KPMG

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

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

OVERSIGHT LETTER

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

April 16, 2010

Dear 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 (the Finance Committee) in carrying out your responsibilities with respect to the review and approval of the audited consolidated financial statements of the City of Richmond (the "City") for the year ended December 31, 2009. A summary of the information provided is as follows:

Description

- Responsibility of management, auditors and the Finance Committee
- Independence
- Significant audit findings
- Audit differences
- Other matters arising from the audit
- Financial reporting developments
- Other

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 have also attached a copy of our letter discussing our independence for your review and discussion.

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

Yours very truly

KPMG LLP

Chartered Accountants

AJJ/bh
Encl.

cc: Mr. Jerry Chong, Director of Finance
Mr. Andrew Nazareth, General Manager

RESPONSIBILITY OF MANAGEMENT, AUDITORS AND THE FINANCE COMMITTEE

Management is responsible for:

- Preparing the financial statements, including the accompanying notes, in accordance with Canadian generally accepted accounting principles for government entities ("GAAP").
- Designing, implementing and maintaining an effective internal control system over the City's financial reporting processes.
- Selecting the significant accounting policies used in the preparation of the financial statements and for applying judgment in preparing the accounting estimates contained in the financial statements.
- Disclosing to the external auditors any fraud or suspected fraud and any illegal acts or possibly illegal acts.
- Assessing the impact of differences discovered during the audit on fair presentation of the financial statements and recording all material adjustments

The auditor is responsible for:

- Conducting the audit examination in accordance with Canadian generally accepted auditing standards for government entities. An audit is performed to obtain reasonable but not absolute assurance as to whether the financial statements are free of material misstatement.
- Expressing an objective opinion on the financial statements based on the audit, whether the financial statements present fairly in accordance with GAAP the financial position, results of operations and changes in cash flows of the City.

The Finance Committee is responsible for:

- Providing oversight; challenge and influence – "Tone at the Top".
- Overseeing the control environment and reporting process and encouraging continual improvement.
- Reviewing and approving the annual financial statements.

INDEPENDENCE

We confirm that we are independent of the City within the meaning of the applicable Rules of Professional Conduct/Code of Ethics of the Institute of Chartered Accountants of British Columbia for the year ended December 31, 2009. There are no relationships that, in our professional judgment, may reasonably be thought to bear on our independence as your auditors. Our independence letter attached addresses all of these factors.

AUDIT SCOPE AND OPINION

We have completed our audit of the City's December 31, 2009 financial statements. The following sets out our significant findings and other matters which we believe should be brought to your attention:

- Our audit report dated April 16, 2010 indicates that the financial statements present fairly, in all material respects, the financial position, results of operations, changes in net assets and cash flows of the City in accordance with GAAP.
- Our audit of the financial statements was performed, in accordance with Canadian generally accepted auditing standards to obtain reasonable, rather than absolute, assurance whether the financial statements are free of material misstatements whether caused by fraud or error.
- Our audit included examining on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and their application and significant estimates made by management, evaluating the overall financial statement presentation, making specific enquiries of management, and obtaining a supporting representation letter from management concerning the effectiveness of internal control and the representations embodied in the financial statements, including the notes thereto.
- In planning the audit, we considered the City's internal controls to determine the nature, extent and timing of our audit procedures.

SIGNIFICANT AUDIT FINDINGS

Adoption of new accounting standards

1. PS 3150 - Tangible capital assets

The City adopted Public Accounting Standards Section *PS3150 Tangible Capital Assets* which was applicable as at January 1, 2009. This section required the City to record and amortize their tangible capital assets in the financial statements. In prior years, tangible capital asset additions were expensed in the year of acquisition and there was no amortization recorded in accordance with Provincial guidelines.

The City determined the cost of its tangible capital assets using actual and/or estimated historical costs. When actual historical records were not available, estimation methods were used to derive the cost and accumulated amortization of the assets.

2. PS 1200 - Financial statement presentation

The City adopted Public Accounting Standards Section *PS1200 Financial Statement Presentation* which was applicable as at January 1, 2009. This section establishes general reporting principles and standards for the disclosure of information on the City's financial statements.

The adoption of these new accounting standards has been applied retroactively and prior periods have been restated. Note 3 on the financial statements provides details on the impact of these changes.

AUDIT DIFFERENCES

There were no unadjusted audit differences. All audit differences identified were adjusted for by management in the consolidated financial statements. A copy of the adjusted audit differences has been attached to the management representation letter.

OTHER MATTERS ARISING FROM THE AUDIT

Accounting policies, judgments and estimates

During the course of our financial statement audit, we identified no new or changed accounting policies other than those previously noted. Management describes their critical accounting policies and key estimates that are subject to uncertainty in note 2 to the financial statements.

