

## BREAKING NEWS

### Key Changes to Public Sector Accounting For Contaminated Sites



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### Accounting for “Buried Liabilities” in the Public Sector

*Knowing Where the Liabilities Are Buried: Issues for the Public Sector Implementing Accounting Standard PS 3260*

With the requirements of the Public Sector Accounting Board’s “Accounting Standard on Liability for Contaminated Sites” (PS 3260) applying to the 2014-2015 fiscal year, public sector entities (federal, provincial and municipal governments, universities, schools and hospitals) may find themselves scrambling to meet their obligations to identify, report and account for long-forgotten buried liabilities. Under PS 3260, public sector entities must now account for the remediation liabilities associated with “contaminated sites”, which are sites where contamination exceeds the applicable environmental standards, but does not include closed solid waste landfill sites that are subject to a separate standard. PS 3260 requires that an estimate of remediation liability be included for all such contaminated sites that are no longer in active or productive use, and for which a public sector entity is responsible either as a result of legal or voluntary assumption of remediation obligations.

For example a municipality that owns an inactive maintenance shop and yard where the bulk storage of fuel, road salt, waste oil, etc. and the storage and servicing of municipal vehicles may have resulted in past releases of these contaminants at the site is likely required to identify the yard as a contaminated site under PS 3260 and would also be required to develop and provide an estimate of remediation liability for the site.

Clearly a key issue for most entities implementing PS 3260 is that there may be a lack of information, not only about the sites that should be considered to be “contaminated sites”, but also regarding the nature and extent of remediation liability. A critical first step for meeting the requirements of the standard is to prepare an inventory of all active and inactive potential sites with an “environmental past”. This task involves gathering all available information about such sites such as records of use, ownership; environmental site assessment reports, information from regulators, incident reports, etc. to determine whether a given site would constitute a contaminated site under PS 3260 and the public sector entity could incur liability as a result.

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While preparing the inventory, information gaps will likely be identified that require existing records to be supplemented, particularly for sites with a long history of use; where the site history is unknown; or where the site was subject to multiple owners or multiple uses or both. In particular, assessing whether a given site meets the criteria for a contaminated site under PS 3260 requires specific information regarding the likelihood, nature and extent of contamination at that site. This may require the commissioning of environmental site assessments to identify and delineate whether the site has been contaminated. In addition, assessing whether a site meets the criteria also requires an understanding of the specific legal and voluntary obligations of the public sector entity for the site and for the type of contamination identified.

When a public sector entity has concluded that a given site does meet the criteria for a contaminated site under PS 3260, a reasonable estimate of the financial costs directly attributable to carrying out the required remedial actions must also be developed. Although there is some guidance provided in the Standard with respect to what types of costs should be included in a remediation liability assessment, in order to yield an accurate, reasonable and defensible liability estimate, issues such as the treatment of long-term monitoring costs and the application of various types of discounts, contingencies and escalation factors are all dependent on the exercise of professional judgment and the development of reasonable working assumptions. Identifying sites and preparing liability estimates requires specialized technical and legal advice as the process of accounting for environmental liabilities remains much more of an art than a science.

Although the standard was introduced some time ago, with four years given to prepare public sector entities for the initial reporting period of 2014-2015, this issue appears to have remained a bit of a “sleeping dog.” Consequently, indications from external auditors and environmental consultants are that public sector entities may have considerable difficulty meeting their obligations for the initial reporting period. For those public sector entities that find themselves caught short by these requirements, there is still time to get the required information gathering and assessment underway, but the window for taking such steps is rapidly closing.

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