

Financial Statement Audits and Other Reports

5.

2022 Annual Report
Auditor General of
the Ville de Montréal



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5. Financial Statement Audits and Other Reports

5.1. Introduction

The *Cities and Towns Act* (CTA) no longer subjects the Auditor General to the obligation of conducting the financial audit of the Ville de Montréal (the City), paramunicipal bodies, the breakdown of mixed expenditures¹ and the overall tax rate, but he may continue to do so if he deems it appropriate. We still consider it appropriate to continue our financial audits of the City and the breakdown of mixed expenditures. For paramunicipal bodies, we maintained our strategy of the last three years, which was to use a risk assessment matrix to assess entities for which the Auditor General deemed it appropriate to continue conducting audits and, consequently, to conduct a co-audit with the external auditor appointed by the City.

The Auditor General conducts 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 presentation of the financial statements.

The Auditor General's audit of the financial statements does not in any way relieve management of its responsibilities, which include 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 management of the City and of the organizations subject to section 107.7 of the 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 the risk of fraud are not detected remains despite the fact that the audit work has been planned and performed in accordance with Canadian Auditing Standards (CAS).

¹ *The Act to amend the Act respecting elections and referendums in municipalities, the Municipal Ethics and Good Conduct Act and various legislative provisions* (Bill 49) eliminated the requirement to audit the global tax rate unless requested to do so by the Ministère des Affaires municipales et de l'Habitation (MAMH).

5.2. Consolidated Financial Statements of the Ville de Montréal for the Year Ended as of December 31, 2021

When we published our 2021 annual report in May of last year, we had not issued the auditor's report for the City's consolidated financial statements as of December 31, 2021, since the financial report was still being prepared and had not yet been filed by the treasurer with city council (CC).

Jointly with Deloitte, on May 5, 2022, we issued an unqualified auditor's report on the City's consolidated financial statements as of December 31, 2021.

The auditor's report on the City's consolidated financial statements, as well as the report on mixed expenditures, can be found in the annual financial report that was filed with the City's Service du greffe on May 11, 2022.

Also on May 5, 2022, joint auditor's reports on the City's consolidated financial statements and the City's breakdown of mixed expenditures were issued and included on the form prescribed by the Ministère des Affaires municipales et de l'Habitation (MAMH). In accordance with the provisions of the CTA, the form prescribed by the MAMH and the two above-mentioned joint reports on the consolidated financial statements were filed with the CC and the urban agglomeration council prior to being sent to the MAMH on May 11, 2022.

AUDIT HIGHLIGHTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2021

Auditing the December 31, 2021 financial statements was complicated for a 2nd year in a row by 2 major items, namely the continued application of the revised CAS 540, Auditing Accounting Estimates and Related Disclosures, and the granting of emergency loans to small - and medium-sized enterprises (SMEs) in the context of the COVID-19 pandemic and the processing of loan forgiveness through PME MTL's 6 legal entities.

Pursuant to the revised CAS 540, Auditing Accounting Estimates and Related Disclosures, the City continued to review and document estimates and to update them annually.

The PME MTL loans once again required coordination with these organizations and their respective auditors. As of December 31, 2021, a total of \$150 million had been awarded under the Emergency Assistance Program For Small and Medium-Sized Businesses and its Assistance for Businesses in Regions on Maximum Alert component.

Added to this is the fact that all of the work was carried out remotely once again in 2021–2022. Also, several of the City's business units experienced labour shortages and numerous staff absences (pandemic).

All of these factors had a significant impact on the quality of documents submitted and our audit work. As a result, the schedule was revised by management so there would be sufficient time to provide us with the requested information and allow us to perform the audit.

Considering the extent of the problems encountered, during the months of June and July 2022, we initiated meetings with various people in order to review the procedures and propose solutions aimed at facilitating the financial audit work for the year ended December 31, 2022.

5.3. Consolidated Financial Statements of the Ville de Montréal Ended as of December 31, 2022

In accordance with the provisions of the CTA in force on December 31, 2022, 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* (the Charter) and the CTA requires that the City's financial statements be filed to the City's Service du greffe, which will then forward them to the Ministère des Affaires municipales et de l'Habitation (MAMH) in the prescribed form by May 15.

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 organizations belonging to the City's 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 the expected benefits to the municipal organization or expose it to a risk of loss. These organizations are the Société de transport de Montréal (STM), the Société d'habitation et de développement de Montréal (SHDM), the Société du parc Jean-Drapeau (SPJD), the Conseil des arts de Montréal, the Office de consultation publique de Montréal (OCPM), Anjou 80, the Agence de mobilité durable (AMD), the Bureau du taxi de Montréal (BTM) and BIXI Montréal.

At the time of publishing our annual report, we had not yet issued the auditor's report for the City's consolidated financial statements at December 31, 2022, given that the financial report was in preparation and had not yet been filed with city council by the treasurer.

ORGANIZATION AND GOVERNANCE OF PUBLIC TRANSIT IN THE MONTRÉAL METROPOLITAN AREA

For the year ended December 31, 2022, the status quo was maintained in terms of the governance of the STM, since the 2017–2019 agreement between the Autorité régionale de transport métropolitain (ARTM) and the STM expired 3 years ago and no new agreement has been reached because of the pandemic. When a new agreement is reached, we will review it and analyze its impacts in the light of the existing legislative and contractual framework and any resulting new practices. Management will assess the potential impacts of 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.

