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AUDIT FINDINGS LETTER

PRIVATE & CONFIDENTIAL

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

April 25, 2011

To: Chair and Members of the Finance Committee

We are pleased to provide the following information for your review and consideration in order to assist you in carrying out your responsibilities with respect to the review and recommendation to Council of the audited consolidated financial statements of the City of Richmond (the "City") for the year ended December 31, 2010. A summary of the information provided is as follows:

Description

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

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

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

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

Yours very truly

Nancy Adie-MacKay
Partner
(604) 527-3721

Archie G Johnston
Partner
(604) 527-3757

Enclosures:

- Appendix 1 – Engagement Letter
- Appendix 2 – Independence Letter
- Appendix 3 – Management Representation Letter

KPMG LLP, is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firm's affiliated with KPMG International, a Swiss cooperative. KPMG Canada provides services to KPMG LLP.



SCOPE AND TIMING OF THE AUDIT

Our responsibilities are described in the engagement letter in Appendix 1.

Scope - Materiality

We determine materiality to:

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

For the current year, materiality of \$5.5M has been determined.

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

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

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

Timing

The following are key deliverables and dates of the audit:

<i>Topic:</i>	<i>Date(s):</i>
Conduct year-end field work	March 7 – April 8, 2011
Present the audit findings to the Finance Committee	May 2, 2011
Provide audit opinion on financial statements	Upon acceptance by Council

AUDIT STATUS AND OPINION

We have completed our audit of the City’s December 31, 2010 consolidated financial statements with the exception of the following procedures as they will need to be performed at a date closer to the date of the issuance of our final auditors’ report:

- Performing subsequent events procedures
- Obtaining evidence that those with approved authority to take responsibility for the City’s financial statements have done so.

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



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

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

SIGNIFICANT AUDIT, ACCOUNTING AND REPORTING MATTERS

Tangible Capital Assets

In 2009, the City of Richmond (the ‘City’) implemented Public Sector Accounting Board (“PSAB”) Section 3150 *Tangible Capital Assets*. Section 3150 requires governments to record and amortize their tangible capital assets (“TCA”) in their financial statements. Before 2009, capital asset additions were treated as expenditures in the year of acquisition or construction. The adoption of Section 3150 was applied retroactively and prior periods were restated.

During the 2010 fiscal year and subsequent to the issuance of the 2009 financial statements, upon certain refinements, the City determined that certain developer contributed assets in an amount of \$1,370,958 were omitted and should have been added to the 2009 asset register. In addition, the City refined its calculation of the depreciation and as a result the accumulated depreciation was understated by \$1,470,527 as at December 31, 2009. The net impact of these two adjustments amounted to an overstatement of accumulated surplus (investments in tangible capital assets) and tangible capital assets of \$94,634 as at December 31, 2009. Since the adjustments were not significant to the financial statements as a whole, management recorded the adjustments in 2010 financial statements. We concur with management’s assessment.

New Canadian Auditing standards

As a result of adoption of the new Canadian Auditing Standards (CASs), our professional responsibilities regarding reporting and performance of our audit has changed. These new Canadian Auditing Standards were effective for the City’s consolidated financial statements at December 31, 2010.

These changes impacted reporting and performance of the audit in the areas dealing with communication with those charged with governance, accounting estimates, related parties and related party transactions, evaluation of the severity and communication of control deficiencies, and the date, form, and content of the audit report.

SIGNIFICANT QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES

During the course of our financial statement audit, we identified no new or changed accounting policies. Management describes their critical accounting policies and key estimates that are subject to uncertainty in notes to the consolidated financial statements.



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

Refer to the Attachment II in the management’s representation letter in Appendix 3 for a Summary of Uncorrected Audit Misstatements.

Corrected Audit Misstatements

Refer to the Attachment II in the management’s representation letter in Appendix 3 for a Summary of Corrected Audit Misstatements

In accordance with professional standards, we are required to request that all uncorrected misstatements be corrected.

CONTROL DEFICIENCIES

In planning and performing our audit of the financial statements, we considered internal control 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 consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all control deficiencies that might be significant deficiencies.

