



City of Richmond

FIN - 6
Audit Findings Report for the year ended
December 31, 2018



April 15, 2019, for presentation on May 6, 2019

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Purpose of this report



The purpose of this Audit Findings Report is to assist you, as a member of Council, in your review of the results of our audit of the consolidated financial statements of the City of Richmond (“the City”) as at and for the year ended December 31, 2018.

This Audit Findings Report builds on the Audit Plan we presented to Council dated December 3, 2018.

Changes from the Audit Plan



There have been no significant changes regarding our audit from the Audit Planning Report previously presented to you.

Finalizing the audit



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

- Completing our discussions with Council;
- Obtaining the signed management representation letter;
- Obtaining evidence of Council’s acceptance of the consolidated financial statements; and,
- Completing subsequent event review procedures up to the date of Council’s acceptance of the consolidated financial statements.

We will update Council on significant matters, if any, arising from the completion of the audit, including the completion of the above procedures. Our auditors’ report will be dated upon the completion of any remaining procedures.



Areas of audit focus

Our audit is risk-focused. We have not identified any significant risks. However, as part of our audit, we identified areas of audit focus which include:

- Deferred revenue and development cost charges; and
- Post-employment benefits.

See page 4 for the audit findings related to these areas of audit focus.



Adjustments and differences

We did not identify any corrected or uncorrected audit adjustments.



Significant accounting policies and practices

We have reviewed the financial reporting impact of the new accounting standards effective for the City's 2018 fiscal year end with no issues noted. There have been no other initial selections of, or changes to, significant accounting policies and practices to bring to your attention.

The presentation and disclosure of the consolidated financial statements are, in all material respects, in accordance with Canadian public sector accounting standards. Misstatements, including omissions, if any, related to disclosure or presentation items are in the management representation letter.

See page 7 for further details.



Control and other observations

We did not identify any control deficiencies that we determined to be significant deficiencies in internal controls over financial reporting.

See page 8 for further details.



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, 2018 up to the date of this report.

Current developments

There have been no significant updates to the current developments included in our Audit Plan previously provided to Council.

Areas of audit focus and results

We highlight our significant findings in respect of areas of audit focus as identified in our Audit Plan, as well as any additional areas of audit focus identified.

Area of audit focus

Our response and significant findings

Deferred revenue and development cost charges

- We updated our understanding of the process activities and controls over deferred revenue and development cost charges.
- We reconciled permits to new development cost charges recorded in the year and inspected bylaws showing appropriation for the specified purpose.
- We inspected specific contracts to determine whether there are stipulations or restrictions impacting revenue recognition. We assessed whether revenue was appropriately recognized or the amount was appropriately deferred.
- We assessed whether the appropriate stipulations have been met by inspecting and recalculating expenses incurred for certain projects.
- There were no issues noted in our testing.

Post-employment benefits

- We updated our understanding of the process activities and controls over post-employment benefits.
- We obtained the valuation report prepared by Mercer and agreed the liability amount in the report to the amount recorded by the City.
- We assessed the reasonableness of significant assumptions used by the actuary.
- We reviewed the financial statement note disclosure to ensure it is complete and accurate.
- There were no issues noted in our testing.

Audit risks

Professional requirements

Why is it significant?

Fraud risk from management override of controls.

This is a presumed fraud risk. We have not identified any specific additional risks of management override relating to this audit.

Our response and significant findings

Our audit methodology incorporates the required procedures in professional standards to address this risk. These procedures include:

- Testing of journal entries and other adjustments;
- Performing a retrospective review of significant estimates; and
- Evaluating the business rationale of significant unusual transactions.

There were no significant issues noted in our testing.



Technology in the audit

As previously communicated in our Audit Planning Report, we have utilized technology to enhance the quality and effectiveness of the audit.

Areas of the audit where Technology and Data & Analytics routines were used	
Data & Analytics Routines	Our results and insights
Duplicate payment testing	We used KPMG data analytics software (IDEA) to identify any duplicate payments made during the year. We did not note any instances of duplicate payments in 2018.
Vendor-employee match testing	We used KPMG data analytics software (IDEA) to identify vendors that have the same bank account or address details as an employee. We did not note any instances of vendors and an employee having the same bank account or address details.
Testing of high-risk journal entries	We used KPMG data analytics software (IDEA) to identify journal entries with specific high-risk characteristics for further testing. There were no issues noted with the journal entries tested.

