



cutting through complexity

New York Power Authority Audit Plan December 31, 2015

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 This presentation is not intended for general use, circulation or publication and should not be published, circulated, reproduced or used for any purpose without our prior written permission in each specific instance.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 29, 2015

Agenda

Presentation

- 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

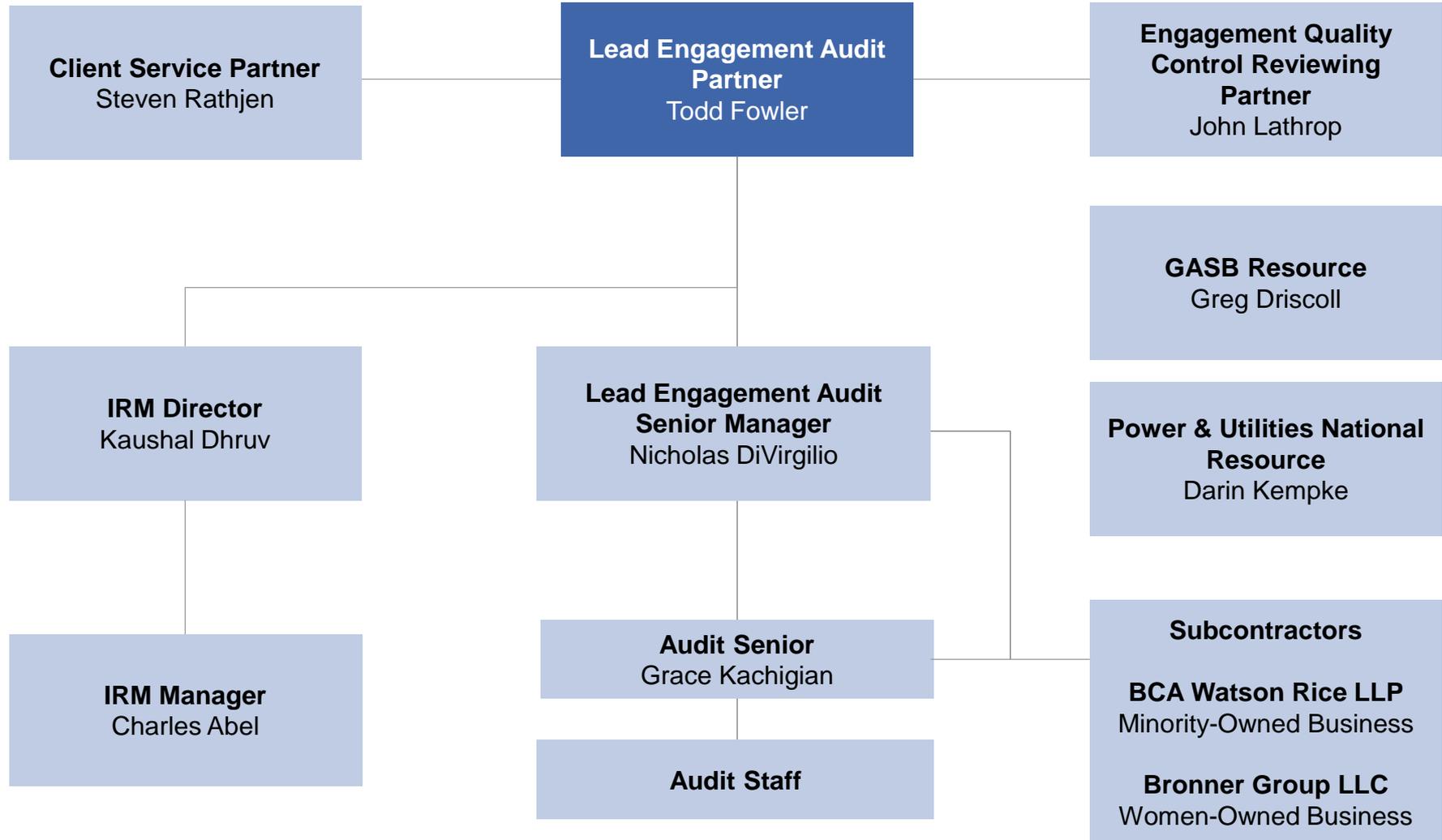
Appendices

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

1.0

Client service team

Client service team



2.0

Objective of an audit

Objective of an audit

- The objective of an audit of the financial statements is to enable the auditor to express an opinion about whether the financial statements that have been prepared by management with the oversight of the Audit Committee are presented fairly, in all material respects, in conformity with generally accepted accounting principles (GAAP), including Government Accounting Standards, as issued by the Government Accounting Standards Board (GASB).
- We plan and perform the audit to obtain reasonable assurance about whether the financial statements taken as a whole are free from material misstatement, whether due to fraud or error.
- We perform our audit in accordance with:
 - Auditing standards generally accepted in the United States of America as issued by the Auditing Standards Board of the American Institute of Certified Public Accountants (U.S. GAAS).
 - Government Auditing Standards issued by the Comptroller of the United States.
- Our audit includes:
 - Performing tests of the accounting records and such other procedures, as we consider necessary in the circumstances, based on our judgment, including the assessment of the risks of material misstatement, to provide a reasonable basis for our opinion.
 - Evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, and evaluating the overall presentation of the financial statements.
- Reports to be issued:
 - Opinion on the financial statements of the Authority as of and for the two-year period ended December 31, 2015
 - Report on Internal Controls and Other Matters as of December 31, 2015
 - Report on Investment Compliance as of December 31, 2015
 - 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 OMB Circular A-133

3.0

Risk assessment

Risk Assessment

As part of the planning process of our audit, KPMG met with management to discuss the business risks, industry risks, and financial statement risks most significant to the Authority. As part of our planning, we held discussions with:

- Robert Lurie
- Soubhagya Parija
- Jennifer Faulkner
- Tom Concadoro

Based on these discussions and our understanding of the entity's business, industry, and environment, we have identified the significant risks discussed on the proceeding slides that may result in a material misstatement (due to fraud or error) in the financial statements and our planned audit approach in response to such risks.

Risk assessment (continued)

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

Risk assessment (continued)

Significant risk	Financial statement impact	Planned audit approach
