



**MINUTES OF THE REGULAR MEETING
OF THE
NYPA AUDIT COMMITTEE**

September 26, 2017

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September 26, 2017

Minutes of the regular meeting of the New York Power Authority's Audit Committee held at the Clarence D. Rapleyea Building, White Plains, New York, at approximately 8:15 a.m.

The following Members of the Audit Committee were present:

Trustee Eugene Nicandri, Chairman
Trustee John R. Koelmel
Trustee Tracy McKibben

Trustee Anne M. Kress - Excused
Trustee Anthony Picente, Jr. - Excused

Also in attendance were:

Dennis Trainor	Trustee
Gill Quiniones	President and Chief Executive Officer
Justin Driscoll	Executive Vice President and General Counsel
Karen Delince	Vice President and Corporate Secretary
Thomas Concadoro	Vice President and Controller
Joseph Gryzlo	Vice President and Chief Ethics and Compliance Officer
Angela Gonzalez	Director - Internal Audit - Technology
Lorna Johnson	Senior Associate Corporate Secretary
Sheila Baughman	Senior Assistant Corporate Secretary
Gottor, Jaiah	Manager - Network Services
Joseph Rivera	Network Architect
Glen Martinez	Senior Network Analyst
Todd Fowler	Lead Engagement Audit Partner - KPMG
Grace Kachigian	Audit Manager - KPMG

Chairman Eugene Nicandri presided over the meeting. Corporate Secretary Delince kept the Minutes.

Introduction

Chairman Nicandri welcomed committee members and senior staff to the meeting. He said the meeting had been duly noticed as required by the Open Meetings Law and called the meeting to order pursuant to section B(4) of the Audit Committee Charter.

1. **Adoption of the Proposed Meeting Agenda**

Upon motion made by Trustee McKibben and seconded by Trustee Koelmel, the agenda for the meeting was adopted.

2. **Motion to Conduct an Executive Session**

Mr. Chairman, I move that the Committee conduct an executive session to discuss the employment history of a particular person (pursuant to §105 of New York Public Officers Law). Upon motion made by Trustee McKibben and seconded by Trustee Koelmel, an Executive Session was held.

3. **Motion to Resume Meeting in Open Session**

Mr. Chairman, I move to resume the meeting in Open Session. Upon motion made by Trustee Koelmel and seconded by Trustee McKibben, the meeting resumed in Open Session.

4. CONSENT AGENDA:

Upon motion made by Trustee Koelmel and seconded by Trustee McKibben, the Consent Agenda was approved.

a. **Approval of the Minutes of the Regular Meeting held on July 25, 2017**

Upon motion made and seconded, the Minutes of the Committee's Regular Meeting held on July 25, 2017 were approved.

b. Authority Policy on Internal Controls

The Vice President and Controller submitted the following report:

“Under the Authority’s By-Laws, the Audit Committee provides oversight of management’s internal controls, compliance and risk assessment practices. Accordingly, this company policy, titled *CP 2-5 Internal Controls* and attached as Exhibit 4b-A, establishes guidelines for the Authority’s system on internal controls in accordance with internal control standards established by the Office of the State Comptroller and based on the internal control integrated framework of the Committee of Sponsoring Organizations of the Treadway Commission (‘COSO’). This policy replaces the Authority’s former Financial and Accounting Controls policy.

After Audit Committee approval, the *CP 2-5 Internal Controls* policy is scheduled to be presented for approval by the Authority’s Trustees at their meeting on September 26, 2017, which, pursuant to Section 2931 of the Public Authorities Law, requires the Authority’s governing board to establish and maintain the Authority’s guidelines for a system of internal control that are in accordance with New York State’s Internal Control Act and internal control standards.

REQUIRED ACTION

It is requested that the Audit Committee recommend that the Authority’s Trustees approve the Authority’s *CP 2-5 Internal Controls* policy.”

5. DISCUSSION AGENDA:

a. Internal Audit Activity Report

Mr. Joseph Gryzlo, Vice President and Chief Ethics Officer said that the Internal Audit (“IA”) department’s report consists of an organizational update, as well as a substantive summary of activities taking place with respect to the Audit Plans and preparations for 2018. He said that since the July Audit Committee meeting there has been an organizational transition in the Internal Audit department. At this time, he and Ms. Angela Gonzalez, Director of Internal Audit, Information Technology, are co-managing the department. They are providing leadership and ensuring the successful execution of the Audit Plans for both the Power Authority and the Canal Corporation. The Internal Audit team is fully engaged; the managers and staff level auditors have taken on additional responsibilities and are leveraging NYPA’s co-source Audit Partner, Deloitte, to provide subject matter expertise and to backfill audit field work and testing, where needed. He continued that, the Audit report, which Ms. Gonzalez will provide to the committee, will include a summary of the execution of the 2017 NYPA and Canal Audit Plans, the preparation and initiation of the risk assessments which form the foundation for the development of the 2018 NYPA and Canal Audit Plans, as well as a summary of the legacy open audit recommendations that appeared in prior Audit Committee reports that have since been closed.

Ms. Gonzalez provided an update of the Internal Activities as follows:

2017 Audit Status

Thirty (30) reports have been issued to date; eight are in different stages of reporting and six are expected to be going out by the end of the month. This will bring the Internal Audit 2017 Plan to be about 63 percent complete. Internal Audit staffs are engaged in 31 consulting engagements, some of which are partnering arrangements, resulting in either documented or real-time verbal feedback. In addition, IA has issued three “good” opinions, six “satisfactory,” six “improvements needed,” zero “unsatisfactory” and 15 “unrated” between assessments and memos.

Internal Audit is confident that the 2017 Audit Plan will be completed by the end of the year.

Changes to 2017 Internal Audit Plan

Based on risk information from discussions with management, some changes were recently made to the Plan. As of the July Audit Committee meeting, Internal Audit (“IA”) had 55 projects

for NYPA. Two audits have been added: IT Demand Management and follow-up on the OSC Audit for the Real Estate Portfolio Audit. Three audits were removed from the Plan, the system development life cycle improvement consulting engagement (NYPA), Canals governance, which is still maturing, and the Rizzo Study, for a total of 54 projects for the 2017 Audit Plan.

Status of Open Recommendations

Internal Audit has been using SharePoint to track open recommendations for NYPA. Monthly reporting to Senior Management has been formalized and, as of June, Internal Audit has formally put that process in place. Internal Audit also tracks Canals' issues in SharePoint; however, Canals does not have visibility into SharePoint because of the separation of NYPA's and Canals' internets. Internal Audit is actively working with Canals' management to obtain Canals' status for closure or extension.

Request for Proposals will be issued by the end of the month for an Enterprise Governance Risk and Control tool which will have an issue checking module for both NYPA and Canals.

All recommendations prior to 2015 have been officially closed. Internal Audit is satisfied with its progress in tracking the recommendations and will continue to work diligently on the 2015 - 2017 recommendations to get them closed.

Status of 2018 Risk Assessment / Audit Plan

Internal Audit has scheduled 55 interviews between NYPA and Canals management to prepare for the 2018 Audit Plan. IA had a kickoff meeting with its staff assigned to risk assessments, Enterprise Risk Management and Deloitte, to leverage some of the information they have attained through their risk assessment process which will be incorporated into the Plan.

Key milestones of 2018 Internal Audit Risk Assessment/Audit Plan

- September 11 - Interviews conducted
- October 9 - Interviews completed
- October 9 - 11 - Internal Audit leadership team to develop a risk-based Audit Plan
- October 16th - Refine and finalize draft Audit Plan
- December 12 - Audit Plan to be submitted to the Audit Committee for approval

Mr. Gryzlo added that the transition was not foreseeable to the Audit Department; however, the department has committed support of the Audit Committee and the Executive Management to keep the group intact while ongoing recruitment efforts are underway with

Human Resources to fill the vacant positions. Internal Audit staff is confident that they will successfully execute the 2017 Plan and prepare for 2018, while leveraging the resources of Deloitte, which is on-call to assist, if needed. Internal Audit understands that the long-term vision is to wean itself from the services of Deloitte; however, in this interim transition period, staff will need to rely on their services until Internal Audit is fully staffed and engaged next year.

b. Audit Plan Update - KPMG

Mr. Todd Fowler, KPMG's Lead Engagement Audit Partner, presented KPMG's Audit Plan for the 2017 Financial Statement Audit (Exhibit 5b-A). He said that the Plan is consistent with the prior years, and he will discuss some of the modifications and changes that have been made.

Mr. Fowler outlined the engagement team for the year saying that the team is consistent with previous years. KPMG has consistency in staffing on the engagement which results in efficiencies. In addition, KPMG has the same M/WBE resources on board that they have used in the past. The team in place should provide an efficient and effective audit for the current year.

Risk Assessment

Significant Audit Areas

- Revenue recognition, Long-term debt, Capital assets, and Investments - Audit approaches are all consistent with how KPMG has audited NYPA's financial statements in the past.
- Significant estimates - also consistent with the prior period.
- Significant unusual transactions:

Canal Corporation Acquisition - the Canal Corporation will be incorporated into the financial statements of NYPA. KPMG is in the process of planning and executing its audit of the transferred balance. KPMG staff met with the prior auditors of the Canal Corporation and reviewed their work-papers to see how they were audited in prior periods in order to get comfortable with the balances transferred to NYPA. They have also met with NYPA's Internal Audit and Deloitte's teams and discussed what their approach is to auditing the assets and liabilities that are being transferred from Canals, to ensure that they are aligned in terms of audit approach for those items. In addition, they have also had discussions with Thomas Concadoro, NYPA's Vice President and Controller, on how those assets and liabilities will be reflected in NYPA's financial statements.

- Information Technology

KPMG have rigorously tested NYPA's Financial IT systems over the past several years and have not had any significant findings or found significant internal control deficiencies. KPMG is of the opinion that it is a well-controlled environment. Therefore, they will take a benchmarking approach this year ensuring that there are no significant changes within personnel and the systems or processes within the IT environment.

Audit Plan - Scope

In addition to the audit of the financial statements and providing an opinion on those statements, KPMG provides an opinion on the internal control environment of NYPA. KPMG also reports on the investment compliance and have also been working with Mr. Concadoro and his team with regards to providing consent and specific procedure letters related to the commercial paper program a potential bond offering.

Audit Plan - Involvement of Others

KPMG continually meets with Internal Audit to discuss:

- The status of the Internal Audit reports
- Findings made by Internal Audit that may impact KPMG's audit
- Reports KPMG can leverage as part of its audit
- Findings made by KPMG which could have an impact on Internal Audit's work-plan
- Coordination and design of the Internal Audit plan for the Canal Corporation

In conducting its audits, KPMG utilizes a number of their in-house experts to review at NYPA's externally prepared expert reports including Actuarial Reports for Post-retirement Benefit Obligations and Derivative Valuations.

Audit Plan – Deliverables and Timeline

KPMG has completed its planning for the audits and is now providing the Committee with its Audit Plan for the current year. KPMG has completed its risk assessment and scoping. Going forward, KPMG will start its interim work for NYPA and Canals with some standard testing, walk-throughs of internal processes and testing controls with the anticipation of this being completed in December. In the months of January and February KPMG will complete its audit work and present its audit results to the Committee at its meeting in March.

6. **Next Meeting**

Chairman Nicandri said that the next regular meeting of the Audit Committee would be held on December 12, 2017 at the Clarence D. Rappleyea Building in White Plains, New York at a time to be determined.

Closing

Upon motion made by Trustee Koelmel and seconded by Trustee McKibben, the meeting was adjourned by Chairman Nicandri at approximately 9:38 a.m.

Karen Delince

Karen Delince
Corporate Secretary

September 26, 2017

EXHIBITS

For

Audit Committee

Minutes

September 26, 2017

Exhibit 4b-A

Internal Controls

Note: Revision # should be listed in descending order starting with most recent version at the top

Revision Date(For BCG Use Only)	Revision #	Description/Modification	Revision Section (s)	Author
[Revision Date]	1	Replacing CP 2-5, formerly titled Financial and Accounting Controls; revisions based on revised Committee of Sponsoring Organizations (COSO) 2013 framework.	All	Zlata Latkovic Director, General Accounting and Financial Reporting

Exhibit 4b-A

1 PURPOSE AND SCOPE

It is the Authority's policy to maintain an effective system of internal controls, thereby providing reasonable assurance for the achievement of its mission and for the reliability of internal and external reports, the effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Internal controls are comprised of plans, methods, policies, and procedures used to fulfill the mission, strategic plan, goals, and objectives of the Authority. They are a series of actions that occur throughout an organization and are an integral part of the operational processes.

It is the objective of this policy to:

- a) ensure understanding of management's responsibility to make certain that internal controls are established, properly documented, maintained, and followed by all Personnel;
- b) ensure understanding by all Personnel of their responsibility for compliance with internal controls; and
- c) provide guidance for managers and staff about the components of internal control.

2 APPLICABILITY

All Personnel have a role in the system of internal controls and must adhere to this policy. Policies, procedures, and guidelines may be prepared to implement this policy.

3 INITIALISMS (ACRONYMS) AND DEFINITIONS

COSO – The Committee of Sponsoring Organizations of the Treadway Commission.

COSO Internal Control — Integrated Framework – COSO's integrated principle-based framework establishes five control components – Control Environment, Risk Assessment, Control Activities, Information and Communication and Monitoring – designed to assist an organization in achieving the three internal control objectives - effective and efficient operations, accuracy of financial reporting and compliance with laws and regulations. In association with these control components, the COSO framework includes internal control principles which represent the fundamental concepts that are associated with the particular components of the internal control system and provide assistance to management in the design and implementation of a good system of internal control.

ICO – The Authority's Internal Control Officer. The Authority's Board of Trustees (the Board) have designated the V.P. Controller as ICO.

Internal Controls – COSO defines internal control as a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of good internal control objectives relating to effective and efficient operations (including operational and financial performance goals and safeguarding assets against loss), accuracy of financial reporting (internal and external financial and non-financial reporting encompassing reliability, timeliness and transparency as set forth by regulators,

Exhibit 4b-A

standard setters or the organizations policies and compliance with laws and regulations to which the Authority is subject to.

Most internal controls can be classified as preventive or detective. Preventive controls are designed to avoid errors or irregularities from initially occurring such as utilizing separation of duties, reading and understanding the Authority's policies and procedures and a manager's review of staff's activities.

Detective controls are designed to identify an error or irregularity after it has occurred. These controls are performed on a routine basis to identify any issues that pose potential risks to the Authority on a timely basis such the use of exception reports to detect and list incorrect or invalid entries or transactions or annual physical inventory of computer equipment to determine if any items have been misplaced or stolen.

Management – Management at the Authority is comprised of the President & Chief Executive Officer and Business Unit Heads (Executive Management, the top/senior levels of management), Department Heads (vice presidents and directors) and Operations/Facilities Managers at all units/divisions/departments (at headquarters and at facilities).

Personnel – Authority employees and contractors.

4 RESPONSIBILITY

- 4.1 The Board, President and Business Unit Heads** of the Authority establish the tone at the top regarding the expected standards of conduct – the presence of integrity, ethics, competence and a positive control environment exhibited in the Authority's By-Laws, Code of Conduct and Company Policies.
- a) The Authority's Audit Committee was established by the Authority's Board to have oversight of the integrity of the Authority's internal control system.
 - b) The Authority's Board designates an ICO who is responsible for coordinating with all departments and functional areas of the Authority to ensure the implementation and maintenance of cost-effective internal controls.
 - c) Executive Management ensures strategic plans are designed with focus on the long-range direction of the Authority and its major divisions to guide managers in developing short-range operational plans for the major functions within their respective divisions. Strategic plans aide in defining management's organizational and operational objectives. Organizational objectives are the starting points for the specific and detailed operational objectives. Internal controls need to be tied to specific objectives related to operations, reporting or compliance.
 - d) Executive management ensures education and training is implemented to provide Personnel awareness and understanding of the Authority's internal controls.
- 4.2 Department Heads and Operations/Facilities Managers** at all units/divisions/departments (at headquarters and at facilities) of the Authority are responsible for the design, implementation and maintenance of internal controls within

Exhibit 4b-A

their areas. They are responsible for the documentation and periodic (at least annual) evaluation of internal control procedures, including related cost benefit analyses, for their area of responsibility.

- 4.3 Personnel** of the Authority are responsible for executing control policies and procedures established by the Business Unit Heads, Department Heads, and Operations/Facilities Managers.

