



2.

Financial Statement Audits and Other Reports

2019 Annual Report

Auditor General of the Ville de Montréal



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2. FINANCIAL STATEMENT AUDITS AND OTHER REPORTS

2.1. Introduction

The Auditor General conducts his audits in accordance with Canadian generally accepted auditing standards. The audit is planned and performed 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 Ville de Montréal (the City) management and the organizations subject to section 107.7 of the *Cities and Towns Act* (CTA) of their 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.

2.2. Adoption of Bill 155 - An Act to amend various legislative provisions concerning municipal affairs and the Société d'habitation du Québec

As mentioned in Chapter 1 of the 2019 annual report, Bill 155, which was passed in April 2018, amended the sections regarding the Auditor General. The Auditor General no longer has the obligation to conduct the financial audit of the City, paramunicipal bodies, the breakdown of mixed expenditures and the overall tax rate, but he may continue to do so if he deems it appropriate. Fiscal 2019 was the first year after the bill was enacted. We still consider it appropriate to pursue our financial audits of the City. For paramunicipal bodies, we maintained the same strategy by using a risk assessment matrix to assess entities for which the auditor general deemed it appropriate to continue auditing and, consequently, to conduct a co-audit with the external auditor appointed by the City. Finally, we continued to conduct audits on the breakdown of mixed expenditures, but not on the city's overall tax rate. The list of bodies covered is presented in Table 1 of section 2.4. of this chapter.

2.3. Consolidated Financial Statements of the Ville de Montréal

In accordance with the provisions of the CTA in force on December 31, 2019, to the extent deemed appropriate by the Auditor General, we audited the City's financial statements.

The *Charter of Ville de Montréal, Québec's Metropolis* (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'Habitation (MAMH) in the prescribed form, before May 15. In the context of the major sanitary crisis of the COVID-19, the MAMH will apply an administrative tolerance with regards to the transmission deadline of the 2019 Financial Report.

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, Office de consultation publique de Montréal, Anjou 80, Société en commandite Stationnement de Montréal, Bureau du taxi de Montréal and BIXI Montréal.

On April 14, 2020, jointly with Deloitte, issued an unqualified auditor's report on the consolidated financial statements of the City as at December 31, 2019.

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 15, 2020.

Also, on April 21, 2020, joint reports on the City's consolidated financial statements, on the breakdown of mixed expenditures were produced and recorded on the form required by MAMH. In accordance with the provisions of the CTA, the form required by MAMH, joint with the two above-mentioned joint reports on the consolidated financial statements were filed with city council and the urban agglomeration council before being sent to MAMH on May 29, 2020.

Organization and Governance of Public Transit in the Montreal Metropolitan Area

For the year ended December 31, 2019, the status quo was maintained in terms of the governance of the Société de transport de la Ville de Montréal (STM), since the 2017–2019 agreement between the Autorité régionale de transport métropolitain (ARTM) and the STM expired on December 31, 2019. We will review the new agreement and analyze its impacts in the light of the existing legislative and contractual framework and any new ways of working that may exist. Management must assess the impacts that could result from this new agreement.

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 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.

Jointly with Deloitte, we conducted the audit of the table of mixed expenditures incurred by the City broken down by local and agglomeration powers. On April 14, 2020, we produced an unqualified joint report indicating that the breakdown of mixed expenditures meets compliance requirements in all material respects.

Other reports

On June 19, 2019, the Auditor General and Deloitte sent to the management 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 at December 31, 2018, 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 at December 31, 2019, and the follow-up to previous deficiencies had not been presented to the audit committee, at the time of publishing this report.

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

Pursuant to sections 107.7 and 107.8 of the CTA, the Auditor General must, to the extent deemed appropriate, audit the financial statements of the other legal persons covered by the CTA who meet any of the following conditions:

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

Table 1 on the following page identifies the other legal entities subject to the CTA for which, following our risk assessment, we have deemed it appropriate to remain an auditor and jointly produce an audit report on their financial statements with the auditor appointed by the City.