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

CURRENT DEVELOPMENTS

Government Transfers:

- The new Accounting Standard, *Government Transfers PS3410* has been approved by the Public Sector Accounting Standards Board (“PSAB”) and is effective for years commencing on or after April 1, 2012. Early adoption is encouraged.
- Government transfers (e.g. grants, contributions, in-kind) are recognized as revenue in the period that the transfer is authorized by the transferring government, and eligibility criteria, if any, have been met by the recipient, except when and to the extent that the transfer gives rise to a liability under PS3200. If a liability is created, then the corresponding amount is recorded as a liability (e.g. deferred revenue/contributions) and is recognized as revenue when and in proportion to how the liability is settled, through the transfer or use of assets, or the provision of goods or services.
- Applies to both operating and capital transfers.
- Application of this Section will require significant professional judgment by management.



Tax Revenue

- The new Accounting Standard, *Tax Revenue PS3510* has been approved by the PSAB and is effective for years commencing on or after April 1, 2012. Early adoption is encouraged.
- The guidance differentiates between tax concessions and tax transfers. Tax concessions are available only to taxpayers and are netted against tax revenue. Tax transfers are available to people who may not pay tax, and are to be included in expenses. The standard also provides guidance for taxes imposed on behalf of others.

Liability for Contaminated Sites

- The 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 assets 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:

- The PSA Handbook currently does not have a section on Financial Instruments. PSAB has issued exposure drafts for a new standard on financial instruments and a revised standard on foreign currency translation. New standards were approved in March 2011; however, final documents have not been released. The exposure drafts contain the following proposed recommendations:
 - Equity instruments quoted in an active market and free-standing derivatives are carried at fair value. All other financial instruments, including bonds, are carried at cost or amortized cost. Entities will have an option to record any financial instrument, including bonds, at fair value; however, this election 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.



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INDEPENDENCE LETTER

PRIVATE & CONFIDENTIAL

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

April 25, 2011

Dear Chair and Members of the Finance Committee:

We have been engaged to express an opinion on the consolidated financial statements of City of Richmond ("the City") as at and for the period ended December 31, 2010.

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

In determining which relationships to report, we are required to consider relevant rules and related interpretations prescribed by the Institute of Chartered Accountants of British Columbia and any applicable legislation or regulation, covering such matters as:

- a) provision of services in addition to the audit engagement
- b) other relationships such as:
 - holding a financial interest, either directly or indirectly, in a client
 - holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of a client
 - personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client
 - economic dependence on a client.

We have prepared the following comments to facilitate our discussion with you regarding independence matters arising since the date of our last letter.

PROVISION OF SERVICES

The following summarizes the professional services rendered by us to the City (and its related entities) for the period ended December 31, 2010.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.

Description of Service
Audit <ul style="list-style-type: none">• Audit of the City's consolidated financial statements• Audit of the financial statements of Richmond Olympic Oval Corporation• Audit of the financial statements of Richmond Public Library• Audit of the Home Owner Grant• Audit of the City's compliance with subsections 2 and 3 of section 124 of Part 8 of the School Act• Research and discussions on accounting treatment of various accounting issues
All other <ul style="list-style-type: none">• Tax advice• Advisory on business plan and special acquisition project for Richmond Olympic Oval Corporation

OTHER RELATIONSHIPS

We are not aware of any relationships between our firm and the City (and its related entities) that may reasonably be thought to bear on our independence during the period from January 1, 2010 to April 25, 2011.

CONFIRMATION OF INDEPENDENCE

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

Accordingly, we hereby confirm that we are independent with respect to the City (and its related entities) within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of British Columbia as of April 25, 2011.

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,



Chartered Accountants

MANAGEMENT REPRESENTATION LETTER

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

May 2, 2011

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, 2010.

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 audit engagement letter dated December 15, 2010, for:
 - a) the preparation and fair presentation 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 contingent liabilities that are required to be disclosed in the financial statements in accordance with the relevant financial reporting framework, including liabilities or contingent liabilities arising from illegal acts or possible illegal acts, or possible violations of human rights legislation.
 - b) other environmental matters that may have an impact on the financial statements.

SUBSEQUENT EVENTS:

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

RELATED PARTIES:

- 6) We have disclosed to you the identity of the 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.

NON-SEC REGISTRANTS OR NON-REPORTING ISSUERS:

- 8) 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:

- 9) 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.
- 10) We approve the corrected misstatements identified by you during the audit described in Attachment II.

