normal business activities, primarily relating to facilitating the completion of work referred to in this letter.

13. DELIVERABLES OR COMMUNICATIONS.

KPMG may issue other deliverables or communications as part of the services described in this Engagement Letter. Such deliverables or communications may not to be included in, summarized in, quoted from or otherwise used or referred to, in whole or in part, in any documents or public oral statement.

KPMG expressly does not consent to the use of any communication, report, statement or opinion prepared by us on the interim financial statements and such communication, report, statement or opinion may not be included in, summarized in, quoted from or otherwise used in any document or public oral statement.

Financial Statements of

THE FAMILY MAINTENANCE ENFORCEMENT PROGRAM

(Operated by Themis Program Management and Consulting Limited)

Year ended March 31, 2012

KPMG LLP
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INDEPENDENT AUDITORS' REPORT

To the Directors of Themis Program Management and Consulting Limited and the Ministry of Attorney General, Province of British Columbia

We have audited the accompanying financial statements of The Family Maintenance Enforcement Program, which comprise the statement of financial position as at March 31, 2012, the statements of revenue and expenses and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management in accordance with the financial reporting provisions of the contract dated March 26, 2002 between Themis Program Management and Consulting Limited and the Province of British Columbia.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of the contract dated March 26, 2002 between Themis Program Management and Consulting Limited and the Province of British Columbia, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we 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 financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's 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 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements as at and for the year ended March 31, 2012 are prepared, in all material respects, in accordance with the financial reporting provisions of the contract dated March 26, 2002 between Themis Program Management and Consulting Limited and the Province of British Columbia.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP

Basis of Accounting and Restriction on Use

Without modifying our opinion, we draw attention to Note 2 to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist Themis Program Management and Consulting Limited to meet the requirements of the Province of British Columbia. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for Themis Program Management and Consulting Limited and the Province of British Columbia and should not be used by parties other than Themis Program Management and Consulting Limited or the Province of British Columbia.

KPMG LLP

Chartered Accountants

September 27, 2012
Victoria, Canada

THE FAMILY MAINTENANCE ENFORCEMENT PROGRAM

(Operated by Themis Program Management and Consulting Limited (note 1))

Statement of Financial Position

March 31, 2012, with comparative information for 2011

	2012	2011
Assets		
Cash	$ 148,566	$ 13,736
Accounts receivable (note 4)	411,159	397,208
	$ 559,725	$ 410,944
Liabilities		
Accounts payable and accrued liabilities (note 5)	$ 559,603	$ 410,827
Due to the Province (note 6)	122	117
Trust fund (note 7)		
Commitments (note 8)		
Subsequent event (note 13)		
	$ 559,725	$ 410,944

See accompanying notes to financial statements.

Approved on behalf of the Board:

____________________________ Director

____________________________ Director

THE FAMILY MAINTENANCE ENFORCEMENT PROGRAM

(Operated by Themis Program Management and Consulting Limited (note 1))

Statement of Revenue and Expenses

Year ended March 31, 2012, with comparative information for 2011

	2012 Actual	2012 Budget	2011 Actual
		(Unaudited)	
Revenue:			
Operational revenue	$ 15,712,948	15,014,000	15,040,748
Management fee	893,052	893,000	893,052
Default fee collection	400,000	400,000	400,000
Telecommunication transfer	135,674	140,000	124,507
Trust fund reimbursement	22,901	28,000	28,957
Federal funded projects (Schedule)	253,525	225,000	250,008
Comprehensive Child Support Services (“CCSS”) project (Schedule)	138,960	144,000	140,801
Funding for ISO website support	7,000	7,000	7,000
Funding for reciprocal enforcement of maintenance orders support	-	-	8,000
Legal PST	-	-	4,945
	17,564,060	16,851,000	16,898,018
Expenses (note 9):			
Salaries	10,189,411	10,270,144	10,106,014
Management benefits	330,351	322,474	304,203
Operating benefits	1,306,170	1,352,941	1,280,153
Legal benefits	182,991	184,824	171,940
Business and technology solutions benefits	229,668	259,947	251,309
Default salaries and benefits	400,000	400,000	400,000
Travel	222,633	192,450	190,683
Contracts	194,765	225,000	263,789
Business and technology solutions	898,550	675,134	701,422
Office expenses and equipment	570,443	592,500	567,826
Staff development	189,438	150,124	152,082
Facilities	1,867,017	1,241,012	1,523,108
Other costs	89,566	91,450	92,434
Program management fee	893,052	893,000	893,052
	17,564,055	16,851,000	16,898,015
Excess of revenue over expenses	$ 5	$ -	$ 3

See accompanying notes to financial statements.

