KPMG Enterprise™
Metrotower II
Suite 2400 - 4720 Kingsway
Burnaby BC V5H 4N2
Canada

Telephone (604) 527-3600
Fax (604) 527-3636
Internet www.kpmg.ca/enterprise

AUDIT FINDINGS LETTER

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

April 18, 2013

To: Chair and Members of the Finance Committee of City of Richmond

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, 2012. A summary of the information provided is as follows:

Description
- 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

C.J. James, CA	Archie G Johnston, MBA, CA-CIA, FCA
Partner	*Client Relationship and Quality Review Partner*
(604) 527-3635	(604) 527-3757

Enclosures:
- Appendix 1 - Independence letter
- Appendix 2 – Draft Management representation letter

AUDIT STATUS AND OPINION

We have completed our audit of the City's December 31, 2012 consolidated financial statements with the exception of the following procedures:

- 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 consolidated 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

Strategic Community Investment Fund Grant

During 2012, the City received $3.1M in grants from the Province of British Columbia to support the cost of local police enforcement. The Province of British Columbia plans to contribute another $3.0M in grants between 2013 and 2014 to the City. The City has recorded the money received as revenue in the current year and has not accrued any amounts to be received in the future.

We inspected the terms in the agreement and analyzed the Public Sector Accounting Standards to determine the appropriate treatment of these grants. Amounts received in 2012 should be recognized as revenue in 2012 as these funds were received and spent. Conditions in the agreement indicate that authorization of the payment of 2013 and 2014 has not yet occurred and as a result, the City has not accrued the 2013 and 2014 grants. We concur with how the City has accounted for the Strategic Community Investment Fund Grant.

Collective Agreements

The City employs approximately 1,000 CUPE Local 718 employees and 350 CUPE Local 394 employees. The most recent collective agreements for both employee groups had expired on December 31, 2011. For the year ended December 31, 2012, the City has recorded an accrual for retroactive wage increases expected to be bargained by both CUPE groups effective for the period of January 1 – December 31, 2012 equal to a 1.25% of wage increase from 2011. The total accrual recorded by management for 2012 is $814K.

We have reviewed the assumptions used by management in preparing the retroactive accrual and assessed those assumptions for reasonableness. We have recalculated the accrual recorded by management and did not note any significant differences.

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	• Critical accounting policies and practices adopted by the City are appropriate and properly disclosed in the consolidated financial statements. • There were no significant changes in accounting policies during 2012. • There are no significant accounting policies in controversial or emerging areas. • The transactions were correctly recorded in relation to the period in which they are related to. • There were no significant unusual transactions undertaken during the year.
Significant accounting estimates	• Management's identification of accounting estimates and process for making such accounting estimates are appropriate. • There were no indicators of possible management bias noted during our audit. • Disclosure of estimation uncertainty in the consolidated financial statements is appropriate.
Significant disclosures	• There are no particularly sensitive financial statement disclosures. • The disclosures in the consolidated financial statements are consistent and clear. Any potential effect on the consolidated financial statements of significant risks, exposures and uncertainties have been appropriately disclosed.

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 letter in Appendix 2 for a Summary of Uncorrected Audit Misstatements.

Corrected Audit Misstatements

Refer to the Attachment II in the draft management's representation letter in Appendix 2 for a Summary of Corrected Audit Misstatements.

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

In the current year, we did not identify any control deficiencies that we consider to be significant deficiencies in internal control. In the prior year, we had identified a performance improvement observation regarding the omission of certain tangible capital assets. This point has been addressed by management in the current year.

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.

- 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.

Related Party Transactions

- The PSA Handbook currently has no specific accounting standards relating to Related Party Transactions. PSAB has issued an exposure draft for a new standard on related party transactions. New standards are expected to be approved in Spring 2013. The proposals would require disclosure of sufficient information about transactions between related parties to help users assess their effect on the financial position and financial performance. The exposure draft identifies:
  - which parties are related;
  - the extent to which related party transactions would be recognized in the financial statements of both the provider and recipient organizations;
  - the appropriate basis of measurement for recognized transactions; and
  - disclosure requirements for transactions including those that have not been given accounting recognition.
- The exposure draft also proposes the following:
  - Related party transactions other than contributed goods and services should be recognized by both parties.
  - When there is a policy of allocating costs for the provision of goods and services, the revenues and expenses should be reported on a gross basis.
  - Related party transactions should be recorded at the exchange amount, which could be the carrying amount; the consideration paid or received, or fair value.
  - If the exchange amount differs from the carrying amount, the gain or loss should be recognized.
  - Contributed goods and services may be recognized or disclosed.

