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AUDIT FINDINGS LETTER

PRIVATE & CONFIDENTIAL
Finance Committee
City of Richmond
6911 No. 3 Road
Richmond BC V6Y 2C1

April 18, 2012

To: Chair and Members of the Finance Committee

We are pleased to provide the following information for your review and consideration in order to assist you in carrying out your responsibilities with respect to the review and recommendation to Council of the audited consolidated financial statements of the City of Richmond (the "City") for the year ended December 31, 2011. A summary of the information provided is as follows:

Description
- Scope and timing of the audit
- Audit status and opinion
- Significant audit, accounting and reporting matters
- Significant qualitative aspects of accounting practices
- Misstatements
- Control deficiencies
- Current developments

This report is intended to communicate to you the results of our examination. We would be pleased to receive any comments or suggestions for improvements, which you may have.

We would like to thank the staff of the City for their cooperation and assistance during the course of our audit fieldwork. We appreciate the opportunity to serve you and look forward to a continuing relationship.

This letter is for the use of the Finance Committee for the purposes of carrying out and discharging its responsibilities and should not be used for any other purpose. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this document has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Yours very truly

KPMG LLP

Nancy Adie-MacKay, CA	Archie G Johnston, MBA, CA-CIA, FCA
Partner	*Client Relationship and Quality Review Partner*
(604) 527-3721	(604) 527-3757

Enclosures:
- Appendix 1 - Independence letter
- Appendix 2 - Management representation letter
- Appendix 3 - Internal control letter

SCOPE AND TIMING OF THE AUDIT

Our responsibilities in carrying out our audit, as well as management's responsibilities, are set out in our engagement letter.

Scope - Materiality

We determine materiality to:

- plan and perform the audit; and
- evaluate the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements.

For the current year, materiality of $5.68 million was determined.

Refer to the "Misstatements" section of this letter for any corrected and uncorrected misstatements identified by us during the audit, other than those that are clearly trivial.

Scope – Significant risks of material misstatement, including risks of fraud

We did not identify any significant risks of material misstatement, including risks of fraud, during the course of our audit.

Timing

The following are key deliverables and dates of the audit:

Topic:	*Dates:*
Conduct of year-end field work	March 12 – 30, 2012
Present the audit findings to the Finance Committee	May 7, 2012
Provide audit opinion on consolidated financial statements	Upon acceptance by Council

AUDIT STATUS AND OPINION

We have not yet completed our audit of the City's December 31, 2011consolidated financial statements as the following procedures remain to be performed:

- Subsequent event updates
- Receipt of signed management representation letter
- Obtaining evidence that those with approved authority to take responsibility for the City's financial statements have done so.

We will update the Finance Committee on any significant matters arising from the completion of the above procedures, as additional procedures or adjustments to the financial statements may be necessary.

Our audit report will be dated no earlier than the date on which we have obtained sufficient appropriate audit evidence on which to base our audit opinion on the financial statements, including evidence that:

- all the statements that comprise the financial statements, including the related notes, have been prepared;
- Council has accepted the consolidated financial statements.

SIGNIFICANT AUDIT, ACCOUNTING AND REPORTING MATTERS

Recast of prior year comparative figures

During the 2011 fiscal year and subsequent to the issuance of the 2010 financial statements, the City determined that certain developer contributed lands in the amounts of $7,038,934 and $20,802,542 were omitted and should have been added to the 2009 and 2010 asset registers, respectively. The impact of these adjustments amounted to approximately a $27.8 million increase in tangible capital assets as at December 31, 2011, $20.8 million increase to the 2010 annual surplus, and $7 million increase to the 2010 opening accumulated surplus.

The impact of these adjustments has been applied retroactively and prior periods have been recast. Note 3 of the consolidated financial statements provide details on the impact of these changes.

