



*cutting through complexity*

# Power Authority of the State of New York (NYPA)

**2013 Audit Plan**  
**September 24, 2013**  
*Ken Deon and Scott Heiser*

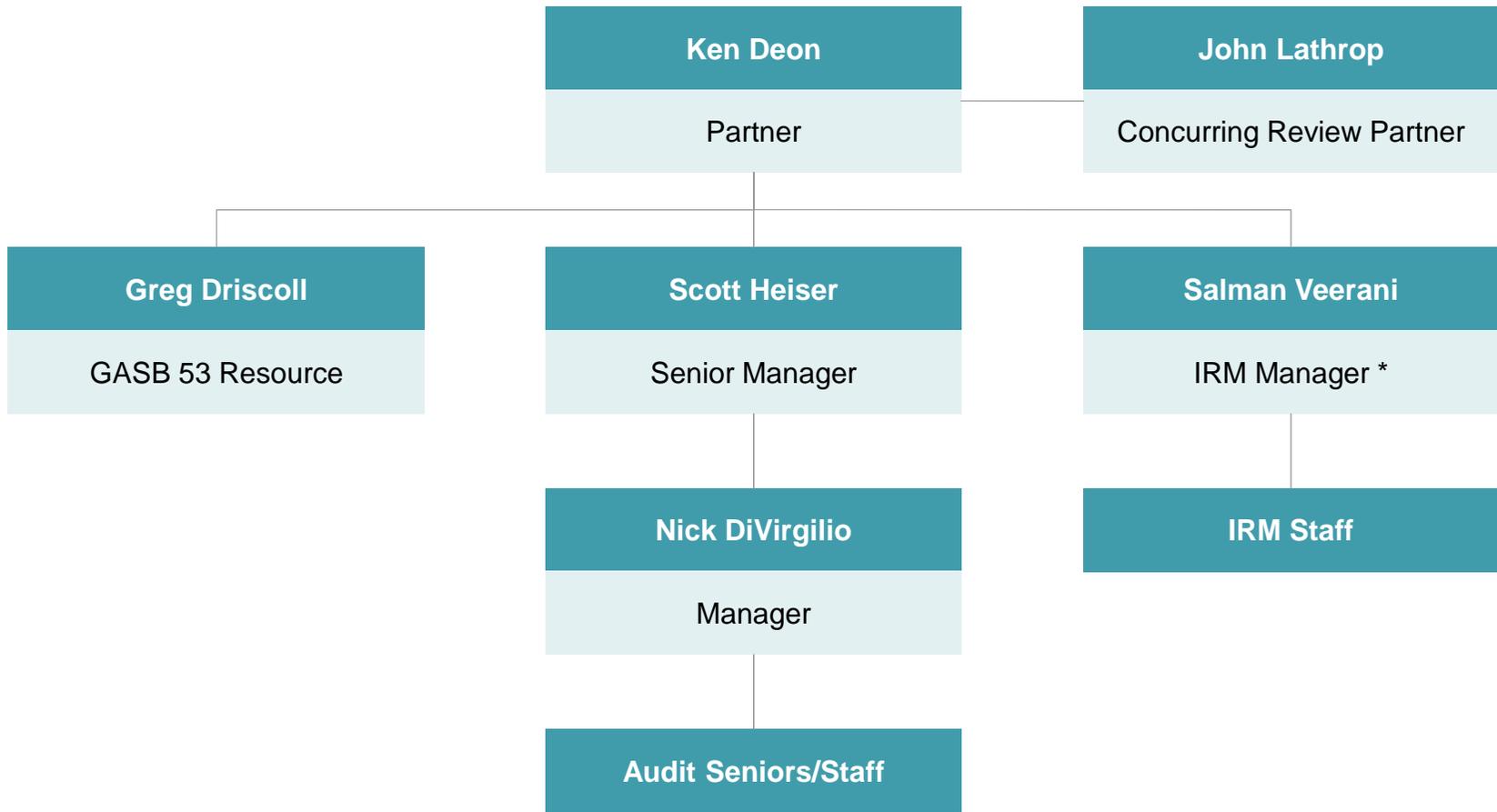
**Prepared: September 9, 2013**

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# KPMG Audit Plan - Agenda

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# KPMG Client Service Team



\* Information Risk Management.

