



*cutting through complexity*

# New York Power Authority Audit Plan December 31, 2014

This presentation to the Audit Committee is intended solely for the information and use of the Audit Committee and management and is not intended to be and should not be used by anyone other than these specified parties. This presentation is not intended for general use, circulation or publication and should not be published, circulated, reproduced or used for any purpose without our prior written permission in each specific instance.

December 11, 2014

# Agenda

## Presentation

- 1.0 Client service team
- 2.0 Objective of an audit
- 3.0 Risk assessment
- 4.0 Audit plan

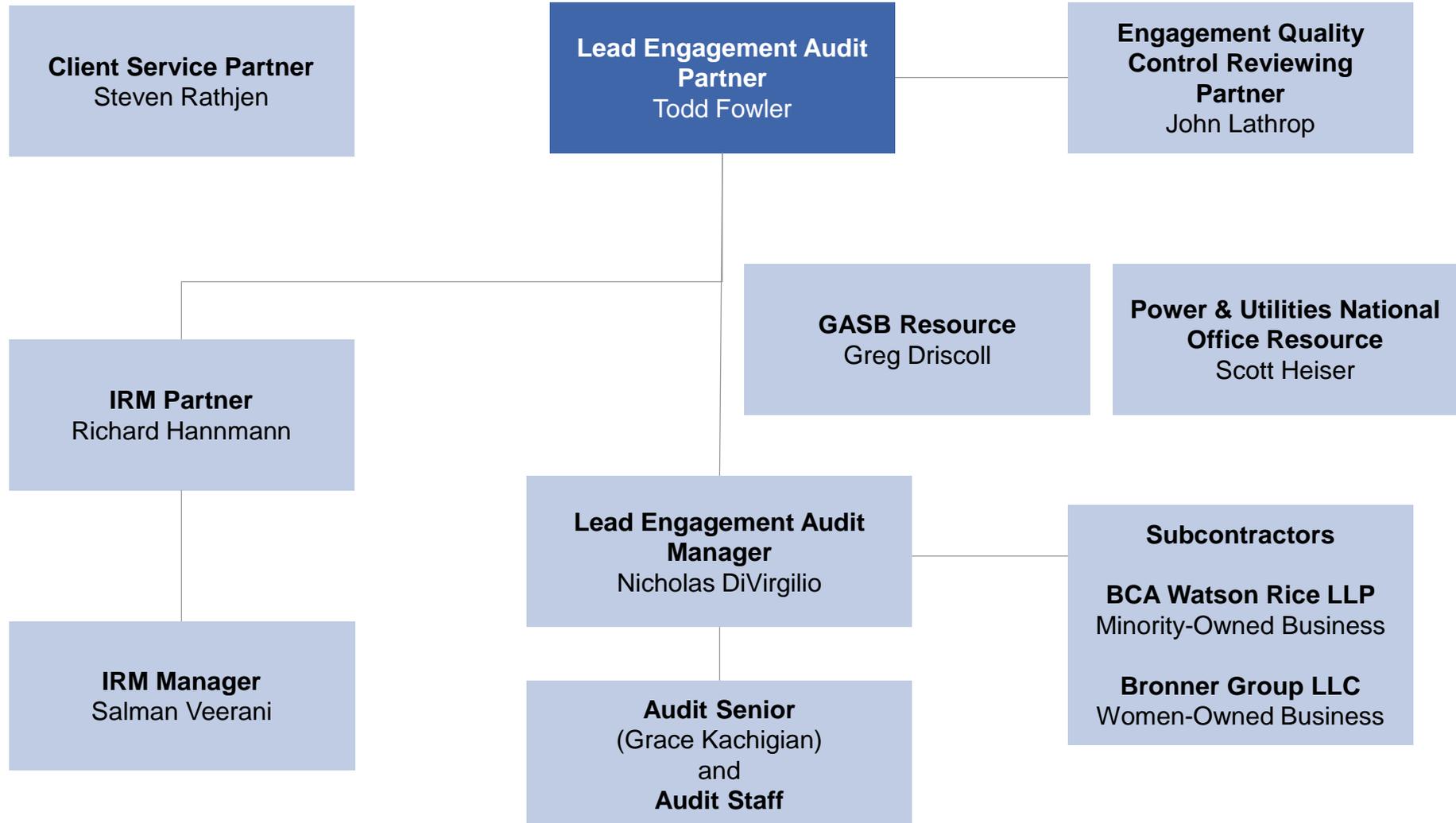
## Appendices

- A.1 Responsibilities
- A.2 KPMG's audit approach and methodology
- A.3 Materiality
- A.4 Auditing and accounting matters
- A.5 Audit fees
- A.6 Independence
- A.7 KPMG's Audit Committee Institute

# **1.0**

## **Client service team**

# Client service team



## **2.0**

# **Objective of an audit**

# Objective and scope of the audit

- The objective of an audit of the 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), including Government Accounting Standards, as issued by the Government Accounting Standards Board (GASB).
- 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 due to fraud or error. Although not absolute assurance, reasonable assurance is a high level of assurance. We perform our audit in accordance with:
  - 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).
  - Government Auditing Standards issued by the Comptroller of the United States.
- 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 presentation of the financial statements.
- Reports to be issued:
  - Opinion on the financial statements of the Authority as of and for the two-year period ended December 31, 2014
  - Report on Internal Controls and Other Matters as of December 31, 2014
  - Report on Investment Compliance as of December 31, 2014

# **3.0**

## **Risk assessment**

# Risk assessment

Based on our understanding of the entity's business, industry, and environment, the following are significant risks that may result in a material misstatement (due to fraud or error) in the financial statements and our planned audit approach in response to such risks:

