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## INDEPENDENCE LETTER

City of Richmond  
6911 No. 3 Road  
Richmond BC V6Y 2C1

### The Finance Committee of the City of Richmond

March 28, 2006

We have been engaged to audit the consolidated financial statements of the City of Richmond (the "City") as at December 31, 2005 and for the year then ended.

Canadian generally accepted auditing standards (GAAS) require that we communicate at least annually with you regarding all relationships between the City and us that, in our professional judgment, may reasonably be thought to bear on our independence.

In determining which relationships to report, these standards require us to consider relevant rules and related interpretations prescribed by the Institute of Chartered Accountants of British Columbia ("ICABC") and applicable legislation, covering such matters as:

- a) provision of services in addition to the audit engagement
- b) other relationships such as:
  - holding a financial interest, either directly or indirectly, in a client
  - holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of a client
  - personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client
  - economic dependence on a client.

We have prepared the following comments to facilitate our discussion with you regarding independence matters arising since April 11, 2005.

### OTHER RELATIONSHIPS

We are not aware of any relationships between the City and us that, in our professional judgment, may reasonably be thought to bear on our independence, that have occurred from April 11, 2005 to March 28, 2006.



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#### **CONFIRMATION OF INDEPENDENCE**

Generally accepted auditing standards require that we confirm our independence to the Board of Directors in the context of the rules of Professional Conduct/Code of Ethics of the ICABC.

Accordingly, we hereby confirm that, we are independent with respect of the City, within the meaning of the Rules of Professional Conduct of the ICABC as of March 28, 2006.

#### **OTHER MATTERS**

This letter is confidential and intended solely for the use of the Audit Committee, Board of Directors, Management, and others within the City with respect to carrying out and discharging their responsibilities to review and recommend to the Finance Committee whether the consolidated financial statements of the City for the year ended December 31, 2005 be approved and should not be used for any other purposes. No responsibility, for loss or damages (if any), to any third party is accepted as this report has not been prepared for, and is not intended for, any other purpose.

We look forward to discussing with you the matters addressed in this letter as well as other matters that may be of interest to you. We will be prepared to answer any questions you may have regarding our independence as well as other matters.

Yours very truly,

*AGJ*

Archie G. Johnston, MBA, CA, CIA  
*Partner, Assurance Services*  
*(604) 527-3757*

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## OVERSIGHT LETTER

### PRIVATE & CONFIDENTIAL

City of Richmond  
6911 No. 3 Road  
Richmond BC V6Y 2C1

### The Finance Committee of the City of Richmond

March 28, 2006

We are writing to you to communicate certain key areas in connection with our audit of the consolidated financial statements of the City of Richmond (the "City") for the year ended December 31, 2005.

#### *I. Responsibility of external auditors, management, and oversight personnel*

We were engaged to give an audit opinion on the consolidated financial statements of the City. Management is responsible for preparing the financial statements and related notes in accordance with Canadian generally accepted accounting principles and to design, implement and maintain an effective internal control over the financial reporting process. We are responsible for being independent and for expressing an opinion on the consolidated financial statements. The City's oversight personnel are responsible for overseeing the control environment and reporting process.

#### *II. Independence*

As required under these standards, we have also enclosed a letter confirming that we are independent from the City.

#### *III. Significant Matters*

There were no significant matters noted during our audit that warrant drawing to the attention of the City's Finance Committee.

#### *IV. Other matters arising from the audit*

Management is responsible for maintaining a system of internal controls to provide reasonable assurance that the financial records are reliable and form a proper basis for preparation of the consolidated financial statements. In planning and performing our audit, we considered the City's internal controls in order to determine the nature, extent and timing of our audit procedures for the purpose of expressing an opinion on the consolidated financial statements, and not to provide any



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assurance or an opinion on internal controls. During our audit we did not encounter any instances of fraud or illegal acts, and we did not become aware of any significant weaknesses in internal controls.

#### *V. Misstatements and audit adjustments*

There are no outstanding audit differences. A copy of the corrected audit adjustments has been attached to the management representation letter.

#### *VI. Fees*

The following is a summary of fees charged by KPMG to the City during year ended December 31, 2005:

<u>Audit</u>	<ul style="list-style-type: none"><li>Audit of the financial statements of City of Richmond for the year ended December 31, 2004</li></ul>	\$48,500
<u>Other</u>	<ul style="list-style-type: none"><li>Tax research</li><li>PSAB implementation</li><li>Professional services related to Business Continuity Project</li><li>Strategic business plan on Olympic Oval</li></ul>	8,000 12,000 15,807 120,508

#### *VII. Developments in Financial Reporting and Professional Standards*

We will continue to monitor developments in public sector accounting and work with management to implement these as they arise. The following developments were noted in our prior year report and have been discussed with management:

##### *Tangible Capital Asset (Local Government)*

The Public Sector Accounting Board ("PSAB") of the Canadian Institute of Chartered Accountants ("CICA") is proceeding with its work plan on accounting for capital assets by local governments. It is considering such issues as the definition of a capital asset, recognition, measurement (including cost, amortization, write-downs and disposals), disclosure, and transitional provisions. The project is considering how this information gets presented in the financial statements.

The City will need to develop detailed accounting records for its capital assets to comply with these new standards.



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In conjunction with the City's project to revise its tangible capital assets accounting, the City is encouraged to also revisit its Capital Infrastructure Reserve Policies in order to ensure the City has sufficient funding available to meet future growth and required asset replacement. Many municipalities across the country are currently assessing their capital infrastructure deficiencies and identifying potential funding sources to meet these future requirements. Actuarial assistance may be useful in making these assessments.

We appreciate the opportunity to be of service to you, and wish to thank you and your staff for their full cooperation and assistance during the audit. We appreciate the time and effort that was directed toward preparing for the audit and we look forward to our ongoing relationship.

Yours very truly

Archie G. Johnston, MBA, CA, CIA  
*Partner, Assurance Services*  
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