An individual's responsibility depends mainly on the level of their position. To ensure an effective system of internal controls, Personnel at all levels need to work within the Authority's management design, implementation and monitoring of internal controls.

4.4 Support Activities:

Internal Audit – Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. Internal Audit independently evaluates the effectiveness of internal controls, including providing analyses, recommendation and information regarding the adequacy and effectiveness of such controls as applied to a particular activity. Business Unit Heads, Department Heads, and Operations/Facilities Managers are responsible for assisting Internal Audit where needed, cooperating with Internal Audit, as well as analyzing Internal Audit findings and responding with appropriate actions, such as augmenting or improving existing controls.

In order to objectively evaluate controls, Internal Audit maintains independence from daily operations. Internal Audit consults with the Authority's Business Unit Heads, Department Heads and Operations/Facilities Managers on the design of controls but does not create and/or own internal controls implemented by the Authority's business units/divisions/departments.

5 POLICY IMPLEMENTATION

5.1 The Key Concepts of Internal Control

- a) Internal control is a process consisting of ongoing tasks and activities.
- b) Internal control is geared to the achievement of objectives in one or more separate but overlapping categories-operations, reporting and compliance
- c) Internal control is effected by people. It is not merely policies, procedure manuals, systems and forms, but includes the Personnel designing and implementing internal controls at every level of the Authority. Internal control will succeed or fail depending on the attention given it by Personnel.
- d) Internal control can be expected to provide only reasonable assurance to the Authority's management and the Board as to the achievement of objectives, not absolute assurance.

Exhibit 4b-A

5.2 Components and Principles of Internal Control

Consistent with the COSO Internal Control — Integrated Framework, a strong system of internal control exhibits five integrated components - Control Environment, Risk Assessment, Control Activities, Information and Communication and Monitoring - that must be successfully designed, implemented and operating in order for the internal control system to be effective. In combination with these components, the principle-based framework includes internal control principles which represent the fundamental concepts that are associated with the particular components of the internal control system and provide assistance to management in the design and implementation of a good system of internal control.

In an effective internal control system, the following five components and associated principles work to support the achievement of the Authority's mission, strategies and related business objectives.

a) Control Environment

The control environment is a set of standards, processes and structure provided by the tone at the top of the Authority which influences the control consciousness of Personnel. It is a foundation for all other components of internal control, providing discipline and structure across the Authority. Control environment factors include the integrity, ethical values and competence of Personnel; management's philosophy and operating style; the way management assigns authority and responsibility and organizes and develops Personnel; and the attention and direction provided by the Board.

b) Risk Assessment

Every entity faces a variety of risks from external and internal sources that must be assessed. A precondition to risk assessment is establishment of objectives, linked at different levels and internally consistent. Risk assessment is the identification and analysis of relevant risks to achievement of the objectives, forming a basis for determining how the risks should be managed. Because economic, industry, regulatory and operating conditions will continue to change, mechanisms are needed to identify and deal with the special risks associated with change. Risk management is an ongoing process that needs to include monitoring the changing environment and tracking planned actions to lessen the impact and likelihood of risks. The Authority's Risk Management Department provides guidance and direction to the Authority's management and the Board to ensure the identification, assessment and mitigation of risks.

c) Control Activities

Control activities are documented in policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to mitigate risks to achieve the Authority's objectives. Control activities occur throughout the Authority, at all levels and in all functions. They may be preventive or

Exhibit 4b-A

detective and include a range of manual and automated activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties.

d) Information and Communication

Pertinent information must be identified, captured and communicated in a form and time frame that enables Personnel to carry out their responsibilities. Information systems produce reports, containing operational, financial and compliance related information, that make it possible to run and control the business. They deal not only with internally generated data, but also information about external events, activities and conditions necessary to allow informed business decision-making and external reporting.

Effective communication must occur in a broader sense, flowing down, across and up the Authority's organizational structure. All Personnel must receive a clear message from top management that control responsibilities must be taken seriously. They must understand their own role in the internal control system, as well as how individual activities relate to the work of others. They must have a means of communicating significant information upstream. There also needs to be effective communication with external parties, such as customers, suppliers, regulators and stakeholders. Methods of communicating information for both internal and external information needs to take into consideration the audience, nature of information provided, availability, cost and legal or regulatory requirements.

e) Monitoring

Internal control systems need to be monitored - a process that assesses the quality of the system's performance over time. This is accomplished through ongoing monitoring activities, separate internal control evaluations or a combination of the two. Ongoing monitoring occurs in the course of operations. It includes regular management and supervisory activities, and other actions personnel take in performing their daily or routine procedures or duties. The scope and frequency of separate internal control evaluations will depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures. Internal control deficiencies should be reported upstream, with serious matters reported to top management and the Board.

5.3 Documentation of the Internal Control System

Documentation is required for the effective design, implementation and operating effectiveness of the Authority's internal control system. At a minimum, documentation requirements include the following:

- a) Management's development and maintenance of documentation of its internal control system;
- b) Management's policies should document the internal control responsibilities;

Printed copies are not controlled.

For the latest revision of this document, refer to the Policy and Procedure PowerNet Site.

Records will be retained in accordance with NYPA's approved records retention schedules and/or in compliance with all applicable legal requirements pertaining to NYPA.

Exhibit 4b-A

- c) Management's evaluation and assessment of its operations and risks;
- d) Management's evaluation of the results of its ongoing monitoring to identify internal control issues;
- e) Management's evaluation of internal control issues and determination of appropriate corrective actions for deficiencies on a timely basis; and
- f) Management's completion of corrective actions to remediate internal control deficiencies on a timely basis.

6 VIOLATIONS

Violations of this policy by employees may result in disciplinary action up to and including termination. Violations of this Policy by contractors and other authorized third parties may result in the revocation of such party's access to NYPA's premises and/or electronic access to its systems, and the termination of such party's contract for services. In addition, where the conduct engaged in is illegal, violators may be subject to prosecution under applicable federal, state or local laws.

7 REFERENCES

- By-Laws of the Power Authority of the State of New York
- New York Power Authority Code of Conduct
- COSO Internal Control — Integrated Framework

8 POLICY REVIEW AND EXPIRATION

This document will be reviewed and updated as business needs require. However, a mandatory review will be required on the anniversary date of the approved document.

Revision cycle : Every Other Year

9 ATTACHMENTS

N/A



**NY Power
Authority**

Audit Committee Internal Audit Update

9/26/2017

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Executive Summary

- 2017 Audit Plan Status – NYPA and Canals
- Type of Internal Audit Projects
- Changes to 2017 Internal Audit Plan
- Status of Open Recommendations
- Status of 2018 Internal Audit Risk Assessment/Audit Plan

NYPA

- 2017 Audit Plan Status - NYPA
- Status of Open Recommendations
- Changes to 2017 Internal Audit Plan

Canal Corp

- 2017 Audit Plan Status – Canals
- Status of Open Recommendations
- Changes to 2017 Internal Audit Plan

Appendix

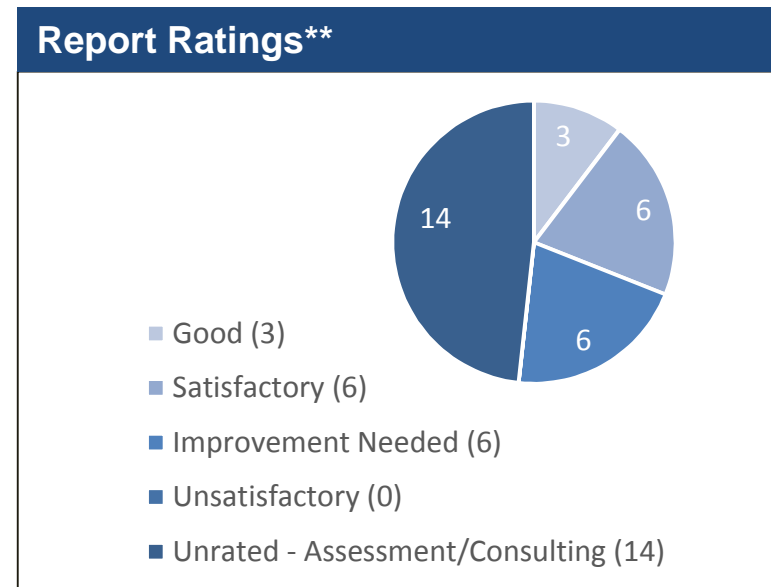
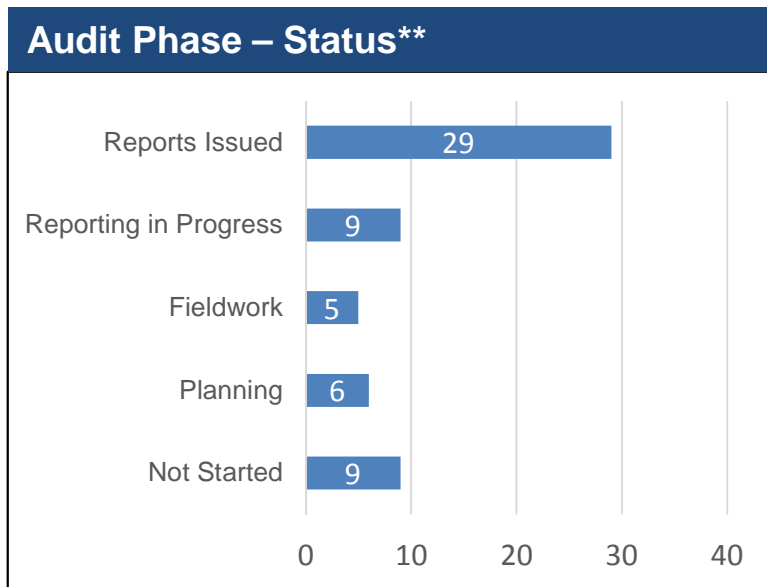
- Appendix A – 2017 Internal Audit Plan
- Appendix B – Changes to 2017 Internal Audit Plan
- Appendix C – 2017 Internal Audit Reports Issued/Ratings
- Appendix D – Status of Recommendations Prior to 2015

Executive Summary

Executive Summary

- **2017 Plan Status***
 - 29 audit reports have been issued.
 - Nine additional audit projects are in the reporting stage.
 - 11 audits are in the fieldwork or planning stage.
 - Nine audits have not started, however, resources have been allocated (seven audits were scheduled for Q4 and two were moved to Q4).

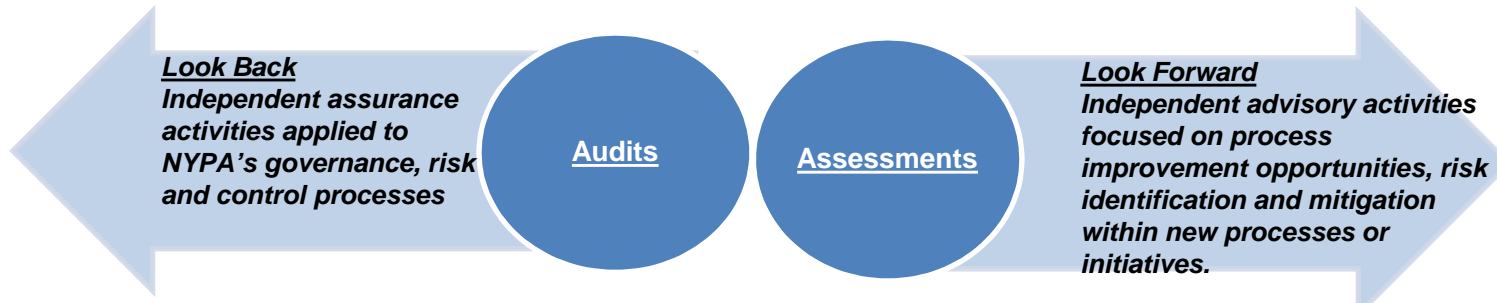
- Internal Audit staff are engaged in 31 consulting projects and partnering arrangements resulting in either documented or real time verbal feedback. Engagements are categorized as Strategic Initiative or Process Improvement.



NOTE: * See Appendix A and C for details

** Information includes both NYPA and Canal related IA activities

Types of Internal Audit Projects



Consulting Activities

Ongoing:

Internal Audit is considered as a partner and trusted advisor. Consulting activities vary and can result in documented or real time verbal feedback. Generally:

- *Scope – defined by consulting activity needed with the client.*
- *Timing – may not require significant time investment from Internal Audit, can have no defined start and end date or may require longer periods of audit engagement.*
- *Reporting – may or may not have a memo or formal audit deliverable.*
- *Activity Types – Internal Audit provides real-time control advice and feedback, may review process and control design development or rollout of departmental program roadmaps.*

Changes to 2017 Internal Audit Plan

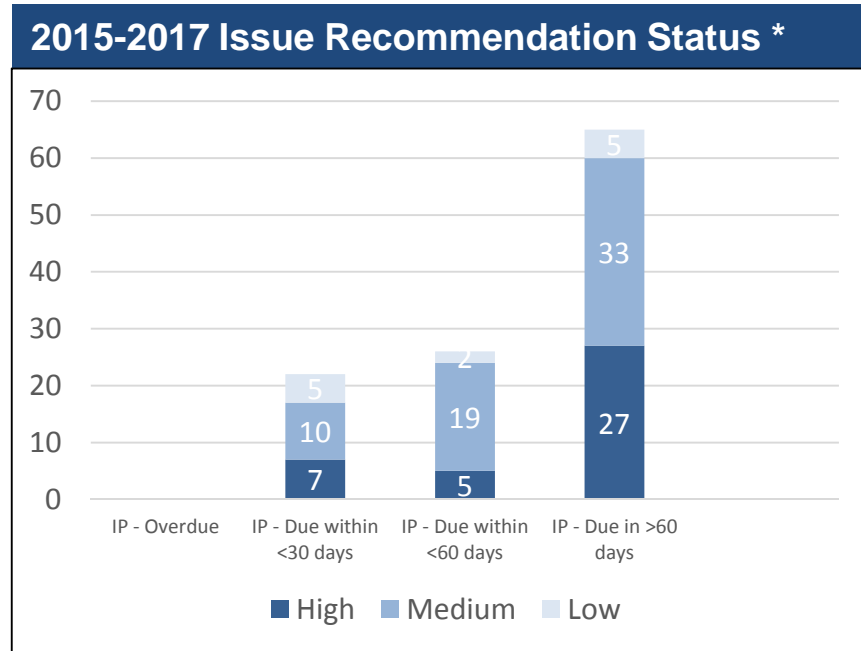
- Operational, Strategic, Compliance, Finance and IT audits are continuously evaluated for emerging risks through participation in work streams, partnership arrangements and discussions with leadership. As a result, the following changes have been made to the 2017 Internal Audit Plan. Details explaining rationale for changes can be found in Appendix B.

2017 Audit Status	9/14/17
Open 2017 Internal Audit Plan	55
Audits Added to 2017 Internal Audit Plan	
NYPA: IT Demand Management, OSC Audit – Follow-up – 2014 Real Estate Portfolio Audit	+2
Canals: None	
Audits Removed from 2017 Internal Audit Plan	
NYPA: SDLC Improvement Support	-3
Canals: Canals Governance and Rizzo Study	
Total 2017 Audits	54*

*The number of total 2017 audit projects is 54, however, the following consulting engagements have more than one audit deliverable whereby interim status memos are issued: NERC CIP Audit Prep Support, Ariba System Implementation – Contract Lifecycle Management Module and Cyber Security Roadmap Consulting Support. This brings the number of total deliverables to 58 as shown on slide 3.

Status of Open Recommendations

- Internal Audit has been using SharePoint to track open recommendations and as of June has implemented formal monthly reporting to NYPA Senior Leadership.
- Internal Audit is tracking open recommendations for Canals using SharePoint and interacts with Canals Management to obtain remediation or closure status on a monthly basis. Request for Proposals are expected to be issued this month to provide and execute an Enterprise Governance Risk and Compliance tool which will include tracking for both NYPA and Canals.
- All recommendations prior to 2015 including the five recommendations discussed at the July Audit Committee Meeting have been closed (See Appendix D for details).
- Internal Audit is satisfied with the progress timelines set forth by process owners for completion of identified issues and is monitoring remediation efforts with a focus on High risk issues.



