



KPMG Enterprise™  
Metro Tower I  
4710 Kingsway; Suite 2400  
Burnaby BC V5H 4M2  
Canada  
Telephone (604) 527-3600  
Fax (604) 527-3636

**AUDIT FINDINGS LETTER**

**PRIVATE & CONFIDENTIAL**

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

April 24, 2017

To the Chair and Members of the Finance Committee  
of the 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, 2016. 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
- Documents containing or referring to the audited financial statements
- Independence
- 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.



City of Richmond  
April 24, 2017

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,

---

C.J. James, CPA, CA  
Engagement Partner  
604-527-3635

---

Archie G. Johnston, FCPA, FCA, CIA  
Client Relationship and Quality  
Review Partner 604-527-3757

*Enclosures:*

Appendix 1 – Management representation letter



City of Richmond  
April 24, 2017

### **AUDIT STATUS AND OPINION**

As of the date of this letter, we have completed the audit of the financial statements, with the exception of certain remaining procedures which include:

- Completion of our discussions with the Finance Committee.
- Completing subsequent event review procedures up to the date of approval of the financial statements, including updating our discussions with management.
- Obtaining signed management representation letter.
- Obtaining evidence that those with approved authority to take responsibility for the City's consolidated 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; and
- Council has accepted the consolidated financial statements.

### **SIGNIFICANT AUDIT, ACCOUNTING AND REPORTING MATTERS**

#### Alexandra District Energy Utility ("ADEU")

On December 16, 2016, the City and its wholly-owned subsidiary Lulu Island Energy Company Ltd ("Corporation"), entered into an Asset Purchase Agreement to transfer the tangible capital assets and operations of ADEU along with other district energy utility assets from the City to the Corporation. As per the Agreement, the Corporation issued 350 common shares to the City valued at \$26,997,114 as consideration for the assets. The transfer of the assets occurred at two different times - December 2016 and March 2017. As at December 31, 2016, \$23,157,226 of tangible capital assets, representing its net book value, was transferred from the City to the Corporation. Subsequent to year-end on March 31, 2017, an additional \$3,839,888 was transferred. The share capital was issued on March 31, 2017. We reviewed the asset purchase agreement and noted that all ADEU assets transferred at December 31, 2016 have been properly recorded on the financial statements of the Corporation. The impact of this transaction had no impact on the consolidated financial statements of the City, but it was a significant intercompany transaction that warranted attention.



City of Richmond  
April 24, 2017

Concession Agreement with Corix Utilities Inc. ("Corix")

On October 30, 2014, the Corporation and Corix entered into a 30 year Concession Agreement (the "Agreement"), which is a public-private partnership project, where Corix will design, construct, finance, operate, and maintain the infrastructure for the district energy utility at the Oval Village community. The total estimated concession liability to finance the construction of the Oval Village District Energy Utility at full build out is \$31,931,000 and will be accrued over time. The total concession liability balance outstanding as of December 31, 2016 is \$6,075,115 (2015 - \$3,926,341), of which \$77,593 (2015 - \$38,057) represents interest.

In addition, on October 30, 2014, Corix and the City entered into a Limited Guarantee Agreement. The City is the Guarantor and agreed to guarantee the performance of the Corporation's obligations under the Concession Agreement described above up to \$18.2 million.

We reviewed the limited guarantee agreements and the concession agreement and noted that all related liabilities relating to the concession agreement have been properly recorded and disclosed in the financial statements.



**SIGNIFICANT QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES**

The following items being reported relate to the qualitative aspects of accounting practices of the City:

<b>Significant Accounting Policies</b>	<ul style="list-style-type: none"><li>• Critical accounting policies and practices adopted by the City are appropriate and properly disclosed in the consolidated financial statements.</li><li>• There were no significant changes in accounting policies during 2016.</li><li>• There are no significant accounting policies in controversial or emerging areas.</li><li>• The transactions were correctly recorded in relation to the period in which they are related to.</li><li>• There were no significant unusual transactions undertaken during the year.</li></ul>
<b>Significant Accounting Estimates</b>	<ul style="list-style-type: none"><li>• Management's identification of accounting estimates and process for making such accounting estimates are appropriate.</li><li>• There were no indicators of possible management bias noted during our audit.</li><li>• Disclosure of estimation uncertainty in the consolidated financial statements is appropriate.</li></ul>
<b>Significant Disclosures</b>	<ul style="list-style-type: none"><li>• There are no particularly sensitive financial statement disclosures.</li><li>• 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.</li></ul>



City of Richmond  
April 24, 2017

### **MISSTATEMENTS**

#### Audit Misstatements – Identification

Misstatements identified during the audit have been categorized as follows:

- uncorrected audit misstatements, including disclosures; and
- corrected audit misstatements, including disclosures.

