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PRIVATE & CONFIDENTIAL

Mr. Andrew Nazareth
Director of Finance
The City of Richmond
6911 No. 3 Road
Richmond BC V6Y 2C1

May 19, 2005

Dear Mr. Nazareth

We have audited the consolidated financial statements of the City of Richmond (the "City") as of and for the year ended December 31, 2004, and have issued our audit report thereon dated April 11, 2005. In planning and performing our audit of the City's consolidated financial statements, we considered the City's internal control over financial reporting in order to determine the nature, extent and timing of our auditing procedures for the purpose of expressing our opinion on the financial statements. A financial statement audit does not include examining the effectiveness of internal control and does not provide assurance on internal control.

The maintenance of adequate controls designed to fulfill control objectives is the responsibility of management. Because of the inherent limitations in internal control in any organization, and the cost/benefit relationship of eliminating all possibilities of fraud, errors or fraud may nevertheless occur and not be detected. Also, controls found to be functioning at a point in time, may later be found deficient because of the performance of those responsible for applying them, and there can be no assurance that controls currently in existence will prove to be adequate in the future as changes take place in the organization.

Our consideration of internal control over financial reporting in our audit of the financial statements would not necessarily disclose all internal control matters that might be weaknesses under assurance standards established by the Canadian Institute of Chartered Accountants. A weakness in internal control is a deficiency in the design or effective operation of internal control. A weakness in internal control is significant if the deficiency is such that a material misstatement is not likely to be prevented or detected in the financial statements being audited.

This letter is a by-product of the financial statement audit and is therefore a derivative communication. This letter has been prepared solely for the use of management and Council in discharging their responsibilities with respect to the financial statements and is not intended for any other purposes. We disclaim any liability to any third party who may rely upon this letter. During our audit of the consolidated financial statements upon which we reported on April 11, 2005, no matters came to our attention involving the design or operating effectiveness of internal control over financial reporting that we consider to be significant weaknesses in internal control as defined above. In the Appendix we provide an update on matters which we discussed in connection with the 2003 audit.



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We would like to express our appreciation for the co-operation we received from you and your staff during our audit visits. If you wish to discuss any of these matters with us or wish assistance in implementing them, please contact us.

Yours very truly

A handwritten signature in black ink, appearing to read 'KPMG' followed by a stylized flourish.

KPMG LLP
Vancouver, Canada

cc: George Duncan, Chief Administrative Officer
Rod Kray, General Manager of Finance & Corporate Services
Malcolm Brodie, Mayor

UPDATE ON RECOMMENDATIONS MADE IN 2003**a) Adoption of a formal fraud strategy and response plan**

In 2003, we recommended that the City should review their fraud strategy and response plan to ensure it encompasses the elements of best practices in the public market place.

2004 Update

In 2004, the City put together a Business Advisory Services Plan (the "Plan"). The objective of the plan is to provide direction in the delivery of business advisory service to the City of Richmond over the next three years (2005 to 2007). Per review of the Plan, the City will examine best practices in other organizations and determine how these can be incorporated into the City operations to reduce risk and capture the benefits of increased efficiency and effectiveness.

b) Short and long term strategic plan

In 2003, we recommended that the City develop a written three to five year strategic IT plan that is based on the Company's long term business plan/objectives.

2004 Update

In 2004, the City has an IT short term plan which addresses current and on-going needs.

c) Segregation of duties in PeopleSoft

In 2003, we recommended that:

- The City perform an evaluation of access control with an emphasis on ensuring appropriate segregation is applied.
- IT be removed from update access for all HR information. If access to these tables is required to allow troubleshooting this should be set up on an as needed basis but should be removed as soon as the issue is resolved.
- Accounts Payable and Accounts Receivable personnel should not be able to maintain and create vendors. Only Purchasing and Inventory should be able to control this information. Inquiry access should only be enabled for both Accounts Payable and Accounts Receivable.

2004 Update

Through visual inspection and testing, it was shown that members of the applications systems team now have view/read only access to the data in production.



d) Commercial Water Meter Reading Process

In 2003, we recommended some changes that needed to be made around the Commercial Water Reading Process.

The City should seek to gain additional functionality around the Neptune system to ensure that it meets basic control and audit requirements. In addition to this, logical access and change control procedures should be put in place for the Neptune system. This should include the installation of a simple test environment and the adoption of formal change control procedures to ensure that no unauthorized change is made to the software and internal control environment.

All manual changes to the data within the remote meter reader or 'guns' by the water meter department should be checked to ensure that there is a valid reason code attached. The water meter manager should monitor and follow up on changes.

2004 Update

The IT department has created audit reports that will track changes made to the data. These reports are reviewed and signed off by the Water Department Manager. This review is done on a quarterly basis.