Significant accounting policies and practices

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



Significant accounting policies

- There were no changes to the critical accounting policies and practices.
- There were no changes in significant accounting policies.
- The City has appropriately implemented the new accounting standards for Related Party Disclosures, Inter-Entity Transactions, Assets, Contingent Assets and Contractual Rights.
- There were no significant accounting policies in controversial or emerging areas.
- There were no issues noted with the timing of the City's transactions in relation to the period in which they are recorded.
- There were no issues noted with the extent to which the consolidated financial statements are affected by a significant unusual transaction and extent of disclosure of such transactions.
- There were no issues noted with the extent to which the consolidated financial statements are affected by non-recurring amounts recognized during the period and extent of disclosure of such transitions.



Significant accounting estimates

- There were no issues noted with management's identification of accounting estimates.
- There were no issues noted with management's process for making accounting estimates.
- There were no indicators of possible management bias.
- There were no significant factors affecting the City's asset and liability carrying values.



Significant disclosures

- There were no issues noted with the judgments made, in formulating particularly sensitive consolidated financial statement disclosures.
- There were no issues noted with the overall neutrality, consistency, and clarity of the disclosures in the consolidated financial statements.
- There were no significant potential effects on the consolidated financial statements of significant risks, exposures and uncertainties.

Control observations



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 consolidated 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 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 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.

In accordance with professional standards, we are required to communicate to Council any control deficiencies that we identified during the audit and have determined to be material weaknesses or significant deficiencies in internal control over financial reporting. No significant deficiencies have been identified.

Other control deficiencies may be identified during the audit that do not rise to the level of material weakness or significant deficiency.



Appendix 1: Required communications



Appendix 2: Management representation letter



Appendix 3: Other information

Appendix 1: Required communications



In accordance with professional standards, there are a number of communications that are required during the course of and upon completion of our audit.

These include:



Auditors' Report

The conclusion of our audit is set out in our draft auditors' report attached to the draft financial statements.



Independence

In accordance with professional standards, we have confirmed our independence.



Management representation letter

In accordance with professional standards, a copy of the management representation letter is provided to Council in Appendix 2.

Appendix 2: Management representation letter

KPMG LLP
777 Dunsmuir Street
P.O. Box 10426
Vancouver, B.C. V7Y 1K3

Date of Acceptance of the Financial Statements by Council

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 City of Richmond's ("the Entity"):

- Consolidated financial statements (hereinafter referred to as "financial statements") as at and for the period ended December 31, 2018, and
- Home Owner Grant Treasurer/Auditor Certificate (hereinafter referred to as "financial information") for the period ended December 31, 2018.

We also confirm our understanding that your engagement was for the purpose of forming an independent reasonable assurance conclusion on management's statement of compliance with subsection 2 and 3 of section 124 of Part 8 of the School Act (hereinafter referred to as "subject matter information") of the Entity for the year ended December 31, 2018.

Audit of the financial statements

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 engagement letter dated October 26, 2017, including 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 information of which we are aware that is relevant to the preparation of the financial statements, such as all financial records and documentation and other matters, including:
 - (i) the names of all related parties and information regarding all relationships and transactions with related parties; and
 - (ii) the 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. All significant actions are included in such summaries.
 - c) providing you with unrestricted access to such relevant information.

- d) providing you with complete responses to all enquiries made by you during the engagement.
- e) providing you with additional information that you may request from us for the purpose of the engagement.
- f) providing you with unrestricted access to persons within the Entity from whom you determined it necessary to obtain audit evidence.
- g) such internal control as we determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. We also acknowledge and understand that we are responsible for the design, implementation and maintenance of internal control to prevent and detect fraud.
- h) 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 we are 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 that involves management, employees who have significant roles in internal control over financial reporting or other where such fraud or suspected fraud could have a material effect on the financial statements.
 - c) all information in relation to allegations of fraud, or suspected fraud, affecting the 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.

Subsequent events:

- 4) 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:

- 5) We have disclosed to you the identity of the Entity's related parties.
- 6) We have disclosed to you all the related party relationships and transactions/balances of which we are aware.

- 7) All related party relationships and transactions/balances have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

Estimates:

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

Going concern:

- 9) We have provided you with all information relevant to the use of the going concern assumption in the financial statements.
- 10) We confirm that we are not aware of material uncertainties related to events or conditions that may cast significant doubt upon the Entity's ability to continue as a going concern.

