



KPMG LLP
Chartered Accountants
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada

Telephone (604) 691-3000
Fax (604) 691-3031
Internet www.kpmg.ca

OVERSIGHT LETTER

PRIVATE & CONFIDENTIAL

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

The Finance Select Committee of the City of Richmond

April 11, 2005

We are writing to you to communicate certain key areas in connection with our audit of the consolidated financial statements of the City of Richmond (the "City") for the year ended December 31, 2004.

I. Responsibility of external auditors, management, and oversight personnel

We were engaged to give an audit opinion on the consolidated financial statements of the City. Management is responsible for preparing the financial statements and related notes in accordance with Canadian generally accepted accounting principles and to design, implement and maintain an effective internal control over the financial reporting process. We are responsible for being independent and for expressing an opinion on the consolidated financial statements. The City's oversight personnel are responsible for overseeing the control environment and reporting process.

II. Independence

As required under these standards, we have also enclosed a letter confirming that we are independent from the City.

III. Significant Matters

The following significant matters were noted during our audit:

A. Employee Future Benefits

The Public Sector Accounting Board ("PSAB") had issued an accounting standard PS 3255 "Post-employment Benefits, Compensated Absences and Termination Benefits" whose recommendations were effective January 1, 2004. This new section requires local

governments to account on a full accrual basis obligations for post-employment benefits, compensated absences and termination benefits in a manner similar to retirement benefits.

The City had adopted this standard in the current year and engaged Mercer Human Resource Consulting to determine the liability and associated costs for its sick leave and post-employment benefits for 2004, using actuarial estimates. This change was applied retroactively to 2003, increasing amounts previously reported for accounts payable and accrued liabilities and decreased amounts previously reported for financial equity by \$7.4 million. Expenditures for the year ended December 31, 2003 have decreased by \$1.9 million. Expenditures for the year ended December 31, 2004 have decreased by 1.5 million over the amount that would have been reported under the previous accounting policy.

B. Whistle Blowing Policy

The implementation of a formal whistle blowing policy is now a requirement for all public companies in Canada and the USA. Best practice experience also indicates that the existence and availability of a whistle blowing policy is a key fraud detective mechanism across organizations. Given that a whistle blowing policy is a key fraud detective mechanism and may help prevent different types of misconduct, the City should consider, with approval of Council, developing a whistle blowing policy. Although not a current requirement for non-public companies in Canada, it is expected that this requirement will extend to all public entities, including government and other public sector organizations.

IV. Other matters arising from the audit

Management is responsible for maintaining a system of internal controls to provide reasonable assurance that the financial records are reliable and form a proper basis for preparation of the consolidated financial statements. In planning and performing our audit, we considered the City's internal controls in order to determine the nature, extent and timing of our audit procedures for the purpose of expressing an opinion on the consolidated financial statements, and not to provide any assurance or an opinion on internal controls. During our audit we did not encounter any instances of fraud or illegal acts, and we did not become aware of any significant weaknesses in internal controls.

V. Misstatements and audit adjustments

There were no misstatements or unrecorded audit adjustments in the consolidated financial statements.



VI. Fees

The following is a summary of fees charged by KPMG to the City for the period January 1, 2004 to April 11, 2005:

<u>Audit</u>	• Audit of the financial statements of City of Richmond for the year ended December 31, 2003	\$48,500
<u>Other</u>	• Specified procedures on systems and controls, payroll requirements for caretakers	15,950
	• Assistance with the implementation of PSAB requirement	41,500
	• Sales tax review	19,319
	• Professional services related to Business Continuity Project	48,441
	• Professional services related to Olympic Oval Project	21,210

VII. Developments in Financial Reporting and Professional Standards

We will continue to monitor developments in public sector accounting and work with management to implement these as they arise. The following developments were noted in our prior year report and have been discussed with management:

Tangible Capital Asset (Local Government)

PSAB is continuing its work with respect to the project on accounting for tangible capital assets by local governments. This project is considering such issues as the definition of a capital asset, recognition, measurement (including cost, amortization, write-downs and disposals), disclosure, and transitional provisions. The project will also determine how this information gets presented in the financial statements. We recommend that the City develop a historical cost capital asset ledger in anticipation of the new PSAB recommendations.



Page 4
City of Richmond
April 11, 2005

We appreciate the opportunity to be of service to you, and wish to thank you and your staff for their full cooperation and assistance during the audit. We appreciate the time and effort that was directed toward preparing for the audit and we look forward to our ongoing relationship.

Yours very truly

A handwritten signature in black ink that reads 'DMG-LR'.

Don Matthew
Partner, Assurance Services
(604) 691-6383

DM/bh