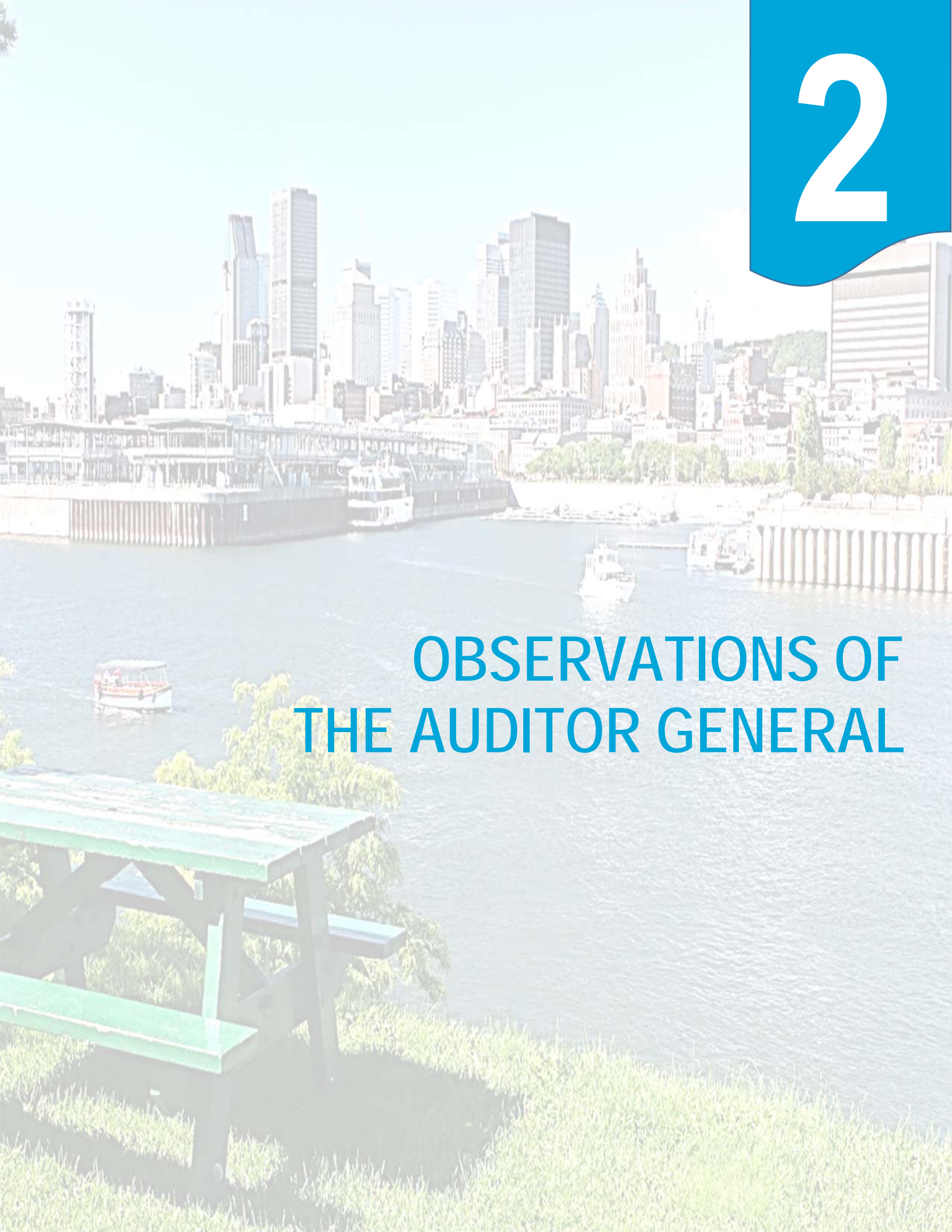



2

OBSERVATIONS OF THE AUDITOR GENERAL



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- 2.1 CHALLENGES OF THE BUREAU
DU VÉRIFICATEUR GÉNÉRAL**
 - 2.2 FORMAT OF THE ANNUAL REPORT**
 - 2.3 YEAR 2016**
 - 2.4 ACKNOWLEDGEMENTS**

2. Observations of the Auditor General

The Auditor General helps provide assurance to the city council, the agglomeration council and taxpayers as to the quality of the management of public funds and the control of city operations and the organizations under its control.