Non-Monetary Transaction

As at December 31, 2010, the City had deferred revenue in an amount of $12 million pertaining to the 2007 sale of a leasehold interest. In the current year, the City entered into a non-monetary transaction to sell a piece of its land and reacquire the above leasehold interest at an agreed amount of $6 million with no cash being exchanged. As a result, the City has recorded a gain in other revenue in the amount of $12 million.

We analyzed the transactions and concur with management's conclusion regarding the amount of gain to be recognized in the consolidated financial statements.

SIGNIFICANT QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES

The following are the significant qualitative aspects of accounting practices that we plan to discuss with you:

Significant accounting policies	• Appropriateness of accounting practice to the particular circumstances of the City. • Changes in significant accounting policies. • Consistency of significant accounting policies and their application. • Critical accounting policies and practices. • Extent to which the financial statements are affected by non-recurring amounts recognized during the period and extent of disclosure of such transactions.
Significant accounting estimates	• Management's identification of accounting estimates. • Management's process for making accounting estimates. • Indicators of possible management bias. • Disclosure of estimation uncertainty in the financial statements. • Factors affecting the City's asset and liability carrying values.
Significant disclosures	• Issues involved, and related judgments made, in formulating particularly sensitive financial statement disclosures. • Overall neutrality, consistency, and clarity of the disclosures in the financial statements. • Potential effect on the financial statements of significant risks, exposures and uncertainties.

MISSTATEMENTS

Audit Misstatements – Identification

Misstatements identified during the audit have been categorized as follows:

- uncorrected audit misstatements, including disclosures
- corrected audit misstatements, including disclosures

Uncorrected Audit Misstatements

Professional standards require that we request of management and those charged with governance that all uncorrected misstatements be corrected. However, management has decided not to correct these misstatements and represented to us that the uncorrected misstatements—individually and in the aggregate—are, in their judgement, not material to the financial statements.

We concur with management's representation. Accordingly, the uncorrected misstatements have no effect on our audit report.

Refer to the Attachment II in the draft management's representation in Appendix 1 for a Summary of Uncorrected Audit Misstatements.

Audit Misstatements in the prior period

Refer to Attachment III in Appendix 1 for an Updated Summary of Uncorrected Audit Misstatements. This 2010 corrected misstatement was adjusted by recasting the comparative information of the 2011 consolidated financial statements.

CONTROL DEFICIENCIES

Background and professional standards

As your auditors, we are required to obtain an understanding of internal control over financial reporting (ICFR) relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on internal control. Accordingly, we do not express an opinion on the effectiveness of internal control.

Our understanding of ICFR was for the limited purpose described above and was not designed to identify all control deficiencies that might be significant deficiencies. Therefore, there can be no assurance that all significant accounting deficiencies and other control deficiencies have been identified.

Our awareness of control deficiencies varies with each audit and is influenced by the nature, timing, and extent of audit procedures performed, as well as other factors.

Identification

We did not identify any control deficiencies that we consider to be significant deficiencies in internal control. However, we have identified performance improvement opportunities discussed in our letter to management.

Definitions

Terminology	Definition
Deficiency in internal control	A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A deficiency in design exists when: (a) a control necessary to meet the control objective is missing; or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or the person performing the control does not possess the necessary authority or competence to perform the control effectively.
Significant deficiency in internal control	A significant deficiency in internal control is a deficiency or combination of deficiencies in internal control that, in the auditor's professional judgment, is less severe than a material weakness, yet is of sufficient importance to merit the attention of those charged with governance.
Material weakness in internal control	A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's annual financial statements will not be prevented or detected and corrected on a timely basis.

CURRENT DEVELOPMENTS

Government Transfers

- New Accounting Standard, Government Transfers PS3410, has been approved by the Public Sector Accounting Standards Board ("PSAB") and is effective for years commencing on or after April 1, 2012. Early adoption is encouraged.

