

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. I commend the Office of the Comptroller General for continuing to be 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 (\$50.8 million) and unfunded liability (\$114.8 million) for the year ended 31 December 2004 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. I am pleased to report that Government approved the consolidation of Memorial University of Newfoundland commencing with the 31 March 2006 Public Accounts and directed the Office of the Comptroller General to engage in further discussion with the University to facilitate consolidation.

Comments on Government's Financial Reporting

The consolidated financial statements of the University for the year ended 31 March 2005 show total revenues of \$340.5 million, expenditures of \$340.0 million and total assets of \$279.9 million.

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 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 \$18.9 million to complete 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 8. (c)(vi) to the statements indicates that *"... while the Province is aware of a number of contaminated sites, the full extent of the remediation costs for these known sites is not readily 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...."*