As noted earlier in the report, the Auditor General's mandate includes, to the extent it deems appropriate, audits of the following: financial statements, regulatory compliance, and value-for-money. Its area of jurisdiction covers the municipality, the organizations included in the reporting entity and those for which the city appoints more than 50% of the members of the board of directors or holds more than 50% of the shares.

I took office on August 15, 2016 for a term of seven years. This report is therefore my first annual report as Auditor General of the Ville de Montréal (the city).

2.1. Challenges of the Bureau du vérificateur général

2.1.1. Human Resources

Soon after taking office, I spent some time meeting with each employee to properly determine the issues facing the Bureau du vérificateur général (BVG). I could see that the team in place had done some high quality work over the years and that its considerable experience represented a major asset for the BVG.

However, we will be losing much of that expertise over the next few years. Nearly 20% of the team is eligible for retirement, including two of the four members of the management. As mentioned in my predecessor's 2015 report, the BVG faces a major issue in terms of succession management.

Also, for several years, there have been vacancies and the many attempts to recruit candidates have not yielded satisfactory results. Initiatives undertaken in the past, in consultation with the Service des ressources humaines, to find solutions to the problem of retaining expertise have not led to concrete strategies and measures.

Over the next year, we will review these approaches and undertake new initiatives to try to address these issues of succession planning and retaining knowledge within the BVG.

Some initiatives have already been undertaken. For instance, to handle the financial audit files, we set up teams consisting of two advisers, one principal and one for

backup, for each mandate. We are also starting a project to develop a new risk matrix for the BVG.

2.1.2. Other Challenges

Beyond the human resources issues cited above, there will be many more challenges during the coming years. The Government of Québec's desire to make municipalities more autonomous and changes to standards in value-for-money audits are a few such examples.

We will also undertake a series of projects to enable us, in the medium term, to provide strategic planning for the BVG, update our work tools and complete the development of our website.

Bill 122

With the draft Bill 122, the Government of Québec is aiming to transform the municipalities into real local governments and to redefine municipal institutions in light of current issues by giving them more autonomy, flexibility and power.

To this end, in its address notes to the Commission de l'aménagement du territoire, the Association of Municipal Auditors General of Québec indicated that the new measures proposed under Bill 122 must be supported by rigorous measures of governance and accountability.

It is important to remember that the Auditor General is one of the essential pillars of municipal governance; the Auditor General is there to provide reassurance to the elected officials and the citizens that public funds are being managed efficiently, effectively and economically.

Beyond this bill, sections of the *Cities and Towns Act* (CTA) concerning the Auditor General must also be reviewed in light of today's issues to allow the Auditor General to perform its job independently, without any legal interpretation of its role, the possibility of interference in its work or the management of funds allocated to it.

Over the next year, we will follow developments related to this issue, which will have an impact on the work of municipal auditors general.

Standards for Direct Engagements (CSAE 3001)

In 2017 we are conducting value-for-money audit mandates, having revised our working methodology to comply with the new Canadian assurance standards developed by the Chartered Professional Accountants of Canada for direct engagements. This will change our ways of conducting value-for-money audits,

primarily in the stages of preliminary analysis, quality control and in the standards for issuing reports.

2.2. Format of the Annual Report

The annual report consolidates the results of all work carried out by the BVG. It is an important tool for communicating to the city council, the urban agglomeration council and citizens the results of our audit work regarding financial statement, regulatory compliance, value-for-money and information technology.

We have introduced a few changes to the presentation of the report this year. To enable the reader to more readily understand the main issues raised in our value-for-money and information technology audit mandates, we have added a summary sheet at the beginning of each report. This is divided into two sections: first, the audit's purposes and, second, the results.

We will continue to review the presentation of our report, always with the aim of making it easier to understand.

2.3. Year 2016

In this section I summarize the work done by the BVG during 2016 and highlight the important elements in each file.

