

Recommendation

Government should ensure its internal audit function is sufficiently resourced.

5.4 Government Reporting Entity

Under the standards established for governments by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants, 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 presented in a schedule to the statements.

I am pleased to report that Government included Memorial University of Newfoundland in the government reporting entity commencing with the year ended 31 March 2006. With the inclusion of the University, the consolidated summary financial statements now meet PSAB's standards for organizations and enterprises to be included in the government reporting entity.

Government considers the Workplace Health, Safety and Compensation Commission to be a form of trust and has disclosed information on the Commission's surplus (\$20.9 million) and unfunded liability (\$139.2 million) for the year ended 31 December 2005 in a note to the Schedule of Trust Accounts in the consolidated summary financial statements. Accounting for entities similar to the Workplace Health, Safety and Compensation Commission continues to evolve, with variations among jurisdictions in Canada.

Recommendation

Government should continue to monitor how other jurisdictions in Canada account for entities similar to the Workplace Health, Safety and Compensation Commission.

5.5 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.

Comments on Government's Financial Reporting

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.”* Although Government has started to capture information on contaminated sites, there is still no complete central inventory of such 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 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 should be recorded in Government's financial statements. Note 7.(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”*.

Although the Province's environmental liability relating to remediation costs for contaminated sites may be a significant amount, only \$10.7 million has been recorded as a liability in the Province's financial statements. 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....”*

Government should be more proactive in identifying all contaminated sites in the Province for which it is potentially liable, determining the estimated liability associated with remediation costs, and recording the resulting liability in the Province's financial statements.

Recommendation

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

5.6 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's financial operations.

Since September 2002, Government has been preparing quarterly financial statements to show the Province's results of operations and financial position. However, officials of the Department of Finance indicated that these financial statements are only distributed to the Minister of Finance/President of Treasury Board, other Treasury Board Ministers, the Deputy Minister of Finance, the Comptroller General, various officials of the Department of Finance, and the Auditor General.

While I commend the Office of the Comptroller General for preparing such financial statements; in my opinion, these financial statements should be more widely distributed. Ideally, these financial statements should be part of accountability information provided on an on-going basis to all Members of the House of Assembly and senior Government officials.

Recommendation

Periodic financial statements should be provided to Members of the House of Assembly and senior Government officials as part of Government's accountability framework.