Other information:

- 11) We confirm that the final version of the 2018 Annual Report will be provided to you when available, and prior to issuance by the Entity, to enable you to complete your audit procedures in accordance with professional standards.

Non-SEC registrants or non-reporting issuers:

- 12) 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.

Audit of the Home Owner Grant financial information

- 1) We have fulfilled our responsibilities, as set out in the terms of the engagement letter dated October 26, 2017, including for:
 - a) the preparation of the financial information and believe that the financial information has been prepared in accordance with the relevant financial reporting framework.
Significant interpretations, if any, related to the financial provisions of the relevant financial reporting framework are appropriately disclosed in the financial information.
 - b) determining that the basis of accounting is an acceptable basis for the preparation of the financial information in the circumstances.
 - c) providing you with all information of which we are aware that is relevant to the preparation of the financial information, such as all financial records and documentation and other matters, including:
 - (i) the names of all related parties and information regarding all relationships and transactions with related parties; and
 - (ii) the 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 information. All significant actions are included in such summaries.
 - d) providing you with unrestricted access to such relevant information.

- e) providing you with complete responses to all enquiries made by you during the engagement
 - f) providing you with additional information that you may request from us for the purpose of the engagement.
 - g) providing you with unrestricted access to persons within the Entity from whom you determined it necessary to obtain audit evidence.
 - h) such internal control as we determined is necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error. We also acknowledge and understand that we are responsible for the design, implementation and maintenance of internal control to prevent and detect fraud.
 - i) ensuring that all transactions have been recorded in the accounting records and are reflected in the financial information.
- 2) We acknowledge that this financial information:
- i) is not general-purpose financial information.
 - ii) may not comply with, or may not satisfy, the Entity's incorporating or other governing legislation.
 - iii) is solely for the information and use of the addressee and is not intended to be, and should not be, used by anyone other than the specified users or for any other purpose.
 - iv) is not intended for distribution to anyone other than the specified users.
- 3) We acknowledge that should we extend the distribution beyond the specified users, you accept no responsibility for the distribution or use of the financial information and the report thereon.

Internal control over financial reporting:

- 4) We have communicated to you all deficiencies in the design and implementation or maintenance of internal control over financial reporting relevant to the preparation of the financial information of which we are aware.

Fraud & non-compliance with laws and regulations:

- 5) We have disclosed to you:
 - a) the results of our assessment of the risk that the financial information may be materially misstated as a result of fraud.
 - b) all information in relation to fraud or suspected fraud that we are aware of that involves management, employees who have significant roles in internal control over financial reporting or others where such fraud or suspected fraud could have a material effect on the financial information.
 - c) all information in relation to allegations of fraud, or suspected fraud, affecting the financial information, 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 information.

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

Subsequent events:

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

Related parties:

- 7) We have disclosed to you the identity of the Entity's related parties.
- 8) We have disclosed to you all the related party relationships and transactions/balances of which we are aware.
- 9) All related party relationships and transactions/balances have been appropriately accounted for in the financial information and disclosed to you and disclosed in the financial information.

Estimates:

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

Reasonable assurance over compliance with School Act

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 engagement letter dated October 26, 2017, for:
 - a) the preparation of the subject matter information. We believe that the subject matter information is appropriate.
 - b) evaluating or measuring the subject matter information against the applicable criteria, including that all relevant matters are reflected in the subject matter information. We believe the applicable criteria is suitable.
 - c) providing you with all relevant information of which we are aware that is relevant to the preparation of the subject matter information such as all records, and documentation and other matters, including the 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 subject matter information, and access to such relevant information
 - d) providing you with additional information that you may request from us for the purpose of the engagement including, when applicable, any changes in the Entity's operations since the date of our last assurance report on the subject matter information
 - e) providing you with unrestricted access to persons within the Entity from whom you determined it necessary to obtain evidence

- f) such internal control as we determined is necessary to enable the preparation of the subject matter information that is free from material misstatement, whether due to fraud or error. We also acknowledge and understand that we are responsible for the design, implementation and maintenance of internal control to prevent and detect fraud
- g) ensuring that all transactions have been recorded and are reflected in the subject matter information
- h) providing you with written representations that you are required to obtain under your professional standards and written representations that you determined are necessary
- i) informing you of any documents, prior to their release, that contained the subject matter information and your assurance report thereon as of the date of this letter.

