

3.1 Introduction The Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants provides the generally accepted accounting principles (GAAP) for the public sector in Canada. PSAB pronouncements represent the consensus of senior government officials, legislative auditors and other experts in public sector accounting across Canada. They represent minimum standards for government and are the benchmark for acceptable financial reporting.

Government has made significant progress in the preparation of financial statements that provide information about the operating results and financial position of the Province in accordance with GAAP. Also, the timeliness of the completion of the financial statements has improved significantly in recent years. I commend the Office of the Comptroller General for being proactive in initiating improvements in the quality and timeliness of the Public Accounts.

While Government has made significant progress, there are still issues that should be addressed which would improve its financial reporting.

3.2 Government Reporting Entity

The Province's Consolidated Summary Financial Statements are required to include all organizations that are controlled by Government. A detailed listing of organizations and enterprises included as part of the Government Reporting Entity is shown in a schedule to the Consolidated Summary Financial Statements of the Province.

Government considers the Workplace Health, Safety and Compensation Commission to be a form of trust and has disclosed information on the Commission's surplus (\$7.5 million) and unfunded liability (\$171.1 million) for the year ended 31 December 2003 in a note to the Schedule of Trust Accounts in the Consolidated Summary Financial Statements. Government should continue to monitor how other jurisdictions in Canada account for this type of entity and determine whether note disclosure is the most appropriate alternative.

The Consolidated Summary Financial Statements include organizations and enterprises that meet the criteria for inclusion, with the exception of Memorial University of Newfoundland. Although the University meets the criteria for inclusion, Government has decided not to include it in the Province's financial statements.

Comments on Government's Financial Reporting

Our review of the *Memorial University Act* indicates that the University is controlled by Government and, therefore, should be included as part of the reporting entity. The consolidated financial statements of the University for the year ended 31 March 2004 show total revenues of \$322.6 million, expenditures of \$347.4 million and total assets of \$264.3 million.

The current PSAB standards relating to the government reporting entity were issued in August 2003, during the 2003-04 fiscal year, and will replace the former standards which were considered by some jurisdictions as lacking clarity. While my review of the former standards indicated that the University should be part of the reporting entity and included in the Province's financial statements, I decided to wait for PSAB to issue its new standards and determine whether the University would still meet the criteria for inclusion. My assessment of the new standards indicated that the University continues to meet the criteria and should be part of Government's reporting entity and included in the Province's financial statements. Government is required to follow these new standards for fiscal years beginning 1 April 2005 (i.e. 2005-06 fiscal year).

Memorial University of Newfoundland has material assets, liabilities, revenues and expenses and should be included in the Province's Consolidated Summary Financial Statements. Therefore, if the standards do not change and Memorial University of Newfoundland is not included in the Province's Consolidated Summary Financial Statements for 2005-06, I will have no alternative other than to qualify my auditor's opinion and state that the Province's financial statements are not complete.

Recommendation

Memorial University of Newfoundland should be part of Government's reporting entity and included in the Province's Consolidated Summary Financial Statements.

3.3 Environmental Liabilities

There are many sites in the Province which have environmental contamination resulting from such things as PCBs, old fuel storage tanks and solid waste landfills. These sites include, for example, the old Harmon airforce base, Octagon Pond, Buckmaster's Circle, Marystown Shipyard and abandoned mining properties.

In my 2002 Annual Report to the House of Assembly I concluded that *"There is no central inventory of contaminated sites ... The lack of a central inventory makes it more difficult for Government to determine the nature and extent of contaminated sites in the Province, the extent of*