As of January 1, 2019, with the adoption of Bill 155, the potential scope of intervention of the Auditor General will also extend to any organization:

- whose budget is adopted or approved by the municipality;
- for which more than half of its funding is secured by funds from a municipality and its annual revenues are equal to or greater than \$1,000,000;
- that is a mandatory or agent of the municipality or is designated by the Minister of the MAMH as subject to municipal contractual regulations and has its main place of business on the territory of the municipality

On December 11, 2019, the adoption of Bill 16 amended section 573.3.5, paragraph 4 of the CTA by specifying the following and by offering the opportunity to go back two years:

“...it is a non-profit body that meets the following conditions on January 1 of a year:

a) its revenues for at least one of the last two years were equal to or greater than \$1,000,000;

b) it received, during the year in which its revenues were equal to or greater than \$1,000,000, financial assistance from a municipality in an amount equal to or greater than half of its revenues for that year.”

At the beginning of 2019, we worked on defining the concept of financing in order to identify bodies that meet the criteria set out in the amendments to the CTA. In addition, a working group was created to develop and introduce an action plan. Consequently, over the next few years, other bodies could be audited by the auditor general, as provided for in section 107.7 of the CTA.

Table 1 – Legal Entities Subject to Section 107.7. of the *Cities and Towns Act* for which the Auditor General has Deemed it Appropriate to Continue the Financial Audit Work as of December 31, 2019

OTHER LEGAL ENTITIES SUBJECT TO THE <i>CITIES AND TOWNS ACT</i>	REPORTING ENTITY	DATE OF THE AUDITOR'S REPORT FOR THE FISCAL YEAR ENDING DECEMBER 31, 2019
Société de transport de Montréal (Financial report and form required by MAMH)	●	April 1, 2020
Société d'habitation et de développement de Montréal	●	March 31, 2020
Société du parc Jean-Drapeau	●	March 26, 2020
Société en commandite Stationnement de Montréal	●	March 26, 2020
Société en commandite Transgesco	(1)	March 26, 2020

(1) Subsidiary of the Société de transport de Montréal.

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).

Its mission is to provide the ARTM with the public transportation services covered by an agreement concluded under section 8 of the *Act respecting the Autorité régionale de transport métropolitain* (chapter A-33.3) and collaborate, at its request, in the planning, coordination, development, support and promotion of public transportation.

Report

On April 1, 2020, we issued an unqualified joint auditor's report for this organization.

This is an extract from the report:

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the STM as at December 31, 2019, 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 (SHDM) 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 March 31, 2020, we issued an unqualified joint auditor's report for this organization.

This is an extract from the report:

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the SHDM as at December 31, 2019, 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 (SPJD) 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 SPJD, 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 26, 2020, we issued an unqualified joint auditor's report for this organization.

This is an extract from the report:

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the SPJD as at December 31, 2019, 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.

Société en commandite Stationnement de Montréal

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

The Société managed paid parking-related activities under the conditions of an agreement entered into with the City on January 1, 2015.

On June 15, 2016, the City's agglomeration council adopted the new parking policy, which includes the transfer of the activities of the SCSM to a new body. Accordingly, the activities were transferred to the Agence de mobilité durable on January 1, 2020. As provided for in the agreement, the parking areas were transferred to the City.

On March 26, 2020, we issued an unqualified joint auditor's report for this organization.

This is an extract from the report:

Opinion

In our opinion, the financial statements present fairly, in all material aspects, the financial situation of the SCSM as at December 31, 2019, and the results of its operations, as well as changes in its net financial assets and its cash flows for the year then ended, in accordance with Canadian public sector accounting standards.

Significant uncertainty related to going concern

We draw attention to Note 14 to the financial statements which indicates that the Society has concluded a transfer deed with Ville de Montréal, effective January 1, 2020, concerning the transfer of its property, plant and equipment. On the same date, the Society transferred its activities to the Agence de mobilité durable and assigned all of its service agreements as well as its operating and contractual agreements. We draw attention to Note 1, which indicates that no other activity is planned in the Society and its dissolution is expected during the financial year 2021. Consequently, these elements indicate to us the existence of a significant uncertainty that may cast significant doubt on the Society's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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 STM.

Report

On March 26, 2020, we issued an unqualified joint auditor's report for this organization.

This is an extract from the report:

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Société en commandite Transgesco as at December 31, 2019, 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.

