

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.

Consequently, the Auditor General's fundamental role in auditing the Public Accounts is to bring an independent audit and reporting process to bear upon the manner in which the financial statements are prepared and presented.

An audit provides reasonable, but not absolute, assurance that the Province's financial statements are free of material misstatement. Material misstatement refers to an item or group of items that if omitted or misstated, would alter the decisions of reasonably knowledgeable financial statement users. The tolerable level of error or misstatement is a matter of judgment.

We obtain reasonable assurance on the financial statement figures because it would not be cost effective to obtain absolute assurance - we cannot audit every transaction. By applying audit procedures to test the accuracy or reasonableness of the figures appearing in the financial statements, we achieve our desired level of assurance. We use audit procedures such as tracing samples of transactions to supporting documents, testing the effectiveness of certain internal controls, confirming year-end balances with third parties and reviewing the reasonableness of estimates.

We also obtain assurance on the financial information of Crown agencies which are consolidated in the Province's financial statements, by reviewing the agencies' audited financial statements and, in the case of agencies which are not audited by the Auditor General, by obtaining and reviewing information from the auditors of the agencies.

2.10 What does the Auditor's Report Show?

The Auditor's Report on the consolidated summary financial statements of the Province for the year ended 31 March 2006 reads as follows:

*To the House of Assembly
Province of Newfoundland and Labrador*

I have audited the consolidated statement of financial position of the Province of Newfoundland and Labrador as at 31 March 2006 and the consolidated statements of change in net debt, operations, change in accumulated deficit and cash flows for the year then ended. These financial statements are the responsibility of Government. My responsibility is to express an opinion on these financial statements based on my audit.