ACCOUNTING POLICIES:

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

COMMITMENTS & CONTINGENCIES:

- 12) We have disclosed to you any:
 - a) material commitments, contingent losses or other liabilities, including those related to environmental matters, not recorded or disclosed in the financial statements.

- b) claims that are outstanding or possible claims not recorded or disclosed in the financial statements, whether or not these claims were discussed with legal counsel.

ESTIMATES

- 13) Significant judgments and assumptions underlying significant accounting estimates, including fair value estimates and disclosures, are reasonable in the circumstances.
- 14) Fair value estimates and disclosures reflect management's intent and ability to carry out specific courses of action on behalf of the City.
- 15) The nature and extent of estimates, which could change materially within the near term, and all areas of measurement uncertainty have been disclosed in the financial statements.

ASSETS & LIABILITIES – GENERAL:

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

RECEIVABLES:

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

CONTRACTUAL AGREEMENTS:

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

ENVIRONMENTAL MATTERS

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

EMPLOYEE FUTURE BENEFITS

- 22) The employee future benefit costs, assets and obligation, if any, have been determined, accounted for and disclosed in accordance with the financial reporting framework.
- 23) We have no knowledge of arrangement (contractual or otherwise) by which programs have been established to provide post-employment benefits, except as disclosed to you.
- 24) The significant accounting policies the City has adopted in applying PS 3255, *Post-employment benefits, compensated absences and termination benefits* (hereinafter referred to as "PS 3255") are disclosed in notes to the financial statements.
- 25) All arrangements (contractual or otherwise) by which programs have been established to provide post-employment benefits have been disclosed to you and included in the determination of pension and post-employment costs and obligations. This includes:
- a) pension and other retirement benefits expected to be provided after retirement to employees and their beneficiaries.
 - b) post-employment benefits expected to be provided after employment but before retirement to employees and their beneficiaries. These benefits include unused sick leave and severance benefits.
 - c) compensated absences for which it is expected employees will be paid. These benefits include accumulating sick days; and
 - d) termination benefits.
- 26) The post-employment benefit costs, assets and obligations have been determined, accounted for and disclosed in accordance with PS 3255. In particular:
- a) each of the best estimate assumptions used reflects management's judgment of the most likely set of conditions affecting future events; and

- b) the best estimate assumptions used are, as a whole, consistent within themselves, and with the valuation method adopted for purposes of this evaluation.
- 27) The assumptions included in the actuarial valuation are those that management instructed Mercer Human Resource Consulting (“Mercer”) to use in computing amounts to be used by us in determining pension costs and obligations and in making required disclosures in the above-named financial statements, in accordance with PS 3255.
- 28) In arriving at these assumptions, management has obtained the advice of Mercer, but has retained the final responsibility for them.
- 29) The source data and plan provisions provided to the actuary for preparation of the actuarial valuation are accurate and complete.
- 30) All changes to plan provisions or events occurring subsequent to the date of the actuarial valuation and up to the date of this letter have been considered in the determination of pension and other post-employment benefit costs.
- 31) We agree with Mercer’s findings in evaluating the accuracy and completeness of employee future benefits and have adequately considered their qualifications in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give nor cause any instructions to be given to Mercer with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on Mercer’s independence and objectivity.

OTHER:

- 32) We have appropriately reported the amounts of Home Owner Grants collected as stated on the Home Owners Grants: Treasurer / Auditor Certificate.
- 33) We have complied with subsection 2 and 3 section 124 of Part 8 of the School Act for the year ended December 31, 2010.
- 34) All transfers out of statutory reserves have been approved by bylaw except for those transfers allowed by Council resolution.
- 35) Expenses will be appropriately authorized and actual expenses will not exceed budgeted expenses detailed in the amended budget bylaw.

Yours very truly,

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

By: Jerry Chong, Director of Finance

By: Lisa Skippen, Manager, Finance System Support

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 parties* 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. Two not-for-profit organizations are related parties if one has an economic interest in the other. 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 Audit Misstatements Schedule

Summary of uncorrected audit misstatements

#	Description	Debit	Credit
1	Dr. Developer contributions	\$ 1,370,958	
	Cr. Opening Accumulated Surplus		\$ (1,370,958)
	<i>To record 2009 developer contributed assets on a retrospective basis.</i>		
2	Dr. Opening Accumulated Surplus	\$ 1,470,527	
	Cr. Amortization		\$ (1,470,527)
	<i>To adjust for the change in amortization policy on a retrospective basis.</i>		
3	Dr. Local improvement revenue	\$ 762,260	
	Cr. Opening Accumulated Surplus		\$ (762,260)
	<i>To record a local improvement fee receivable as at December 31, 2009 on a retrospective basis in accordance with PSAB.</i>		