Weakness in internal controls over financial reporting

Our audit has not been designed to determine the adequacy of internal control over financial reporting for management purposes. During our audit, we did not become aware of any significant weaknesses in internal controls. We did however identify some performance improvement opportunities which we believe warrant management's attention and these have been included in our recommendations to management for their comments.

Illegal and fraudulent activities

Our inquiries of management and our testing of financial records did not reveal any fraud or illegal acts. You should realize however, that improper conduct is usually carefully, if not elaborately, concealed and consequently, the probability is not high that our regular audit work, however diligently performed, will bring it to light. Management has also provided us with a written representation that they are not aware of any fraudulent acts or suspected fraudulent acts or illegal acts or possible illegal acts.

Dealings with management

We received the full cooperation of management and employees of the City and, to our knowledge, had complete access to the accounting records and other documents that we needed in order to carry out our audit. We had no disagreements with management, and we have resolved all auditing, accounting and presentation issues to our satisfaction.

Consultation with other accountants

We are not aware of any consultations by management with other accountants regarding accounting or auditing matters.

Major issues discussed with management that influence our audit appointment

We did not engage in discussion with management about any major issues in connection with our appointment as auditors.

FINANCIAL REPORTING DEVELOPMENTS

Accounting framework for government organizations

The Public Sector Accounting Board ("PSAB") recently approved changes to the scope of Public Accounting Standards. These amendments require that government business enterprises adopt International Financial Reporting Standards ("IFRS") for periods beginning on or after January 1, 2011. A government business enterprise is one with self-sustaining commercial type operations. Government organizations that are not considered to be business enterprises are either government not-for-profit organizations or other government organizations. Other government organizations will have a choice of whether to adopt IFRS or to prepare their financial statements in accordance with Public Accounting Standards.

The City has two controlled entities – Richmond Public Library and Richmond Olympic Oval Corporation. The Richmond Public Library (the "Library") meets the definition of an "other government organization" and will have the option to adopt either IFRS or PSAB. The Library has been reporting under PSAB and will continue to apply PSAB going forward. Richmond Olympic Oval Corporation (the "Corporation") has been reporting under current Canadian GAAP and, as it is not expected to be self-sustaining as at January 1, 2011, it would also be categorized as an "other government organization" and will have the option to adopt either IFRS or Public Accounting Standards.

Government transfers

The PSAB issued an exposure draft during 2009 that establishes the recognition, measurement, and disclosure requirements for government transfers. It provides specific recognition criteria for both the transferring government and the recipient government. It also provides that government transfers of tangible capital assets should be recorded as deferred capital contributions. This re-exposure draft is still under consideration.

Financial Instruments

The PSAB issued an exposure draft to establish the recognition, measurement, and disclosure requirements for derivative and non-derivative financial instruments for public sector entities. This proposal requires fair value measurement of derivatives and portfolio investments that are equity instruments quoted in an active market. All other non-derivative financial instruments will be measured at cost or amortized cost. A government can elect to record other financial assets or liabilities on a fair value basis, if certain criteria are met with respect to the way these investments are managed and evaluated. If approved, this standard would apply to fiscal years beginning on or after April 1, 2012. Earlier adoption is encouraged.

Liability for Contaminated Sites

In March 2010 PSAB approved a new accounting standard, requiring governments to record a liability for costs to be incurred in remediation of sites affected by environmental contamination. The new standard is in addition to the current requirements for landfill liabilities, and requires a government to record a liability where:

- an environmental standard exists;
- contamination exceeds an environmental standard;
- the government is directly responsible or accepts responsibility for the site; and
- a reasonable estimate of the amount can be made

The standard will be effective for the City's 2013 fiscal year. We encourage the City to evaluate all potentially affected properties and consider the implications of the new section on its financial reporting.

OTHER

Harmonized Sales Tax

Effective July 1, 2010 the current provincial sales tax (PST) will be repealed and the Goods and Services Tax rate will increase from 5% to 12% (the harmonized sales tax or HST). Unlike the current GST which is fully refundable to the City, generally only 85.42% of the HST will be refundable in the future. However, the City will no longer be paying the unrecoverable PST that is currently incurred. Depending on the City's particular circumstances, the introduction of HST may increase or decrease costs overall. Generally, harmonization should reduce overall compliance costs for the City given only one sales tax must be accounted for instead of two. We encourage the City to carry out a detailed review of the impact of the HST on the organization.