*NOTE: Information includes both NYPA and Canal related IA activities

Status of 2018 IA Risk Assessment/Audit Plan

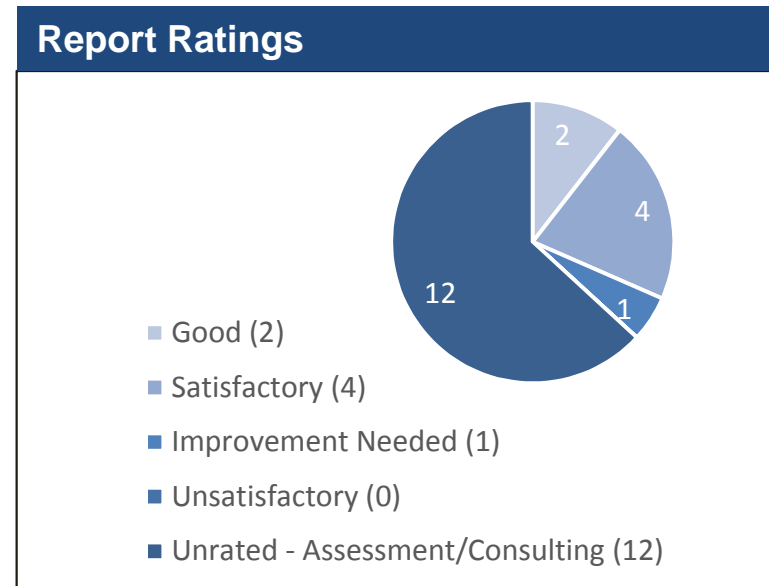
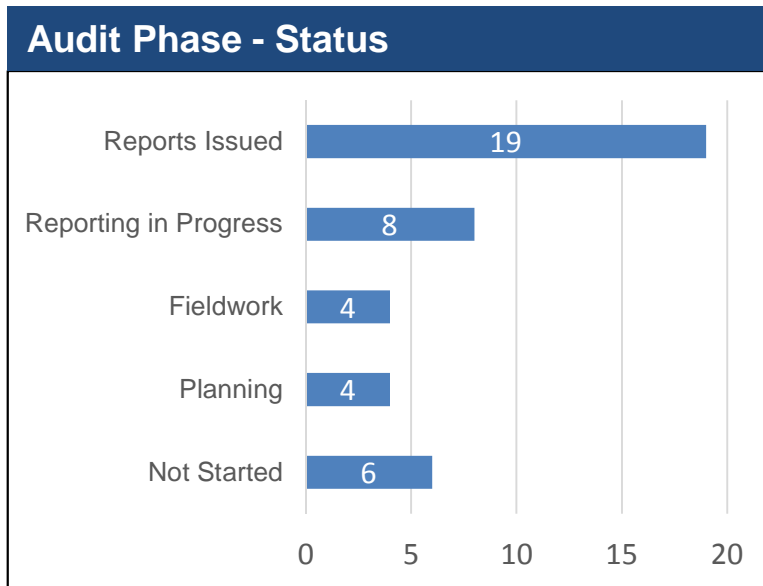
- Internal Audit has scheduled approximately 55 interviews with EMC members and their direct reports which include Canals management.
- Internal Audit Leadership held a kick-off meeting with the Internal Audit Team involved with conducting risk assessments on September 8 which included Deloitte co-source support and Enterprise Risk Management. We are collaborating with Enterprise Risk Management to leverage risk-related information relevant to risk assessment.
- Key milestones of 2018 Internal Audit Risk Assessment/Audit Plan Timeline:
 - Interviews kicked off the week of September 11.
 - Interviews will be completed the week of October 2.
 - Internal Audit Leadership will meet October 9-11 to develop a Draft 2018 Internal Audit Plan.
 - Refine first draft of 2018 Internal Audit Plan and create A&B lists based on resources the week of October 16.
 - Socialize draft audit plan with management between the end of October through early November.
 - Finalize Draft 2018 Internal Audit Plan the week of October 16.
- The draft 2018 Internal Audit Plan will be shared with the Audit Committee prior to its presentation for approval at the December meeting.

NYPA

2017 Audit Plan Status - NYPA

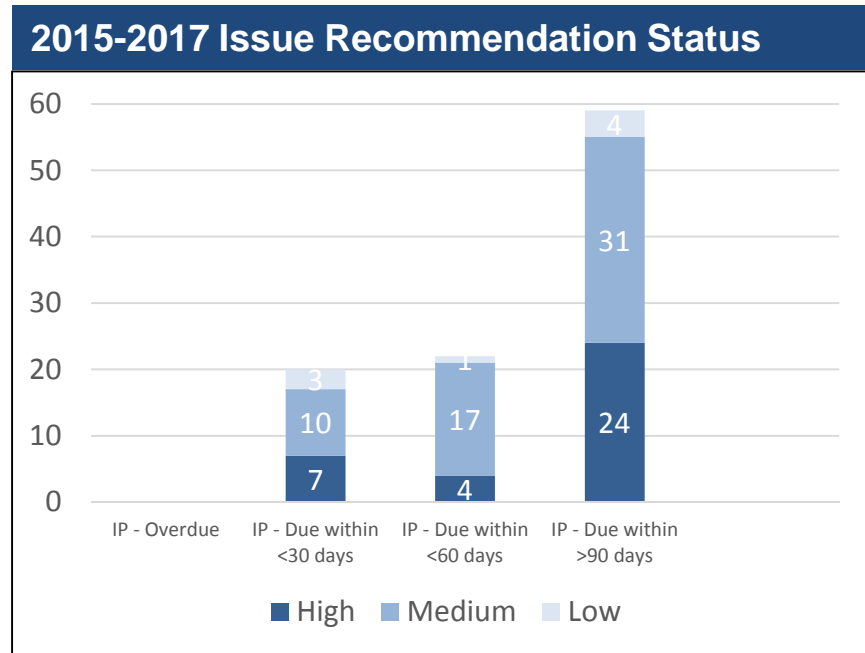
- **2017 Plan Status:**
 - 19 audit reports have been issued.
 - Eight additional audit projects are in the reporting stage.
 - Eight audits are in the fieldwork or planning stage.
 - Six audits have not started.
 - No significant risks have been identified on unissued reports at this time.

- Internal Audit staff is engaged in 31 consulting projects and partnering arrangements that will result in documented or real time verbal feedback. Engagements are categorized as Strategic Initiative or Process Improvement.



Status of Open Recommendations - NYPA

- Internal Audit has been using SharePoint to track open recommendations and as of June has implemented formal monthly reporting to Senior Leadership.
- All recommendations prior to 2015 including the five recommendations discussed at the July Audit Committee Meeting have been closed (See Appendix D for details).
- Internal Audit is satisfied with the progress timelines set forth by process owners for completion of identified issues and is monitoring remediation efforts with a focus on High risk issues.



Changes to 2017 Internal Audit Plan - NYPA

- Operational, Strategic, Compliance, Finance and IT audits are continuously evaluated for emerging risks through participation in work streams, partnering arrangements and discussions with leadership. As a result, the following changes have been made to the 2017 Internal Audit Plan. Details explaining rationale for changes can be found in Appendix B.

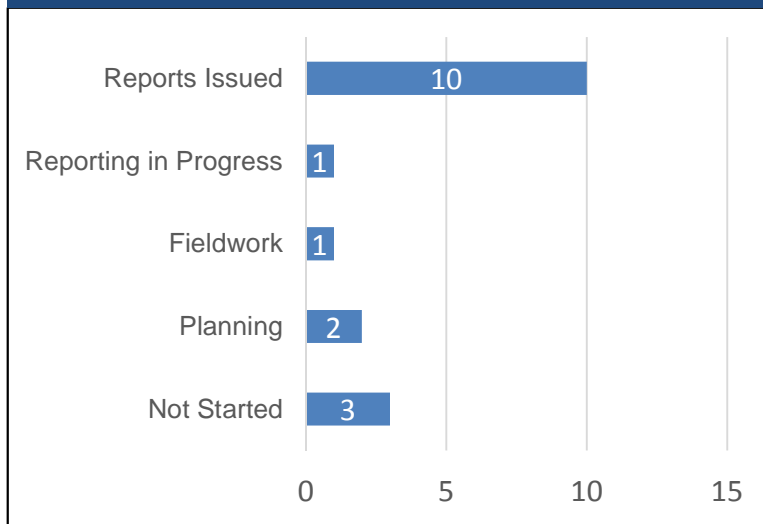
2017 Audit Status	9/14/17
Open 2017 Internal Audit Plan	36
Audits Added to 2017 Internal Audit Plan: IT Demand Management, OSC Audit – Follow-up – 2014 Real Estate Portfolio Audit	+2
Audits Removed from 2017 Internal Audit Plan: SCLC Improvement Support	-1
Total 2017 Audits	37

Canal Corp.

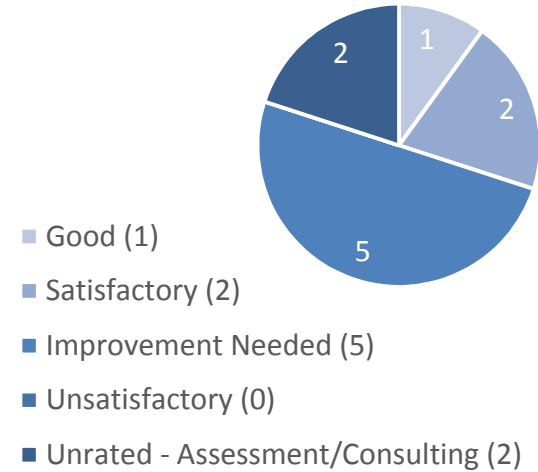
2017 Audit Plan Status – Canals

- **2017 Plan Status:**
 - 10 audit reports have been issued.
 - One additional audit project is in the reporting stage.
 - Three audits are in the fieldwork or planning stage.
 - Three audits have not started.
 - No significant risks have been identified on unissued reports at this time.

Audit Phase - Status

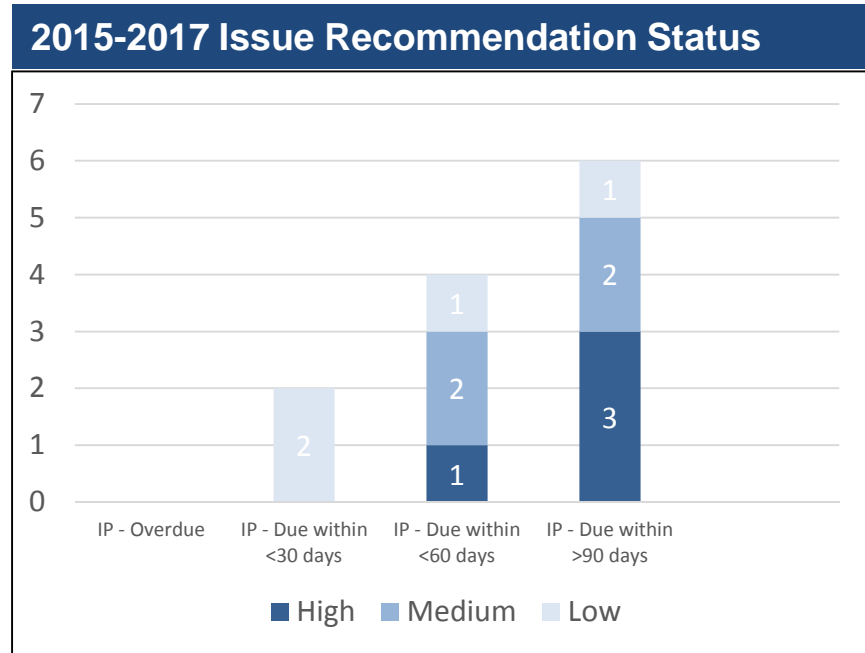


Report Ratings



Status of Open Recommendations - Canals

- Internal Audit is now using SharePoint to track Canals open recommendations and as of June has implemented formal periodic reporting to Senior Leadership.
- Internal Audit is tracking open recommendations for Canals using SharePoint and interacts with Canals Management to obtain remediation or closure status on a monthly basis. Request for Proposals are expected to be issued this month to provide and execute an Enterprise Governance Risk and Compliance tool which will include tracking for both NYPA and Canals.
- Internal Audit is satisfied with the progress timelines set forth by process owners for completion of identified issues and is monitoring remediation efforts with a focus on High risk issues.



Changes to 2017 Internal Audit Plan - Canals

- Operational, Strategic, Compliance, Finance and IT audits are continuously evaluated for emerging risks through participation in work streams, partnership arrangements and discussions with leadership. As a result, the following changes have been made to the 2017 Internal Audit Plan (details explaining rationale for changes can be found in Appendix B):

2017 Audit Status	9/14/17
Open 2017 Internal Audit Plan	19
Audit Added to 2017 Internal Audit Plan: None	+0
Audits Removed from 2017 Internal Audit Plan: Canals Governance and Rizzo Study	-2
Total 2017 Audits	17

Appendix

Appendix A – 2017 Internal Audit Plan

Ref.	Entity	Audit	Business Unit	Audit Type	Date Issued
Deliverable Issued: 29					
1	NYPA	HTP First Energy Additional Follow-up	Utility Operations	Consulting	3-17-17
2	NYPA	Customer Compliance Audits	Commercial Operations	Audit	3-21-17
3	NYPA	Contributions, Sponsorships and Events	Entity-Wide	Audit	3-29-17
4	NYPA	BG SCADA Pre/Post Implementation	Technology	Audit	3-30-17
5	NYPA	Business Resiliency Governance Assessment	Entity-Wide	Assessment	4-3-17
6	NYPA	Enterprise Risk – Top Risk Action Plan Follow-up	Entity-Wide	Assessment	4-12-17
7	NYPA	Transitional Position Utilization Assessment	HR & Enterprise Shared Services	Assessment	4-26-17
8	NYPA	NERC CIP Audit Prep Support 1	Utility Operations	Consulting	5-12-17
9	NYPA	Customer Credit	Entity-Wide	Assessment	6-5-17
10	NYPA	Muni/Coop Regulation Audit	Commercial Operations	Audit	6-9-17
11	NYPA	Transmission Cost of Service	Entity-Wide	Audit	6-14-17
12	NYPA	Ariba System Implementation – Contract Lifecycle Mgmt Module 1	Technology	Audit	6-28-17
13	NYPA	Western NY – Customer Compliance Audits (D&M)	Commercial Operations	Audit	6-30-17
14	NYPA	Deferred Asset Accounting	Business Services	Audit	7-21-17
15	NYPA	HTP Operations	Commercial Operations	Audit	7-25-17
16	NYPA	Cyber Security Roadmap Consulting Support 1	Technology	Consulting	7-28-17
17	NYPA	NERC CIP Audit Prep Support 2	Utility Operations	Consulting	7-28-17
18	NYPA	Operating System Security	Technology	Audit	8-15-17
19	NYPA	2016 OSC Audit – Remediation Follow-up	Entity-Wide	Audit	9-8-17
20	Canals	Canals Non-SAP Applications and Infrastructure	Technology	Audit	4-5-17
21	Canals	Canals Invoice Review	Business Services	Audit	4-12-17
22	Canals	PCI Compliance	Technology	Audit	6-14-17
23	Canals	Pre/Post Day 1 Balance Review	Business Services	Audit	6-20-17
24	Canals	P-Cards	Entity-Wide	Assessment	6-27-17
25	Canals	SAP Migration Phase 2	Technology	Audit	6-29-17
26	Canals	Physical Asset Verification	Entity-Wide	Audit	6-30-17
27	Canals	User Access Management	Technology	Audit	7-31-17
28	Canals	PCI Compliance – Website Assessment	Technology	Assessment	8-15-17
29	Canals	Canals TSA Management	Technology	Audit	9-14-17
Reporting - Fieldwork Complete: 9					
30	NYPA	Cyber Security Roadmap Consulting Support 2	Technology	Consulting	
31	NYPA	Direct Expenses	Entity-Wide	Assessment	