At the time of publishing our annual report, we had not produced a compliance report, given that the financial report was in preparation and had not yet been filed with city council by the treasurer.

5.4. New Accounting Standards Applicable for the Next Fiscal Year of the Ville de Montréal and Its Reporting Entities

5.4.1. PS 3280 – Asset Retirement Obligations

The new PS 3280 standard guides public sector entities on how to account for a new liability when there is a legal obligation associated with the retirement of an asset. Initially, a colossal amount of work is required to identify all of the legal obligations that could lead to the recognition of a liability for the City's buildings and those of its reporting entities or the entities for which they are responsible. Secondly, the liabilities will need to be evaluated with the help of experts in this field. Examples of items that could be assessed and potentially result in the recognition of a liability include the following:

- ◆ The removal of asbestos from buildings during dismantling operations or renovations;
- ◆ The rehabilitation of leased buildings;
- ◆ The removal of fuel tanks.

5.4.2. PS 1201 – Financial Statement Presentation

PS 1201 – Financial Statement Presentation. This section amends and replaces section PS 1200 – Financial Statement Presentation. It establishes the general principles and reporting standards that apply to a government's financial statements.

5.4.3. PS 3450 – Financial Instruments

Section PS 3450 establishes standards for the accounting and disclosure of all types of financial instruments. The City and its reporting entities will be required to identify and disclose financial instruments in their financial statements.

5.5. Other Reports

On September 30, 2022, a report was issued to the City's management and audit committee by the Auditor General and Deloitte. This report consolidated the internal control deficiencies and observations related to general information technology controls identified during the audit of the December 31, 2021, financial statements as well as the follow-up of deficiencies reported in prior years.

SUMMARY OF THE RECOMMENDATIONS

Over the years, we have made a number of recommendations as part of our audits of the City's financial statements. The following table provides a summary of outstanding recommendations by main topics as of December 31, 2021.

TABLE 1 | **RECOMMENDATIONS BY PROCESS THAT REMAIN UNIMPLEMENTED FOR THE YEAR ENDED DECEMBER 31, 2021**

RECOMMENDATIONS	NUMBER OF RECOMMENDATIONS PER YEAR				
	2017 AND EARLIER	2018	2019	2020	2021
Information technology (financial application)	1	-	-	5	2
Capital assets process	1	-	1	2	3
Procurement process	2	-	-	1	1
Process for establishing provisions and devaluation at the asset or liability level	1	-	1	1	3
Income process	-	1	1	2	2
Transfer income process	-	-	-	-	1
Transfer payment process	1	-	-	-	-
Financial reporting process	-	-	-	1	-
Total recommendations that remain unimplemented as of December 31, 2021	6	1	3	12	12

5.6. 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;
- ◆ Any body covered in the first paragraph of section 573.3.5 of the CTA when any of the following conditions is met:
 - i) its budget is adopted or approved by the municipality;
 - ii) more than half of the body's funding is secured by funds from a municipality and its annual revenues are equal to or greater than \$1,000,000;
 - iii) it is a mandatory or agent of the municipality or is designated by the Minister of the MAMH as being subject to municipal contractual regulations and its main place of business is on the territory of the municipality.

The following table identifies the other legal persons covered by the CTA for which, following our risk assessment, we deemed it appropriate to continue the financial audit work and produce a joint report on the financial statements with the auditor appointed by the City.

TABLE 2

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, 2022

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, 2022
Société de transport de Montréal (Financial report and form required by the ministère des Affaires municipales et de l'Habitation)	●	April 5, 2023
Société d'habitation et de développement de Montréal	●	March 30, 2023
Société du parc Jean-Drapeau	●	March 30, 2023
Agence de mobilité durable	●	March 30, 2023
Société en commandite Transgesco	(1)	March 24, 2023

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

SOCIÉTÉ DE TRANSPORT DE MONTRÉAL

The STM 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 5, 2023, we issued 2 reports: an unqualified joint auditors' report for this organization concerning the consolidated financial statements of the STM included in the annual report and an unqualified joint auditors' report included in the form prescribed by the MAMH.

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 of December 31, 2022, 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 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 30, 2023, we issued an unqualified joint auditors' 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 of December 31, 2022, 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 SPJD is a non-profit organization that was incorporated on August 9, 1983, under section 223 of the Charter.

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 30, 2023, we issued an unqualified joint auditors' 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 of December 31, 2022, 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.

AGENCE DE MOBILITÉ DURABLE

The AMD is a non-profit organization that was incorporated on February 21, 2019, under section 220.4 of the Charter.

The mission of the AMD is to ensure the management, regulatory enforcement and development of paid on-street and off-street parking throughout the City's territory.

REPORT

On March 30, 2023, we issued a joint auditors' report without reserve 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 AMD as of December 31, 2022, 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 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 24, 2023, we issued an unqualified joint auditors' 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 of December 31, 2022, 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.