Significant risk	Financial statement impact	Planned audit approach
Revenue recognition	Appropriate recognition of revenue as power is delivered.	<ul style="list-style-type: none"> <li>• Test key internal controls over the revenue process</li> <li>• Confirmation of receivables and detail testing of SENY/Wholesale revenue</li> <li>• Agree SENY/Wholesale billed rates to the approved tariffs</li> <li>• Confirmation and detail testing of Revenue/Receivables with NYISO</li> </ul>
Derivative valuation and hedge effectiveness	Appropriate valuation and disclosure of derivative contract, including appropriate conclusions regarding hedge effectiveness	<ul style="list-style-type: none"> <li>• Test management's determination of the fair value of derivatives utilizing firm valuation specialists</li> <li>• Confirm open derivative contracts and key terms with counterparties</li> <li>• Test management's determination of hedge effectiveness utilizing firm specialists</li> </ul>
Regulatory accounting	Appropriate assessment of the recoverability of amounts deferred	<ul style="list-style-type: none"> <li>• Detail test additions to deferred charges/regulatory assets throughout the year</li> <li>• Assess the recoverability of the charges to ensure they are appropriately deferred</li> </ul>

# Risk assessment (continued)

Significant audit areas	Significant estimates	Significant unusual transactions/other items	Information technology matters
<ul style="list-style-type: none"> <li>■ Revenue recognition</li> <li>■ Derivatives and hedging</li> <li>■ Regulatory accounting</li> <li>■ Long term debt</li> <li>■ Capital assets</li> <li>■ Investments (including Nuclear Decommissioning Trust)</li> </ul>	<ul style="list-style-type: none"> <li>■ Asset retirement obligations</li> <li>■ Derivative valuations</li> <li>■ Other post-employment benefits</li> <li>■ Accounting for rate regulation</li> </ul>	<ul style="list-style-type: none"> <li>■ Loan to the State of New York</li> <li>■ Litigation matters and inquiries with general counsel</li> </ul>	<ul style="list-style-type: none"> <li>■ General information technology environment</li> </ul>