- Government transfers (e.g. grants, contributions, in-kind) are recognized as revenue in the period that the transfer is authorized by the transferring government, and eligibility criteria, if any, have been met by the recipient, except when and to the extent that the transfer gives rise to a liability under PS3200. If a liability is created, then the corresponding amount is recorded as a liability (e.g. deferred revenue/contributions) and is recognized as revenue when and in proportion to how the liability is settled, through the transfer or use of assets, or the provision of goods or services.

- Applies to both operating and capital transfers.

- Application of this Section will require significant professional judgment by management.

Liability for Contaminated Sites

- New Accounting Standard, Liability for Contaminated Sites PS3260, has been approved by the PSAB and is effective for years commencing on or after January 1, 2014. Early adoption is encouraged.

- Governments will be required to recognize a liability for contaminated sites when the government is responsible for, or accepts responsibility for, the contamination, and the contamination exceeds existing environmental standards. The amount recorded as a liability must be reasonably estimable and would include costs directly related to the remediation activities and post-remediation costs that are an integral part of the remediation strategy. Costs related to asset purchases to be used in remediation would be included in the liability to the extent that the assets have no alternative use.

Financial Instruments and Foreign Currency Translation

- New Accounting Standards, Financial Instruments PS3450 and Foreign Currency Translation PS2601, have been approved by the PSAB and are effective for years commencing on or after April 1, 2015 for governments. Early adoption is permitted.

- Equity instruments quoted in an active market and free-standing derivatives are to be carried at fair value. All other financial instruments, including bonds can be carried at cost or fair value depending on the government's choice and this choice must be made on initial recognition of the financial instrument and is irrevocable.

- Hedge accounting is not permitted.

- A new statement, the Statement of Re-measurement Gains and Losses, will be included in the financial statements. Unrealized gains and losses incurred on fair value accounted financial instruments will be presented in this statement. Realized gains and losses will continue to be presented in the statement of operations.

APPENDIX 1

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INDEPENDENCE LETTER

PRIVATE & CONFIDENTIAL

Finance Committee
City of Richmond
City Hall
6911 No. 3 Road
Richmond, BC V6Y 2C1

April 18, 2012

Dear Chair and Members of the Finance Committee:

We have been engaged to express an opinion on the consolidated financial statements of City of Richmond ("the City") as at and for the period ended December 31, 2011.

Professional standards specify that we communicate to you in writing, at least annually, all relationships between the City (and its related entities) and our firm, that may reasonably be thought to bear on our independence.

In determining which relationships to report, we are required to consider relevant rules and related interpretations prescribed by the Institute of Chartered Accountants of British Columbia and any applicable legislation or regulation, 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 the date of our last letter.

PROVISION OF SERVICES

The following summarizes the professional services rendered by us to the City (and its related entities) for the period ended December 31, 2011.

Description of Service
Audit
• Audit of the City's consolidated financial statements
• Audit of the financial statements of Richmond Olympic Oval Corporation
• Audit of the financial statements of Richmond Public Library
• Audit of the Home Owner Grant
• Audit of the City's compliance with subsections 2 and 3 of section 124 of Part 8 of the School Act
• Research and discussions on accounting treatement of various accounting issues
Advisory
• Business continuity planning for Richmond Fire Rescue
• System implementation assessment on PEOPLESOFT HCM 9.1 upgrade
All other
• Tax advice

Professional standards require that we communicate the related safeguards that have been applied to eliminate identified threats to independence or to reduce them to an acceptable level. Although we have policies and procedures to ensure that we did not provide any prohibited services and to ensure that we have not audited our own work, we have applied the following safeguards regarding to the threats to independence listed above:

- We did not assume the role of management by instituting policies and procedures to prohibit us from making management decisions or assuming responsibility for such decisions.

- We obtained pre-approval of non-audit services and during this pre-approval process we discussed the nature of the engagement, extent of fees charged, and other independence issues related to the services.

- We obtained management's acknowledgement of responsibility for the results of the work performed by us regarding non-audit services and we have not made any management decisions or assumed responsibility for such decisions.