Internal control over subject matter information

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

Fraud & non-compliance with laws and regulations:

- 3) We have disclosed to you:
 - a) all information in relation to fraud or suspected fraud that we are aware of and that affects the subject matter information and involves; management, employees who have significant roles in internal control related to the preparation and presentation of the subject matter information, or others, where the fraud could have a material effect on the subject matter information
 - b) all information in relation to allegations of fraud, or suspected fraud, affecting the subject matter information communicated by employees, former employees, analysts, regulators, or others.
 - c) 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 the underlying subject matter information.
 - d) all known actual or possible litigation and claims whose effects should be considered when preparing the underlying subject matter information

Subsequent events:

- 4) All events subsequent to the date of the subject matter information and for which the applicable criteria requires adjustment or disclosure to the subject matter information have been adjusted or disclosed.

Estimates:

- 5) Measurement methods and significant assumptions used by us in making estimates included in the subject matter information are reasonable.

Yours truly,

Andrew Nazareth, General Manager, Finance & Corporate Services

Jerry Chong, Director of Finance

Cindy Gilfillan, Manager, Financial Reporting

cc: Council

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, financial information or subject matter information. 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 or financial information 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 or financial information, including the omission of an amount or a disclosure.

Fraud refers to an intentional act that cause a material misstatement in the subject matter information, including omissions of amounts or disclosures to deceive intended users.

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.

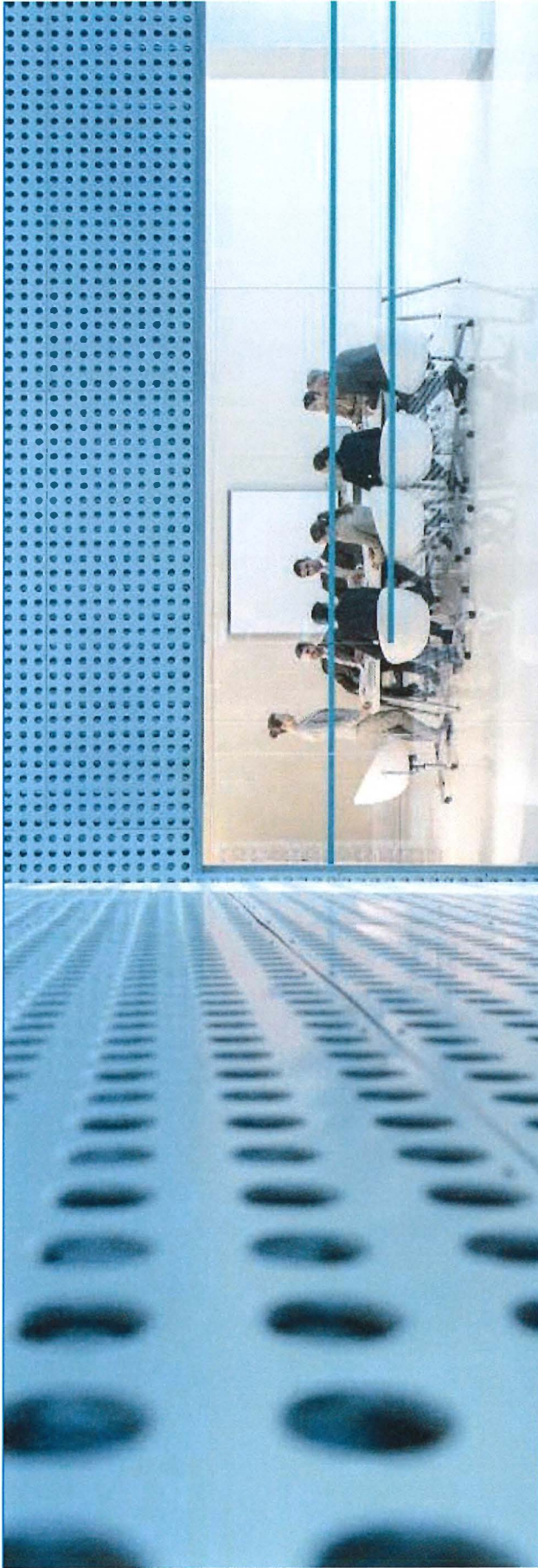
Appendix 3: Other information



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.



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