# 4.0 Audit plan

# Audit plan – Deliverables and time line

October – November 2014		December 2014	January – February 2014	March 2014
<ul style="list-style-type: none"> <li>Identify specific and pervasive financial statement fraud risks and assess the effect on the audit plan</li> <li>Perform risk assessment procedures and identify risks</li> <li>Assessment of audit risk and planning of substantive audit procedures</li> <li>Determine audit strategy and identify critical accounting matters</li> <li>Plan audit procedures</li> <li>Finalize planned audit approach</li> </ul>	<ul style="list-style-type: none"> <li>Perform walkthroughs of internal control processes</li> <li>Test entity-wide and monitoring controls</li> <li>Evaluate design of selected key controls</li> <li>Test IT general controls</li> <li>Test operating effectiveness of selected key controls</li> <li>Perform interim substantive procedures</li> <li>Evaluation of interim results and establish plan for performance of substantive audit procedures</li> </ul>	<ul style="list-style-type: none"> <li>Present 2014 Audit Plan to the Audit Committee</li> <li>Perform/send year-end confirmations (e.g. legal, debt, cash, investments, accounts receivable, revenue and derivatives)</li> <li>Inventory observation attendance</li> </ul>	<ul style="list-style-type: none"> <li>Meetings with management to discuss key issues</li> <li>Test operating effectiveness of selected year-end controls</li> <li>Perform substantive procedures and tests of detail</li> <li>Perform procedures related to the Authority's investment compliance with the State of New York guidelines</li> <li>Consider if audit evidence is sufficient and appropriate</li> <li>Conclude on critical accounting matters and issues</li> </ul>	<ul style="list-style-type: none"> <li>Confirm completion procedures</li> <li>Form audit conclusions</li> <li>Perform overall evaluation of financial statements and disclosures</li> <li>Present required communications to Audit Committee</li> <li>Form audit opinion on financial statements</li> <li>Report on Internal Control over Financial Reporting and Compliance on Other Matters</li> <li>Report on Investment Compliance</li> <li>Finalize all deliverables</li> <li>Prepare management letter comments, if applicable</li> </ul>

# Appendices

# **A.1**

## **Responsibilities**

# Responsibilities

## Management is responsible for:

- Adopting sound accounting policies
- Fairly presenting the financial statements, including disclosures, in conformity with GAAP
- Establishing and maintaining effective internal control over financial reporting (ICFR), including programs and controls to prevent, deter, and detect fraud
- Identifying and ensuring that the Company complies with laws and regulations applicable to its activities, and for informing the auditor of any known material violations of such laws and regulations
- Making all financial records and related information available to the auditor
- Providing unrestricted access to personnel within the entity from whom the auditor determines it necessary to obtain audit evidence
- Adjusting the financial statements to correct material misstatements
- Providing the auditor with a letter confirming certain representations made during the audit that includes, but is not limited to, management's:
  - Disclosure of all significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the Company's financial reporting
  - Acknowledgement of their responsibility for the design and implementation of programs and controls to prevent, deter, and detect fraud
  - Affirmation that the effects of any uncorrected misstatements aggregated by the auditor are immaterial, both individually and in the aggregate, to the financial statements taken as a whole

# Responsibilities (continued)

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

- Oversight of the financial reporting process
- Oversight of the establishment and maintenance by management of programs and internal controls designed to prevent, deter, 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 (continued)

## **KPMG is responsible for:**

- Forming and expressing 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 GAAP
- Planning and performing the audit with an attitude of professional skepticism
- 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
- Evaluating ICFR as a basis for designing audit procedures, but not for the purpose of expressing an opinion on the effectiveness of the entity's ICFR
- Communicating to management and the Audit Committee all required information, including significant matters
- Communicating to management and the Audit Committee 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

## **A.2**

# **KPMG's audit approach and methodology**

# KPMG's audit approach and methodology

## Technology enabled audit work flow

### Engagement Setup

- Tailor the eAudit work flow to your circumstances
- Access global knowledge specific to your industry
- Team selection and timetable