OTHER RELATIONSHIPS

We are not aware of any relationships between our firm and the City (and its related entities) that may reasonably be thought to bear on our independence during the period from January 1, 2011 to April 18, 2012.

CONFIRMATION OF INDEPENDENCE

Professional standards require that we confirm our independence to you in the context of the relevant ethical requirements regarding independence.

Accordingly, we hereby confirm that we are independent with respect to the City (and its related entities) within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of British Columbia as of April 18, 2012.

OTHER MATTERS

This letter is confidential and intended solely for use by those charged with governance in carrying out and discharging their responsibilities and should not be used for any other purposes.

KPMG shall have no responsibility for loss or damages or claims, if any, to or by any third party as this letter has not been prepared for, and is not intended for, and should not be used by, any third party for any other purpose.

Yours very truly,

KPMG LLP

Chartered Accountants

APPENDIX 2

MANAGEMENT REPRESENTATION LETTER

KPMG LLP
Chartered Accountants
Metrotower II
4720 Kingsway, Suite 2400
Burnaby, BC V5H 4N2
Canada

May XX, 2012

Ladies and Gentlemen:

We are writing at your request to confirm our understanding that your audit was for the purpose of expressing an opinion on the financial statements (hereinafter referred to as "financial statements") of City of Richmond ('the Entity") as at and for the period ended December 31, 2011.

We confirm that the representations we make in this letter are in accordance with the definitions as set out in **Attachment I** to this letter.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

GENERAL:

1) We have fulfilled our responsibilities, as set out in the terms of the engagement letter dated December 15, 2010, for:

   a) the preparation of the financial statements.

   b) providing you with all relevant information and access.

   c) such internal control as management determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

   d) ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements.

INTERNAL CONTROL OVER FINANCIAL REPORTING:

2) We have communicated to you all deficiencies in the design and implementation or maintenance of internal control over financial reporting of which management is aware.

FRAUD & NON-COMPLIANCE WITH LAWS AND REGULATIONS:

3) We have disclosed to you:

   a) the results of our assessment of the risks that the financial statements may be materially misstated as a result of fraud.

   b) all information in relation to fraud or suspected fraud that we are aware of and that affects the Entity and involves: management, employees who have significant roles in internal control, or others, where the fraud could have a material effect on the financial statements.

   c) all information in relation to allegations of fraud, or suspected fraud, affecting the Entity's financial statements, communicated by employees, former employees, regulators, or others.

   d) all known instances of non-compliance or suspected non-compliance with laws and regulations, including all aspects of contractual agreements, whose effects should be considered when preparing financial statements.

   e) all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

COMMITMENTS & CONTINGENCIES:

4) There are no:

   a) other liabilities that are required to be recognized and no other contingent assets or contingent liabilities that are required to be disclosed in the financial statements in accordance with the relevant financial reporting framework, including liabilities or contingent liabilities arising from illegal acts or possible illegal acts, or possible violations of human rights legislation.

   b) other environmental matters that may have an impact on the financial statements.

SUBSEQUENT EVENTS:

5) All events subsequent to the date of the financial statements and for which the relevant financial reporting framework requires adjustment or disclosure in the financial statements have been adjusted or disclosed.

RELATED PARTIES:

6) We have disclosed to you the identity of the Entity's related parties and all the related party relationships and transactions of which we are aware and all related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

ESTIMATES:

7) Measurement methods and significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

8) Significant estimates, which could change materially within the near term, and all areas of measurement uncertainty have been properly recorded or disclosed in the financial statements.

9) Fair value estimates and disclosures reflect management's intent and ability to carry out specific course of action on behalf of the City.

10) The nature and extent of estimates, which could change materially within the near term, and all areas of measurement uncertainly have been disclosed in the financial statements.