# Audit Objectives

- The objective of an audit of financial statements is to enable the auditor to express an opinion about whether the financial statements that have been prepared by management with the oversight of the Audit Committee are presented fairly, in all material respects, in conformity with generally accepted accounting principles (GAAP).
- We plan and perform the audit to obtain reasonable assurance about whether the financial statements taken as a whole are free from material misstatement, whether from error or fraud. Although not absolute assurance, reasonable assurance is a high level of assurance
- Our audit includes:
  - Performing tests of the accounting records and such other procedures, as we consider necessary in the circumstances, based on our judgment, including the assessment of the risks of material misstatement to provide a reasonable basis for our opinion.
  - Evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, and evaluating the overall financial statement presentation.

# Audit Objectives and Responsibilities (continued)

## KPMG Responsibilities

- Express an opinion about whether the financial statements are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles (GAAP).
- Planning and performing the audit with an attitude of professional skepticism
- Evaluating Internal Controls over Financial Reporting (ICFR) as a basis for designing audit procedures.
- Conducting the audit in accordance with professional standards and complying with the Code of Professional Conduct of the American Institute of Certified Public Accountants, and the ethical standards of relevant CPA societies and relevant state boards of accountancy.
- Adhere to the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States
- Communicating to management and the Audit Committee all required information, including significant matters
- Communicating to the Audit Committee and management in writing all significant deficiencies and material weaknesses in internal control identified in the audit and reporting to management all deficiencies noted during our audit that are of sufficient importance to merit management's attention
- Provide the Audit Committee with additional information regarding our audit and the Company's accounting and financial reporting process as required under Statement of Auditing Standards (SAS) No. 114, *The Auditor's Communication with Those Charged with Governance*
- Provide management and the Audit Committee with comments and recommendations regarding internal control that were noted as part of our audit (if applicable)
- We continue to provide independent feedback to management and the Audit Committee of the Board of Trustees on emerging industry, and accounting issues

# Responsibilities (continued)

## Management Responsibilities

- Adopting sound accounting policies
- Fairly presenting the financial statements in conformity with GAAP and other applicable standards (i.e. GASB)
- Establishing and maintaining effective internal control over financial reporting (ICFR)
- Identifying and confirming that the Authority complies with laws and regulations applicable to its activities
- Making all financial records and related information available to the auditor
- Providing unrestricted access to person's within the entity from whom the auditor determines it necessary to obtain audit evidence
- Providing the auditor with a letter confirming certain representations made during the audit that include, but are not limited to, management's:
  - Disclosure of all significant deficiencies, including material weaknesses, in the design or operation of ICFR that could adversely affect the Authority's ability to initiate, authorize, record, process, or report financial data
  - Acknowledgement of their responsibility for the design and implementation of programs and controls to prevent, deter, and detect fraud
- Oversight of the financial reporting process and oversight of ICFR
- Oversight of the establishment and maintenance by management of programs and internal controls designed to prevent and detect fraud

## Responsibilities (continued)

### **The Audit Committee is responsible for:**

- Oversight of the financial reporting process and oversight of ICFR
- Oversight of the establishment and maintenance by management of programs and internal controls designed to prevent and detect fraud

### **Management and the Audit Committee are responsible for:**

- Setting the proper tone and creating and maintaining a culture of honesty and high ethical standards

**The audit of the financial statements does not relieve management or the Audit Committee of their responsibilities.**

# Responsibilities for other information in documents containing audited financial statements

- The auditors' report on the financial statements does not extend to other information in documents containing audited financial statements, excluding required supplementary information.
- We are required to:
  - Read the other information to identify material inconsistencies or misstatement of facts, if any, with the audited financial statements, and
  - Make appropriate arrangements with management or the Audit Committee to obtain the other information prior to the date of the auditors' report.
- Any material inconsistencies or misstatement of facts that are not resolved prior to the report release date, and that require revision of the other information, may result in KPMG modifying or withholding the auditors' report or withdrawing from the engagement.