2.3.1. Financial Statement Audits

Ville de 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. This auditor's report 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, the auditor's reports on the city's consolidated financial statements, the breakdown of mixed expenditures and the city's aggregate taxation rate were produced and recorded on the form prescribed by Ministère des Affaires municipales et de l'Occupation du territoire (MAMOT). This was filed with the city council and the urban agglomeration council before being sent to MAMOT on April 24, 2017.

Other Legal Entities Subject to the *Cities and Towns Act*

At the time of filing this report I had issued 12 independent auditor reports on the financial statements as of December 31, 2016 of the organizations for which the Auditor General acts as auditor under the provisions of section 107.7 of the CTA.

2.3.2. Legal and Regulatory Compliance

Legal Compliance of Organizations Having Received a Subsidy of at Least \$100,000 in 2015

As of May 12, 2017, the BVG had received the audited 2015 financial statements of 176 (or 94%) of the 187 organizations subject to the requirement under section 107.9 of the CTA, for a total of \$104.9 million.

I encourage the city to continue its work of sensitizing organizations on the requirements of section 107.9 of the CTA.

2.3.3. Value-for-Money and Information Technology Audit

We completed seven mandates for the year 2016.

Management of the Emerald Ash Borer and the Canopy

The appearance in 2011 of the emerald ash borer on Montréal's territory undoubtedly represented a major challenge for the city. Under its sustainable development policy, the city was aiming to grow the canopy by 5% over a 10 year horizon, whereas the city estimated that ash trees made up nearly 20% of its arboreal stock and that no solutions existed (and still do not exist to date) to eradicate the emerald ash borer completely.

Although the city has made considerable efforts to combat this pest, it remains difficult to assess to what extent the city's strategy is working efficiently and contributing to the achievement of the set objectives. To date, there is no formal assessment or diagnosis giving an overall picture of the progress of the situation and of the operations carried out. Also, the analysis and evaluation of the results observed are not sufficiently documented.

The direction of the strategy being used to combat the emerald ash borer and concurrently increase the canopy in Montréal should be regularly reassessed to ensure consistency in light of the objectives. The financial package should be revised accordingly.

The city will have to demonstrate to what extent the interventions undertaken to counter the emerald ash borer infestation and grow the canopy have been successful in achieving the set targets.

Sustainable Water Management

Water is one of the central issues of the 21st century. Several countries have introduced water protection measures, notably the United States and the European Union member countries.

In 2002, the Government of Québec adopted the *Québec Water Policy* and, in March 2011, the Québec Strategy for Drinking Water Conservation (QSDWC). The stated objectives were *"to aim for a reduction of at least 20% of the average water consumption per person for Québec as a whole and a reduction in leakage losses to no more than 20% of the total volume of water produced."* The Government of Québec has sent a clear message to the municipalities by making the allocation of financial assistance conditional on achieving these two objectives.

Our audit confirms that the major efforts made with respect to the first QSDWC objective led in 2015 to an agglomeration-wide reduction in the total production and

average distribution of drinking water by 20% and 26%, respectively, per person per day. However, the city's efforts must continue as drinking water consumption remains above the Canadian average.

With respect to the QSDWC second objective estimates of potential water losses in the system in 2015 remain very high.

It is important that the city implement the measures required by QSDWC, including installing water meters and imposing fees, within the timeframe established by the government.

Traffic Light Management

The Montréal road network is comprised of nearly 2,300 intersections equipped with traffic light systems. The city's responsibility for these assets arises, in part, from the *Municipal Powers Act*.

Nine years after the urban agglomeration council adopted a visionary transportation plan for the safety and flow of various types of traffic, pedestrian, bicycle, car and bus, the city has been slow to complete traffic light upgrades prerequisite for the dynamic management of traffic lights.

Despite the large investments made and the extensive work done on traffic lights, the city has not succeeded in setting up a structured and cohesive upgrade program to be carried out within the deadlines imposed by law and set by the authorities.

Given that the planned upgrades have not been completed at all intersections and that other expenses are still required to comply with either the legal requirements, standards or priorities of the municipal administration, the city will most likely not be able to meet the deadlines imposed by law.

It is imperative that the management of the traffic lights upgrade program be closely monitored by the Direction générale in order to meet the deadlines, projected costs and objectives.