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INDEPENDENCE LETTER

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

April 16, 2010

Dear Chair and Members of the Finance Committee:

We have been engaged to audit the consolidated financial statements of the City of Richmond ("the City") as at December 31, 2009 and for the year then ended.

Professional standards 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 March 27, 2009, the date of our last letter.

PROVISION OF SERVICES

The following summarizes the professional services rendered by KPMG to the City since the last independence letter:

Audit	• Audit of the consolidated financial statements of City of Richmond for the year ended December 31, 2009	$62,500
Other	• Implementation review of the City's Tangible Capital Assets as of December 31, 2007, 2008 and 2009	119,806
	• Tax advice	7,500
	• System testing for PeopleSoft, Class and Tempest	20,056

OTHER RELATIONSHIPS

We are not aware of any relationships between the City (and its related entities) and us that, in our professional judgment, may reasonably be thought to bear on our independence that has occurred from March 27, 2009 to April 16, 2010. A retired partner of KPMG is currently providing services to the City related to the Richmond Oval.

CONFIRMATION OF INDEPENDENCE

Professional standards require that we confirm our independence to you 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 to the City (and its related entities) within the meaning of the Rules of Professional Conduct/Code of Ethics of the ICABC as of April 16, 2010.

OTHER MATTERS

This letter is confidential and intended solely for use by those with oversight responsibility for the financial reporting process in carrying out and discharging their responsibilities 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 letter has not been prepared for, and is not intended for, any other purpose. This letter should not be distributed to others outside the City without our prior written consent.

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,

KPMG LLP

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MANAGEMENT LETTER

PRIVATE & CONFIDENTIAL
Mr. Jerry Chong
Director of Finance
City of Richmond
6911 No. 3 Road
Richmond BC V6Y 2C1

April 16, 2010

Dear Mr. Chong:

We have expressed an opinion on the consolidated financial statements (hereinafter referred to as "annual financial statements") of the City of Richmond ("the Entity") as at and for the year ended December 31, 2009 and have issued our audit report thereon dated April 16, 2010. This letter does not affect our audit report.

As indicated in our engagement letter dated December 15, 2009:

- In planning and performing our audit in accordance with professional standards we have obtained an understanding of the Entity's internal control over financial reporting to identify types of potential misstatements, consider factors that affect the risks of material misstatement, and design the nature, timing and extent of further audit procedures. This understanding will not be sufficient to enable us to render an opinion on the effectiveness of internal control over financial reporting. We have not considered internal control over financial reporting since the date of our audit report.

- Management is responsible for the Entity's internal control, including the design, implementation and operation of internal control over financial reporting to prevent and detect fraud and error, including internal controls over the financial reporting process and the accuracy of period-end adjusting journal entries. Management is also responsible for disclosing to us any known control deficiencies in the design and implementation or operation of internal control over financial reporting.

- Auditors conducting an audit in accordance with professional standards obtain reasonable assurance that the annual financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. It is important to recognize that auditors cannot obtain absolute assurance that material misstatements in the annual financial statements will be detected, because of factors such as: the use of judgment; the use of testing of the data underlying the annual financial statements; the inherent limitations of internal control over financial reporting; and the fact that much of the audit evidence available to the auditor is persuasive rather than conclusive in nature. Furthermore, because of the nature of fraud, including attempts at concealment through collusion and forgery, an audit designed and executed in accordance with professional standards may not detect a material fraud. While effective internal control over financial reporting reduces the likelihood that misstatements will occur and remain undetected, it does not eliminate that possibility. For these reasons, we cannot guarantee that fraud, error or illegal acts, if present, will be detected when conducting an audit in accordance with professional standards.

Since the purpose of the audit is to express an opinion on the financial statements, we did not plan and perform the audit with a view to identify all control deficiencies that might exist. We have not performed audit procedures to obtain reasonable assurance, and are not providing any assurance on the effectiveness of internal control over financial reporting. Had we performed audit procedures on internal control over financial reporting, we might have identified more control deficiencies to be reported, or concluded that some of the reported control deficiencies need not, in fact, have been reported.

This letter is a by-product of the audit and is therefore a derivative communication. This letter is intended solely for the purposes of management and those charged with governance and is not suitable for any other purposes. 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, any other purposes.

DEFINITIONS

A control deficiency is a deficiency in the design or effective operation of internal control. 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 is not always met. A deficiency in operation exists when a properly designed control does not operate as designed, or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

A material weakness is a deficiency or combination of deficiencies in internal control over financial reporting such that a material misstatement of the entity's annual financial statements is not likely to be prevented or detected.

