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## Comments on Government's Financial Reporting

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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*

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*progress of remediation efforts, and estimated future remediation costs to be incurred by Government.”*

There is still no complete central inventory of contaminated sites and there is no liability recorded on the Province's financial statements for remediation costs associated with these sites.

Government will ultimately have involvement with all contaminated sites in the Province; however, the extent of the involvement and resulting financial costs may vary. Costs associated with remediation are usually significant - for example Government spent approximately \$16.8 million on remediation costs at the former Hope Brook Gold Mine property. While it is possible that the Province may be able to recover some of the remediation costs from other parties, the remaining remediation costs associated with contaminated sites would likely be significant.

Generally accepted accounting principles require that, if a reasonable estimate of the costs of the environmental remediation of Government-owned sites can be determined and it is likely that the Province will be liable for these costs, this amount be recorded in Government's financial statements. Currently, Government does not record any provision for environmental liabilities in the Province's financial statements. Note 9. (c)(vi) to the statements indicates that “... *the status and costs of potential issues* [environmental issues] *is not determinable*”. However, a financial report made public by Government in January 2004 indicated that “*The Province is facing environmental issues requiring more than \$237 million for compliance with legislation and for remediation....*”

### **Recommendation**

*Government should undertake a process to identify all contaminated sites in the Province for which it is potentially liable, determine the estimated liability associated with remediation costs and comply with generally accepted accounting principles by recording any resulting liability in the Province's financial statements.*

### **3.4 The Budget**

For many years, my Office has recommended that Government prepare its budget on the same basis as its financial statements so that a user of the information would be able to compare planned results with actual results.

I am pleased to note that for fiscal year 2003-04, Government has prepared a consolidated accrual budget. This budget now communicates the planned results of Government's financial activities to the House of Assembly and the public on the same basis as the actual results are communicated.