
Comments on Government's Financial Reporting

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.

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The current budget provides a focus on the Consolidated Statement of Operations (i.e. revenues and expenses) and does not provide any projected year-end balances relating to Government's net debt. I believe that the budget would be further improved if information on projected year-end balances relating to Government's net debt was also provided.

Furthermore, the Province has tax expenditure programs which provide special exemptions, deductions, rate reductions, rebates, credits and deferrals that reduce the amount of tax revenue otherwise due the Province and relate to such tax categories as personal income tax, corporation income tax, gasoline tax, health and post secondary education tax, provincial sales tax and tobacco tax. We identified approximately \$215.5 million of foregone revenue resulting from tax expenditure programs.

Although these tax expenditure programs have comparable economic impacts as direct spending programs and affect the financial position of the Province in a similar manner, details of these programs are not provided to Members of the House of Assembly as part of the annual budget approval process. In contrast, expenditure programs are outlined in the Estimates and approved by the Members of the House of Assembly as part of the annual budget process.

Reporting tax expenditures to the Members of the House of Assembly would provide information that the Members require in order to hold Government accountable. Three Canadian jurisdictions - Saskatchewan, British Columbia and the Government of Canada do disclose details of their major tax expenditure programs in their budget documentation.

Recommendation

Government should consider providing information in its budget relating to projected balances for its net debt. Government should also consider providing information in its budget relating to tax expenditures.

3.5 Periodic Financial Statements

Periodic financial statements, while not specifically required by generally accepted accounting principles, are considered to be an important component of any financial accountability framework. These statements are important to effectively monitor and control government operations.

Government has been preparing quarterly financial statements to show its results of operations and its financial position on an on-going basis since September 2002. Officials of Treasury Board Secretariat indicated that