PROFESSIONAL STANDARDS

Professional standards require us to:

- communicate material weaknesses identified during the audit to management and those charged with governance

MATERIAL WEAKNESSES

During the audit, we did not identify any control deficiencies that, individually or in the aggregate, we consider to be material weaknesses as defined above.

In Appendix A, we present improvement observation points related to the design or operating effectiveness of internal control over financial reporting identified during the audit.

All the control deficiencies identified in this letter have been discussed with the appropriate members of management.

Yours very truly,

KPMG LLP

Chartered Accountants

cc: Finance Committee
Mr. Andrew Nazareth, General Manager, Business & Financial Services

Appendix A

Improvement Observation Points for Internal Control:

1. **Manual DCC Processing Procedures**

Observation and Implication

During year end procedures, we noted that the City employs an entirely manual process in assessing Development Cost Charges (DCCs). DCC's are calculated using rates approved by the DCC Bylaw multiplied by the quantity of the development subject, specifically dwelling units, square footage of buildings, or gross site area. Currently, all rate and quantity information are recorded manually by the Planning & Development Department staff on the DCC form, including the calculation of the final DCC charged to the developer as well as any applicable credits. Furthermore, there is no secondary approval of the DCC forms. This increases the risk of DCCs being misstated on the financial statements due to application of incorrect DCC rates, undetected errors in calculation and/or transposition by the preparer. This can in turn lead to an over/under collection of DCC and corresponding misstatement to the financial statements.

Recommendation

We recommend that all completed DCC forms be reviewed by management of the Planning & Development Department prior to them being returned to the developers for payment. The review should ensure that all DCC rates used are consistent with the Bylaw, calculations are accurate, and any applicable credits are appropriately supported. The reviewer should sign off on the DCC forms as evidence of his/her approval. We also recommend that the City consider implementing a computerized process whereby DCC Bylaw rates are inputted and updated electronically, and the resulting DCC charges calculated automatically. This will further mitigate the risk of human error and therefore any misstatement in the DCCs.

Management Response

As a compensating control, the Finance Division reviews the amount of DCC collected at the time the City performs its quarterly financial reports. In addition to that, on an annual basis, staff from the Finance Division also performs detailed testing of all significant DCC amounts by vouching them back to the original DCC forms to ensure there is no misstatement in the reported DCC amounts. It should also be noted that as the frequency of change in DCC rates occurs on average only once every two years upon adoption of the amended DCC Rate Bylaw (which is widely communicated within the City and to the development industry), the City therefore assesses the risk of misapplying and collecting the wrong DCC rates to be low.

Despite the existence of the above detective compensating controls, the City agrees that adequate preventive controls must be in place in order to further reduce the risk of potential human errors.

The City has completed a preliminary design of an electronic DCC form and is currently undergoing testing of the form's functionality. The electronic DCC form is expected to be rolled out in the middle of 2010. The form will pull the current approved DCC rates from a master rate table and will automatically calculate the applicable DCC charges once all the information regarding the development is entered in the form. The use of this electronic DCC form will help mitigate the risk of human or calculation errors in computing the DCC charges payable by developers.

The electronic DCC form also has an approval control in place, where each DCC form must have a secondary approver's electronic signature before the DCC form can be finalized and posted to the system. Once the DCC form is approved, the form is posted to the financial system and no further changes can be made to the approved DCC form.

2. Separate Tracking and Recording of DCC Credits

Observation & Implication

During year end procedures, we noted that credits are applied to DCC charges when the developer has agreed to perform work that would have otherwise been carried out by the City. These credits are netted directly against the DCC charge with the remaining balance being billed to the developer and recorded in the financial reporting system. This process can result in inaccessibility of available information during the Ctiy's financial planning process and compromise the accuracy and relevancy of budgets.

Recommendation

We recommend that the City separate the recording of the DCC charge and any applicable credits. For example, the DCC credits should be recorded in a contra account independent of the current DCC general ledger accounts. This will enable the City to readily track and monitor DCC credits extended to developers, and make informed financial planning decisions.

Management Response

With the mandatory adoption of the TCA reporting, the City has identified all of its capital works, including those there were constructed by developers who received DCC credits. The electronic DCC form mentioned above is designed to generate automatic accounting entries to record the gross DCC charges and any DCC credits, where DCC credits will be recorded and tracked separately from the gross DCC charges in the general ledger. In addition, due to the inherent limitation of the City's existing permits/licensing/zoning/inspection tracking database application, the City is evaluating and investigating alternative software programs for the tracking of DCC balances to the DCC programs. One of the software applications that the City is currently looking into is a DCC module within the City's new Property Tax Software. This additional DCC module has various DCC tracking features that could potentially mitigate the identified control weakness and provide additional capabilities.