Appendix A – 2017 Internal Audit Plan

	Entity	Audit	Business Unit	Audit Type	Date Issued
32	NYPA	NERC CIP Audit Prep Support 3	Utility Operations	Consulting	
33	NYPA	Siemens - Third Party Contract Audit	Entity-Wide	Audit	
34	NYPA	Generator Meter to Cash	Entity-Wide	Audit	
35	NYPA	Physical Security Investments Assessment	Utility Operations	Assessment	
36	NYPA	Post-Retirement Benefits	Business Services	Audit	
37	NYPA	OSC Audit – Follow-up – 2014 Real Estate Portfolio Audit	Entity-Wide	Consulting	
38	Canals	Expenditure Authorization Procedure (EAP) Compliance	Entity-Wide	Audit	
Fieldwork In Progress: 5					
39	NYPA	Ariba System Implementation – Contract Lifecycle Mgmt Module 2	Technology	Audit	
40	NYPA	New York Energy Manager – Technology Process Assessment	Commercial Operations	Assessment	
41	NYPA	Telecom Cost Recovery Project	Technology	Audit	
42	NYPA	ABB – Third Party Contract Audit	Entity-Wide	Audit	
43	Canals	Canals – Permit Management	Entity-Wide	Audit	
Audit Planning In Progress: 6					
44	NYPA	Employee Data Protection	HR & Enterprise Shared Services	Audit	
45	NYPA	LPGP LEM	Utility Operations	Audit	
46	NYPA	ISO 55000 Framework Design Support	Utility Operations	Consulting	
47	NYPA	Customer Energy Solutions Redesign Support	Commercial Operations	Consulting	
48	Canals	Pension/Other Post Retirement Benefits	Business Services	Audit	
49	Canals	OSC Audit Follow-up	Entity-Wide	Audit	
Planning Not Started: 9					
50	NYPA	Enterprise Portfolio Management Design Assessment	Entity-Wide	Assessment	
51	NYPA	Hydro Forecast Process	Utility Operations	Audit	
52	NYPA	IT Disaster Recovery (DR)	Technology	Assessment	
53	NYPA	Indirect Expenses – Cost Allocations	Entity-Wide	Audit	
54	NYPA	New York Energy Manager – Program Support	Commercial Operations	Consulting	
55	NYPA	IT Demand Management	Technology	Audit	
56	Canals	EH&S Study Follow-up	Utility Operations	Assessment	
57	Canals	Canals IT Demand Management	Technology	Audit	
58	Canals	Canals Crisis Management	Entity-Wide	Audit	








Appendix B - Changes to 2017 Internal Audit Plan – NYPA

Business Unit	Audit Name	Change	Rationale	Est. Start	Impact to IA Plan
Technology	IT Demand Management	Added to Plan	Expanded review to NYPA side.	Q4	+1
Entity-Wide	OSC Audit – Follow-up – 2014 Real Estate Portfolio Audit	Added to Plan	IA was requested to review the status of the action plans on an informal/consulting basis for this audit/follow-up.	Q3	+1
Business Services	Post-Retirement Benefits Assessment	Change to Project Type	Changed from Assessment to Audit.	Q3	0
Commercial Operations	New York Energy Manager – Technology Security Review	Name and Scope Change	Change Name to New York Energy Manager – IT Controls Review.	Q4	0
Commercial Operations	New York Energy Manager – IT Controls Review	Name Change	Change Name to New York Energy Manager – Technology Process Assessment.	Q4	0
Technology	IT Disaster Recovery (DR)	Change to Project Type	Change from Audit to Assessment.	Q4	0
Technology	SDLC Improvement Support	Removed from Plan	Premature at this time.	Q3	-1

Appendix B - Changes to 2017 Internal Audit Plan – Canals









Business Unit	Audit Name	Change	Rationale	Est. Start	Impact to IA Plan
Technology	IT Incident Management	Name and Scope Change	Change Name to Canals IT Demand Management.	Q4	0
Entity-Wide	Canals Governance	Removed from Plan	Premature at this time.	N/A	-1
Utility Operations	Rizzo Study	Removed from Plan	Combine work with OSC Follow-up Project.	N/A	-1

Appendix C – 2017 Internal Audit Reports Issued/Ratings - NYPA

2017 Internal Audit Report	Audit Report Rating	Assessment/Consulting*
BG SCADA Pre/Post Implementation	Good 	
2016 OSC Audit Remediation Follow-up	Good 	
Contributions, Sponsorships and Events	Satisfactory 	
Muni/Coop Regulation	Satisfactory 	
Operating System Security	Satisfactory 	
HTP Operations	Satisfactory 	
Deferred Asset Accounting	Improvement Needed 	
Business Resiliency Governance Assessment		Assessment Report
Enterprise Risk – Top Risk Action Plan Follow-up		Assessment Report
Transitional Position Utilization Assessment		Assessment Report
Customer Credit Assessment		Assessment Report
Transmission Cost of Service Assessment		Assessment Report
HTP First Energy Additional Follow-up		Memo
Customer Compliance Audits		Memo
NERC CIP Audit Prep. Support 1		Memo
Western NY – Customer Compliance Audits (D&M)		Memo
ARIBA Pre/Post System Implementation Audit		Memo
NERC CIP Audit Prep. Support 2		Memo
Cyber Security Roadmap Consulting Support 1		Memo

*Assessment Reports and Memos are not rated deliverables.

Appendix C – 2017 Internal Audit Reports Issued/Ratings - Canals

2017 Internal Audit Report	Audit Report Rating	Assessment/Consulting*
PCI Compliance	Good 	
Canals Non-SAP Applications and Infrastructure	Satisfactory 	
Canals TSA Management	Satisfactory 	
Pre/Post Day 1 Balance Review	Improvement Needed 	
P-Cards	Improvement Needed 	
SAP Migration Phase 2	Improvement Needed 	
Physical Asset Verification	Improvement Needed 	
User Access Management	Improvement Needed 	
PCI Compliance – Website Assessment		Assessment Report
Canals Invoice Review		Memo

*Assessment Reports and Memos are not rated deliverables.

Appendix D – Status of Recommendations Prior to 2015

Open Recommendations	Remediation Status
Public Authorities Law	Corporate Accounting Policy for Internal Controls has been staged for presentation and approval to the Audit Committee Board for the September meeting. Observation is closed.
Emergency Management – Organizational Policies/Roles & Responsibilities/	Management has provided the appropriate documentation and tools to demonstrate the Emergency Management program has been developed with supporting policies, and clear lines of authority/responsibilities have been defined, communicated and training delivered. Policies state annual review is required. Observation is closed.
Emergency Management - Training	Management has provided the appropriate documentation to evidence training of the guidebooks developed for Emergency Management, IT/Cyber, and Business Continuity has taken place at the sites. Regularly scheduled drills are scheduled, tracked and documented. Observation is closed.
Emergency Management – Incident Reporting Policies and Procedures	Management has provided the appropriate documentation to evidence incident levels are defined, documents developed to capture incidents, defined notification requirements and are logged. Observation is closed.
Expenditure Authorization Procedures (EAPs)	Management has actively taken the necessary steps to develop an EAP assignment matrix to include all NYPA employee titles and current EAP levels. This matrix is available in Maximo for Operations and will be manually implemented by all other business units until Ariba automation is completed. Observation is closed.



New York Power Authority Audit plan December 31, 2017

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.

September 26, 2017

Agenda

1.0 Client Service Team

2.0 Objective of an audit

3.0 Risk Assessment

4.0 Audit Plan

5.0 KPMG's Audit Committee Institute and Global Energy Institute

Appendices

A.1 Responsibilities

A.2 KPMG's audit approach and methodology

A.3 Materiality

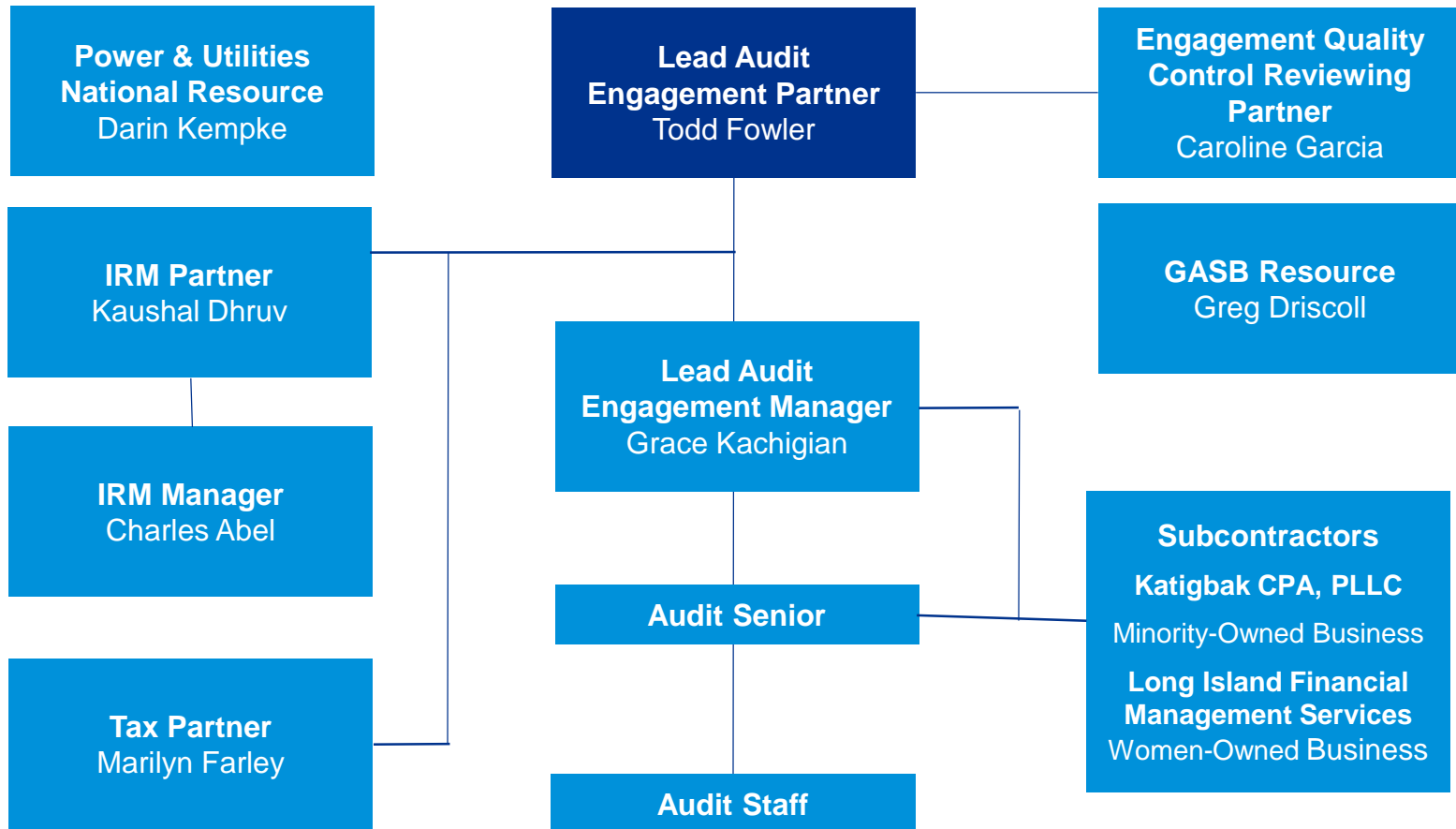
A.4 Independence



1.0

Client service team

Client service team





2.0

Objective of an audit

Objectives of an audit

- 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 are free of material misstatement, whether caused by 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 to provide a reasonable basis for our opinion.
 - Assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation.



3.0

Risk assessment

Risk assessment

Significant audit areas	Significant estimates	Significant unusual transactions/other items	Information technology matters
<ul style="list-style-type: none"> — Revenue recognition — Long term debt — Capital assets — Investments 	<ul style="list-style-type: none"> — Asset retirement obligations — Derivative valuations — Pension and Other post-employment benefits — Investments 	<ul style="list-style-type: none"> — Implementation of new accounting pronouncements — Assessment of any outstanding, pending or threatened litigation — Canal Corp acquisition — Bond offering, if applicable 	<ul style="list-style-type: none"> — General information technology environment — Related application controls — Existing systems upgrade — Systems integration



4.0

Audit plan

Audit plan - Scope

Scope of work	<i>Audit of the consolidated financial statements for the New York Power Authority as of and for the two-year period ended December 31, 2017</i>
Applicable financial reporting framework	<i>U.S. generally accepted accounting principles (GAAP), including Government Accounting Standards, as issued by the Government Accounting Standards Board (GASB)</i>
Applicable auditing standards	<p><i>We perform our audit in accordance with:</i></p> <ul style="list-style-type: none"> <i>-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)</i> <i>-Government Auditing Standards issued by the Comptroller of the United States</i>
Other terms of engagement	<p><i>Additional Reports to be issued:</i></p> <ul style="list-style-type: none"> <i>-Report on Internal Control Over Financial Reporting and Compliance and other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards as of December 31, 2017</i> <i>-Report on Investment Compliance as of December 31, 2017</i> <i>-Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with the Uniform Guidance, if applicable</i> <i>-Revenue Bonds issuance consent and comfort letter, if applicable</i>

Audit plan - KPMG Approach

- Debrief on audit process
- Plan audit approach for upcoming year-end audit
- Identify key members of the engagement team, including specialists

- Perform risk assessment procedures and identify risks
- Determine audit approach
- Evaluate entity-level controls
- Determine planned audit approach
- Understand accounting and reporting activities
- Evaluate design and implementation of selected controls including general IT controls, where applicable.
- Coordination with Internal Audit/ component auditors
- Present audit plan to Audit Committee



- Perform analytical or other procedures to roll forward account balances to year-end
- Perform remaining audit procedures
- Discuss key issues and deficiencies identified with management
- Attend Audit Committee meeting and perform required communications
- Review of financial statement disclosures
- Obtain written representation from management
- Issue audit opinion on [consolidated and subsidiary] financial statements

- Meetings with management to discuss key issues
- Perform interim substantive audit procedures
- Perform site visits

Audit plan - Deliverables and time line

September – November 2017		December 2017	January – February 2018	March 2018
<ul style="list-style-type: none"> — Present 2017 Audit Plan to the Audit Committee — Identify financial statement fraud risks and assess the effect on the audit plan — Perform risk assessment procedures and identify risks — Assessment of audit risk and planning of substantive audit procedures — Determine audit strategy and identify critical accounting matters — Canals site visit — Canals review of prior year auditor's workpapers — Analysis of Canals accounting treatment 	<ul style="list-style-type: none"> — Plan audit procedures — Finalize planned audit approach — Perform walkthroughs of internal control processes — Test entity-wide and monitoring controls — Evaluate design of selected key controls — Test operating effectiveness of selected key controls — Perform interim substantive procedures — Evaluation of interim results and establish plan for performance of substantive audit procedures 	<ul style="list-style-type: none"> — Perform/send year-end confirmations (e.g. legal, debt, cash, investments, accounts receivable, revenue and derivatives) — Inventory observation attendance 	<ul style="list-style-type: none"> — Meetings with management to discuss key issues — Test operating effectiveness of selected year-end controls — Perform substantive procedures and tests of detail — Perform procedures related to the Authority's investment compliance with the State of New York guidelines — Consider if audit evidence is sufficient and appropriate — Conclude on critical accounting matters and issues 	<ul style="list-style-type: none"> — Confirm completion procedures — Form audit conclusions — Perform overall evaluation of financial statements and disclosures — Present required communications to Audit Committee — Form audit opinion on financial statements — Report on Internal Control over Financial Reporting and Compliance on Other Matters — Report on Investment Compliance — Finalize all deliverables — Prepare management letter comments, if applicable

Audit plan - Involvement of others

Financial statement audit

— Internal Audit

KPMG will work with the Authority's Internal Audit function to perform a more efficient audit. Throughout our audit we will regularly meet with Internal Audit to discuss:

- The status of the internal audit reports
- Findings made by internal audit and determine the impact to our audit
- Reports we can leverage as part of our audit
- Findings made by KPMG which could have an impact on internal audit's reports
- Best practices observed by KPMG
- Coordination and design of Internal Audit plan for auditing the Canals Corp.

Audit plan - Involvement of others (continued)

Financial statement audit

— External Experts and Service Organizations

External Expert / Service Organization	Financial Statement Account	Description of Work
— Swap Financial Group	— Risk management activities - derivatives	— Determine the fair value and hedge effectiveness of interest rate swaps
— PA Consulting Group	— Risk management activities – derivatives	— Determine the fair value of commodity swaps
— Buck Consulting	— Other postemployment benefit obligation/asset	— Actuarial report for the Authority’s GASB 45 Other Postemployment Benefits
— J.P. Morgan — Bank of NY Mellon	— Investment in securities	— Custodian for the Authority’s investment portfolio
— Ceridian	— Payroll expense	— Payroll services for the Authority
— New York ISO	— Revenue and accounts receivable	— Billing and settlement services related to the purchase and sale of power in New York



5.0

KPMG's Audit
Committee Institute
and Global Energy
Institute

KPMG's Audit Committee Institute (ACI)

In depth insights. In time to matter.