Summary of corrected audit misstatements

#	Description	Debit	Credit
1	Dr. Provincial Revenue Sharing Grant	\$ 1,155,916	
	Cr. Deferred Revenue		\$ (1,155,916)
<i>To adjust the deferred revenue balance to actual.</i>			

Summary of Omission and Other Errors in Presentation and Disclosure

There were no omissions or errors in presentation and disclosure noted for the year ending December 31, 2010.

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 to be required under professional standards and written representations that we determine are necessary. Management also acknowledges and understands that professional standards require that we disclaim an audit opinion when management does not provide certain written representation required.

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



Mr. Andrew Nazareth
General Manager, Business and Financial Services
The City of Richmond
6911 No. 3 Road
Richmond BC V6Y 2C1

December 3, 2010

Dear Mr. Nazareth:

The purpose of this letter is to outline the terms of our audit engagements of the City of Richmond (the "City") commencing for the year ending December 31, 2010:

- audit engagements for the consolidated financial statements
- audit of the Home Owner Grant
- audit of the City's compliance with subsections 2 and 3 of section 124 of Part 8 of the School Act

This letter supersedes our previous letter to the City dated December 15, 2009. The attached Terms and Conditions form an integral part of the terms of this engagement and are incorporated herein by reference (collectively the "Engagement Letter").

FINANCIAL REPORTING FRAMEWORK

The consolidated financial statements will be prepared and presented in accordance with Canadian public sector accounting standards (hereinafter referred to as the "financial reporting framework").

The consolidated financial statements will include an adequate description of the financial reporting framework.

MANAGEMENT'S RESPONSIBILITIES

Management acknowledges and understands that they are responsible for:

- (a) the preparation and fair presentation of the financial statements in accordance with the financial reporting framework referred to above
- (b) ensuring that all transactions have been recorded and are reflected in the financial statements.
- (c) such internal control as management determines is necessary to enable the preparation of financial statements 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.
- (d) providing us with access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters.



- (e) providing us with additional information that we may request from management for the purpose of the audit.
- (f) providing us with unrestricted access to persons within the City from whom we determine it necessary to obtain audit evidence.
- (g) providing us with written representations required to be obtained 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 representations required.

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

AUDITORS' RESPONSIBILITIES REGARDING THE AUDIT

Our function as auditors of the City is:

- to express an opinion on whether the City's annual financial statements, prepared by management with the oversight of those charged with governance, are, in all material respects, in accordance with the financial reporting framework referred to above and
- to report on the annual financial statements.

We will conduct the audit of the City's annual financial statements in accordance with Canadian generally accepted auditing standards and relevant ethical requirements, including those pertaining to independence (hereinafter referred to as applicable "professional standards"). We will plan and perform the audit to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Accordingly, we will, among other things:

- identify and assess risks of material misstatement, whether due to fraud or error, based on an understanding of the City and its environment, including the City's internal control. In making those risk assessments, we consider internal control relevant to the City's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control.
- obtain sufficient appropriate audit evidence about whether material misstatements exist, through designing and implementing appropriate responses to the assessed risks.
- form an opinion on the City's annual financial statements based on conclusions drawn from the audit evidence obtained.
- communicate matters required by professional standards, to the extent that such matters come to our attention, to the appropriate level of management, those charged with governance and/or the Council. Refer to Appendix B for listing of such matters and the form and timing of such communication.

**AUDITORS' RESPONSIBILITIES REGARDING THE AUDIT OF THE HOME OWNER GRANT:
TREASURER/AUDITOR CERTIFICATE**

We will also perform audit procedures with respect to the Home Owner Grant: Treasurer/Auditor Certificate (the "Certificate") in accordance with Canadian generally accepted auditing standards with the objective of expressing an opinion whether the financial information in the Certificate presents fairly, in all material respects, is in accordance with Section 12 of the Home Owner Grant Act. However, we cannot provide assurance that an opinion without reservation will be rendered. Circumstances may arise in which it is necessary for us to modify our audit report or withdraw from the audit engagement. In such circumstances, our findings or reasons for withdrawal will be communicated to management and the Finance Committee.