NON-SEC REGISTRANTS OR NON-REPORTING ISSUERS:

11) We confirm that the Entity is not a Canadian reporting issuer (as defined under any applicable Canadian securities act) and is not a United States Securities and Exchange Commission ("SEC") Issuer (as defined by the Sarbanes-Oxley Act of 2002). We also confirm that the financial statements of the Entity will not be included in the consolidated financial statements of a Canadian reporting issuer audited by KPMG or an SEC Issuer audited by any member of the KPMG organization.

MISSTATEMENTS:

12) The effects of the uncorrected misstatements described in Attachment II are immaterial, both individually and in the aggregate, to the financial statements as a whole.

13) We believe that the effects of the uncorrected misstatements aggregated in the accompanying schedule, "Updated Summary of Uncorrected Audit Misstatements" (in Attachment III), are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

14) We approve the corrected misstatements identified by you during the 2011 audit.

ACCOUNTING POLICIES:

15) The accounting policies selected and applied are appropriate in the circumstances.

ASSETS & LIABILITIES - GENERAL:

16) The City has satisfactory title to all owned assets.

17) We have no knowledge of any liens or encumbrances on assets and/or assets that have been pledged or assigned as security for liabilities, performance of contracts etc., not disclosed in the financial statements.

18) We have no knowledge of any plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

RECEIVABLES:

19) Receivables reported in the financial statements represent valid claims against taxpayers and other debtors for taxes, fees or other charges arising on or before the balance sheet date. Receivables have been appropriately recorded at their net realizable value.

CONTRACTUAL AGREEMENTS:

20) The City has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of non-compliance including violations or default of the covenants in the City's debt agreements.

ENVIRONMENTAL MATTERS:

21) The City has appropriately recognized, measured and disclosed environmental matters in the financial statements.

EMPLOYEE FUTURE BENEFITS:

22) The employee future benefit costs, assets and obligation, if any, have been determined, accounted for and disclosed in accordance with the financial reporting framework.

23) We have no knowledge of arrangement (contractual or otherwise) by which programs have been established to provide post-employment benefits, except as disclosed to you.

24) The significant accounting policies the City has adopted in applying PS 3255, Postemployment benefits, compensated absences and termination benefits (hereinafter referred to as "PS 3255") are disclosed in notes to the financial statements.

25) All arrangements (contractual or otherwise) by which programs have been established to provide post-employment benefits have been disclosed to you and included in the determination of pension and post-employment costs and obligations. This includes:

    a) pension and other retirement benefits expected to be provided after retirement to employees and their beneficiaries.
    b) post-employment benefits expected to be provided after employment but before retirement to employees and their beneficiaries. These benefits include unused sick leave and severance benefits.
    c) compensated absences for which it is expected employees will be paid. These benefits include accumulating sick days; and
    d) termination benefits.

26) The post-employment benefit costs, assets and obligations have been determined, accounted for and disclosed in accordance with PS 3255. In particular:

    a) each of the best estimate assumptions used reflects management's judgment of the most likely set of conditions affecting future events; and
    b) the best estimate assumptions used are, as a whole, consistent within themselves, and with the valuation method adopted for purposes of this evaluation.

27) The assumptions included in the actuarial valuation are those that management instructed Mercer Human Resource Consulting ("Mercer") to use in computing amounts to be used by us in determining pension costs and obligations and in making required disclosures in the above-named financial statements, in accordance with PS 3255.

28) In arriving at these assumptions, management has obtained the advice of Mercer, but has retained the final responsibility for them.

29) The source data and plan provisions provided to the actuary for preparation of the actuarial valuation are accurate and complete.

30) All changes to plan provisions or events occurring subsequent to the date of the actuarial valuation and up to the date of this letter have been considered in the determination of pension and other post-employment benefit costs.

31) We agree with Mercer's findings in evaluating the accuracy and completeness of employee future benefits and have adequately considered their qualifications in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give nor cause any instructions to be given to Mercer with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on Mercer's independence and objectivity.