Éco-Quartier Program and Eco-Centres

The mission of the Éco-quartier program is to promote and instill eco-conscious habits among Montrealers in order to improve their living environment through targeted and citizen-driven environmental actions.

Eco-centres are sites made available to all residents, where they can bring waste materials to be recovered and reused. Unlike éco-quartiers, which come under local jurisdiction, eco-centres fall under the jurisdiction of the agglomeration.

With regard to compliance in the process of awarding contracts for managing the eco-centres, supplying containers and transporting waste recovered, the audit revealed some deficiencies.

Doubts were raised as to the possibility that the principles of fairness and transparency that should govern contract solicitation procedures and competition among suppliers might have been tainted in the contracts awarded for the management of the eco-centres. We therefore consider it appropriate to forward the file to the Bureau de l'inspecteur général of the Ville de Montréal, so that it may pursue any investigations it deems appropriate.

It is a given that public funds must first be managed in compliance with existing laws and by-laws. All necessary arrangements must be made to ensure the impartiality and objectivity of the contract-awarding process, including the composition of the selection committee and the conduct of its members.

With respect to accountability, the boroughs will need to make the necessary arrangements to demonstrate how the financial contributions allocated to the Éco-quartier agencies are helping the city to meet its strategic targets for sustainable development.

Système évolué de radiocommunication de l'agglomération de Montréal Project

Système évolué de radiocommunication de l'agglomération de Montréal (SERAM) project resulted from the need to modernize the radiocommunication network of the Service de police de la Ville de Montréal which was acquired in 1989 and reached the end of its useful life in 2004.

Before the new Service des technologies de l'information (STI) team initiated a turnaround in the management of the SERAM project, major deficiencies had been noted in the project management. Concurrently with the start of this remedial process, the new network that had just been deployed among the public safety services was experiencing major failures, while major outages kept recurring. Furthermore, the observed recovery times underscored serious deficiencies in SERAM's back-up systems.

Despite the potential issues and pitfalls that remain to be addressed, we are of the opinion that the measures taken or in the process of being taken by the STI to put the SERAM project back on course are relevant and functional, and that they should reduce the number and impact of outages while promoting system stability.

Notwithstanding the STI's efforts to meet the public safety requirements that were expected at the outset of the SERAM project, the resulting network may not, in our

opinion, meet some significant functional and performance requirements, at least within a short- or medium-term time horizon.

Transfo-RH Program Management

The introduction of the Transfo-RH program coincided with the municipal mergers. In fact, several different projects, including SIG RH-Paie and RH-Paie, have been introduced with a view to modernizing human resource and payroll processes, but they have not proven successful.

Ten years have gone by and the city is back to square one. The May 2016 public call for tenders for the Système intégré en ressources humaines (SIRH) project could not be completed. Because this project is the main component of the Transfo-RH program, the program is being completely replanned.

The content of the SIRH project's call for tenders needs to be reviewed to ensure it reflects market practices, and measures must also be taken to correct deficiencies we found in the governance of the program.

The Transfo-RH program deserves special status beyond being one of the city's 75 or so priority projects. Based on the history of attempts to modernize human resource management and payroll processes, coupled with the risks involved in implementing the Transfo-RH program, the municipal administration needs to follow up rigorously to ensure that the implementation of this program will ultimately achieve the modernization objective.

Physical Penetration Tests

For obvious security reasons, the results of our physical penetration tests cannot be disclosed in this annual report.

2.3.4. Follow-Up on Recommendations of Previous Years

Regarding the value-for-money and information technology audit, the implementation rate for the recommendations in the first year of follow-up has improved and remained stable for those in the third year of follow-up.

However, our follow-up work highlights the fact that several business units are not giving adequate consideration to the recommendations addressed to them, which does not favour their implementation.

With regard to the audit of the financial statements, the implementation rate of the recommendations in the first year of follow-up deteriorated. However, it was 100% for recommendations in the third year of follow-up.

2. Observations of the Auditor General

We recommend that municipal administration establish performance indicators to measure the degree of implementation of the recommendations included in the Auditor General's audit reports and do the follow-up.

2.4. Acknowledgements

The 2016 report is the result of the efforts of an entire team that supports me on a daily basis by performing quality work. I would like to thank the BVG team for its excellent work and support.