The report will indicate that it is intended solely for the information and use of the of the Finance Committee and management of the City and the Ministry of Community Development and that it is not intended to be and should not be used by anyone other than these specified parties.

**AUDITORS' RESPONSIBILITIES REGARDING THE COMPLIANCE WITH SUBSECTIONS 2 AND 3 OF
SECTION 124 OF PART 8 OF THE SCHOOL ACT**

We will also perform audit procedures with respect to the City's compliance with subsections 2 and 3 of section 124 of Part 8 of the School Act in accordance with Canadian generally accepted auditing standards with the objective of expressing an opinion whether the City is compliance with subsections 2 and 3 of section 124 of Part 8 of the School Act. However, we cannot provide assurance that an opinion without reservation will be rendered. Circumstances may arise in which it is necessary for us to modify our audit report or withdraw from the audit engagement. In such circumstances, our findings or reasons for withdrawal will be communicated to management and the Finance Committee.

The report will indicate that it is intended solely for the information and use of the of the Finance Committee and management of the City and the Ministry of Community Development and that it is not intended to be and should not be used by anyone other than these specified parties.

AUDITORS' DELIVERABLES

The expected form and content of our audit report(s) is provided in Appendix A. However, there may be circumstances in which a report may differ from its expected form and content.

**AUDITORS' AND MANAGEMENT'S RESPONSIBILITIES REGARDING CONTINUOUS DISCLOSURE
DOCUMENTS**

When the City intends to file an Annual report and we are requested to consent to the use of the audit report on the City's financial statements, professional standards require that we read the information contained in the Annual report and consider whether such information is materially inconsistent with the related financial statements.

Management is responsible for providing us with adequate notice of the preparation of Annual report and providing us with copy, prior to their issuance, of the Annual report. Furthermore, management has the responsibility for identifying subsequent events and providing appropriate disclosure in, or adjustment of, the financial statements as a result of such events as required by the financial reporting framework and for providing updated written representations to the date of our consent.

2007

FEEES

The estimated fee for the professional services to be performed under this Engagement Letter is in accordance with our proposal dated May 9, 2007. Where matters arise and require research, consultation and work beyond that include in the estimated fee, the City and KPMG will discuss revision of the estimated fee.

We are available to assist the City, upon request, with a wide range of services beyond those outlined above. Additional services are subject to separate terms and arrangements.

We are proud to serve the City and we appreciate your confidence in our work. We shall be pleased to discuss this letter with you at any time. If the arrangements outlined are in accordance with the City's requirements and if the above terms are acceptable to the City, please sign the duplicate of this letter in the space provided and return it to us.

Yours very truly,

KPMG LLP

Archie G. Johnston, MBA, FCA, CA-CIA
Partner
(604)527-3757

AGJ/bh
Enclosure

cc: Director of Finance
Finance Committee

The terms of the engagement set out are as agreed:

AW

Name and Title ANDREW NALANDEY, GM BUSINESS FINANCIAL SVCS

Date (dd/mm/yy) 15/12/10



Appendix A – Expected Form of Reports

INDEPENDENT AUDITORS' REPORT

To the Mayor and Council

We have audited the accompanying consolidated financial statements of the City of Richmond ("the City"), which comprise the consolidated statement of financial position as at December 31, 2010 and the consolidated statement of operations, consolidated statement of changes in net financial assets and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the City of Richmond as at December 31, 2010, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

INDEPENDENT AUDITORS' REPORT

To the Ministry of Community Development

We have audited the accompanying Home Owner Grant: Treasurer/Auditor Certificate (the "Certificate") for the City of Richmond (the "City"), for the year ended December 31, 2010. The Certificate has been prepared by management based under the provisions of Section 12 of the Home Owner Grant Act.

Management's Responsibility for the Certificate

Management is responsible for the preparation of the Certificate in accordance with the provisions of Section 12 of the Home Owner Grant Act, and for such internal control as management determines is necessary to enable the preparation of the Certificate that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the Certificate based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Certificate is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Certificate. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Certificate, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation of the Certificate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the Certificate.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial information in the Certificate is prepared, in all material respects, in accordance with the provisions of Section 12 of the Home Owner Grant Act.