OTHER:

32) We have appropriately reported the amounts of Home Owner Grants collected and remitted as stated on the Home Owner Grant: Auditor Certificate.

33) We have complied with subsections 2 and 3 of section 124 of part 8 of the School Act for the year ended December 31, 2011.

34) All transfers out of statutory reserves have been approved by bylaw except for those transfers allowed by Council resolution.

35) Expenses will be appropriately authorized and actual expenses will not exceed budgeted expenses detailed in the amended budget bylaw.

Yours very truly,

CITY OF RICHMOND

By: Andrew Nazareth, General Manager, Business & Financial Services

By: Jerry Chong, Director of Finance

cc: Finance Committee

Attachment I – Definitions

MATERIALITY

Certain representations in this letter are described as being limited to matters that are material. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both.

FRAUD & ERROR

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorization.

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

RELATED PARTIES

In accordance with Public Sector Accounting Standards *related party* is defined as:

- exist when one party has the ability to exercise, directly or indirectly, control, joint control or significant influence over the other. Two or more parties are related when they are subject to common control, joint control or common significant influence. Related parties also include management and immediate family members.

In accordance with Public Sector Accounting Standards a *related party transaction* is defined as:

- is a transfer of economic resources or obligations between related parties, or the provision of services by one party to a related party, regardless of whether any consideration is exchanged. The parties to the transaction are related prior to the transaction. When the relationship arises as a result of the transaction, the transaction is not one between related parties.

Attachment II – Summary of 2011 Uncorrected Audit Misstatements

(No impact on accumulated surplus as at December 31, 2011)

1	Dr. Opening accumulated surplus	$	771,000		
	Cr. Purchases equipment and furniture expense			$	(771,000)
	To adjust opening accumulated surplus for 2010 expense recorded in 2011. Accumulated surplus as at December 31, 2011 is properly recorded.				
2	Dr. Opening accumulated surplus	$	646,885		
	Cr. Program cost expense			$	(578,100)
	Cr. Revenue			$	(68,785)
	To adjust opening accumulated surplus for 2010 program cost recorded in 2011. Accumulated surplus as at December 31, 2011 is properly recorded.				

These proposed audit entries adjust the period in which certain expenses were recorded by the City. During 2011 the City corrected these 2010 misstatements. The ending balance as at December 31, 2011 is correct in the City's financial statements. The effect of recording the entries in the 2010 accounts is not considered material.

Attachment III – Summary of 2010 Audit Misstatements Schedule

Summary of Uncorrected Audit Misstatements
Year ended December 31, 2010

This updated summary of uncorrected audit misstatements details the 2010 uncorrected audit misstatements from the prior year audit, with the addition of entries related to items found during the 2011 audit that impacted 2010.

#	Description	Assets	Liabilities	Annual Surplus	Opening Accumulated Surplus
	Total of uncorrected audit misstatements as noted in last year's management representation letter which has been presented to the City's finance Committee in 2010.			662,961	(662,691)
	Additional audit misstatement found during 2011 audit that impacted 2010:				
	Dr. Tangible capital assets	27,841,476			
	Cr. Other capital funding sources revenue			(20,802,542)	
	Cr. Opening accumulated surplus				(7,038,934)
	To record net amount of tangible capital assets previously not recorded				

The additional audit misstatement found as noted above has been properly recast in the 2011 consolidated financial statements.

Attachment IV – Management Responsibilities

Management acknowledges and understands that it is responsible for:

- the preparation of the financial statements for consolidation purposes.
- ensuring that all transactions have been recorded and are reflected in the financial statements for consolidation purposes.
- such internal control as management determines is necessary to enable the preparation of financial statements for consolidation purposes that are free from material misstatement, whether due to fraud or error. Management also acknowledges and understands that they are responsible for the design, implementation and maintenance of internal control to prevent and detect fraud.
- providing us with access to all information of which management is aware that is relevant to the preparation of the financial statements for consolidation purposes such as records, documentation and other matters.
- providing us with additional information that we may request from management for the purpose of the audit.
- providing us with unrestricted access to persons within the Entity from whom we determine it necessary to obtain audit evidence.
- providing us with written representations required to be required under professional standards and written representations that we determine are necessary. Management also acknowledges and understands that professional standards require that we disclaim an audit opinion when management does not provide certain written representation required.