#### Corrected Audit Misstatements

We did not identify any adjustments that were communicated to management and subsequently corrected in the financial statements.

#### Uncorrected Audit Misstatements

The management representation letter includes an adjustment identified as a result of the Library e-books reclassification that was recorded in the current year figures in the consolidated financial statements.

Based on both qualitative and quantitative considerations, management has decided not to correct this difference and represented to us that the difference in management's judgement, is not material to the financial statements.

We concur with management's representation that the difference is not material to the financial statements. Accordingly, the differences have no effect on our auditors' report.

### **CONTROL DEFICIENCIES**

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 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.

#### Identification

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



City of Richmond  
April 24, 2017

### **DOCUMENTS CONTAINING OR REFERRING TO THE AUDITED FINANCIAL STATEMENTS**

We are required by our professional standards to read only documents containing or referring to audited financial statements and our related auditors' report that are available through to the date of our auditors' report. The objective of reading these documents through to the date of our auditors' report is to identify material inconsistencies, if any, between the audited financial statements and the other information. We also have certain responsibilities, if on reading the other information for the purpose of identifying material inconsistencies, we become aware of an apparent material misstatement of fact.

We are also required by our professional standards when the financial statements are translated into another language to consider whether each version, available through to the date of our auditors' report, contains the same information and carries the same meaning.

### **INDEPENDENCE**

We confirm that we are independent with respect to the City within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulation from January 1, 2016 up to the date of this letter.

### **CURRENT DEVELOPMENTS**

The following is a summary of the current developments that are relevant to the City:

#### **Related Party Disclosures and Inter-Entity Transactions**

- Two new Handbook sections were approved in December 2014, effective for fiscal years beginning on or after April 1, 2017.
- Related parties include entities that control or are controlled by a reporting entity, entities that are under common control and entities that have shared control over or that are subject to shared control of a reporting entity.
- Individuals that are members of key management personnel and close members of their family are related parties. Disclosure of key management personnel compensation arrangements, expense allowances and other similar payments routinely paid in exchange for services rendered is not required.
- Determining which related party transactions to disclose is a matter of judgment based on assessment of:
  - the terms and conditions underlying the transactions;
  - the financial significance of the transactions;
  - the relevance of the information; and



- the need for the information to enable users' understanding of the financial statements and for making comparisons.
- Related party transactions, if recognized, should be recorded at the exchange amount. A public sector entity's policy, budget practices or accountability structures may dictate that the exchange amount is the carrying amount, consideration paid or received or fair value.

#### Revenue

- PSAB is proposing a single framework to categorize revenues to enhance the consistency of revenue recognition and its measurement. A Statement of Principles was issued in 2013 and an Exposure Draft is anticipated to be published in early 2017.
- Adoption of these principles would result in a need to assess current accounting policies.
- In the case of revenues arising from an exchange, a public sector entity must ensure the recognition of revenue aligns with the satisfaction of related performance obligations.
- For unilateral revenues, recognition occurs when there is authority to record the revenue and an event has happened that gives the public sector entity the right to the revenue.

#### Assets, Contingent Assets and Contractual Rights

- Three new Handbook sections were approved in March 2015, effective for fiscal years beginning on or after April 1, 2017.
- The intended outcome of the three new Handbook Sections is improved consistency and comparability.
- The standard includes enhanced guidance on the definition of assets and disclosure of assets to provide users with better information about the types of resources available to the public sector entity.
- Disclosure of contingent assets and contractual rights is required to provide users with information about the nature, extent and timing of future assets and potential assets and revenues available to the public sector entity when the terms of those contracts are met.





#### Employee Future Benefit Obligations

- Given the complexity of issues involved and potential implications of any changes that may arise from review of PS3250 Retirement Benefits and PS3255 Post-Employment Benefits, PSAB is undertaking this project in phases. Phase I will address specific issues related to measurement of employment benefits. Phase II will address accounting for plans with risk sharing features, multi-employer defined benefit plans and sick leave benefits. An Invitation to Comment was issued in November 2016, closing March 2017, seeking guidance on whether the deferral provisions in existing public sector standards remain appropriate and justified and the appropriateness of accounting for various components of changes in the value of the accrued benefit obligation and plan assets.
- Separate invitations to comment will be issued in the future on discount rate and other aspects of the PSAB project.
- The ultimate objective of this project is to issue a new employment benefits section to replace existing guidance.