Restriction on Distribution

The Certificate is prepared to meet the requirements under the provisions of Section 12 of the Home Owner Grant Act. As a result, the Certificate may not be suitable for another purpose. Our report is intended solely for the City and the Ministry of Community Development and should not be distributed to parties other than the City or the Ministry of Community Development.

AUDITORS' REPORT ON SUBSECTIONS 2 AND 3 OF SECTION 124 OF PART 8 OF THE SCHOOL ACT TO THE MINISTRY OF COMMUNITY DEVELOPMENT

At the request of the City of Richmond (the "City"), we have audited the City's compliance with subsections 2 and 3 of section 124 of Part 8 of the School Act for the year ended December 31, 2010. Compliance with subsections 2 and 3 of section 124 of Part 8 of the School Act is the responsibility of the City's management. Our responsibility is to express an opinion on this compliance based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the City complied with subsections 2 and 3 of section 124 of Part 8 of the School Act. Such an audit includes examining, on a test basis, evidence supporting compliance, evaluating the overall compliance with subsections 2 and 3 of section 124 of Part 8 of the School Act and, where applicable, assessing the accounting principles used and significant estimates made by management.

In our opinion, the City has complied, in all material respects, with subsections 2 and 3 of section 124 of Part 8 of the School Act for the year ended December 31, 2010.



Appendix B – Matters to communicate

Matters required to be communicated under professional standards to the appropriate level of management include:

Engagement partner

- identity and role of the engagement partner.

Fraud and non-compliance with laws and regulations

- any identified fraud or any information obtained that indicates that a fraud may exist.
- any identified non-compliance with laws or regulations or suspected non-compliance.

Control deficiencies

- any significant deficiencies in the City's internal control that we intend to communicate to those charged with governance unless it would be inappropriate to communicate directly to management in the circumstances.
- other deficiencies in internal control that have not been communicated to management by other parties and that, in our professional judgment, are of sufficient importance to merit management's attention.

Misstatements

- any accumulated misstatements, other than those that are clearly trivial. Furthermore, we request that management correct all misstatements communicated.



Appendix B – Matters to communicate (continued)

Matters required to be communicated, on a timely basis, under professional standards to those charged with governance include:

Engagement partner

- identity and role of the engagement partner

Audit approach

- an overview of the planned scope and timing of the audit.

Fraud and non-compliance with laws and regulations

- any identified fraud or suspected fraud that may exist involving management, employees who have significant roles in internal control or others where the fraud results in a material misstatement in the annual financial statements.
- any matters related to fraud that are, in our judgment, relevant to your responsibilities.
- any identified non-compliance with laws or regulations or suspected non-compliance, other than when the identified or suspected non-compliance is clearly inconsequential.

Control deficiencies

- any significant deficiencies, in writing, in the City's internal control.

Misstatements

- any accumulated uncorrected misstatements (amounts or disclosures) other than those that are clearly trivial. Furthermore, we request all uncorrected misstatements be corrected

Accounting practices

- our views about significant qualitative aspects of the accounting practices including accounting policies, accounting estimates and financial statement disclosures.

Significant difficulties

- any significant difficulties that we encountered during the audit. For example, if we conclude that management's refusal to allow us to send a confirmation request is unreasonable or when we are unable to obtain relevant and reliable audit evidence from alternative audit procedures.

Significant matters

- significant matters, if any, arising from the audit that were discussed, or subject to correspondence with management (e.g., management's consultation with other accountants, major issues discussed with management prior to retention or any disagreements with management, whether or not satisfactorily resolved, about matters that individually or in the aggregate could be significant to the financial statements or report thereon)



- other significant matters arising from the audit, if any that, in our professional judgment, are significant to the oversight of the financial reporting process, including those significant matters arising from the audit in connection with the City's related parties.

Management representations

- copies of written representations requested from management.

Going concern

- events or conditions identified that may cast significant doubt on the City's ability to continue as a going concern.

Reporting

- any expected modifications to the audit report.
- any expected emphasis of matter or other paragraphs in the audit report.
- management refuses to remove a scope limitation in the audit.

Other information

- any revision necessary to, or material misstatement of fact included in, financial and non-financial information which is included, either by law, regulation or custom, in a document containing the audited financial statements and our audit report thereon ("other information") that we identified when reading such information, which management refuses to correct.
- our responsibilities with respect to other information in documents containing audited financial statements.
- any significant matters resulting from the procedures performed in accordance with professional standards on the other information.

