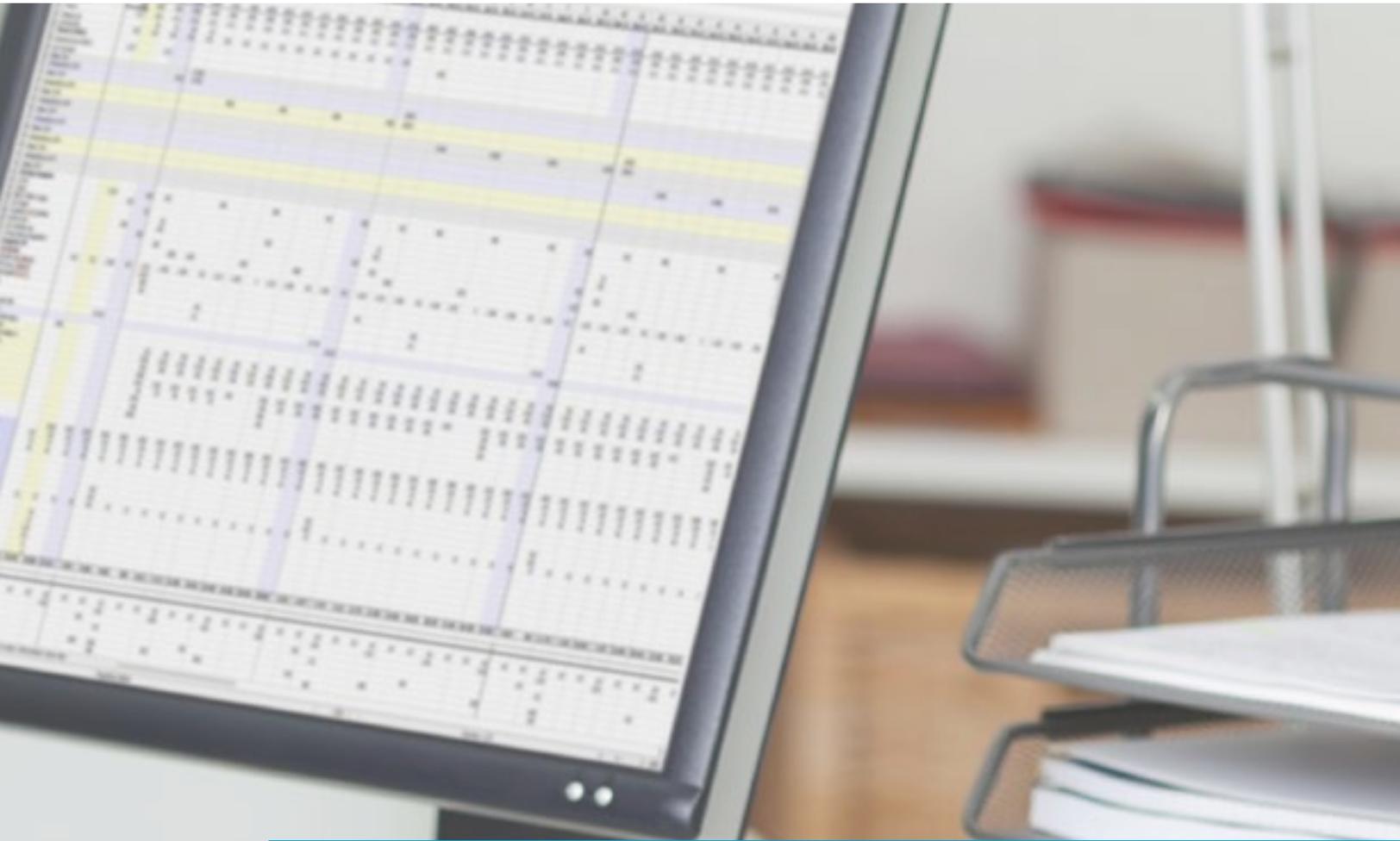




## **2.** **FINANCIAL STATEMENT AUDITS AND OTHER REPORTS**





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## 2. FINANCIAL STATEMENT AUDITS AND OTHER REPORTS

### 2.1. INTRODUCTION

The Auditor General conducts its 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 this report, Bill 155, which was passed in April 2018 by the Assemblée nationale, 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 charges and the overall tax rate, but he can continue to do so if he deems it appropriate. We have indicated that we consider it appropriate to continue our financial audit work in the City. For the paramunicipal bodies, we developed a risk assessment matrix to assess the 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 continue our audit work on the breakdown of mixed charges, but not on the overall tax rate.