An audit does not relieve management or those charged with governance of their responsibilities.

APPENDIX 3

KPMG

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INTERNAL CONTROL LETTER

Mr. Jerry Chong
City of Richmond
City Hall
6911 No. 3 Road
Richmond, BC V6Y 2C1

April 18, 2012

Dear Sir/Madam:

In planning and performing our audit of the consolidated financial statements of City of Richmond ("the City") for the period ended December 31, 2011, we considered internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all control deficiencies that might be significant deficiencies and therefore, there can be no assurance that all significant deficiencies and other control deficiencies have been identified. Our awareness of control deficiencies varies with each audit and is influenced by the nature, timing, and extent of audit procedures performed, as well as other factors.

CONTROL DEFICIENCIES

Refer to Appendix B for the definitions of various control deficiencies.

The matters being reported are limited to those deficiencies in internal control that we identified during the audit.

SIGNIFICANT DEFICIENCY IN INTERNAL CONTROL

We did not identify any control deficiencies that we consider to be significant deficiencies in internal control.

OTHER INTERNAL CONTROL DEFICIENCIES

Refer to Appendix A for identified control deficiencies that we consider to be other deficiencies in internal control identified during the audit that have not been communicated to management by other parties and that, in our professional judgment, are of sufficient importance to merit management's attention.

MANAGEMENT'S RESPONSES

The City's written actual or proposed responses to our communications on control deficiencies has not been subjected to the audit procedures applied in the financial statement audit, and accordingly, we express no opinion on it.

USE OF LETTER

This letter is for the use of management and those charged with governance in carrying out and discharging their responsibilities and should not be used for any other purpose. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this letter has not been prepared for, and is not intended for, and should not be used by, any third party or any other purpose.

Yours very truly,

KPMG LLP

Chartered Accountants

cc: Finance Committee
Andrew Nazareth, General Manager, Business and Financial Services

Appendix A

OTHER CONTROL DEFICIENCIES

1. Tangible capital assets ("TCA")

Observation and implication

The Finance Department initiated periodic reviews with different City departments in order to compile information concerning asset related transactions. It was brought to the Finance Department's attention, that certain land transactions take place between developers and the City's Planning and Development Department. These transactions had been omitted from the prior year asset registers. Although a review process is performed by the Finance Department in conjunction with other departments, without a more comprehensive City wide process with an onus on other departments to provide this information as tangible capital assets (TCA) transactions occur, there is the risk that additional TCA additions may be omitted in the future.

Recommendation

We recommend that management require that all departments provide the Finance Department with information concerning TCA transactions and a more comprehensive City wide process is implemented whereby TCA additions (including all contributed TCA) are identified and recorded upon procurement of the assets on a quarterly basis.

Management response

Management agrees and will require that each respective department establishes procedures where any tangible capital asset transactions are communicated to the Finance Department on a monthly basis and a specific process has already been set up with the Development Applications Division to capture the land transactions through development activities.

In addition, the Chief Administration Officer (CAO) has been proactive and has set up committees to review any reports that, include TCA and/or financial implications and ensure they are provided to the Finance Department for review, prior to review by senior management or Council.

Appendix B

Terminology	Definition
DEFICIENCY IN INTERNAL CONTROL	A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing; or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or the person performing the control does not possess the necessary authority or competence to perform the control effectively.
SIGNIFICANT DEFICIENCY IN INTERNAL CONTROL	A significant deficiency in internal control is a deficiency or combination of deficiencies in internal control that, in the auditor's professional judgment, is of sufficient importance to merit the attention of those charged with governance.