# KPMG's Audit Approach and Methodology

## 1. Experienced team

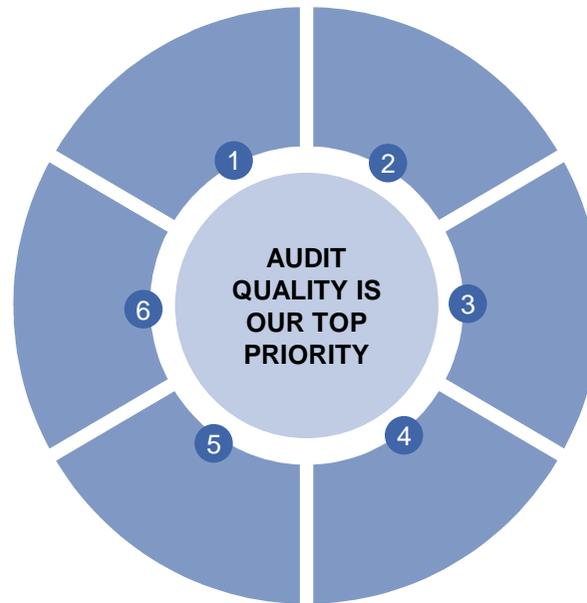
We have an experienced team. Our team includes the following specialists: Information Risk Management (IRM) and Forensics.

## 6. Compliance with applicable professional standards

KPMG has systems and processes in place to monitor compliance with professional standards.

## 5. Consistent audit methodology worldwide

Consistent audit methodology and technology used by KPMG member firms worldwide.



## 2. Tailored to Authority's business strategies and activities

In developing our audit plan, we have based our approach on our understanding of the Authority's objectives and strategies and the challenges facing the business.

## 3. Top-down, risk-based approach

We work closely with management to understand the business challenges and changes in the business during the year with respect to the impact on our audit approach. Our audit plan outlines our assessment of audit risk and highlights specific areas of focus.

## 4. Effective and efficient audit

Our audit approach involves interaction with all levels of management throughout the year to identify issues. Our audit approach is based on communication and coordination with management and Internal Audit.

# KPMG's Audit Approach and Methodology (continued)

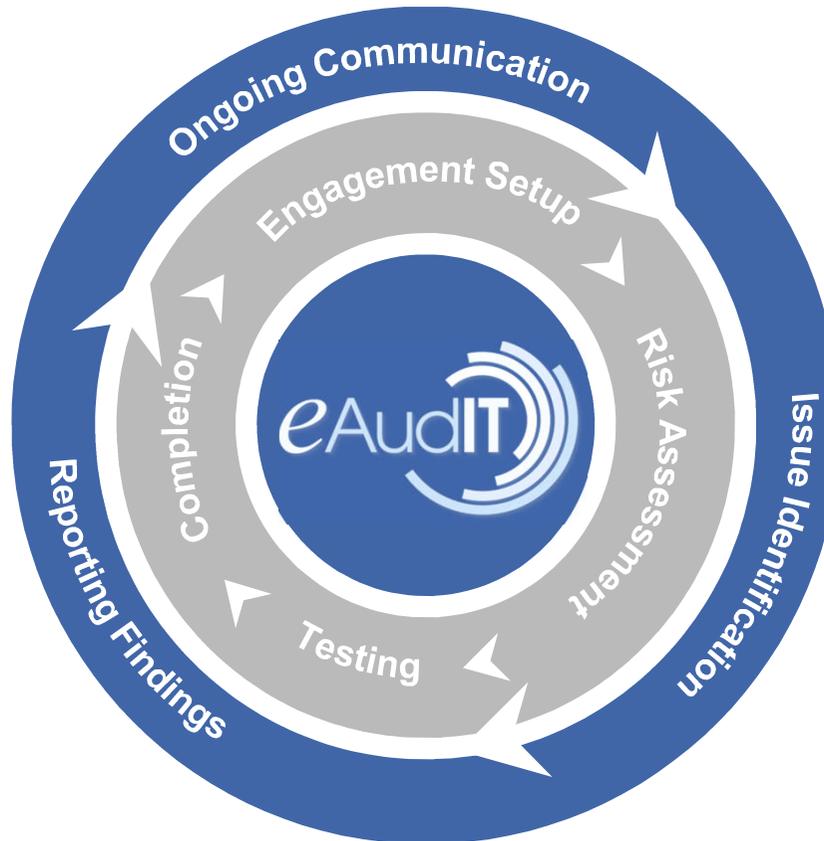
## Technology enabled audit work flow

### Engagement Setup

- Tailor the eAudit work flow to your circumstances
- Access global knowledge specific to your industry