ACI programs

- Audit Committee Roundtable Series
 - Approximately 25 cities each Spring/Fall
- Quarterly Audit Committee Webcast
 - 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.
- 14th Annual Audit Committee Issues Conference
 - January 8-10, 2018 in San Diego, California

Suggested publications (available for download at www.kpmg.com/aci)

- Directors Quarterly
- Global Boardroom Insights
- On the 2017 Audit Committee and Board Agendas
- Global Audit Committee Survey

Resources

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

KPMG's Global Energy Institute

Recent Publications

- [Plugged In: Issues impacting the power and utilities industry](#)

2018 KPMG Global Energy Conference

- June 6-7, 2018, Royal Sonesta Hotel Houston, Texas

Webcasts on Demand

- [KPMG/NACD Quarterly Audit Committee Webcast: Proxy Season Hot Topics](#)

Resources

- [KPMG Institutes Website](#)
- [Global Energy Institute Website](#)
- **Audit Committee Insights – U.S and International editions (biweekly electronic publications):**
www.kpmginsights.com



Appendices



A.1

Responsibilities

Responsibilities

Management is responsible for:

- Preparation and fair presentation of the financial statements, including disclosures, in conformity with generally accepted accounting principles (GAAP)
- For the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
- Ensuring that the Authority operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in the Authority's financial statements, and for informing the auditor of any known material violations of such laws and regulations
- To provide access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters, additional information that we may request from management for the purpose of the audit, and unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence.
- Adjusting the financial statements to correct material misstatements and affirming 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.
- 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 Authority's financial reporting
 - Acknowledgement of their responsibility for the design and implementation of programs and controls to prevent , deter, and detect fraud.

Responsibilities (continued)

The Audit Committee is responsible for:

- Oversight of the financial reporting process and oversight of ICOFR
- Oversight of the establishment and maintenance by management of programs and 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:

- Planning and performing our audit, with an attitude of professional skepticism, to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by fraud or error. Accordingly, there is some risk that a material misstatement of the financial statements will remain undetected. Although not absolute assurance, reasonable assurance is a high level of assurance. Our audit is not designed to detect error or fraud that is immaterial to the financial statements.
- Conducting the audit in accordance with professional standards and complying with the rules and regulations of 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
- 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
- An audit of the financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting.
- Communicating to the Audit Committee all required information, including significant matters, that are in our professional judgment, relevant to the responsibilities of those charged with governance in overseeing the financial reporting process.
- Communicating to management and the Audit Committee in writing all significant deficiencies and material weaknesses in internal control identified during the audit and reporting to management in writing all deficiencies noted during our audit that, in our professional judgment, are of sufficient importance to merit management's attention. The objective of our audit of the financial statements is not to report on the Authority's internal control and we are not obligated to search for material weaknesses or significant deficiencies as part of our audit of the financial statements.
- Communicating to the Audit Committee circumstances that affect the form and content of the auditors' report, if any.

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.
- The auditors' responsibility is to make appropriate arrangements with management or the Audit Committee to obtain the other information prior to the report release date and to read the other information to identify material inconsistencies with the audited financial statements or material misstatements of fact.
- Any material inconsistencies or misstatements 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.



A.2

KPMG's audit
approach and
methodology

KPMG's audit approach and methodology

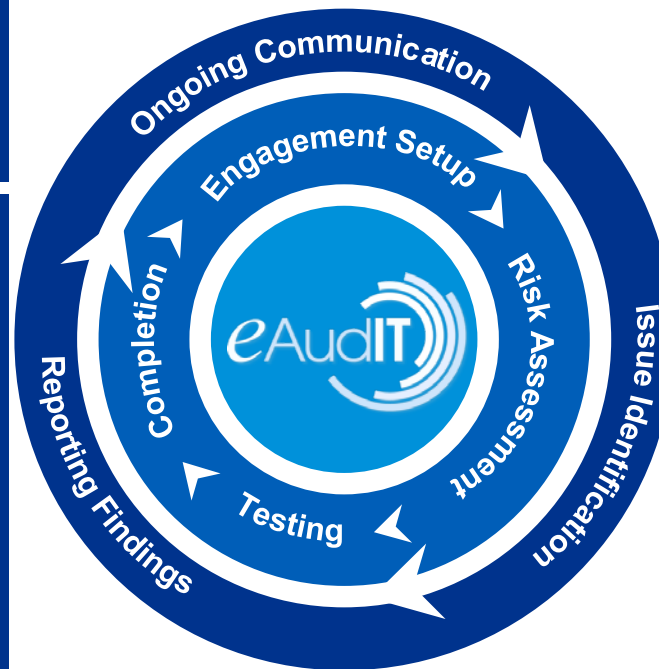
Technology-enabled integrated audit work flow

Engagement Setup

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

Completion

- Update risk assessment
- Perform completion procedures and overall evaluation of results and financial statements
- Form and issue audit opinion on financial statements
- Obtain written representation 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 internal controls, if applicable

Testing

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

Audit plan - 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 that may result in material misstatements
- 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 regulators, if applicable
- The attitudes, awareness, and actions concerning (a) the entity's internal controls and their importance in the entity, including oversight of effectiveness of internal controls, and (b) detection of or possibility of fraud
- Developments in financial reporting, laws, accounting standards, corporate governance, and other related matters
- Matters relevant to the audit, including, but not limited to, violations or possible violations of laws or regulations
- Significant issues discussed with management in connection with the appointment or retention of the auditor, including significant discussions regarding the application of accounting principles and auditing standards.
- Previous communications with the auditor



A.3

Materiality

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 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

Independence

KPMG independence quality controls

KPMG's independence policies require that the firm, its partners and management group, and the personnel assigned to each audit engagement must be free from financial interests in and prohibited relationships with the client, its management, its directors, and its significant owners.

KPMG also maintains a system of audit quality control that is designed to meet or exceed the requirements of applicable professional standards issued by the Public Company Accounting Oversight Board (PCAOB) and the American Institute of Certified Public Accountants (AICPA).

The firm is subject to three sources of examinations:

- Peer review
- Internal inspection processes (full exam, in-flight, and in-depth)
- Regulatory external reviews

No issues identified that might have a material adverse effect on the firm's operations or our ability to fulfill our obligations as independent auditor to our clients.



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Exhibit 4b-A

Internal Controls

Note: Revision # should be listed in descending order starting with most recent version at the top

Revision Date(For BCG Use Only)	Revision #	Description/Modification	Revision Section (s)	Author
[Revision Date]	1	Replacing CP 2-5, formerly titled Financial and Accounting Controls; revisions based on revised Committee of Sponsoring Organizations (COSO) 2013 framework.	All	Zlata Latkovic Director, General Accounting and Financial Reporting

Exhibit 4b-A

1 PURPOSE AND SCOPE

It is the Authority's policy to maintain an effective system of internal controls, thereby providing reasonable assurance for the achievement of its mission and for the reliability of internal and external reports, the effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Internal controls are comprised of plans, methods, policies, and procedures used to fulfill the mission, strategic plan, goals, and objectives of the Authority. They are a series of actions that occur throughout an organization and are an integral part of the operational processes.

It is the objective of this policy to:

- a) ensure understanding of management's responsibility to make certain that internal controls are established, properly documented, maintained, and followed by all Personnel;
- b) ensure understanding by all Personnel of their responsibility for compliance with internal controls; and
- c) provide guidance for managers and staff about the components of internal control.

2 APPLICABILITY

All Personnel have a role in the system of internal controls and must adhere to this policy. Policies, procedures, and guidelines may be prepared to implement this policy.

3 INITIALISMS (ACRONYMS) AND DEFINITIONS

COSO – The Committee of Sponsoring Organizations of the Treadway Commission.

COSO Internal Control — Integrated Framework – COSO's integrated principle-based framework establishes five control components – Control Environment, Risk Assessment, Control Activities, Information and Communication and Monitoring – designed to assist an organization in achieving the three internal control objectives - effective and efficient operations, accuracy of financial reporting and compliance with laws and regulations. In association with these control components, the COSO framework includes internal control principles which represent the fundamental concepts that are associated with the particular components of the internal control system and provide assistance to management in the design and implementation of a good system of internal control.

ICO – The Authority's Internal Control Officer. The Authority's Board of Trustees (the Board) have designated the V.P. Controller as ICO.

Internal Controls – COSO defines internal control as a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of good internal control objectives relating to effective and efficient operations (including operational and financial performance goals and safeguarding assets against loss), accuracy of financial reporting (internal and external financial and non-financial reporting encompassing reliability, timeliness and transparency as set forth by regulators,

Exhibit 4b-A

standard setters or the organizations policies and compliance with laws and regulations to which the Authority is subject to.

Most internal controls can be classified as preventive or detective. Preventive controls are designed to avoid errors or irregularities from initially occurring such as utilizing separation of duties, reading and understanding the Authority's policies and procedures and a manager's review of staff's activities.

Detective controls are designed to identify an error or irregularity after it has occurred. These controls are performed on a routine basis to identify any issues that pose potential risks to the Authority on a timely basis such the use of exception reports to detect and list incorrect or invalid entries or transactions or annual physical inventory of computer equipment to determine if any items have been misplaced or stolen.

Management – Management at the Authority is comprised of the President & Chief Executive Officer and Business Unit Heads (Executive Management, the top/senior levels of management), Department Heads (vice presidents and directors) and Operations/Facilities Managers at all units/divisions/departments (at headquarters and at facilities).

Personnel – Authority employees and contractors.

4 RESPONSIBILITY

4.1 The Board, President and Business Unit Heads of the Authority establish the tone at the top regarding the expected standards of conduct – the presence of integrity, ethics, competence and a positive control environment exhibited in the Authority's By-Laws, Code of Conduct and Company Policies.

- a) The Authority's Audit Committee was established by the Authority's Board to have oversight of the integrity of the Authority's internal control system.
- b) The Authority's Board designates an ICO who is responsible for coordinating with all departments and functional areas of the Authority to ensure the implementation and maintenance of cost-effective internal controls.
- c) Executive Management ensures strategic plans are designed with focus on the long-range direction of the Authority and its major divisions to guide managers in developing short-range operational plans for the major functions within their respective divisions. Strategic plans aide in defining management's organizational and operational objectives. Organizational objectives are the starting points for the specific and detailed operational objectives. Internal controls need to be tied to specific objectives related to operations, reporting or compliance.
- d) Executive management ensures education and training is implemented to provide Personnel awareness and understanding of the Authority's internal controls.

4.2 Department Heads and Operations/Facilities Managers at all units/divisions/departments (at headquarters and at facilities) of the Authority are responsible for the design, implementation and maintenance of internal controls within

Exhibit 4b-A

their areas. They are responsible for the documentation and periodic (at least annual) evaluation of internal control procedures, including related cost benefit analyses, for their area of responsibility.

- 4.3 Personnel** of the Authority are responsible for executing control policies and procedures established by the Business Unit Heads, Department Heads, and Operations/Facilities Managers.

An individual's responsibility depends mainly on the level of their position. To ensure an effective system of internal controls, Personnel at all levels need to work within the Authority's management design, implementation and monitoring of internal controls.

4.4 Support Activities:

Internal Audit – Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. Internal Audit independently evaluates the effectiveness of internal controls, including providing analyses, recommendation and information regarding the adequacy and effectiveness of such controls as applied to a particular activity. Business Unit Heads, Department Heads, and Operations/Facilities Managers are responsible for assisting Internal Audit where needed, cooperating with Internal Audit, as well as analyzing Internal Audit findings and responding with appropriate actions, such as augmenting or improving existing controls.

In order to objectively evaluate controls, Internal Audit maintains independence from daily operations. Internal Audit consults with the Authority's Business Unit Heads, Department Heads and Operations/Facilities Managers on the design of controls but does not create and/or own internal controls implemented by the Authority's business units/divisions/departments.

5 POLICY IMPLEMENTATION

5.1 The Key Concepts of Internal Control

- a) Internal control is a process consisting of ongoing tasks and activities.
- b) Internal control is geared to the achievement of objectives in one or more separate but overlapping categories-operations, reporting and compliance
- c) Internal control is effected by people. It is not merely policies, procedure manuals, systems and forms, but includes the Personnel designing and implementing internal controls at every level of the Authority. Internal control will succeed or fail depending on the attention given it by Personnel.
- d) Internal control can be expected to provide only reasonable assurance to the Authority's management and the Board as to the achievement of objectives, not absolute assurance.

Exhibit 4b-A

5.2 Components and Principles of Internal Control

Consistent with the COSO Internal Control — Integrated Framework, a strong system of internal control exhibits five integrated components - Control Environment, Risk Assessment, Control Activities, Information and Communication and Monitoring - that must be successfully designed, implemented and operating in order for the internal control system to be effective. In combination with these components, the principle-based framework includes internal control principles which represent the fundamental concepts that are associated with the particular components of the internal control system and provide assistance to management in the design and implementation of a good system of internal control.

In an effective internal control system, the following five components and associated principles work to support the achievement of the Authority's mission, strategies and related business objectives.

a) Control Environment

The control environment is a set of standards, processes and structure provided by the tone at the top of the Authority which influences the control consciousness of Personnel. It is a foundation for all other components of internal control, providing discipline and structure across the Authority. Control environment factors include the integrity, ethical values and competence of Personnel; management's philosophy and operating style; the way management assigns authority and responsibility and organizes and develops Personnel; and the attention and direction provided by the Board.

b) Risk Assessment

Every entity faces a variety of risks from external and internal sources that must be assessed. A precondition to risk assessment is establishment of objectives, linked at different levels and internally consistent. Risk assessment is the identification and analysis of relevant risks to achievement of the objectives, forming a basis for determining how the risks should be managed. Because economic, industry, regulatory and operating conditions will continue to change, mechanisms are needed to identify and deal with the special risks associated with change. Risk management is an ongoing process that needs to include monitoring the changing environment and tracking planned actions to lessen the impact and likelihood of risks. The Authority's Risk Management Department provides guidance and direction to the Authority's management and the Board to ensure the identification, assessment and mitigation of risks.

c) Control Activities

Control activities are documented in policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to mitigate risks to achieve the Authority's objectives. Control activities occur throughout the Authority, at all levels and in all functions. They may be preventive or

Exhibit 4b-A

detective and include a range of manual and automated activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties.

d) Information and Communication

Pertinent information must be identified, captured and communicated in a form and time frame that enables Personnel to carry out their responsibilities. Information systems produce reports, containing operational, financial and compliance related information, that make it possible to run and control the business. They deal not only with internally generated data, but also information about external events, activities and conditions necessary to allow informed business decision-making and external reporting.

Effective communication must occur in a broader sense, flowing down, across and up the Authority's organizational structure. All Personnel must receive a clear message from top management that control responsibilities must be taken seriously. They must understand their own role in the internal control system, as well as how individual activities relate to the work of others. They must have a means of communicating significant information upstream. There also needs to be effective communication with external parties, such as customers, suppliers, regulators and stakeholders. Methods of communicating information for both internal and external information needs to take into consideration the audience, nature of information provided, availability, cost and legal or regulatory requirements.

e) Monitoring

Internal control systems need to be monitored - a process that assesses the quality of the system's performance over time. This is accomplished through ongoing monitoring activities, separate internal control evaluations or a combination of the two. Ongoing monitoring occurs in the course of operations. It includes regular management and supervisory activities, and other actions personnel take in performing their daily or routine procedures or duties. The scope and frequency of separate internal control evaluations will depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures. Internal control deficiencies should be reported upstream, with serious matters reported to top management and the Board.

5.3 Documentation of the Internal Control System

Documentation is required for the effective design, implementation and operating effectiveness of the Authority's internal control system. At a minimum, documentation requirements include the following:

- a) Management's development and maintenance of documentation of its internal control system;
- b) Management's policies should document the internal control responsibilities;

Printed copies are not controlled.

For the latest revision of this document, refer to the Policy and Procedure PowerNet Site.

Records will be retained in accordance with NYPA's approved records retention schedules and/or in compliance with all applicable legal requirements pertaining to NYPA.

Exhibit 4b-A

- c) Management's evaluation and assessment of its operations and risks;
- d) Management's evaluation of the results of its ongoing monitoring to identify internal control issues;
- e) Management's evaluation of internal control issues and determination of appropriate corrective actions for deficiencies on a timely basis; and
- f) Management's completion of corrective actions to remediate internal control deficiencies on a timely basis.

6 VIOLATIONS

Violations of this policy by employees may result in disciplinary action up to and including termination. Violations of this Policy by contractors and other authorized third parties may result in the revocation of such party's access to NYPA's premises and/or electronic access to its systems, and the termination of such party's contract for services. In addition, where the conduct engaged in is illegal, violators may be subject to prosecution under applicable federal, state or local laws.