Note: Significant findings from the audit will be communicated in writing if, in our professional judgment, oral communication would not be adequate.



The Terms and Conditions are an integral part of the accompanying engagement letter from KPMG that identifies the engagement to which they relate (and collectively form the "Engagement Letter"). The Engagement Letter supersedes all written or oral representations on this matter.

1. SEVERABILITY.

If any of the provisions of this Engagement Letter are determined to be invalid or unenforceable, the remaining provisions shall remain in effect and be binding on the parties to the fullest extent permitted by law.

2. GOVERNING LAW.

This Engagement Letter shall be subject to and governed by the laws of the province where KPMG's principal office performing this engagement is located (without regard to such province's rules on conflicts of law) and all disputes arising hereunder or related thereto shall be subject to the exclusive jurisdiction of the courts of such province of Canada.

3. LLP STATUS.

KPMG LLP is a registered limited liability Partnership ("LLP") established under the laws of the Province of Ontario and, where applicable, has been registered extra-provincially under provincial legislation. KPMG is a partnership, but its partners have a degree of limited liability. A partner is not personally liable for any debts, obligations or liabilities of the LLP that arise from a negligent act or omission by another partner or by any other person under that other partner's direct supervision or control. The legislation relating to limited liability partnerships does not, however, reduce or limit the liability of the firm. The firm's insurance exceeds the mandatory professional indemnity insurance requirements established by the various Institutes/Ordre of Chartered Accountants. Subject to the other provisions hereof, all partners of the LLP remain personally liable for their own actions and/or actions of those they directly supervise or control.

4. DOCUMENTS AND INFORMATION.

Management's cooperation in providing us with documents and related information and agreed-upon assistance on a timely basis is an important factor in being able to issue our report. KPMG shall be entitled to share all information provided by the City with all other member firms of KPMG International Cooperative ("KPMG International") performing services hereunder. All work papers, files and other internal materials created or produced by KPMG during the engagement and all copyright and intellectual property rights in our work papers are the property of KPMG.

5. INFORMATION PROCESSING OUTSIDE OF CANADA.

Personal and/or confidential information (e.g. entries into KPMG's time and billing system and into KPMG's conflicts database) collected by KPMG during the course of this engagement may be processed and stored outside of Canada by KPMG, KPMG International member firms performing services hereunder or third party processors. Such personal and/or confidential information may be subject to disclosure in accordance with the laws applicable in the jurisdiction in which the information is processed or stored, which laws may not provide the same level of protection for such information as will Canadian laws.

6. PERSONAL INFORMATION CONSENTS AND NOTICES.

KPMG may be required to collect, use and disclose personal information about individuals during the course of this engagement. The City represents and warrants that: (i) it will obtain from individuals all consents required by law to permit KPMG to collect, use and disclose all personal information reasonably required in the course of the engagement, and (ii) it has provided notice of KPMG's potential processing of information outside of Canada (as described in paragraph 5 above) to all individuals whose personal information is disclosed to KPMG.

7. OFFERS OF EMPLOYMENT.

In order to allow issues of independence to be addressed, management agrees that prior to extending an offer of employment to any KPMG partner, employee or contractor, the matter is communicated to the engagement partner or associate partner.

8. OFFERING DOCUMENTS.

If the City wishes to include or incorporate by reference the financial statements and our report thereon in an offering document, we will consider consenting to the use of our report and the terms thereof at that time. Prior to issuing any consent, comfort or advice letter, if any, we will

be required to perform procedures as required by professional standards. Management agrees to provide us with adequate notice of the preparation of such documents.

9. FEE ARRANGEMENTS.

KPMG's estimated fee is based on the quality of the City's accounting records, the agreed-upon level of preparation and assistance from the City's personnel, and adherence to the agreed-upon timetable. KPMG's estimated fee also assumes that the City's financial statements are in accordance with the applicable financial reporting framework and that there are no significant new or changed accounting policies or issues, or financial reporting, internal control over financial reporting or other reporting issues. KPMG will inform the City on a timely basis if these factors are not in place.