### Completion

- Form and issue audit opinion on financial statements
- Required communications to those charged with governance
- Debrief audit process



### Risk Assessment

- Understand your business and financial processes
- Identify significant risks
- Determine audit approach
- Evaluate design and implementation of your internal controls

### Testing

- Test effectiveness of your internal controls
- Perform substantive tests

# Audit Plan - Scope

## **Scope of work**

Audit of the financial statements of NYPA as of and for the two- year period ended December 31, 2013

## **Applicable financial reporting framework**

U.S. generally accepted accounting principles (GAAP/GASB)

## **Applicable auditing standards**

Auditing standards generally accepted in the United States of America as issued by the Auditing Standards Board of the American Institute of Certified Public Accountants (U.S. GAAS)

Governmental Auditing Standards issued by Comptroller of the United States

## **Other terms of engagement**

Expected communications with management and the Board of Trustees/Audit Committee

Issue report on Investment Compliance and Internal Controls

# Audit Plan - Risk Assessment

Based on our understanding of the entity’s business, industry, and environment (including internal controls), the following are significant risks in the financial statements that will be considered in our planned audit approach in response to such risks:

Audit Risk	Issues
Current economic environment - Liquidity	<p>We will design audit procedures to understand NYPA’s exposure to the current economic environment and perform appropriate procedures to ensure account balances are appropriately stated and the proper disclosures are made. The following issues will be addressed:</p> <ul style="list-style-type: none"> <li>• Impaired investments and assets</li> <li>• Access to credit markets</li> <li>• Fair value of assets</li> <li>• Accounts receivable aging and related allowance for doubtful accounts</li> </ul>
Management judgments and accounting estimates	Appropriate methodologies and assumptions in assessing exposures/liabilities; ISO Reserves, Bad Debt Reserves, OPEB obligations, self insured reserves, legal injuries and damage
Fuel, purchased power, and interest rate derivatives	Proper determination of fair value and accounting and disclosure requirements as required by GASB 53
Revenue recognition	Appropriate revenue recorded as energy is delivered including unbilled revenue accounting
Other considerations – NYPA’s business risks	<p>Transactions with New York State</p> <p>Volatility of fuel due to macro economic factors regarding oil, natural gas prices and power and its impact on derivatives or risk management model utilized by NYPA (i.e. exposure to new risk)</p>

## Risk assessment (continued)

Audit Risk	Issues
Debt Obligations	Compliance with related covenants
Lease accounting	Purchase Power Agreements with third parties as leases or executory contracts KPMG will review management's assessment of any potential impairments to capital leases
Recharge NY and Other Programs	Review of program activities, and appropriateness of program's accounting
Top side journal entries	Appropriate accounting for existence and accuracy of unusual nonrecurring transactions
Contract approval process & new power contracts	All contracts are subject to detailed review for legal and accounting implications, including contracts entered into on behalf of NYPA

## Audit Plan – Materiality

- Professional standards require that we exercise professional judgment when we consider materiality and its relationship with audit risk when determining the nature, timing, and extent of our audit procedures, and when evaluating the effect of misstatements.
- Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.
- Materiality depends on the size and nature of the item or error judged in the particular circumstances of its omission or misstatement.
- Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.

# Audit Plan – Fraud Risks

## Identification of fraud risks:

- Perform risk assessment procedures to identify fraud risks, both at the financial statement level and at the assertion level
- Discuss among the engagement team the susceptibility of the entity to fraud
- Perform fraud inquiries of management, the Audit Committee, and others
- Evaluate the Authority's broad programs/controls that prevent, deter, and detect fraud

## Response to identified fraud risks:

- Evaluate design and implementation of antifraud controls
- Test effectiveness of antifraud controls
- Address revenue recognition and risk of management override of controls
- Perform specific substantive audit procedures (incorporate elements of unpredictability)
- Evaluate audit evidence
- Communicate to management and the Audit Committee