7 REFERENCES

- By-Laws of the Power Authority of the State of New York
- New York Power Authority Code of Conduct
- COSO Internal Control — Integrated Framework

8 POLICY REVIEW AND EXPIRATION

This document will be reviewed and updated as business needs require. However, a mandatory review will be required on the anniversary date of the approved document.

Revision cycle : Every Other Year

9 ATTACHMENTS

N/A



**NY Power
Authority**

Audit Committee Internal Audit Update

9/26/2017

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- 2017 Audit Plan Status - NYPA
- Status of Open Recommendations
- Changes to 2017 Internal Audit Plan

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- 2017 Audit Plan Status – Canals
- Status of Open Recommendations
- Changes to 2017 Internal Audit Plan

Appendix

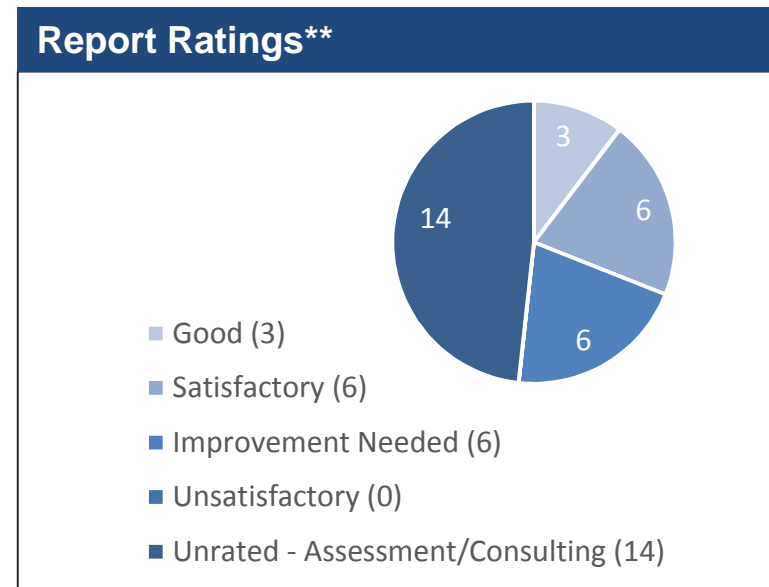
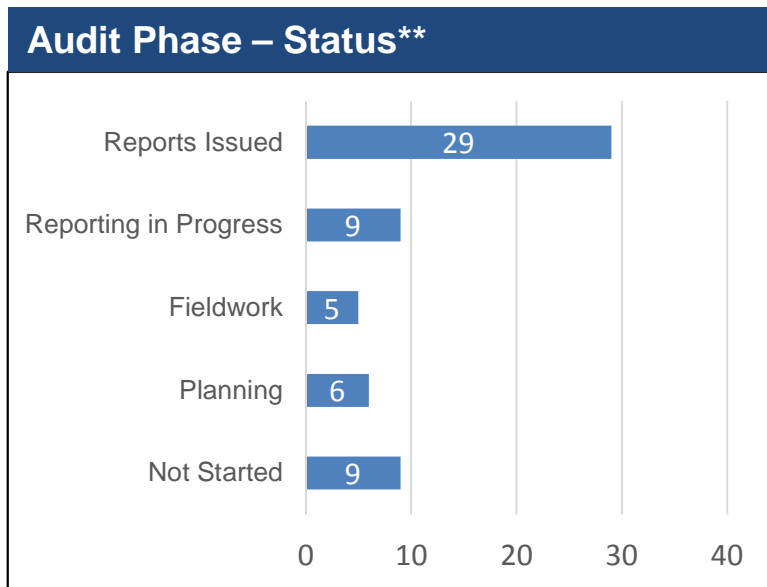
- Appendix A – 2017 Internal Audit Plan
- Appendix B – Changes to 2017 Internal Audit Plan
- Appendix C – 2017 Internal Audit Reports Issued/Ratings
- Appendix D – Status of Recommendations Prior to 2015

Executive Summary

Executive Summary

- **2017 Plan Status***
 - 29 audit reports have been issued.
 - Nine additional audit projects are in the reporting stage.
 - 11 audits are in the fieldwork or planning stage.
 - Nine audits have not started, however, resources have been allocated (seven audits were scheduled for Q4 and two were moved to Q4).

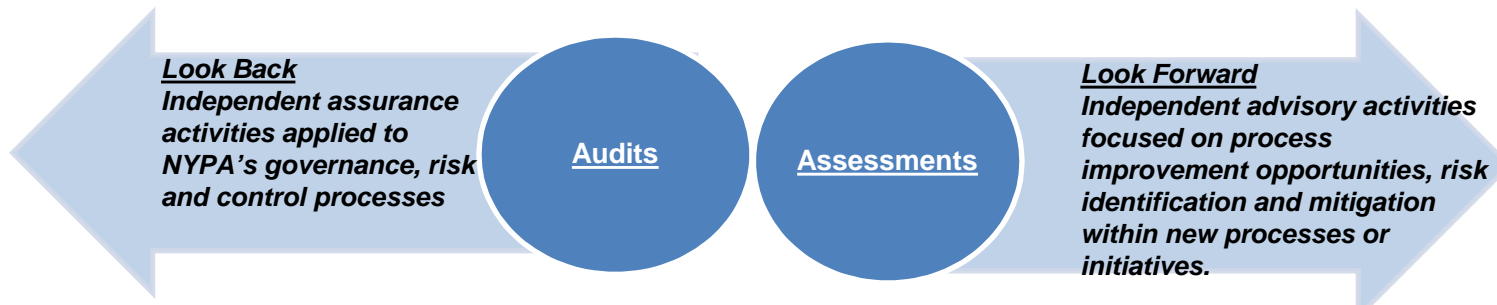
- Internal Audit staff are engaged in 31 consulting projects and partnering arrangements resulting in either documented or real time verbal feedback. Engagements are categorized as Strategic Initiative or Process Improvement.



NOTE: * See Appendix A and C for details

** Information includes both NYPA and Canal related IA activities

Types of Internal Audit Projects



Consulting Activities

Ongoing:

Internal Audit is considered as a partner and trusted advisor. Consulting activities vary and can result in documented or real time verbal feedback. Generally:

- *Scope – defined by consulting activity needed with the client.*
- *Timing – may not require significant time investment from Internal Audit, can have no defined start and end date or may require longer periods of audit engagement.*
- *Reporting – may or may not have a memo or formal audit deliverable.*
- *Activity Types – Internal Audit provides real-time control advice and feedback, may review process and control design development or rollout of departmental program roadmaps.*

Changes to 2017 Internal Audit Plan

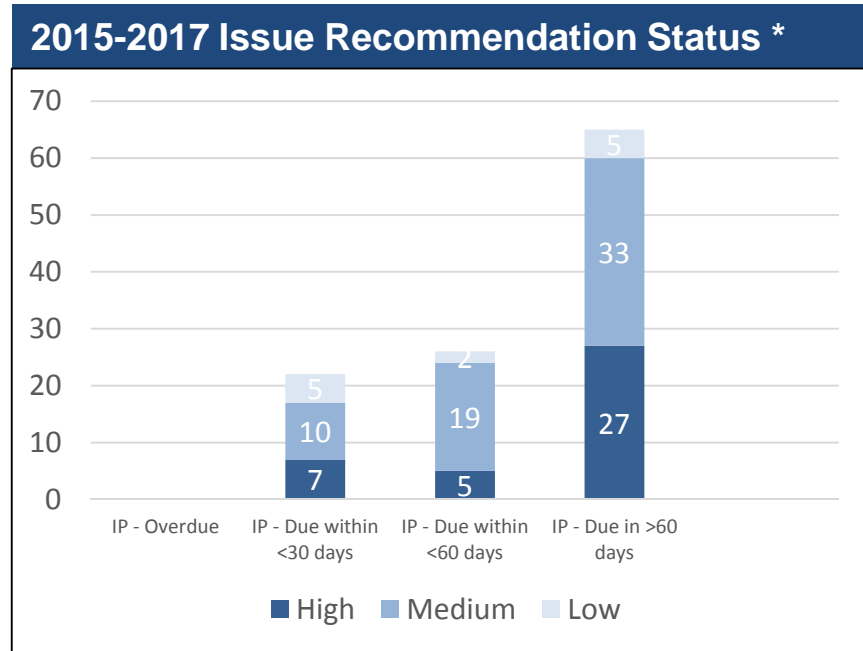
- Operational, Strategic, Compliance, Finance and IT audits are continuously evaluated for emerging risks through participation in work streams, partnership arrangements and discussions with leadership. As a result, the following changes have been made to the 2017 Internal Audit Plan. Details explaining rationale for changes can be found in Appendix B.

2017 Audit Status	9/14/17
Open 2017 Internal Audit Plan	55
Audits Added to 2017 Internal Audit Plan	
NYPA: IT Demand Management, OSC Audit – Follow-up – 2014 Real Estate Portfolio Audit	+2
Canals: None	
Audits Removed from 2017 Internal Audit Plan	
NYPA: SDLC Improvement Support	-3
Canals: Canals Governance and Rizzo Study	
Total 2017 Audits	54*

*The number of total 2017 audit projects is 54, however, the following consulting engagements have more than one audit deliverable whereby interim status memos are issued: NERC CIP Audit Prep Support, Ariba System Implementation – Contract Lifecycle Management Module and Cyber Security Roadmap Consulting Support. This brings the number of total deliverables to 58 as shown on slide 3.

Status of Open Recommendations

- Internal Audit has been using SharePoint to track open recommendations and as of June has implemented formal monthly reporting to NYPA Senior Leadership.
- Internal Audit is tracking open recommendations for Canals using SharePoint and interacts with Canals Management to obtain remediation or closure status on a monthly basis. Request for Proposals are expected to be issued this month to provide and execute an Enterprise Governance Risk and Compliance tool which will include tracking for both NYPA and Canals.
- All recommendations prior to 2015 including the five recommendations discussed at the July Audit Committee Meeting have been closed (See Appendix D for details).
- Internal Audit is satisfied with the progress timelines set forth by process owners for completion of identified issues and is monitoring remediation efforts with a focus on High risk issues.



*NOTE: Information includes both NYPA and Canal related IA activities

Status of 2018 IA Risk Assessment/Audit Plan

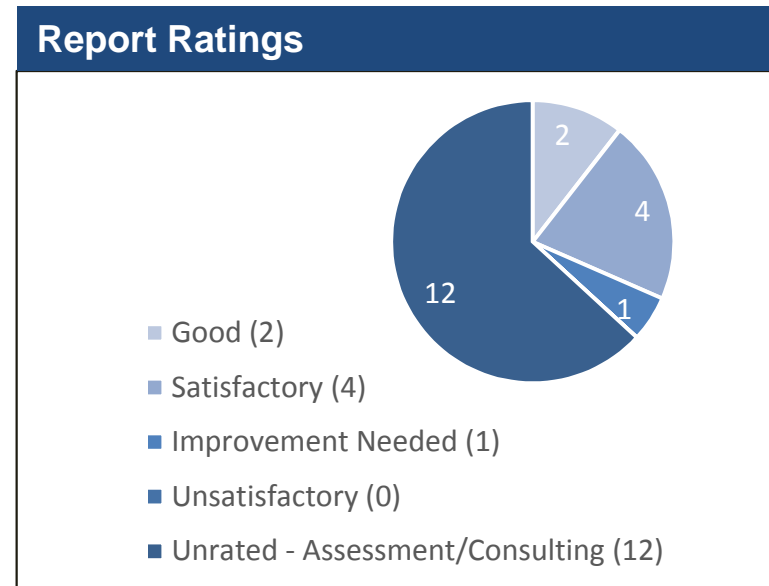
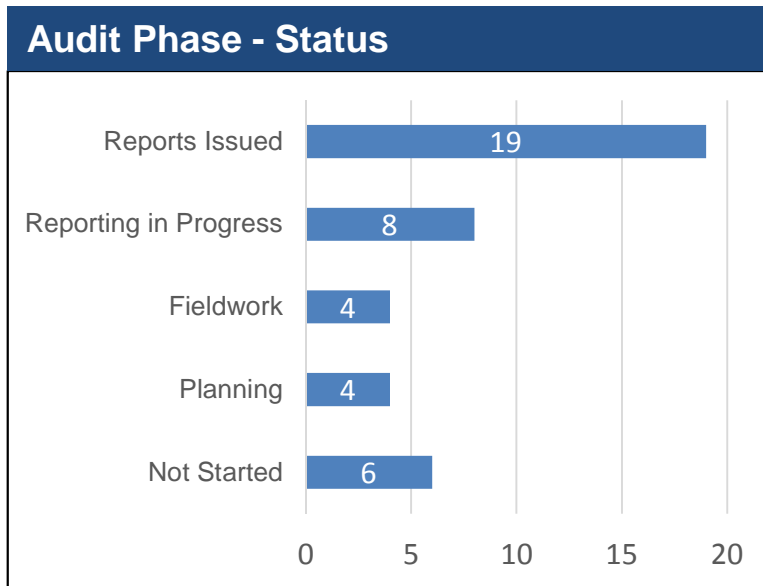
- Internal Audit has scheduled approximately 55 interviews with EMC members and their direct reports which include Canals management.
- Internal Audit Leadership held a kick-off meeting with the Internal Audit Team involved with conducting risk assessments on September 8 which included Deloitte co-source support and Enterprise Risk Management. We are collaborating with Enterprise Risk Management to leverage risk-related information relevant to risk assessment.
- Key milestones of 2018 Internal Audit Risk Assessment/Audit Plan Timeline:
 - Interviews kicked off the week of September 11.
 - Interviews will be completed the week of October 2.
 - Internal Audit Leadership will meet October 9-11 to develop a Draft 2018 Internal Audit Plan.
 - Refine first draft of 2018 Internal Audit Plan and create A&B lists based on resources the week of October 16.
 - Socialize draft audit plan with management between the end of October through early November.
 - Finalize Draft 2018 Internal Audit Plan the week of October 16.
- The draft 2018 Internal Audit Plan will be shared with the Audit Committee prior to its presentation for approval at the December meeting.

NYPA

2017 Audit Plan Status - NYPA

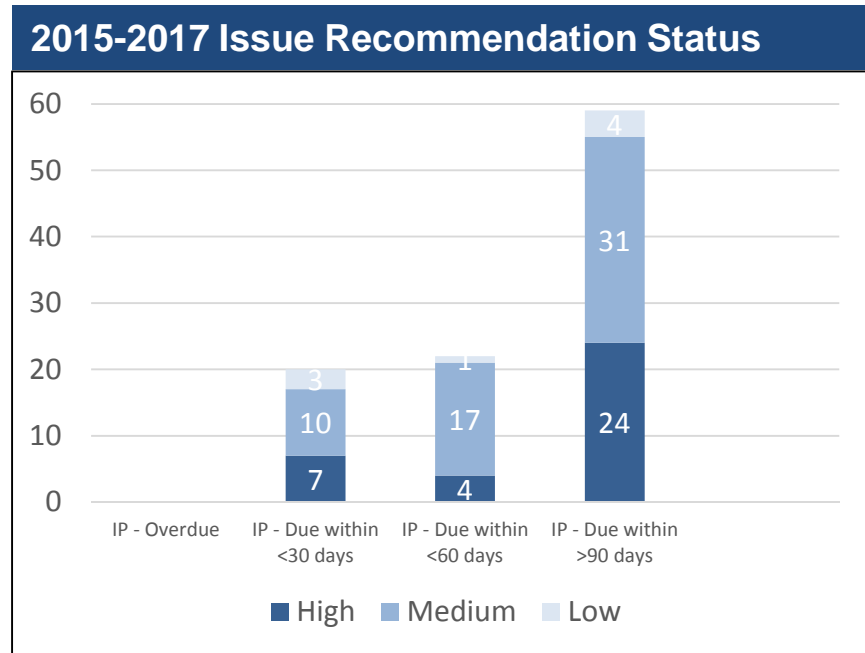
- **2017 Plan Status:**
 - 19 audit reports have been issued.
 - Eight additional audit projects are in the reporting stage.
 - Eight audits are in the fieldwork or planning stage.
 - Six audits have not started.
 - No significant risks have been identified on unissued reports at this time.

- Internal Audit staff is engaged in 31 consulting projects and partnering arrangements that will result in documented or real time verbal feedback. Engagements are categorized as Strategic Initiative or Process Improvement.