Long term debt	Appropriate classification of debt (long-term vs. current) on the statement of net position.	<ul style="list-style-type: none"> • Confirm outstanding debt balances, including commercial paper, directly with third parties • Recalculate interest expense throughout the year • Review debt covenants to ensure the Authority is in compliance as of December 31, 2015
Capital assets	Appropriate classification of capital assets or expense on the statement of net position and statement of revenue, expenses and changes in net position.	<ul style="list-style-type: none"> • Detail test additions and disposals from capital assets. Ensure amounts added are appropriately capitalized (vs. expensed) • Test depreciation expense for the year • Review the Authority's impairment policy and determine if any triggering events occur throughout the year
Investments (including Nuclear Decommissioning Trust)	Appropriate valuation and disclosure of the Authority's investments within the financial statements. Ensure that the Authority has appropriately concluded on their investment compliance for the year.	<ul style="list-style-type: none"> • Test the fair market value of a selection of investments. Utilize the KPMG National Pricing Desk to assist with the valuations. • Review a sample of investments for compliance with Board approved policies • Confirm the investment balance with the bank as of year-end • Review the financial statement for completeness and accuracy of trust assets and obligation
Pension and other post-employment benefits	Appropriate determination and disclosure of other postemployment benefits within the financial statements	<ul style="list-style-type: none"> • Review the Authority's adoption of GASB 68. Utilize KPMG specialists to review the disclosures within the financial statements • Select and test a sample of the census data utilized by the actuary

Risk assessment (continued)

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

4.0 Audit plan

Audit plan – Deliverables and time line

September – November 2015		December 2015	January – February 2016	March 2016
<ul style="list-style-type: none"> • Present 2015 Audit Plan to the Audit Committee • Identify specific and pervasive 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 • Plan audit procedures • Finalize planned audit approach 	<ul style="list-style-type: none"> • Perform walkthroughs of internal control processes • Test entity-wide and monitoring controls • Evaluate design of selected key controls • Test IT general 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

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 Jen Faulkner 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

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	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
 - September 24, 2015
- 12th Annual Audit Committee Issues Conference
 - February 1-2, 2016, San Francisco, CA

Webcasts on Demand

- Revenue from Contracts with Customers – Amendments and Implementation Issues
- Harnessing the Power of SOC2 Reporting for Vendor Risk Management
- When one crisis meets another: Focusing on talent for the long term

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

- Directors Quarterly
- Global Boardroom Insights
- On the 2015 Audit Committee and Board Agendas
- 2015 Global Audit Committee Survey

Resources

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



KPMG's Global Energy Institute

Events

- Power and Utilities Chief Accounting and Controller Share Forum (September 23, 2015)