# Substantive Audit Procedures/Significant Audit Areas

## Cash and Investments

- Confirm all balances in cash and investment accounts
- Test, on a sample basis for compliance with investment guidelines
- Value investments on a sample basis with KPMG's pricing department to determine if recorded at appropriate fair value

## Purchase Power and Fuel Expense

- Purchase power invoices
- Oil and gas invoices
- Analytical procedures of account balances

## Revenue

- Review and recalculate bills based on applicable tariffs
- Send confirmations for a sample of accounts receivable balances
- Perform analytical and substantive procedures of account balances
- Recalculate the allowance on account receivables and evaluate management's methodology
- Send confirmation to the NYSISO for ISO related revenues and expenses

## Fuel and Materials Inventory

- Review inventory observations (in conjunction with internal audit) at selected locations to verify quantity of inventories
- Perform cost and price testing procedures over inventory

# Substantive Audit Procedures/Significant Audit Areas (continued)

## Derivatives

- Confirm all derivatives (debt and fuel related) with counterparty
- Re-perform the valuation for a sample of derivative positions
- Perform process walk through of a sample of fuel derivatives

## Debt

- Confirm all debt
- Review debt compliance for all existing debt
- Select a sample of interest expense payments and obtain audit evidence to support expenditure

## Lease and Other Agreements

- Review all new lease agreements for proper accounting treatment
- Confirm terms of certain existing lease agreements

## Plant and Property

- Select a sample of invoices to ensure proper accounting treatment for additions to Plant in service and CWIP accounts
- Select a sample of retirements to ensure proper accounting treatment for retirements
- Perform analytical procedures of account balances

## Journal Entries

- Obtain audit documentation for a selection of manual journal entries to verify authorization, appropriateness, and if in accordance with adopted accounting principles

# Deliverables and Timetable

## Planning and Interim

### August thru November

- Perform risk assessment procedures and identify risks
- Determine audit strategy and identify critical accounting matters
- Finalize planned audit approach
- Meet with executive management for feedback, discussion, and time table of deliverable
- Complete testwork over selected controls and substantive audit procedures at interim date

### Year-End Substantive Testing

#### End of January through February 2014

- Perform remaining substantive procedures and tests of details
- Consider if audit evidence is sufficient and appropriate
- Conclude on critical accounting matters and issues
- Review draft financial statements
- Begin completion procedures

# Deliverables and Timetable (continued)

## Completion

### February through Mid-March

- Finish completion procedures
- Finish overall evaluation of the financial statements and disclosures
- Finalize audit opinion on financial statements
- Finalize Deliverables:
  - Audit Opinion on NYPA’s Basic Financial Statements as of and for the year ended December 31, 2013
  - Investment Guidelines Compliance Report
  - Report on Internal Control over Financial Reporting and Compliance on Other Matters
  - A-133 Single Audit, if necessary
  - Required Communications to the Audit Committee
  - Management letter, if necessary

# Independence

In our professional judgment, we are independent with respect to NYPA, as that term is defined by the professional standards

## Ethics and Compliance Hotline

- KPMG LLP's Ethics and Compliance Hotline is a reporting mechanism that facilitates reporting of possible illegal, unethical, or improper conduct as outlined in KPMG's Code of Conduct. The Ethics and Compliance Hotline is available 24 hours a day, seven days a week
- The hotline is administered by an independent, third-party provider and is available to firm partners and employees, as well as clients, contractors, vendors and others in a business relationship with KPMG, including other member firms whose partners and employees may be working with the U.S. firm on engagements with U.S.- based clients
- Hotline Number: 1-877-576-4033

# KPMG's Audit Committee Institute (ACI)

## Audit Committee Quarterly Webcast Series

- A quarterly Webcast providing updates and insights into issues affecting audit committee/board oversight—from key accounting and regulatory changes to developments in risk oversight.

## Resources

- *Audit Committee Insights* – U.S. and International editions (biweekly electronic publications): [www.kpmginsights.com](http://www.kpmginsights.com)
- ACI Web site: [www.auditcommitteeinstitute.com](http://www.auditcommitteeinstitute.com)
- ACI mailbox: [auditcommittee@kpmg.com](mailto:auditcommittee@kpmg.com)
- ACI hotline: 1-877-KPMG-ACI

**Questions?**



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