THE FAMILY MAINTENANCE ENFORCEMENT PROGRAM

(Operated by Themis Program Management and Consulting Limited (note 1))

Statement of Cash Flows

Year ended March 31, 2012, with comparative information for 2011

	2012	2011
Cash provided by (used in):		
Operations:		
Changes in non-cash working capital:		
Accounts receivable	$ (13,951)	$ 30,182
Accounts payable and accrued liabilities	148,776	79,099
Due to the Province	5	3
Increase in cash	134,830	109,284
Cash position, beginning of year	13,736	(95,548)
Cash position, end of year	$ 148,566	$ 13,736

See accompanying notes to financial statements.

The Family Maintenance Enforcement Program ("FMEP") was established by the Ministry of the Attorney General, Province of British Columbia, to ensure family maintenance payments are made pursuant to the Family Maintenance Enforcement Act. Themis Program Management and Consulting Limited ("Themis") operates FMEP pursuant to a contract (the "contract") with the Province of British Columbia (the "Province") dated March 26, 2002, which is effective from April 1, 2002 to March 31, 2008 and extended by the 21st modification agreement dated March 29, 2012 that expires on June 30, 2013. This extension operates on the same terms and conditions as the original agreement.

1. Scope of the financial statements:

As described above, Themis operates FMEP on behalf of the Province. The financial statements have been prepared by management in accordance with the financial reporting provisions of the contract dated March 26, 2002 between Themis Program Management and Consulting Limited and the Province of British Columbia. As a result, the financial statements may not be suitable for another purpose.

These financial statements present the financial position, the results of operations and cash flows of FMEP, as operated by Themis. They do not include all other assets and liabilities, revenue and expenses of Themis. Provision has not been made for income taxes, as the liability for income tax is that of Themis and not of FMEP. Revenue from any other contract activities and investment income has been treated as income of Themis and is not included in these financial statements.

2. Basis of accounting:

The financial statements have been prepared in accordance with the terms set out in the contract dated March 26, 2002 between Themis and the Province. The basis of accounting used in these financial statements materially differs from Canadian generally accepted accounting principles as capital expenditures are charged to operations in the year the assets are acquired. Capital expenditures are not recorded as assets of the FMEP and amortization is not recorded. Also, certain prepaid amounts are recorded as expenses of the FMEP in the current year (note 9(b)).

3. Significant accounting policies:

(a) Revenue recognition:

Revenue for contracts is recognized as the contracted services are performed. Amounts received in advance of services being provided are deferred until the service is provided.

3. Significant accounting policies (continued):

(b) Financial instruments:

Financial instruments are recorded at fair value on initial recognition and are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Company has not elected to carry any such financial instruments at fair value. Financial instruments are adjusted by transaction costs incurred on initial acquisition, which are amortized using the straight line method. Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment.

(c) Employee future benefits:

FMEP and its employees make contributions to a defined contribution plan that provides benefits to its employees. These contributions are expensed as incurred.

(d) Use of estimates:

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates.

4. Accounts receivable:

	2012	2011
Federal funding	$ 283,949	$ 254,464
HST recoverable	80,652	8,809
Trust fund reimbursement	25,649	32,432
CCSS project	13,598	13,243
BCGEU/PEA and employee benefits	5,410	2,918
Travel advances	1,025	500
External litigation fee recoverable	876	-
Operational funding	-	38,976
Federal funding research	-	25,545
ITSD Network services	-	12,415
Facilities operating cost recoverable	-	7,906
	$ 411,159	$ 397,208

5. Accounts payable and accrued liabilities:

	2012	2011
Trade payables	$ 281,727	$ 135,698
Salaries, benefits and payroll deductions	277,876	275,129
	$ 559,603	$ 410,827

6. Due to the Province:

In accordance with the contract with the Ministry of the Attorney General, Themis is required to refund to the Province on demand any amounts received to operate FMEP in excess of actual expenses. Included in the statement of financial position is $122 representing the accumulated excess receipts due to the Province at March 31, 2012 (2011 - $117).

