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## FINANCIAL STATEMENT AUDITS AND OTHER REPORTS



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## 3. Financial Statement Audits and Other Reports

### 3.1. Introduction

The Auditor General conducts its audits in accordance with Canadian generally accepted auditing standards. The audit is planned and constructed to provide reasonable assurance that the financial statements are free of material misstatement. It involves implementing procedures to obtain evidence about the amounts and information provided in the financial statements. An audit also includes assessing the appropriateness of the accounting methods used and the reasonableness of accounting estimates made by management, as well as assessing the overall financial statements presentation.

The Auditor General's audit of the financial statements does not in any way relieve management of its responsibilities, because it is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable accounting framework and the internal control it considers necessary to enable the preparation of financial statements that are free of material misstatement.

The work done on the risk of fraud by the Bureau du vérificateur général as part of the audit of the financial statements does not relieve the city's management of its responsibility for the prevention and detection of fraud. Therefore, due to the limitations inherent in the financial audit, the risk that some material misstatements resulting from fraud are not detected remains despite the fact that the audit work has been planned and performed in accordance with Canadian Auditing Standards.

## 3.2. Consolidated Financial Statements of the Ville de Montréal

In accordance with the provisions of the *Cities and Towns Act* (CTA) in force on December 31, 2016, we audited the city's financial statements.

The *Charter of Ville de Montréal* and the CTA both require the city to submit its financial statements to the Service du greffe by March 31 following the close of the preceding year and to the Ministère des Affaires municipales et de l'Occupation du territoire (MAMOT), using the prescribed form, by April 30.

The audit of the financial statements was planned and performed jointly with Deloitte, the independent auditor appointed by the city. Doing this work together avoids duplication of work and costs for the municipality.

The consolidated financial statements include the activities of the organizations included in the city reporting entity. The inclusion of an organization in the reporting entity is based on the concept of control, that is, the power to direct the financial and administrative policies of another organization so that its activities will provide expected benefits to the municipal organization or expose it to a risk of loss. These organizations are: Société de transport de Montréal, Société d'habitation et de développement de Montréal, Technoparc Montréal, Société du parc Jean-Drapeau, Conseil des arts de Montréal, Conseil interculturel de Montréal, Office de consultation publique de Montréal, Anjou 80, Société en commandite Stationnement de Montréal, Bureau du taxi de Montréal and BIXI Montréal.

On April 3, 2017, I issued an unqualified auditor's report on the consolidated financial statements of the city as of December 31, 2016. It should be noted that the city's external auditor has issued a qualified opinion on the city's financial statements. The difference of opinion between the city, the Auditor General and Deloitte involves accounting for government transfers.

According to the accounting standard on government transfers, a Government transfer must be recognized as revenue or an expense when the transfer has been authorized and the eligibility criteria have been met. However, it also specifies the recipient's authorization criterion, linking it with the authorization from the assigner. This explains the divergent interpretations. I believe that government representatives and the city's representatives are qualified to negotiate and enter into valid agreements and that, consequently, a government transfer is considered to be authorized when a duly designated representative signs an agreement and informs the recipient in writing of his decision to make a transfer. According to the city and the Auditor General, these facts establish that there is an expectation that these Government transfers will actually be obtained or paid.

The auditor's report on the city's consolidated financial statements and the report on mixed expenditures are included in the annual financial report filed with the city's Service du greffe on April 19, 2017.

Also, on April 13, 2017, reports on the city's consolidated financial statements, on the breakdown of mixed expenditures and on the city's aggregate taxation rate were produced and recorded on the form required by MAMOT. In accordance with the provisions of the CTA, the form required by MAMOT, along with the three above-mentioned Auditor General's reports and the joint auditor's report on the consolidated financial statements were filed with city council and the urban agglomeration council before being sent to MAMOT on April 24, 2017.