Appropriations

- PSAB has issued an exposure draft for a new standard on the use of appropriations. New standards are expected to be approved in Spring 2013. As this time, we do not expect there to be any impact on the City's financial reporting as a result of this standard.

KPMG

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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, 2013

Dear Chair and Members of the Finance Committee of City of Richmond:

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, 2012.

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 dated April 18, 2012.

PROVISION OF SERVICES

The following summarizes the professional services rendered by us to the City (and its related entities) up to the date of this letter.

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 Form C2 - Home Owner Grant: Treasurer/Auditor Certificate
• Audit of the City's compliance with subsections 2 and 3 of section 124 of Part 8 of the School Act
Advisory
• Business continuity planning assistance and agreed upon procedures with respect to compliance with the Richmond Oval Funding Agreement
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 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 up to the date of this letter.

CONFIRMATION OF INDEPENDENCE

We confirm that we are independent with respect to the City (and its related entities) within the meaning of the Rules of Professional Conduct/Code of Ethics of the Institute of Chartered Accountants of British Columbia as of the date of this letter.

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

MANAGEMENT REPRESENTATION LETTER

KPMG LLP
Metrotower II Office Complex
Suite 2400 – 4720 Kingsway
Burnaby, BC V5H 4N2

Date

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 consolidated financial statements (hereinafter referred to as "financial statements") of the City of Richmond ("the City") as at and for the period ended December 31, 2012.

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 November 20, 2012 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 risk 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 City 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 City's financial statements, communicated by employees, former employees, analysts, 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 continent 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 City'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 extend of estimates, which could change materially within the near term, and all areas of measurement uncertainty have been disclosed in the financial statements.

NON-SEC REGISTRANTS OR NON-REPORTING ISSUERS:

11) We confirm that the City 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 City 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 approve the corrected misstatements identified by you during the 2012 audit.

ACCOUNTING POLICIES:

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

ASSETS & LIABILITIES – GENERAL:

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

16) 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.

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

RECEIVABLES:

18) Receivables reported in the financial statements represent valid claims against customers and other debtors for sales or other charges arising on or before the balance sheet date. Receivables have been appropriately reduced to their net realizable value.

CONTRACTUAL AGREEMENTS:

19) 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

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

EMPLOYEE FUTURE BENEFITS

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

22) 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.

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

24) 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.

25) 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.

26) 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.

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

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

29) 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.

30) 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:

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

32) We have complied with subsection 2 and 3 section 124 of Part 8 of the School Act for the year ended December 31, 2012.

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

Yours very truly,

CITY OF RICHMOND

____

By: Andrew Nazareth, General Manager, Finance & Corporate 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:

- 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 2012 Audit Misstatements

Summary of uncorrected audit misstatements

1	Dr. Revenue	$	315,000		
	Cr. Opening accumulated surplus			$	(315,000)
	To adjust opening accumulated surplus for 2011 revenue recorded in 2012 related to Asphalt Capping Provision. Accumulated surplus as at December 31, 2012 is properly recorded.				
2	Dr. Revenue	$	775,102		
	Cr. Opening accumulated surplus			$	(775,102)
	To adjust opening accumulated surplus for 2011 revenue recorded in 2012 related to 2011 Strategic Community Investment Fund Grant. Accumulated surplus as at December 31, 2012 is properly recorded.				

Summary of corrected audit misstatements

1	Dr. Other revenue	$	2,858,425		
	Cr. Salaries expense			$	(2,858,425)
	To reclassify fire retropay from other revenue to salaries expense				
2	Dr. Other revenue	$	723,380		
	Cr. Professional fees expense			$	(723,380)
	To reclassify legal expense from other revenue to legal expense				
3	Dr. Other revenue	$	1,017,022		
	Cr. Supplies and material expense			$	(1,017,022)
	To net the collection from and remittance to GVRD for DCC rates contribution				

Attachment III – 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 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.