Status of Open Recommendations - NYPA

- Internal Audit has been using SharePoint to track open recommendations and as of June has implemented formal monthly reporting to Senior Leadership.
- All recommendations prior to 2015 including the five recommendations discussed at the July Audit Committee Meeting have been closed (See Appendix D for details).
- Internal Audit is satisfied with the progress timelines set forth by process owners for completion of identified issues and is monitoring remediation efforts with a focus on High risk issues.



Changes to 2017 Internal Audit Plan - NYPA

- Operational, Strategic, Compliance, Finance and IT audits are continuously evaluated for emerging risks through participation in work streams, partnering arrangements and discussions with leadership. As a result, the following changes have been made to the 2017 Internal Audit Plan. Details explaining rationale for changes can be found in Appendix B.

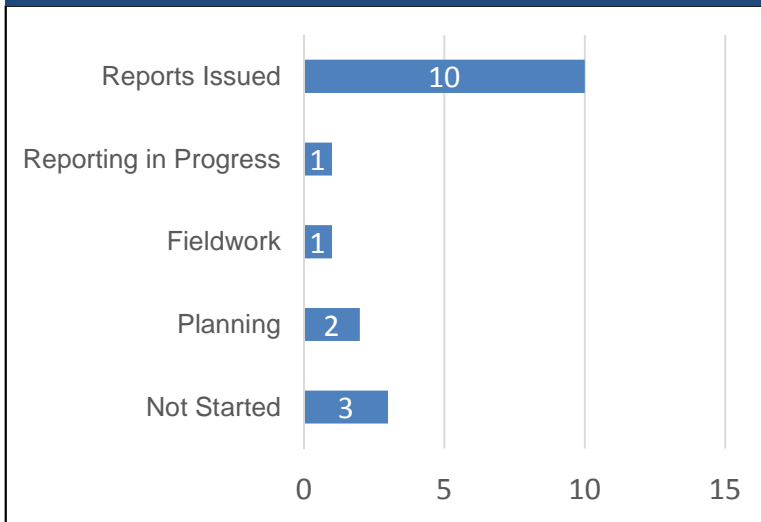
2017 Audit Status	9/14/17
Open 2017 Internal Audit Plan	36
Audits Added to 2017 Internal Audit Plan: IT Demand Management, OSC Audit – Follow-up – 2014 Real Estate Portfolio Audit	+2
Audits Removed from 2017 Internal Audit Plan: SCLC Improvement Support	-1
Total 2017 Audits	37

Canal Corp.

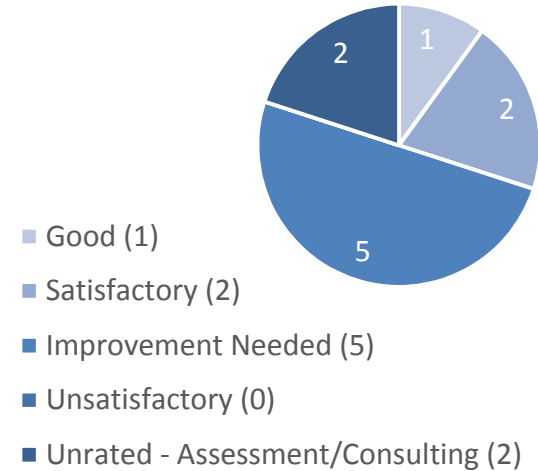
2017 Audit Plan Status – Canals

- **2017 Plan Status:**
 - 10 audit reports have been issued.
 - One additional audit project is in the reporting stage.
 - Three audits are in the fieldwork or planning stage.
 - Three audits have not started.
 - No significant risks have been identified on unissued reports at this time.

Audit Phase - Status

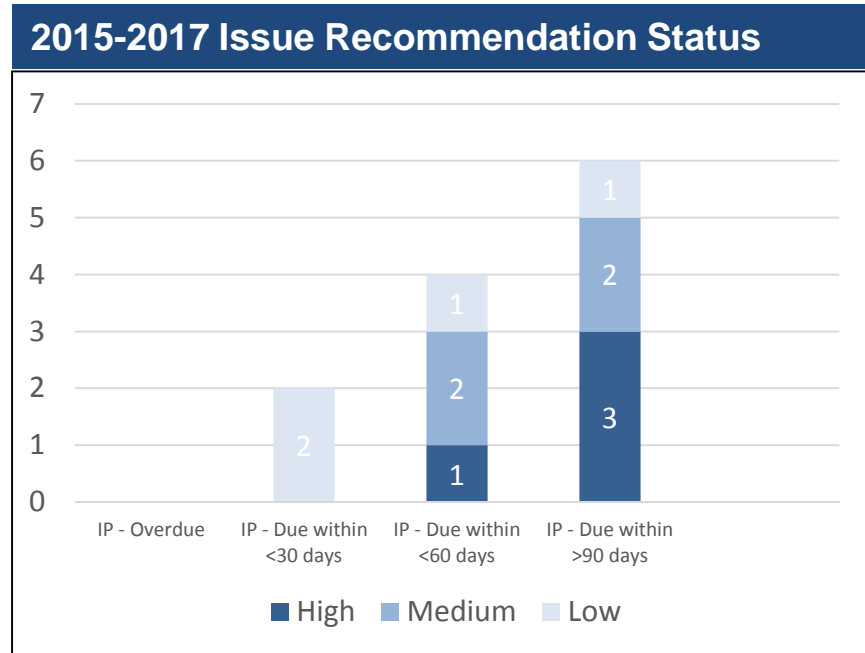


Report Ratings



Status of Open Recommendations - Canals

- Internal Audit is now using SharePoint to track Canals open recommendations and as of June has implemented formal periodic reporting to Senior Leadership.
- Internal Audit is tracking open recommendations for Canals using SharePoint and interacts with Canals Management to obtain remediation or closure status on a monthly basis. Request for Proposals are expected to be issued this month to provide and execute an Enterprise Governance Risk and Compliance tool which will include tracking for both NYPA and Canals.
- Internal Audit is satisfied with the progress timelines set forth by process owners for completion of identified issues and is monitoring remediation efforts with a focus on High risk issues.



Changes to 2017 Internal Audit Plan - Canals

- Operational, Strategic, Compliance, Finance and IT audits are continuously evaluated for emerging risks through participation in work streams, partnership arrangements and discussions with leadership. As a result, the following changes have been made to the 2017 Internal Audit Plan (details explaining rationale for changes can be found in Appendix B):

2017 Audit Status	9/14/17
Open 2017 Internal Audit Plan	19
Audit Added to 2017 Internal Audit Plan: None	+0
Audits Removed from 2017 Internal Audit Plan: Canals Governance and Rizzo Study	-2
Total 2017 Audits	17

Appendix

Appendix A – 2017 Internal Audit Plan

Ref.	Entity	Audit	Business Unit	Audit Type	Date Issued
Deliverable Issued: 29					
1	NYPA	HTP First Energy Additional Follow-up	Utility Operations	Consulting	3-17-17
2	NYPA	Customer Compliance Audits	Commercial Operations	Audit	3-21-17
3	NYPA	Contributions, Sponsorships and Events	Entity-Wide	Audit	3-29-17
4	NYPA	BG SCADA Pre/Post Implementation	Technology	Audit	3-30-17
5	NYPA	Business Resiliency Governance Assessment	Entity-Wide	Assessment	4-3-17
6	NYPA	Enterprise Risk – Top Risk Action Plan Follow-up	Entity-Wide	Assessment	4-12-17
7	NYPA	Transitional Position Utilization Assessment	HR & Enterprise Shared Services	Assessment	4-26-17
8	NYPA	NERC CIP Audit Prep Support 1	Utility Operations	Consulting	5-12-17
9	NYPA	Customer Credit	Entity-Wide	Assessment	6-5-17
10	NYPA	Muni/Coop Regulation Audit	Commercial Operations	Audit	6-9-17
11	NYPA	Transmission Cost of Service	Entity-Wide	Audit	6-14-17
12	NYPA	Ariba System Implementation – Contract Lifecycle Mgmt Module 1	Technology	Audit	6-28-17
13	NYPA	Western NY – Customer Compliance Audits (D&M)	Commercial Operations	Audit	6-30-17
14	NYPA	Deferred Asset Accounting	Business Services	Audit	7-21-17
15	NYPA	HTP Operations	Commercial Operations	Audit	7-25-17
16	NYPA	Cyber Security Roadmap Consulting Support 1	Technology	Consulting	7-28-17
17	NYPA	NERC CIP Audit Prep Support 2	Utility Operations	Consulting	7-28-17
18	NYPA	Operating System Security	Technology	Audit	8-15-17
19	NYPA	2016 OSC Audit – Remediation Follow-up	Entity-Wide	Audit	9-8-17
20	Canals	Canals Non-SAP Applications and Infrastructure	Technology	Audit	4-5-17
21	Canals	Canals Invoice Review	Business Services	Audit	4-12-17
22	Canals	PCI Compliance	Technology	Audit	6-14-17
23	Canals	Pre/Post Day 1 Balance Review	Business Services	Audit	6-20-17
24	Canals	P-Cards	Entity-Wide	Assessment	6-27-17
25	Canals	SAP Migration Phase 2	Technology	Audit	6-29-17
26	Canals	Physical Asset Verification	Entity-Wide	Audit	6-30-17
27	Canals	User Access Management	Technology	Audit	7-31-17
28	Canals	PCI Compliance – Website Assessment	Technology	Assessment	8-15-17
29	Canals	Canals TSA Management	Technology	Audit	9-14-17
Reporting - Fieldwork Complete: 9					
30	NYPA	Cyber Security Roadmap Consulting Support 2	Technology	Consulting	
31	NYPA	Direct Expenses	Entity-Wide	Assessment	

Appendix A – 2017 Internal Audit Plan

	Entity	Audit	Business Unit	Audit Type	Date Issued
32	NYPA	NERC CIP Audit Prep Support 3	Utility Operations	Consulting	
33	NYPA	Siemens - Third Party Contract Audit	Entity-Wide	Audit	
34	NYPA	Generator Meter to Cash	Entity-Wide	Audit	
35	NYPA	Physical Security Investments Assessment	Utility Operations	Assessment	
36	NYPA	Post-Retirement Benefits	Business Services	Audit	
37	NYPA	OSC Audit – Follow-up – 2014 Real Estate Portfolio Audit	Entity-Wide	Consulting	
38	Canals	Expenditure Authorization Procedure (EAP) Compliance	Entity-Wide	Audit	
Fieldwork In Progress: 5					
39	NYPA	Ariba System Implementation – Contract Lifecycle Mgmt Module 2	Technology	Audit	
40	NYPA	New York Energy Manager – Technology Process Assessment	Commercial Operations	Assessment	
41	NYPA	Telecom Cost Recovery Project	Technology	Audit	
42	NYPA	ABB – Third Party Contract Audit	Entity-Wide	Audit	
43	Canals	Canals – Permit Management	Entity-Wide	Audit	
Audit Planning In Progress: 6					
44	NYPA	Employee Data Protection	HR & Enterprise Shared Services	Audit	
45	NYPA	LPGP LEM	Utility Operations	Audit	
46	NYPA	ISO 55000 Framework Design Support	Utility Operations	Consulting	
47	NYPA	Customer Energy Solutions Redesign Support	Commercial Operations	Consulting	
48	Canals	Pension/Other Post Retirement Benefits	Business Services	Audit	
49	Canals	OSC Audit Follow-up	Entity-Wide	Audit	
Planning Not Started: 9					
50	NYPA	Enterprise Portfolio Management Design Assessment	Entity-Wide	Assessment	
51	NYPA	Hydro Forecast Process	Utility Operations	Audit	
52	NYPA	IT Disaster Recovery (DR)	Technology	Assessment	
53	NYPA	Indirect Expenses – Cost Allocations	Entity-Wide	Audit	
54	NYPA	New York Energy Manager – Program Support	Commercial Operations	Consulting	
55	NYPA	IT Demand Management	Technology	Audit	
56	Canals	EH&S Study Follow-up	Utility Operations	Assessment	
57	Canals	Canals IT Demand Management	Technology	Audit	
58	Canals	Canals Crisis Management	Entity-Wide	Audit	








Appendix B - Changes to 2017 Internal Audit Plan – NYPA

Business Unit	Audit Name	Change	Rationale	Est. Start	Impact to IA Plan
Technology	IT Demand Management	Added to Plan	Expanded review to NYPA side.	Q4	+1
Entity-Wide	OSC Audit – Follow-up – 2014 Real Estate Portfolio Audit	Added to Plan	IA was requested to review the status of the action plans on an informal/consulting basis for this audit/follow-up.	Q3	+1
Business Services	Post-Retirement Benefits Assessment	Change to Project Type	Changed from Assessment to Audit.	Q3	0
Commercial Operations	New York Energy Manager – Technology Security Review	Name and Scope Change	Change Name to New York Energy Manager – IT Controls Review.	Q4	0
Commercial Operations	New York Energy Manager – IT Controls Review	Name Change	Change Name to New York Energy Manager – Technology Process Assessment.	Q4	0
Technology	IT Disaster Recovery (DR)	Change to Project Type	Change from Audit to Assessment.	Q4	0
Technology	SDLC Improvement Support	Removed from Plan	Premature at this time.	Q3	-1

Appendix B - Changes to 2017 Internal Audit Plan – Canals









Business Unit	Audit Name	Change	Rationale	Est. Start	Impact to IA Plan
Technology	IT Incident Management	Name and Scope Change	Change Name to Canals IT Demand Management.	Q4	0
Entity-Wide	Canals Governance	Removed from Plan	Premature at this time.	N/A	-1
Utility Operations	Rizzo Study	Removed from Plan	Combine work with OSC Follow-up Project.	N/A	-1

Appendix C – 2017 Internal Audit Reports Issued/Ratings - NYPA

2017 Internal Audit Report	Audit Report Rating	Assessment/Consulting*
BG SCADA Pre/Post Implementation	Good 	
2016 OSC Audit Remediation Follow-up	Good 	
Contributions, Sponsorships and Events	Satisfactory 	
Muni/Coop Regulation	Satisfactory 	
Operating System Security	Satisfactory 	
HTP Operations	Satisfactory 	
Deferred Asset Accounting	Improvement Needed 	
Business Resiliency Governance Assessment		Assessment Report
Enterprise Risk – Top Risk Action Plan Follow-up		Assessment Report
Transitional Position Utilization Assessment		Assessment Report
Customer Credit Assessment		Assessment Report
Transmission Cost of Service Assessment		Assessment Report
HTP First Energy Additional Follow-up		Memo
Customer Compliance Audits		Memo
NERC CIP Audit Prep. Support 1		Memo
Western NY – Customer Compliance Audits (D&M)		Memo
ARIBA Pre/Post System Implementation Audit		Memo
NERC CIP Audit Prep. Support 2		Memo
Cyber Security Roadmap Consulting Support 1		Memo

*Assessment Reports and Memos are not rated deliverables.

Appendix C – 2017 Internal Audit Reports Issued/Ratings - Canals

2017 Internal Audit Report	Audit Report Rating	Assessment/Consulting*
PCI Compliance	Good 	
Canals Non-SAP Applications and Infrastructure	Satisfactory 	
Canals TSA Management	Satisfactory 	
Pre/Post Day 1 Balance Review	Improvement Needed 	
P-Cards	Improvement Needed 	
SAP Migration Phase 2	Improvement Needed 	
Physical Asset Verification	Improvement Needed 	
User Access Management	Improvement Needed 	
PCI Compliance – Website Assessment		Assessment Report
Canals Invoice Review		Memo

*Assessment Reports and Memos are not rated deliverables.

Appendix D – Status of Recommendations Prior to 2015

Open Recommendations	Remediation Status
Public Authorities Law	Corporate Accounting Policy for Internal Controls has been staged for presentation and approval to the Audit Committee Board for the September meeting. Observation is closed.
Emergency Management – Organizational Policies/Roles & Responsibilities/	Management has provided the appropriate documentation and tools to demonstrate the Emergency Management program has been developed with supporting policies, and clear lines of authority/responsibilities have been defined, communicated and training delivered. Policies state annual review is required. Observation is closed.
Emergency Management - Training	Management has provided the appropriate documentation to evidence training of the guidebooks developed for Emergency Management, IT/Cyber, and Business Continuity has taken place at the sites. Regularly scheduled drills are scheduled, tracked and documented. Observation is closed.
Emergency Management – Incident Reporting Policies and Procedures	Management has provided the appropriate documentation to evidence incident levels are defined, documents developed to capture incidents, defined notification requirements and are logged. Observation is closed.
Expenditure Authorization Procedures (EAPs)	Management has actively taken the necessary steps to develop an EAP assignment matrix to include all NYPA employee titles and current EAP levels. This matrix is available in Maximo for Operations and will be manually implemented by all other business units until Ariba automation is completed. Observation is closed.