#### **ORGANIZATION AND GOVERNANCE OF PUBLIC TRANSIT IN THE MONTRÉAL METROPOLITAN AREA**

On June 1, 2017, the *Act to modify mainly the organization and governance of shared transportation in the Montréal metropolitan area* came into force. The Act provided for the creation of the Autorité régionale de transport métropolitain (ARTM) and the Réseau de transport métropolitain (RTM). The creation of these two organizations could lead to changes in the Société de transport de Montréal's (STM) governance and consequently in its accounting treatment in terms of the city's financial statements. The city is currently assessing the potential impacts of this new legislation.

#### **AGGREGATE TAXATION RATE**

The effective aggregate taxation rate is the rate that the municipality would have to impose if all its tax revenues came from a tax on the property value of all its taxable property. The Government of Québec uses the effective aggregate taxation rate to calculate the amounts paid to municipalities under the *Act respecting municipal taxation* including payments in lieu of taxes in respect of buildings in the health and social services system and the education system.

We have audited the Ville de Montréal's effective aggregate taxation rate. This rate is set by the city manager of the city in accordance with division III of chapter XVIII.1 of the *Act respecting municipal taxation* (CQLR, chapter F-2.1).

On April 13, 2017, I issued an unqualified report indicating that the setting of the taxation rate meets compliance requirements in all material respects.

#### **MIXED EXPENDITURES**

Under the *Act respecting the exercise of certain municipal powers in certain urban agglomerations* (CQLR, chapter E-20.001), completed by the *Montréal Agglomeration Order* (order-in-council 1229-2005) as subsequently amended, expenditures incurred

by the city in the performance by the municipal administration of an act that comes under both an urban agglomeration power and another power are considered mixed expenditures. They are broken down between local and agglomeration powers in accordance with the criteria established by management pursuant to by-law RCG06-054 adopted by the urban agglomeration council on December 13, 2006 and its subsequent amendments.

I audited the table of mixed expenditures incurred by the city broken down by local and agglomeration powers. On April 3, 2017, I issued an unqualified report indicating that the breakdown of mixed expenditures meets compliance requirements in all material respects.

#### **OTHER REPORTS**

In the fall of 2016, the Auditor General and Deloitte sent the city manager director general and the city's audit committee a report, which consolidated deficiencies in internal control, as well as observations related to Information Technology General Controls (ITGCs) which are identified during the audit of financial statements as of December 31, 2015 and related to follow-up on deficiencies reported in previous years. Deficiencies in internal control and ITGCs identified during the audit of financial statements as of December 31, 2016, and the follow-up on previous deficiencies will be reported at the June 2017 audit committee meeting.



### 3.3. Financial Statements of Other Legal Entities Subject to the *Cities and Towns Act*

Pursuant to section 107.7 of the *Cities and Towns Act* (CTA), the Auditor General is required to audit the financial statements of other legal entities subject to the CTA that meet any of the following conditions:

- It is part of the reporting entity defined in the municipality's financial statements;
- The municipality or a mandatary of the municipality appoints more than 50% of the members of the board of directors;
- The municipality or a mandatary of the municipality holds more than 50% of the outstanding voting shares or units.

Table 1 on the following page identifies other legal entities that are subject to the CTA and for which we are required to produce an audit report on their financial statements.

**Table 1 – Legal Entities Subject to Section 107.7. of the *Cities and Towns Act***

| Other legal entities subject to the <i>Cities and Towns Act</i>      | Reporting entity | Appointment of more than 50% of the members of the board of directors | Date of the auditor's report for the fiscal year ending December 31, 2016 |
|--|------------------|---|---|
| Anjou 80   | n                |   | (3)   |
| BIXI Montréal  | n                |   | April 18, 2017  |
| Bureau du taxi de Montréal   | n                |   | (3)   |
| Conseil des arts de Montréal   | n                |   | April 18, 2017  |
| Conseil interculturel de Montréal                                    | n                |   | (3)   |
| Corporation d'habitations Jeanne-Mance                               |                  | n   | April 11, 2017  |
| Fiducie du Technoparc Montréal                                       | (1)              |   | February 22, 2017   |
| Office de consultation publique de Montréal                          | n                |   | (3)   |
| Office municipal d'habitation de Montréal                            |                  | n   | May 18, 2017  |
| Société de gestion Marie-Victorin                                    |                  | n   | (3)   |
| Société de transport de Montréal (Financial report and MAMOT report) | n                |   | April 7, 2017   |
| Société en commandite Stationnement de Montréal                      | n                |   | March 21, 2017  |
| Société d'habitation et de développement de Montréal                 | n                |   | April 25, 2017  |
| Société du parc Jean-Drapeau   | n                |   | March 30, 2017  |
| Technoparc Montréal  | n                |   | March 8, 2017   |
| Société en commandite Transgesco.                                    | (2)              |   | March 17, 2017  |