### Completion

- Perform overall evaluation of results and the financial statements
- Form and issue audit opinion on the financial statements
- Obtain written representations from management
- Required Audit Committee communications
- Debrief audit process



### Risk Assessment

- Understand your business and financial processes
- Identify significant risks
- Plan involvement of specialists and others including experts, internal auditors, service organizations, and other auditors
- Determine audit approach
- Evaluate design and implementation of your internal controls

### Testing

- Test effectiveness of internal controls, as applicable
- Perform substantive tests

# **A.3**

## **Materiality**

# 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 misstatement or omission 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.
- 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.

**A.4**

**Auditing and accounting  
matters**

# Auditing and accounting matters

## Other matters for discussion with the Audit Committee include their views about:

- The appropriate person (Audit Committee Chair or full committee) for communication of audit matters during the audit
- Allocation of responsibilities between management and the Audit Committee
- Entity's objectives and strategies and related business risks
- Areas that warrant particular attention during the audit and additional procedures to be undertaken
- The nature and extent of communications expected with the Audit Committee about misappropriations perpetrated by lower-level employees
- Significant communications with the regulators
- The attitudes, awareness, and actions concerning (a) the entity's internal controls and its importance in the entity, including oversight of effectiveness of internal controls, and (b) detection of or possibility of fraud
- The actions in response to developments in law, accounting standards, corporate governance, and other related matters
- The actions in responses to previous communications with the auditor

# **A.5**

## **Audit fees**

# Audit fees

	2014	2013
Audit fees		
Financial statements and related notes to the financial statements		
Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Accounting Standards</i>	\$279,000*	\$271,500
Investment Compliance Report		

\* 2014 fees will be based on the actual number of hours incurred at the applicable hourly rates set out in our agreement. This represents the amount not to exceed for the 2014 audit.

# **A.6**

## **Independence**

# KPMG Independence Quality Controls

## **KPMG maintains a comprehensive system of quality controls designed to maintain our independence**

- Pre-approval of all worldwide engagements by the audit engagement team through Sentinel, a KPMG independence verification system
- Monitoring employment relationships
- Tracking partner rotation requirements using PRS, the firm's automated partner rotation tracking system
- Automated investment tracking system used by all KPMG member firms (KICS)
- Training and awareness programs
- Compliance testing programs
- Annual reporting to the Audit Committee

**In our professional judgment, we are independent with respect to the Power Authority of the State of New York, as that term is defined by the professional standards.**

**A.7**

**KPMG's Audit Committee  
Institute**

# KPMG's Audit Committee Institute (ACI)

*In depth insights. In time to matter.*

## Upcoming events

- 11<sup>th</sup> Annual Audit Committee Issues Conference
  - East Coast – February 2-3, 2015, Miami, FL
  - This conference brings together audit committee members from around the country to discuss challenges, practices, and priorities shaping audit committees and board agendas.

## Webcasts on demand

- [Cyber Insecurity: How Safe Can the Company's Data Assets Be?](#)
- [Revenue Recognition Industry Supplement – Power and Utilities](#)
- [CFO Financial Forum Webcast: KPMG's Quarterly Outlook for Accounting and Financial Reporting Matters – March 2014](#)

## Suggested Publications (available for download at [www.kpmg.com/aci](http://www.kpmg.com/aci))

- Directors Quarterly
- Global Boardroom Insights
- 2014 Audit Committee Priorities
- 2014 Global Audit Committee Survey

## Resources

- ACI Web site: [www.kpmg.com/aci](http://www.kpmg.com/aci)
- ACI mailbox: [auditcommittee@kpmg.com](mailto:auditcommittee@kpmg.com)
- ACI hotline: [1-877-KPMG-ACI](tel:1-877-KPMG-ACI)



*cutting through complexity*

© 2014 KPMG LLP, a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. All rights reserved.

The KPMG name, logo and “cutting through complexity” are registered trademarks or trademarks of KPMG International.