New York Power Authority Audit plan December 31, 2017

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September 26, 2017

Agenda

1.0 Client Service Team

2.0 Objective of an audit

3.0 Risk Assessment

4.0 Audit Plan

5.0 KPMG's Audit Committee Institute and Global Energy Institute

Appendices

A.1 Responsibilities

A.2 KPMG's audit approach and methodology

A.3 Materiality

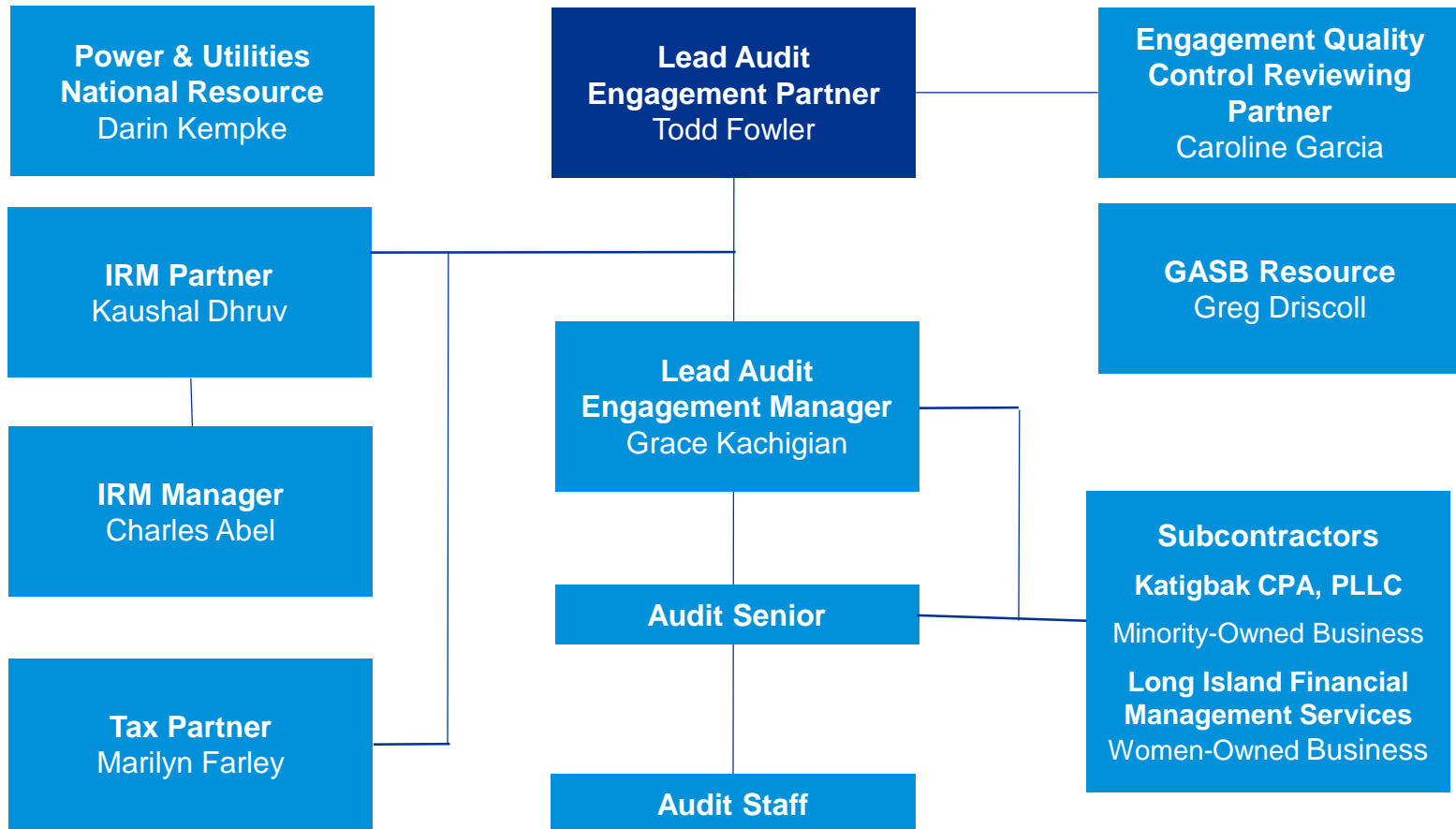
A.4 Independence



1.0

Client service team

Client service team





2.0

Objective of an audit

Objectives of an audit

- 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 are free of material misstatement, whether caused by 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 to provide a reasonable basis for our opinion.
 - Assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation.



3.0

Risk assessment

Risk assessment

Significant audit areas	Significant estimates	Significant unusual transactions/other items	Information technology matters
<ul style="list-style-type: none"> — Revenue recognition — Long term debt — Capital assets — Investments 	<ul style="list-style-type: none"> — Asset retirement obligations — Derivative valuations — Pension and Other post-employment benefits — Investments 	<ul style="list-style-type: none"> — Implementation of new accounting pronouncements — Assessment of any outstanding, pending or threatened litigation — Canal Corp acquisition — Bond offering, if applicable 	<ul style="list-style-type: none"> — General information technology environment — Related application controls — Existing systems upgrade — Systems integration



4.0

Audit plan

Audit plan - Scope

Scope of work	<i>Audit of the consolidated financial statements for the New York Power Authority as of and for the two-year period ended December 31, 2017</i>
Applicable financial reporting framework	<i>U.S. generally accepted accounting principles (GAAP), including Government Accounting Standards, as issued by the Government Accounting Standards Board (GASB)</i>
Applicable auditing standards	<p><i>We perform our audit in accordance with:</i></p> <ul style="list-style-type: none"> <i>-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)</i> <i>-Government Auditing Standards issued by the Comptroller of the United States</i>
Other terms of engagement	<p><i>Additional Reports to be issued:</i></p> <ul style="list-style-type: none"> <i>-Report on Internal Control Over Financial Reporting and Compliance and other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards as of December 31, 2017</i> <i>-Report on Investment Compliance as of December 31, 2017</i> <i>-Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with the Uniform Guidance, if applicable</i> <i>-Revenue Bonds issuance consent and comfort letter, if applicable</i>

Audit plan - KPMG Approach

- Debrief on audit process
- Plan audit approach for upcoming year-end audit
- Identify key members of the engagement team, including specialists

- Perform risk assessment procedures and identify risks
- Determine audit approach
- Evaluate entity-level controls
- Determine planned audit approach
- Understand accounting and reporting activities
- Evaluate design and implementation of selected controls including general IT controls, where applicable.
- Coordination with Internal Audit/ component auditors
- Present audit plan to Audit Committee



- Perform analytical or other procedures to roll forward account balances to year-end
- Perform remaining audit procedures
- Discuss key issues and deficiencies identified with management
- Attend Audit Committee meeting and perform required communications
- Review of financial statement disclosures
- Obtain written representation from management
- Issue audit opinion on [consolidated and subsidiary] financial statements

- Meetings with management to discuss key issues
- Perform interim substantive audit procedures
- Perform site visits

Audit plan - Deliverables and time line

September – November 2017		December 2017	January – February 2018	March 2018
<ul style="list-style-type: none"> — Present 2017 Audit Plan to the Audit Committee — Identify financial statement fraud risks and assess the effect on the audit plan — Perform risk assessment procedures and identify risks — Assessment of audit risk and planning of substantive audit procedures — Determine audit strategy and identify critical accounting matters — Canals site visit — Canals review of prior year auditor's workpapers — Analysis of Canals accounting treatment 	<ul style="list-style-type: none"> — Plan audit procedures — Finalize planned audit approach — Perform walkthroughs of internal control processes — Test entity-wide and monitoring controls — Evaluate design of selected key controls — Test operating effectiveness of selected key controls — Perform interim substantive procedures — Evaluation of interim results and establish plan for performance of substantive audit procedures 	<ul style="list-style-type: none"> — Perform/send year-end confirmations (e.g. legal, debt, cash, investments, accounts receivable, revenue and derivatives) — Inventory observation attendance 	<ul style="list-style-type: none"> — Meetings with management to discuss key issues — Test operating effectiveness of selected year-end controls — Perform substantive procedures and tests of detail — Perform procedures related to the Authority's investment compliance with the State of New York guidelines — Consider if audit evidence is sufficient and appropriate — Conclude on critical accounting matters and issues 	<ul style="list-style-type: none"> — Confirm completion procedures — Form audit conclusions — Perform overall evaluation of financial statements and disclosures — Present required communications to Audit Committee — Form audit opinion on financial statements — Report on Internal Control over Financial Reporting and Compliance on Other Matters — Report on Investment Compliance — Finalize all deliverables — Prepare management letter comments, if applicable

Audit plan - Involvement of others

Financial statement audit

— Internal Audit

KPMG will work with the Authority's Internal Audit function to perform a more efficient audit. Throughout our audit we will regularly meet with Internal Audit to discuss:

- The status of the internal audit reports
- Findings made by internal audit and determine the impact to our audit
- Reports we can leverage as part of our audit
- Findings made by KPMG which could have an impact on internal audit's reports
- Best practices observed by KPMG
- Coordination and design of Internal Audit plan for auditing the Canals Corp.

Audit plan - Involvement of others (continued)

Financial statement audit

— External Experts and Service Organizations

External Expert / Service Organization	Financial Statement Account	Description of Work
— Swap Financial Group	— Risk management activities - derivatives	— Determine the fair value and hedge effectiveness of interest rate swaps
— PA Consulting Group	— Risk management activities – derivatives	— Determine the fair value of commodity swaps
— Buck Consulting	— Other postemployment benefit obligation/asset	— Actuarial report for the Authority’s GASB 45 Other Postemployment Benefits
— J.P. Morgan — Bank of NY Mellon	— Investment in securities	— Custodian for the Authority’s investment portfolio
— Ceridian	— Payroll expense	— Payroll services for the Authority
— New York ISO	— Revenue and accounts receivable	— Billing and settlement services related to the purchase and sale of power in New York



5.0

KPMG's Audit
Committee Institute
and Global Energy
Institute

KPMG's Audit Committee Institute (ACI)

In depth insights. In time to matter.

ACI programs

- Audit Committee Roundtable Series
 - Approximately 25 cities each Spring/Fall
- Quarterly Audit Committee Webcast
 - 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.
- 14th Annual Audit Committee Issues Conference
 - January 8-10, 2018 in San Diego, California

Suggested publications (available for download at www.kpmg.com/aci)

- Directors Quarterly
- Global Boardroom Insights
- On the 2017 Audit Committee and Board Agendas
- Global Audit Committee Survey

Resources

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

KPMG's Global Energy Institute

Recent Publications

- [Plugged In: Issues impacting the power and utilities industry](#)

2018 KPMG Global Energy Conference

- June 6-7, 2018, Royal Sonesta Hotel Houston, Texas

Webcasts on Demand

- [KPMG/NACD Quarterly Audit Committee Webcast: Proxy Season Hot Topics](#)

Resources

- [KPMG Institutes Website](#)
- [Global Energy Institute Website](#)
- **Audit Committee Insights – U.S and International editions (biweekly electronic publications):**
www.kpmginsights.com



Appendices



A.1

Responsibilities

Responsibilities

Management is responsible for:

- Preparation and fair presentation of the financial statements, including disclosures, in conformity with generally accepted accounting principles (GAAP)
- For the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
- Ensuring that the Authority operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in the Authority's financial statements, and for informing the auditor of any known material violations of such laws and regulations
- To provide access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters, additional information that we may request from management for the purpose of the audit, and unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence.
- Adjusting the financial statements to correct material misstatements and affirming 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.
- 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 Authority's financial reporting
 - Acknowledgement of their responsibility for the design and implementation of programs and controls to prevent , deter, and detect fraud.

Responsibilities (continued)

The Audit Committee is responsible for:

- Oversight of the financial reporting process and oversight of ICOFR
- Oversight of the establishment and maintenance by management of programs and 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:

- Planning and performing our audit, with an attitude of professional skepticism, to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by fraud or error. Accordingly, there is some risk that a material misstatement of the financial statements will remain undetected. Although not absolute assurance, reasonable assurance is a high level of assurance. Our audit is not designed to detect error or fraud that is immaterial to the financial statements.
- Conducting the audit in accordance with professional standards and complying with the rules and regulations of 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
- 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
- An audit of the financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting.
- Communicating to the Audit Committee all required information, including significant matters, that are in our professional judgment, relevant to the responsibilities of those charged with governance in overseeing the financial reporting process.
- Communicating to management and the Audit Committee in writing all significant deficiencies and material weaknesses in internal control identified during the audit and reporting to management in writing all deficiencies noted during our audit that, in our professional judgment, are of sufficient importance to merit management's attention. The objective of our audit of the financial statements is not to report on the Authority's internal control and we are not obligated to search for material weaknesses or significant deficiencies as part of our audit of the financial statements.
- Communicating to the Audit Committee circumstances that affect the form and content of the auditors' report, if any.

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.
- The auditors' responsibility is to make appropriate arrangements with management or the Audit Committee to obtain the other information prior to the report release date and to read the other information to identify material inconsistencies with the audited financial statements or material misstatements of fact.
- Any material inconsistencies or misstatements 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.



A.2

KPMG's audit
approach and
methodology

KPMG's audit approach and methodology

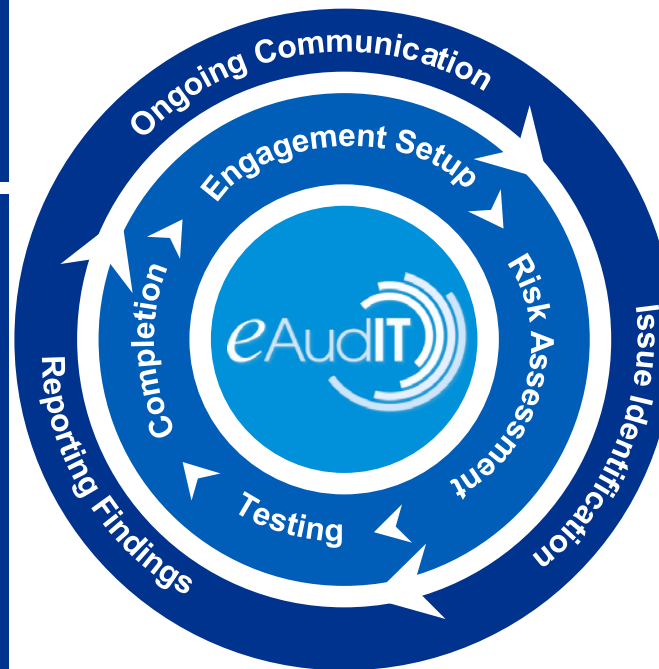
Technology-enabled integrated audit work flow

Engagement Setup

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

Completion

- Update risk assessment
- Perform completion procedures and overall evaluation of results and financial statements
- Form and issue audit opinion on financial statements
- Obtain written representation 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 internal controls, if applicable

Testing

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

Audit plan - 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 that may result in material misstatements
- 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 regulators, if applicable
- The attitudes, awareness, and actions concerning (a) the entity's internal controls and their importance in the entity, including oversight of effectiveness of internal controls, and (b) detection of or possibility of fraud
- Developments in financial reporting, laws, accounting standards, corporate governance, and other related matters
- Matters relevant to the audit, including, but not limited to, violations or possible violations of laws or regulations
- Significant issues discussed with management in connection with the appointment or retention of the auditor, including significant discussions regarding the application of accounting principles and auditing standards.
- Previous communications with the auditor



A.3

Materiality

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 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

Independence

KPMG independence quality controls

KPMG's independence policies require that the firm, its partners and management group, and the personnel assigned to each audit engagement must be free from financial interests in and prohibited relationships with the client, its management, its directors, and its significant owners.

KPMG also maintains a system of audit quality control that is designed to meet or exceed the requirements of applicable professional standards issued by the Public Company Accounting Oversight Board (PCAOB) and the American Institute of Certified Public Accountants (AICPA).

The firm is subject to three sources of examinations:

- Peer review
- Internal inspection processes (full exam, in-flight, and in-depth)
- Regulatory external reviews

No issues identified that might have a material adverse effect on the firm's operations or our ability to fulfill our obligations as independent auditor to our clients.



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