City of Richmond

Report to Committee

To FIN - FEB 4 2013.

To:	Finance Committee	**Date:**	January 15, 2013
From:	Jerry Chong Director, Finance	**File:**	03-0950-03/2013-Vol 01
Re:	**2012 Audit Engagement**		

Staff Recommendation

That the 2012 Audit Engagement report dated January 15, 2013 be received for information.

Jerry Chong
Director, Finance
(604-276-4064)

REPORT CONCURRENCE	
CONCURRENCE OF GENERAL MANAGER	
REVIEWED BY SMT SUBCOMMITTEE	INITIALS:
REVIEWED BY CAO	INITIALS:

Staff Report

Origin

Pursuant to Sub-section 169 (1) of the Community Charter, a Council must appoint an auditor for the municipality (municipal auditor). Under Sub-section 169 (3), a municipal auditor has the power and duty to conduct the examinations necessary to prepare the required reports.

Section 171 of the Community Charter directs that, the municipal auditor must report to council on the annual financial statements of the municipality. The report must be in accordance with the form and the reporting standards recommended by the Canadian Institute of Chartered Accountants.

The following report outlines the terms of the audit engagement for the period ending December 31, 2012.

Analysis

At the November 13, 2012 Council meeting, KPMG, LLP (KPMG) was re-appointed as the City's auditor for the years 2012 to 2017. The annual contract fee for the audit services is $74,500 plus applicable taxes. The fee distribution is as follows:

City's consolidated financial statements	$68,000
Library's financial statements	$6,500
	$74,500

The engagement is subject to a satisfactory annual performance evaluation and an inflationary adjustment to the annual fee over subsequent years, if applicable.

KPMG's audit approach, scope of the audit work for the City of Richmond and the Library for the 2012 fiscal year is provided in their communication on Audit Planning for the year ended December 31, 2012 (Attachment 1).

The scope of the audit engagement includes:

- Audit of the City's consolidated financial statements
- Audit of the Library's 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

The Auditor's responsibilities regarding the audit of the financial statements include:

- To express an opinion on whether the financial statements, are, in all material respects, in accordance with the Canadian public sector accounting standards.
- To report on the City's consolidated financial statements and the Library's financial statements.

KPMG plans and performs the audit to:

- Identify and assess risks of material misstatement, whether due to fraud or error, based on an understanding of the City and its environment, including internal control.
- Obtain sufficient appropriate audit evidence about whether material misstatement exists, through designing and implementing appropriate responses to the assessed risks.
- Form an opinion on the financial statements based on conclusions drawn from the audit evidence obtained.
- Communicate matters required by professional standards to the appropriate level of management, those charged with governance and/or the board of directors.

The audit year-end field work is scheduled for February 25 to March 8, 2013. The audit findings will be presented to Committee prior to the May 15th deadline.

Financial Impact

There is no financial impact. The audit fee is provided for within the City's 2013 Operating Budget.

Conclusion

KPMG has been engaged to perform the audit for the year ended December 31, 2012. Their Audit Plan communicates KPMG's overall audit responsibilities and audit approach in accordance with Canadian generally accepted auditing standards. The 2012 audit standards continue to focus the audit on areas where there is greater risk of misstatement.

Cindy Gilfillan
Manager, Financial Reporting
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CG:cg

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AUDIT PLANNING LETTER

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

November 23, 2012

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

We are pleased to provide for your review the following information relating to the planned scope and timing for the audit of the consolidated financial statements of the City of Richmond (the "City") for the year ended December 31, 2012.

We would be pleased to receive any comments or suggestions you may have with respect to the planned audit scope or timing. If you have any specific areas of concerns or other issues you would like addressed in the audit, please contact me at 604-527-3635. We appreciate the opportunity to serve you and look forward to our 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

Chin Jan Ling

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

Archie J. Johnston

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

CC: Mr. George Duncan, Chief Administrative Officer
Mr. Andrew Nazareth, General Manager, Finance & Corporate Services
Mr. Jerry Chong, Director of Finance

Enclosures:
Appendix 1 – Engagement letter

SCOPE AND TIMING OF THE AUDIT

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

Scope - Materiality

We determine materiality to:

- plan and perform the audit
- 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 $6,200,000 has been determined. We will reassess materiality at year-end to confirm whether $6,200,000 remains appropriate prior to evaluating the effect of uncorrected misstatements.