7. Trust fund (unaudited):

The trust fund is a Provincial Government account and represents money received from or on behalf of debtors which, in turn, are payable to creditors and/or debtors as well as enforcement fees payable to the Province for services rendered for the creditors and/or debtors. This fund is administered by Themis, but is not the property of Themis or FMEP.

	2012	2011
Trust fund balance as of March 31	$ 5,725,629	$ 5,377,328
Trust liabilities as of March 31	$ 5,725,629	$ 5,377,328

8. Commitments:

(a) Premise leases:

Themis has entered into premise leases expiring in March 2014, 2015 and 2018. Minimum lease payments and estimated operating costs are as follows:

Year		Victoria		Burnaby		Kamloops		Total
2012/2013	$	616,284	$	-	$	258,581	$	874,865
2013/2014		689,060		620,457		263,478		1,572,995
2014/2015		707,700		635,460		-		1,343,160
2015/2016		-		711,039		-		711,039
2016/2017		-		729,276		-		729,276
2017/2018		-		748,424		-		748,424
	$	2,013,044	$	3,444,656	$	522,059	$	5,979,759

In the event that the Province exercises its option to terminate the Program on or before March 31, 2013, by giving the notice required under Section 19.01 of the agreement dated March 26, 2002, the cost of fulfilling Themis' obligations under the lease contracts described above, plus any penalties included as a result of the early termination of these contracts, will be borne by the Province.

The Victoria lease expires March 31, 2015.

The Burnaby lease expires March 31, 2018 and contains an option to cancel without penalty or associated cost effective April 1, 2012 if Themis is not awarded a further maintenance enforcement contract from the Ministry of the Attorney General of the Province of BC for the period April 1, 2012 to March 31, 2015, provided the Landlord receives six months written notice of the intent to exercise this option. There is also an option to cancel the lease without penalty or associated cost effective April 1, 2015, if Themis is not awarded a further maintenance contract from the Ministry of the Attorney General of the Province of BC for the period April 1, 2015 to March 31, 2018, provided the Landlord receives six months written notice of the intent to exercise this option.

The Kamloops lease expires March 31, 2014 and contains an option to terminate the lease with one year's written notice and no penalty. Should Themis exercise early termination, Themis would be obligated to pay the remaining $9,000 in tenant improvement costs to be amortized after termination.

8. Commitments (continued):

(b) Equipment and computer server leases and service contracts:

Themis is committed until 2013 for photocopier leases and until 2014 for computer server leases and service contract payments (which can be cancelled upon 30 and 90 days respectively, written notice with no penalties) as follows:

	Photocopiers	Computer server	Total
2012/13	$ 25,490	$ 47,619	$ 73,109
2013/14	21,396	23,810	45,206
2014/15	21,396	-	21,396
	$ 68,282	$ 71,429	$ 139,711

New leases will be entered into as equipment ages and requires replacement and, accordingly, further commitments will be made.

(c) Severance:

Subject to the overall maximums set out in the definitions of subparagraph 1.01(z) of the contract dated March 26, 2002, any severance obligation to employees of Themis arising on the termination of the Program on or before March 31, 2013 will also be borne by the Province, to a maximum of $1,700,000. Themis is liable for any severance to be paid in excess of $1,700,000. At March 31, 2012, the potential severance liability is estimated at $1,732,696 (2011 - $1,638,941) not including any additional amounts that a court might order for excluded staff. No severance liability exists under the contract to the employees of Gaea Management Ltd. ("Gaea") who operate Business and Technology Solutions and Financial Services as set out in note 9.

9. Program expenses:

(a) Related companies:

In accordance with the contract signed March 26, 2002, Themis reports that the following expenses of the Program have been incurred on the Program's behalf by Gaea in which the principals of Themis have an interest.

The expenses shown below relate to the operation of business and technology solutions ("BTS") and financial services. None of the amounts reported below were paid for any administration management fees.