## **2.3. CONSOLIDATED FINANCIAL STATEMENTS OF THE VILLE DE MONTRÉAL**

In accordance with the provisions of the CTA in force on December 31, 2018, 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.

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 11, 2019, jointly with Deloitte, issued an unqualified auditor's report on the consolidated financial statements of the City as at December 31, 2018.

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 24, 2019.

Also, on April 16, 2019, jointly 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 jointly reports on the consolidated financial statements were filed with city council and the urban agglomeration council before being sent to MAMH on May 17, 2019.

## **ORGANIZATION AND GOVERNANCE OF PUBLIC TRANSIT IN THE MONTREAL 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 provides for a new sharing of powers to foster the mobility of persons. The Autorité régionale de transport

métropolitain (ARTM) which is in charge of the planning, development, pricing and financing of shared transportation services in the Montreal region. The Société de transport de Montréal (STM) and the ARTM signed an agreement in February 2019 that specifies the terms of application of this new governance.

For the year ended December 31, 2018, the status quo was maintained, in terms of the STM's governance given that the agreement between the parties was still under negotiation as of December 31, 2018. The management will have to 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.

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 11, 2019, we produced an unqualified jointly report indicating that the breakdown of mixed expenditures meets compliance requirements in all material respects.

## **OTHER REPORTS**

On November 9, 2018, 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, 2017, 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, 2018, 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 *Cities and Towns Act* (CTA), the Auditor General must, to the extent deemed appropriate, audit the financial statements of the other legal persons covered by the LCV 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.

In the coming years, other organizations could undergo a financial audit or other by the Auditor General. We are assessing the new entities targeted by the amendments to the CTA through the adoption of Bill 155.

**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, 2018**

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, 2018
<b>Société de transport de Montréal</b> (Financial report and form required by MAMH)	◉	April 4, 2019
<b>Société d'habitation et de développement de Montréal</b>	◉	March 26, 2019
<b>Société du parc Jean-Drapeau</b>	◉	March 28, 2019
<b>Société en commandite</b> <b>Stationnement de Montréal</b>	◉	Underway, at the time of publishing this report
<b>Société en commandite Transgesco</b>	(1)	March 20, 2019

(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).

Until May 31, 2017, take responsibility, organize and provide the public transit in the territory of the agglomeration of Montréal. As of June 1, 2017, the STM has been subject to the Act to modify mainly the organization and governance of shared transportation in the Montréal metropolitan area (2016, ch. 8). This law provides for a new sharing of powers to foster the mobility of persons by abolishing the Agence métropolitaine de transport (AMT), which was replaced by two bodies, the Autorité régionale de transport métropolitain (ARTM), which is devoted to the planning, development, pricing and financing of shared transportation services in the greatest Montréal region, and the Réseau de transport métropolitain (EXO, formerly RTM), which is tasked with operating some shared transportation services, including the commuter train service.

The new governance also provides that the shared transportation service established by the ARTM will be delivered by operators, including the STM, under service agreements. In keeping with these new requirements, the STM concluded on February 2019 a contractual agreement with the ARTM. Among other things, this agreement specifies the transportation offer, the performance and quality objectives for the services and the agreed compensation. Since June 1, 2017, the STM's mandate has been to provide shared transportation services and, at the request of the ARTM, to collaborate to the planning, coordination, development, support and promotion of shared transportation in its territory.

### **REPORT**

On April 4, 2019, we issued an unqualified jointly 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 Société de transport de Montréal as at December 31, 2018, 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 March 26, 2019, we issued an unqualified jointly 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 Société d'habitation et de développement de Montréal as at December 31, 2018, 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 28, 2019, we issued an unqualified jointly 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 Société du parc Jean-Drapeau as at December 31, 2018, 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 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.

On June 15, 2016, the Ville de Montréal agglomeration council adopted the new parking policy, which includes the transfer of the activities of the Société en commandite Stationnement de Montréal to a new body.

### **REPORT**

The auditor's report was underway at the time of publishing this report.

## **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 20, 2019, we issued an unqualified jointly 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, 2018, 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.