#### Asset Retirement Obligations

- A new standard is under development addressing the recognition, measurement, presentation and disclosure of legal obligations associated with retirement of tangible capital assets in productive use. PSAB currently contains no specific guidance in this area.
- The proposed ARO standard would require the City to record a liability related to future costs of any legal obligations to be incurred upon retirement of any controlled tangible capital assets (TCA). Some of the typical costs associated with AROs include: asbestos removal; site restoration required under the terms of a lease of land; hazardous materials removal (as components of the asset rather than by-products of operation) and; post retirement monitoring and maintenance, if applicable. Costs associated with retiring TCAs both in productive use and not in productive use are within the scope of this section, and it is therefore more all-encompassing than the most recent standard adopted related to liabilities for contaminated sites.
- The standard would have a proposed effective date of April 1, 2021 and would be effective for the City's fiscal 2022 year end.

#### Public Private Partnership

- A taskforce was established in 2016 as a result of increasing use of public private partnerships for the delivery of services and provision of assets. A phased approach will address the definition and measurement of transactions with P3s. A Statement of Principles is anticipated in 2017.

## APPENDIX 1: MANAGEMENT REPRESENTATION LETTER

KPMG LLP  
Metrotower I  
Suite 2400 – 4710 Kingsway  
Burnaby, BC V5H 4M2

[Date of Council's acceptance of the financial statements]

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, 2016.

*General:*

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 also 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:

*Responsibilities:*

- 1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated November 4, 2013, for:
  - a) the preparation and fair presentation of the financial statements and believe that these financial statements have been prepared and present fairly in accordance with the relevant financial reporting framework
  - b) providing you with all relevant information, such as all financial records and related data, including the names of all related parties and information regarding all relationships and transactions with related parties, and complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared, of Council and Committees of Council that may affect the financial statements, and access to such relevant information
  - 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 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.

*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.

- 7) We have disclosed to you all the related party relationships and transactions/balances of which we are aware.
- 8) All related party relationships and transactions/balances have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

*Estimates:*

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

*Non-SEC registrants or non-reporting issuers:*

- 10) 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.
- 11) We have recognized authority to take, and have taken, responsibility for the financial statements.

*Assets & Liabilities - General:*

- 12) The City has satisfactory title to all owned assets.
- 13) We have no knowledge of any liens or encumbrances on assets and /or assets that have been pledged or assigned as security for liabilities, performances of contracts, etc., not disclosed in the financial statements.
- 14) We have no knowledge of any plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

*Receivables:*

- 15) 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:*

- 16) 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.

*Environmental Matters:*

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

*Employee Future Benefits:*

- 18) The employee future benefit costs, assets and obligation, if any, have been determined, accounted for and disclosed in accordance with the financial reporting framework.
- 19) 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.
- 20) 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.
- 21) 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.
- 22) 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.
- 23) 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.

- 24) In arriving at these assumptions, management has obtained the advice of Mercer, but has retained the final responsibility for them.
- 25) The source data and plan provisions provided to the actuary for preparation of the actuarial valuation are accurate and complete.
- 26) 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.
- 27) 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 information:*

- 28) We confirm that the final version of the annual report will be provided to you when available and prior to issuance by the City, to enable you to complete your audit procedures in accordance with professional standards.

*Other:*

- 29) Expenditures have been appropriately authorized and actual expenditures have not exceeded budgeted expenditures detailed in the budget bylaw.
- 30) We have appropriately prepared the Form C2 – Home Owner Grant: Treasurer/Auditor Certification in accordance with the financial reporting provisions of Section 12(1) of the Home Owner Grant Act.
- 31) We have complied with subsection 2 and 3, in section 124 of Part 8 of the School Act.
- 32) All transfers out of statutory reserves have been approved by bylaw except for those transfers allowed by Council resolution.

*Misstatements:*

- 33) The effects of the uncorrected misstatement described in [Attachment II](#) is immaterial to the financial statements as a whole.

Yours very truly,

---

Andrew Nazareth, General Manager, Finance & Corporate Services

---

Jerry Chong, Director of Finance

---

Cindy Gilfillan, Financial Reporting Manager

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 any of City'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 Canadian public sector accounting standards, a *related party* exists 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 Canadian 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 Audit Misstatements Schedule

### Summary of Corrected audit misstatements

There were no corrected audit misstatements for the year ended December 31, 2016.

### Summary of Uncorrected audit misstatements

Ref	Description	Assets Increase/ (Decrease)	Liabilities (Increase)/ Decrease	Annual Surplus Increase/ (Decrease)	Accumulated Surplus Increase/ (Decrease)
1.	Dr. Opening Accumulated Surplus Cr. Subscription Expense  To adjust for the Richmond Public Library electronic media (e-books) that relate to prior years.	\$ - -	\$ - -	\$ - 110,699	\$ (110,699) -
	<b>Total</b>	\$ -	\$ -	\$110,699	\$ (110,699)