(1) Technoparc Montréal subsidiary

(2) Société de transports de Montréal subsidiary

(3) On the date of this annual report, the financial statements had not been approved by the board of directors.

## ANJOU 80

ANJOU 80 is a non-profit organization that acts on behalf of the Ville de Montréal (the city), incorporated by letters patent dated June 22, 1979, pursuant to the legislative powers granted to the ex-city of Anjou by the Government of Québec.

Its purpose is to acquire residential properties for individuals or families other than low- or lower-income families, acquiring, restoring, demolishing, constructing, leasing and administering buildings for the purposes of lodging, leisure, recreation and other ancillary purposes.

It administers the housing complex known as Résidences Neuville and participates jointly with the Anjou borough in activities that promote economic development.

## Report

When the annual report was produced, the financial statements as of December 31, 2016 had not been approved by the board of directors.

## BIXI MONTRÉAL

BIXI Montréal was incorporated under part III of the *Quebec Companies Act* on March 6, 2014 and started its activities on April 28, 2014. It has the powers, rights and privileges of a non-profit organization under part III of the *Quebec Companies Act* (CQLR, chapter C-38).

Its mission is to organize a self-service bicycle system in the Montréal and the surrounding area in order to provide the public with an alternative mode of urban transportation, complementary to the city's public transit system, allowing its users to ride bicycles to make short trips.

Also, it must also encourage Montréal residents to use bicycles as an alternative means of urban transportation since bicycles are far less harmful to the environment than energy-consuming vehicles.

### Report

On April 18, 2017, I issued an unqualified auditor's report for this organization.

This is an extract from the report:

### Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of BIXI Montréal as of December 31, 2016 and the results of its operations, changes in its net financial assets and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

## BUREAU DU TAXI DE MONTRÉAL

The Bureau du taxi de Montréal was incorporated under section 220.1 of schedule C of the *Charter of Ville de Montréal* (CQLR, chapter C-11.4) enacted by the *Act to amend various legislative provisions respecting municipal affairs* (CQLR, 2012, chapter 21) on November 28, 2012 and it started its activities on January 1, 2014. It has the powers, rights and privileges of a non-profit organization incorporated under part III of the *Quebec Companies Act* (CQLR, chapter C-38).

Their mission is to develop the taxi industry, provide services to the taxi industry, supervise and improve this service, taxi driver and user safety, and the skills of drivers on the island of Montréal.

Also, they are responsible for exercising, at the city's request, any powers, other than regulatory powers, that the city delegates to it among those arising from sub-section 9 of division II of chapter III of its Charter and the second paragraph of section 13 of the *Act respecting transportation services by taxi* (CQLR, chapter S-6.01).

### Report

When the annual report was produced, the financial statements as of December 31, 2016 had not been approved by the board of directors.

## CONSEIL DES ARTS DE MONTRÉAL

The Conseil des arts de Montréal was founded in 1956 and became a public corporation on October 25, 2007 under section 231.2 of schedule C of the *Charter of Ville de Montréal* (CQLR, chapter C-11.4.) The Conseil des arts de Montréal has the powers, rights and privileges of a non-profit organization incorporated under part III of the Quebec *Companies Act* (CQLR, chapter C-38).

Pursuant to section 231.3, its mandate is to:

- Draw up and keep a permanent list of the associations, societies, organizations, groups or persons engaged in artistic and cultural activities in the urban agglomeration of Montréal;
- Combine, co-ordinate and promote artistic or cultural initiatives in the urban agglomeration of Montréal; and
- Within the limits of the revenues available for that purpose and in conformity with the programs referred to in section 231.14, to designate the associations, societies, organizations, groups or persons and the artistic or cultural events to which or in respect of which grants, prizes or other forms of financial assistance are to be paid.