Recent publications

- [2015 Energy Business Outlook – Power & Utilities Key Findings](#)
- [Addressing the challenges in the current energy price environment](#)

Webcasts on Demand

- [The Agile CFO's Blueprint for Growth Amidst Constant Change](#)
- Asset Management Analytics

Resources

- [KPMG Institutes Website](#)
- [Global Energy Institute Website](#)

Appendices

A.1

Responsibilities

Responsibilities

Management is responsible for:

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

Responsibilities (continued)

The Audit Committee is responsible for:

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

Management and the Audit Committee are responsible for:

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

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

Responsibilities (continued)

KPMG is responsible for:

- Forming and expressing an opinion about whether the financial statements that have been prepared by management, with the oversight of the Audit Committee, are presented fairly, in all material respects, in conformity with GAAP
- Planning and performing the audit with an attitude of professional skepticism
- Conducting the audit in accordance with professional standards and complying with the Code of Professional Conduct of the American Institute of Certified Public Accountants, and the ethical standards of relevant CPA societies and relevant state boards of accountancy
- Evaluating ICFR as a basis for designing audit procedures, but not for the purpose of expressing an opinion on the effectiveness of the entity's ICFR
- Communicating to management and the Audit Committee all required information, including significant matters
- Communicating to management and the Audit Committee in writing all significant deficiencies and material weaknesses in internal control identified in the audit and reporting to management all deficiencies noted during our audit that are of sufficient importance to merit management's attention

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 the audited financial statements, excluding required supplementary information.
- We are required to:
 - Read the other information to identify material inconsistencies with the audited financial statements or material misstatements of fact, and
 - Make appropriate arrangements with management or the Audit Committee to obtain the other information prior to the report release date.
- Any material inconsistencies or misstatements of fact 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 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 overall evaluation of results and the financial statements
- Form and issue audit opinion on the financial statements
- Obtain written representations from management
- Required Audit Committee communications
- Debrief audit process



Risk Assessment

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

Testing

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

A.3

Materiality

Materiality

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

A.4

**Auditing and accounting
matters**

Auditing and accounting matters

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

- The appropriate person (Audit Committee Chair or full committee) for communication of audit matters during the audit
- Allocation of responsibilities between management and the Audit Committee
- Entity's objectives and strategies and related business risks
- Areas that warrant particular attention during the audit and additional procedures to be undertaken
- The nature and extent of communications expected with the Audit Committee about misappropriations perpetrated by lower-level employees
- Significant communications with the regulators
- The attitudes, awareness, and actions concerning (a) the entity's internal controls and its importance in the entity, including oversight of effectiveness of internal controls, and (b) detection of or possibility of fraud
- Matters relevant to the audit, including, but not limited to, violations or possible violations of laws or regulations
- The actions in response to developments in law, accounting standards, corporate governance, and other related matters
- The actions in responses to previous communications with the auditor

A.5

Audit fees

Audit fees

	2015	2014
Audit fees		
Financial statements and related notes to the financial statements		
Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Accounting Standards</i>	\$288,000	\$279,000
Investment Compliance Report		

* 2015 fees will be based on the actual number of hours incurred at the applicable hourly rates set out in our agreement. The represents the amount not to exceed for the 2015 audit.

A.6

Independence

KPMG Independence Quality Controls

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

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

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

Independence – New requirements

Change to KPMG policies resulting from changes in the IESBA Code – Effective April 1, 2014

- This change does not change any independence requirements, only the requirements for communicating independence breaches, should one occur
- For any breaches of the IESBA independence requirements, KPMG will:
 - Assess the impact of the breach
 - Identify the actions performed or to be performed to address the consequences of the breach
 - Communicate in writing and discuss the breach and actions to address the breach with the Audit Committee
 - Significant breaches are communicated to the Audit Committee “as soon as possible” – all other breaches of the Code shall be communicated on a timely basis
 - Obtain concurrence from the Audit Committee on our conclusion regarding the breach (i.e., that the actions taken satisfactorily address the consequences of the breach)
 - Document the details of the breach, the actions described above and the result
- Breaches of AICPA rules and any violations involving a member of the audit engagement team will be reported consistent with the requirements described above
- Less significant breaches of AICPA rules shall be reported on the basis agreed with the Audit Committee



cutting through complexity

© 2015 KPMG LLP, a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. All rights reserved.

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