Additional time may be incurred for such matters as significant issues, significant unusual and/or complex transactions, informing management about new professional standards, and any related accounting advice. Where those matters arise and require research, consultation and work beyond that included in the estimated fee, the City and KPMG agree to revise the estimated fee. No significant additional work will proceed without management's concurrence, and, if applicable, without the concurrence of those charged with governance. Upon completion of these services KPMG will review with the City any fees and expenses incurred in excess of KPMG's estimate, following which KPMG will render the final billing. Routine administrative expenses such as long distance telephone calls, photocopies, fax charges, printing of statements and reports, postage and delivery and secretarial and report department assistance will be charged on the basis of a percentage of KPMG's professional costs. Other disbursements for items such as travel, accommodation and meals will be charged based on KPMG's actual disbursements.

KPMG's invoices are due and payable upon receipt. Amounts overdue are subject to interest. In order to avoid the possible implication that unpaid fees might be viewed as creating a threat to KPMG's independence, it is important that KPMG's bills be paid promptly when rendered. If a situation arises in which it may appear that KPMG's independence is threatened because of significant unpaid bills, KPMG may be prohibited from signing the report and, if applicable, any consent.

Fees for any other services will be billed separately from the services described in this engagement letter and may be subject to written terms and conditions supplemental to those in this letter.

Canadian Public Accountability Board (CPAB) participation fees, when applicable, are charged to the City based on the annual fees levied by CPAB.

10. LEGAL PROCEEDINGS.

The City on its own behalf acknowledges and agrees to cause its subsidiaries and its affiliates to acknowledge that KPMG may, from time to time:

- be required, pursuant to subpoena or other legal process, or may agree to a request by the City, to provide information and copies of documents in KPMG's files, including KPMG's working papers and other work-product relating to the City, its subsidiaries and/or its affiliates ("Information and Documentation") in judicial or administrative proceedings to which KPMG is not a party; and
- receive requests or orders from judicial, administrative, professional, securities or other regulatory or governmental authorities (both in Canada and abroad, including without limitation the Canadian Public Accountability Board) ("Requesting Authority") to provide them with Information and Documentation.

In such situations, the City on its behalf consents and agrees to cause its subsidiaries and affiliates to consent to KPMG providing Information and Documentation without further reference to, or authority from, the City or its subsidiaries and affiliates. If a request or order is directly related to an inspection or investigation of the City or its subsidiaries and affiliates, KPMG will advise the City or its subsidiaries and affiliates of the request or order, except where prohibited by law from doing so.

KPMG will not provide to the Requesting Authority Information and Documentation over which the City or its subsidiaries and affiliates have expressly asserted privilege, except a) with the City's consent, b) where required by law, or c) where requested by a provincial Institute/Ordre of Chartered Accountants pursuant to its statutory authority. The City or its subsidiaries and affiliates will mark any document over which the City or its subsidiaries and affiliates assert privilege as "privileged".

KPMG may also be required to provide Information and Documentation to a Requesting Authority relating to the fees that KPMG charges or collects from the City or its subsidiaries and affiliates for the provision of audit services, other accounting services and non-audit services, and the City on its behalf consents and agrees to cause its subsidiaries and affiliates to consent to the disclosure of that Information and Documentation to that Requesting Authority.

The City or its subsidiaries and affiliates shall reimburse KPMG at standard billing rates for its professional time and expenses, including reasonable legal fees, incurred in dealing with the matters described above.

11. KPMG INTERNATIONAL MEMBER FIRMS.

The City agrees that any claims that may arise out of this engagement will be brought solely against KPMG, the contracting party, and not against any other KPMG International Cooperative ("KPMG International") member firms participating in this engagement.

12. CONNECTING TO THE CITY'S IT NETWORK.

KPMG personnel are authorized to connect their computers to the City's IT Network, subject to any restrictions communicated to KPMG from time to time. Connection to the City's IT Network or the Internet via the Network, while at the City's premises, will be for the express purpose of conducting normal business activities, primarily relating to facilitating the completion of work referred to in this letter.

13. DELIVERABLES OR COMMUNICATIONS.

KPMG may issue other deliverables or communications as part of the services described in this Engagement Letter. Such deliverables or communications may not be included in, summarized in, quoted from or otherwise used or referred to, in whole or in part, in any documents or public oral statement.

KPMG expressly does not consent to the use of any communication, report, statement or opinion prepared by us on the interim financial statements and such communication, report, statement or opinion may not be included in, summarized in, quoted from or otherwise used in any document or public oral statement.