### Report

On April 18, 2017, I issued an unqualified auditor's report for this organization.

This is an extract from the report:

### Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Conseil des arts de Montréal as of December 31, 2016 and the results of its operations, changes in its net assets and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

## CONSEIL INTERCULTUREL DE MONTRÉAL

The Conseil interculturel de Montréal was incorporated under section 83.1 of the *Charter of Ville de Montréal*.

It advises the city council and the executive committee on municipal services and policies to facilitate the integration and participation of members of cultural communities in the political, economic, social and cultural life of the city and any matter of interest for the cultural communities.

### Report

When the annual report was produced, the financial statements as of December 31, 2016 had not been approved by the board of directors.

## CORPORATION D'HABITATIONS JEANNE-MANCE

The Corporation d'habitations Jeanne-Mance was incorporated under section 231 of the *Charter of Ville de Montréal* in accordance with the *National Housing Act, 1954*.

Its mandate is to operate, manage and administer low-rent housing for the project known as "Habitations Jeanne-Mance."

### Report

On April 11, 2017, I issued an unqualified auditor's report for this organization.

This is an extract from the report:

### Opinion

In my opinion, with the exception of the elements described in the "Basis for qualified opinion" paragraph, the financial statements present fairly, in all material respects, the financial position of the Corporation d'habitations Jeanne-Mance as of December 31, 2016 and the results of its operations and cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.



## FIDUCIE DU TECHNOPARC MONTRÉAL

The purpose of the trust, incorporated under sections 1260 and following of the Civil Code of Québec is to:

- Contribute to the technological and economic development of the island of Montréal;
- Support the establishment and development of technology companies and research centres on the island of Montréal.

### Report

On February 22, 2017, I issued an unqualified auditor's report for this organization.

This is an extract from the report:

### Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of Fiducie du Technoparc Montréal as of December 31, 2016 and the results of its operations and cash flows for the year then ended in accordance with Canadian accounting standards for private businesses.

### Observations

Without qualifying my opinion with a reservation, I draw attention to note 6 to the financial statements, which states that subsequent to the end of the year ended December 31, 2016, the trustees of Fiducie du Technoparc Montréal adopted a resolution to initiate a dissolution process. This points to the existence of material uncertainty that could cast substantial doubt on the entity's ability to ensure its sustainability.

## OFFICE MUNICIPAL D'HABITATION DE MONTRÉAL

The Office municipal d'habitation de Montréal was incorporated by letters patent on May 8, 2001 under the *Act respecting the Société d'habitation du Québec* (SHQ) (CQLR, chapter S-8 section 5). In accordance with the *Act to reform the municipal territorial organization of the metropolitan regions of Montréal, Québec and the Outaouais*, its official activities started on January 1, 2002. It was formed from the group of 15 municipal on the island of Montréal.

Its mission is to administer buildings on the island of Montréal for low-income individuals and for any other purpose provided for in the *Act respecting the Société d'habitation du Québec* as part of the following programs:

- Low-rental housing – public component (public LRH);
- Low-rental housing – private component (private LRH);
- Logement abordable Québec (LAQ) [Affordable Housing Quebec];
- AccèsLogis Québec (ACL) [HousingAccess Quebec];
- Supplément au loyer (PSL) [Housing supplement program].

Also, it manages the construction of non-profit community-owned housing under agreements with the SHQ, and, since 2007, it also manages rental properties.

### Report

On May 18, 2017, I issued an unqualified auditor's report for this organization.

This is an extract from the report:

### Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Office municipal d'habitation de Montréal as of December 31, 2016 and the results of its operations and cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

## SOCIÉTÉ DE GESTION MARIE-VICTORIN

The Société de gestion Marie-Victorin was created pursuant to the *Act respecting certain facilities of Ville de Montréal* (1998, chapter 47, Statutes of Quebec.)

Its mission is to carry out any activity that will contribute to the use, development and promotion of the city's scientific equipment.