We will communicate to you corrected and uncorrected misstatements identified by us during the audit, other than those that are clearly trivial. Should uncorrected misstatements remain, we will:

- in accordance with professional standards, request that all uncorrected misstatements be corrected, and
- communicate the effect that uncorrected misstatements, individually or in aggregate, may have on the opinion in the audit report on the financial statements.

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

The focus of our audit will be on the following area:

Significant account and disclosures:	*Summary of planned audit approach:*
Risk of inappropriate journal entry processing was identified as a financial statement level risk	• Evaluation of the design and implementation over processes in recording and posting of manual journal entries. • Perform test of details over manual journal entries recorded. • Perform test of details over consolidation entries.

Timing of audit and deliverables

Topic:	*Date(s):*
Conduct interim field work	November 5 – 9, 2012
Conduct year-end field work	February 25 – March 8, 2013
Present the audit findings to Finance Committee	Date to be determined
Provide audit opinion on financial statements	Upon acceptance by Council of the financial statements

OVERVIEW OF FRAUD RISKS

Canadian Auditing Standards require that we ask you the following questions in connection with your oversight of management's process for identifying and responding to the risks of fraud:

- How do you provide effective oversight of management's process for identifying and responding to fraud risks, including programs and controls to prevent, detect and deter fraud and/or ensure compliance with regulatory requirements?
- Are you aware of any instances of actual, suspected or alleged fraud, including misconduct or unethical behaviour related to financial reporting or misappropriation of assets? If so, how have the allegations been addressed?

CURRENT DEVELOPMENTS

Government Transfers

- New Accounting Standard, PS3410 *Government Transfers* 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.

Liability for Contaminated Sites

- New Accounting Standard, PS3260 *Liability for Contaminated Sites* has been approved by PSAB and is effective for years commencing on or after January 1, 2014. Early adoption is encouraged.

- Governments will be required to recognize a liability for contaminated sites when the government is responsible for, or accepts responsibility for, the contamination, and the contamination exceeds existing environmental standards. The amount recorded as a liability must be reasonably estimable and would include costs directly related to the remediation activities and post-remediation costs that are an integral part of the remediation strategy. Costs related to asset purchases to be used in remediation would be included in the liability to the extent that the assets have no alternative use.

Financial Instruments and Foreign Currency Translation

- New Accounting Standards, PS3450 *Financial Instruments* and PS2601 *Foreign Currency Translation* have been approved by PSAB and are effective for years commencing on or after April 1, 2015 for governments. Early adoption is permitted.

- Equity instruments quoted in an active market and free-standing derivatives are to be carried at fair value. All other financial instruments, including bonds can be carried at cost or fair value depending on the government's choice and this choice must be made on initial recognition of the financial instrument and is irrevocable.

- Hedge accounting is not permitted.

- A new statement, the Statement of Re-measurement Gains and Losses, will be included in the financial statements. Unrealized gains and losses incurred on fair value accounted financial instruments will be presented in this statement. Realized gains and losses will continue to be presented in the statement of operations.

Related Party Transactions

- The PSA Handbook currently has no specific accounting standards relating to Related Party Transactions. PSAB has issued an exposure draft for a new standard on related party transactions. New standards are expected to be approved in Spring 2013. The exposure draft contains the following proposed recommendations:

  - Related parties include entities that control or are controlled by a reporting entity, entities that are under common control and entities that have shared control over or that are subject to shared control of a reporting entity.

  - Individuals that are members of key management personnel and close members of their family are related parties. Disclosure of key management personnel compensation arrangements, expense allowances and other similar payments routinely paid in exchange for services rendered is not required.

  - Determining which related party transactions to disclose is a matter of judgment based on assessment of:
    - the terms and conditions underlying the transactions;
    - the financial significance of the transactions;
    - the relevance of the information; and
    - the need for the information to enable users' understanding of the financial statements and for making comparisons.

  - A related party transaction, with the exception of contributed goods and services, should normally be recognized by both a provider organization and a recipient organization on a gross basis.

- A reporting entity may either:
  - disclose information about contributed goods and services; or
  - recognize a revenue and expense if those goods and services would otherwise have been purchased.

- Related party transactions, if recognized, should be recorded at the exchange amount. A public sector entity's policy, budget practices or accountability structures may dictate that the exchange amount is the carrying amount, consideration paid or received or fair value.

- It may not be necessary or practical for the provider organization or recipient organization to disclose information about transactions undertaken by an entity as part of its operations.

Appropriations

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