

2.7 What Accounting Policies does Government Follow?

The consolidated summary financial statements are prepared on the accrual basis of accounting in accordance with the accounting standards established for governments by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA), and as outlined in the significant accounting policies of the Province. Revenues are recorded when earned with expenses being recorded when liabilities are incurred, in accordance with the applicable significant accounting policies.

Since PSAB's recommendations relating to financial reporting by governments are generally accepted within Canada, section 59 of the *Financial Administration Act* requires compliance with these recommendations to properly present the financial position, results of operations and changes in the financial position of the Province at the end of the fiscal year.

Reporting Model

In October 2002, PSAB approved a new reporting model for Federal, provincial and territorial governments. The new standards are effective for fiscal years beginning on or after 1 April 2005. The new model was adopted in this Province commencing with the fiscal year ended 31 March 2004.

Along with presentation changes in the new model, Government made the following changes commencing with the 2004 fiscal year, in order to comply with PSAB recommendations:

- Tangible capital assets were recorded on the Statement of Financial Position and amortized over their useful lives. Prior to the 2004 fiscal year, these assets were expensed in the year they were acquired or constructed.
- Inventories of supplies (not held for resale) were recorded as non-financial assets. Prior to the 2004 fiscal year, these were expensed.

Specific Accounting Policies

The specific accounting policies used by Government in preparing its financial statements are included in Note 1 to the statements and deal with such things as the method of consolidation and how specific assets, liabilities, revenues and expenses are recognized.

I am pleased to note that, with the inclusion of Memorial University of Newfoundland in the government reporting entity for the 2006 fiscal year, the Province now fully complies with PSAB recommendations and standards.

Use of Estimates

When preparing its financial statements, Government makes significant estimates, as not all information is available or determinable at the time of finalizing the statements. In these cases, estimates are based on the best information available at the time the statements are prepared. Examples of where estimates are used include the accrual of retirement benefits, the amortization of foreign exchange gains or losses, and the allowance for guaranteed debt. As well, estimates have been used in recording some tangible capital assets given that only limited information is available on some older assets. These estimates are audited and are provided for under generally accepted accounting principles.

2.8 Who Audits the Public Accounts?

The Auditor General is responsible for auditing the Public Accounts. Section 11 of the *Auditor General Act* requires that the Auditor General express an opinion as to whether the financial statements included in the Public Accounts present fairly the financial position, results of operations and changes in the financial position of the Province in accordance with Government's disclosed accounting policies and on a basis consistent with that of the preceding year, together with any reservations the Auditor General may have.

2.9 Why are they Audited?

The House of Assembly is responsible for overseeing the activities of Government and holding Government accountable for its handling of public resources. To assist this process, Government provides information about how it used public resources entrusted to it. One of the main ways Government does this is through the annual preparation, and tabling in the House of Assembly, of the Public Accounts of the Province.

But what assurance do Members of the House of Assembly have that the information provided in the Public Accounts is appropriate, credible and complete? How can Members know that the information they receive accurately reflects the results of the activities of Government? The answer is that the House of Assembly uses the services of the Auditor General to assist it in carrying out its oversight responsibilities.