### Report

When the annual report was produced, the financial statements as of December 31, 2016 had not been approved by the board of directors.

## SOCIÉTÉ DE TRANSPORT DE MONTRÉAL

The Société de transport de Montréal was incorporated under the *Act respecting public transit authorities* (CQLR, chapter S-30.01)

It is responsible for organizing and providing public transit within the urban agglomeration of Montréal.

### Report

On April 7, 2017, I issued an unqualified auditor's report for this organization.

This is an extract from the report:

### Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Société de transport de Montréal as of December 31, 2016 and the results of its operations, changes in its net debt and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

## **SOCIÉTÉ EN COMMANDITE STATIONNEMENT DE MONTRÉAL**

The Société en commandite Stationnement de Montréal was incorporated under a limited partnership agreement entered into on May 10, 1994.

Since January 1, 2015, it manages paid parking activities under an agreement with the city.

### **Report**

On March 21, 2017, I issued an unqualified auditor's report for this organization.

This is an extract from the report:

### **Opinion**

In my opinion, the financial statements present fairly, in all material respects, the financial position of Société en commandite Stationnement de Montréal as of December 31, 2016 and the results of its operations, changes in its net debt and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

## SOCIÉTÉ D'HABITATION ET DE DÉVELOPPEMENT DE MONTRÉAL

The Société d'habitation et de développement de Montréal is a non-profit organization that reports to the city, incorporated by letters patent on June 15, 2010 by the Government of Québec pursuant to chapter V of schedule C of the *Charter of Ville de Montréal* (CQLR, chapter C-11.4).

Its objectives are:

- to contribute to economic and social development through the enhancement of residential, institutional, industrial, commercial and cultural property assets in the city's territory;
- to acquire, renovate, restore, build, demolish, sell, lease or administer buildings in the city's territory;
- grant subsidies and administer programs for the construction, renovation, restoration, demolition and relocation of buildings in the city's territory.

### Report

On April 25, 2017, I issued an unqualified auditor's report for this organization.

This is an extract from the report:

### Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Société d'habitation et de développement de Montréal as of December 31, 2016 and the results of its operations, revaluation gains and losses, changes in its net debt and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

## SOCIÉTÉ DU PARC JEAN-DRAPEAU

The Société du parc Jean-Drapeau is a non-profit organization that was incorporated on August 9, 1983 under section 223 of the *Charter of Ville de Montréal*.

Its purpose is to operate, administer and develop Parc Jean-Drapeau, which includes Sainte-Hélène and Notre-Dame islands in Montréal. It manages recreational, cultural and tourist activities and carries out any other mandate entrusted to it by the city.

### Report

On March 30, 2017, I issued an unqualified auditor's report for this organization.

This is an extract from the report:

### Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Société du parc Jean-Drapeau as of December 31, 2016 and the results of its operations, changes in its net financial assets and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

## TECHNOPARC MONTRÉAL

Technoparc Montréal, incorporated under part III of the Quebec *Companies Act*, is a non-profit organization within the meaning of the *Income Tax Act* and its objectives are to:

- contribute to the technological and economic development of the island of Montréal;
- support the establishment and development of technology companies and research centres and service companies on the island of Montréal.

### Report

On March 8, 2017, I issued an unqualified auditor's report for this organization.

This is an extract from the report:

### Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Technoparc Montréal as of December 31, 2016 and the results of its operations, changes in its net debt and cash flows for the year then ended in accordance with Canadian public sector accounting standards.



## **SOCIÉTÉ EN COMMANDITE TRANSGESCO**

The société en commandite Transgesco was formed under a partnership agreement on July 2, 2003, within the meaning of the Civil Code of Québec.

Its purpose is to manage various partnerships with private sector stakeholders in connection with business activities related to the Société de transport de Montréal.

### **Report**

On March 17, 2017, I issued an unqualified auditor's report for this organization.

This is an extract from the report:

### **Opinion**

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of société en commandite Transgesco as of December 31, 2016 and the results of its operations, changes in its net debt and cash flows for the year then ended in accordance with Canadian public sector accounting standards.