	2012	2011
Revenue received from FMEP	$ 2,232,158	$ 2,392,918
Expenses for BTS, Financial Services and Victoria Administration:		
Salaries	$ 435,600	$ 420,474
Employee benefits	91,377	87,236
Data systems:		
Staffing	1,669,115	1,862,242
Operations:		
Travel	5,188	2,224
Computer maintenance and supplies	11,078	8,345
Office and telecommunications	495	918
Training and development	11,789	6,342
Travel and office	7,516	5,137
	$ 2,232,158	$ 2,392,918

The portion of data systems staffing expenses incurred by Gaea relating to corporate projects (non-FMEP projects) is not charged to the Program.

No amounts charged to the Program were paid to Hannah Roots during 2011/12 except for the reimbursement of travel expenses related to FMEP business as per Schedule B 1(h) of the contract dated March 26, 2002 with the Ministry of the Attorney General.

9. Program expenses (continued):

(b) Prepaid expenses:

The following expenses relating to future years have been included as current year expenses of FMEP. The inclusion of these amounts as current year expenses has been authorized by the Ministry of the Attorney General:

	2012	2011
Prepaid rent:		
Twelve months (2011 - six months) rent for Burnaby	$ 597,710	$ 281,844
One month rent for Victoria	55,355	-
Prepaid postage	20,000	-
Total expenses pertaining to future periods included as expenses	$ 673,065	$ 281,844

10. Fair value of financial instruments:

The fair value of cash, accounts receivable, accounts payable and accrued liabilities and due to the Province approximate their carrying value due to the relatively short periods to maturity of these items or because they are receivable or payable on demand.

11. Defined contribution pension plan:

The FMEP contributes to a defined contribution plan that provides pension benefits to its employees. Participation in the plan is compulsory for all eligible employees meeting certain conditions. The FMEP contributes 6-7% and the employee 5% of gross annual salary. In 2012, the FMEP contributed $625,423 (2011 - $637,232) to the plan.

12. Credits to the Province for non-FMEP work:

The statements of FMEP reflect a total credit to the Province of $43,384 (2011- $26,673) for work performed by FMEP staff on non-FMEP projects and initiatives, $13,870 (2011 - $13,816) for use of facilities including phones and $16,355 (2011 - $18,672) for BCGEU and PEA staff time spent on union business (bargaining). Staff costs include staff salaries, benefits and related infrastructure for the time spent on non-FMEP projects. These credits are recorded as a reduction in FMEP expenses incurred.

	2012	2011
These projects are:		
Employment Labour Market Services	$ 18,689	$ 24,375
Corporate – other	24,695	2,298
	$ 43,384	$ 26,673

13. Subsequent event:

On September 24, 2012 the Company's FMEP Services Agreement with the Ministry of the Attorney General, Province of British Columbia was extended by the 23rd modification agreement that expires on January 31, 2014. Total funding of $17,941,000 was committed for the period April 1, 2012 to March 31, 2013 and the severance obligation to be borne by the Province arising on the termination of the Program was modified from a maximum of $1,700,000 to a maximum of $1,900,000.

14. Comparative information:

Certain comparative information has been reclassified to conform with the financial statement presentation adopted in the current year.

THE FAMILY MAINTENANCE ENFORCEMENT PROGRAM

(Operated by Themis Program Management and Consulting Limited (note 1))

Schedule of Other FMEP Related Contract Revenue

Year ended March 31, 2012, with comparative information for 2011

	2012	2011
Other revenue - federally funded:		
National Data Requirements	$ 10,000	$ 10,000
Improving Client Service	223,525	189,200
Age of Majority Mediation	20,000	-
Better Use of Enforcement Tools	-	-
Performance Based Management and Research	-	28,000
Development of Research Plan	-	22,808
	$ 253,525	$ 390,808

Comprehensive Child Support Services project (including Nanaimo) – federally funded	$ 138,960	$ 148,801

These funds represent a contribution by the Federal Government for FMEP developmental activities. The staff resources for these projects are provided entirely by the FMEP (except when contract staff may be hired and used for the project). Project costing is not practical and is not used. In many cases, the federal funding covers only a portion of the total cost of these projects. The remaining costs of these projects are covered by the Operational funding.