

The general scope of the test audit which we have made for the year 1942 may be outlined briefly as follows:—

- (a) Examination of major expenditure authorities which were based principally upon recorded Resolutions of the Directors. These major expenditure authorities in turn have been established mainly by Corporate By-Laws of the Canadian National Railway Company, Acts of Parliament and Orders in Council;
- (b) Audit tests in the offices of Regions, Separately Operated Properties and System Headquarters, covering a cross-section of the major expenditures so authorized;
- (c) Examination into the adequacy of the internal audit control in general as exercised by the accounting staff of the System. In this connection we work in collaboration with the executive accounting and treasury officers at Headquarters having as a common objective the securing of maximum internal protection to the System in the control of Cash Receipts and Expenditures, Securities Held, Material Stores, Accounts Receivable etc., and
- (d) Audit and certification of the Consolidated Balance Sheet, Income and Profit and Loss Accounts for presentation to Parliament, which body is thus placed in possession of facts upon which conclusions can be reached as to the stewardship of the duly appointed administrators of the System.

The audit covered the various Balance Sheet accounting units in Canada, the United States and Great Britain with Income and Profit and Loss Accounts originating in the Revenue Offices, Regions, Separately Operated Properties and System Headquarters applicable to some 95 companies comprising the National System as an operating entity.

We attach hereto the following financial statements of the National System:—

- Exhibit I —Consolidated Balance Sheet at the 31st December, 1942—
together with Audit Certificate
- Exhibit II —Dominion of Canada—Proprietor's Equity at the 31st
December, 1942
- Exhibit III —Consolidated Profit and Loss Account—Year 1942
- Exhibit IV —Consolidated Income Account—Year 1942
- Exhibit V —Investments in Affiliated Companies at the 31st December,
1942
- Exhibit VI —Major Contingent Liabilities, including Pension Plans, at
the 31st December, 1942.

Consolidated Balance Sheet

Investments in Properties and Equipment appearing in the books of the companies as at the 1st January, 1923, were accepted by us. As against the corporate property investments brought into the National System accounts in 1923, there have been applied the reductions as authorized by The Canadian National Railways Capital Revision Act, 1937. Since the 1st January, 1923, the property additions and betterments less retirements have been shown at cost.

Investments in Affiliated Companies, as set out in Exhibit V, are represented in the main, apart from the Trans-Canada Air Lines, by a 50 per cent or less capital stock ownership. The basis of the Balance Sheet figure is cost, or in certain instances special valuations approved by the Interstate Commerce Commission. There are two principal factors for consideration in this type of investment by the railroad industry generally, viz:—

- (1) The extent of traffic benefits derived by parent companies as a direct result of their investments, and