



Long Island Power Authority

Report to the Finance and Audit Committee

Audit plan and strategy for the year ending December 31, 2019

September 25, 2019

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Introduction

To the Finance and Audit Committee of the Long Island Power Authority

We are pleased to have the opportunity to meet with you on September 25, 2019 to discuss our audit of the consolidated financial statements of the Long Island Power Authority (the Authority) as of and for the year ending December 31, 2019.

The audit of the consolidated financial statements, prepared in accordance with U.S. generally accepted accounting principles (GAAP), will be conducted under the standards of U.S. generally accepted auditing standards (GAAS) and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

We plan to issue the auditors reports on the consolidated financial statements of the Long Island Power Authority (the Authority) as of and for the year ended December 31, 2019.

Other planned audit deliverables include:

- Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Accounting Standards
- Report on Investment Compliance
- Report on the Rate Stabilization Fund agreed upon procedures
- 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 Uniform Guidance (formerly OMB Circular A-133)

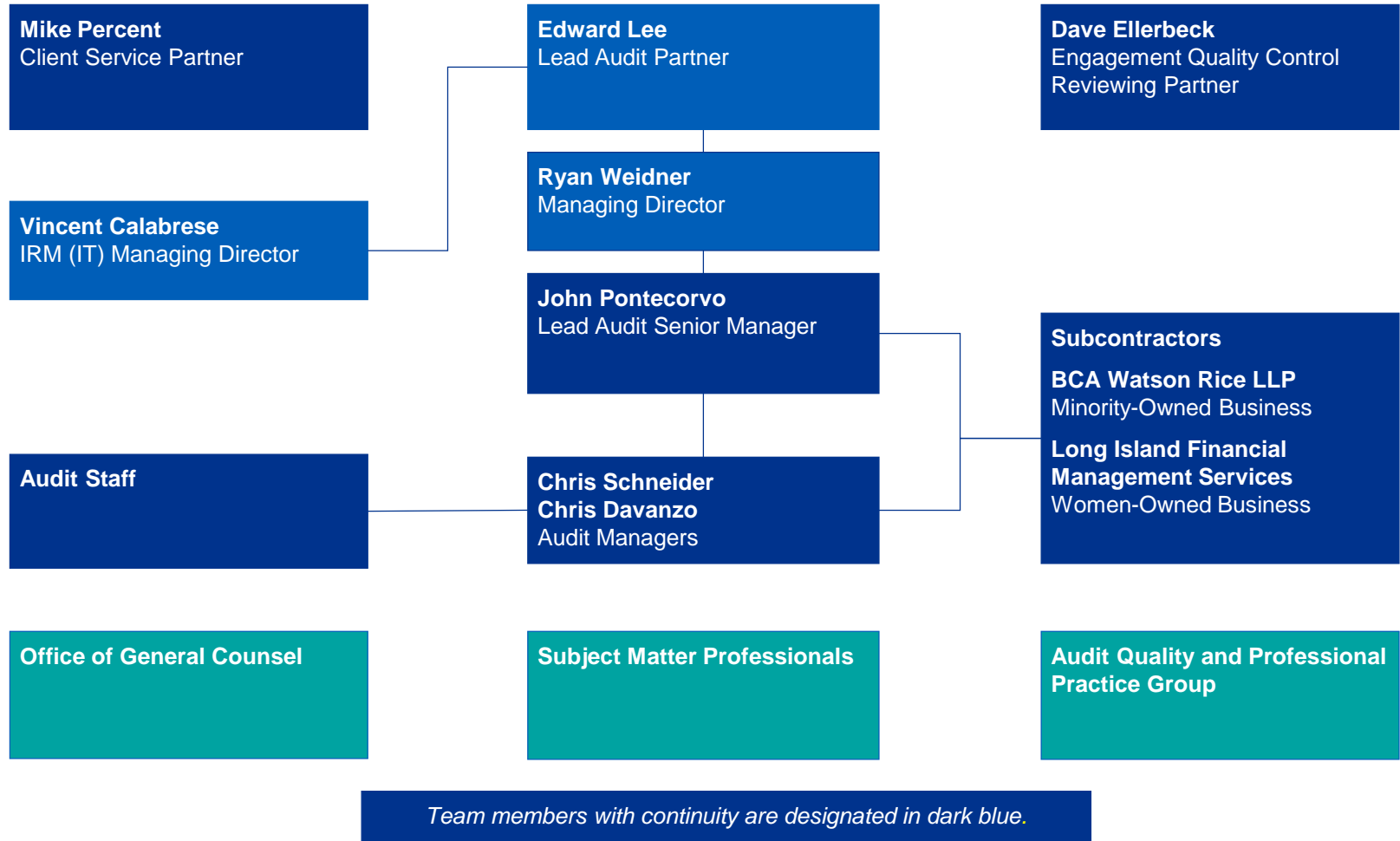
This document, which outlines our risk assessment and planned audit strategy, is being provided to you in advance of the meeting to allow you sufficient time to consider the key matters and formulate your questions.

We believe the contents of this document should provide a good platform for our discussions when we do meet. We will be pleased to elaborate further on matters covered in this document at the meeting.

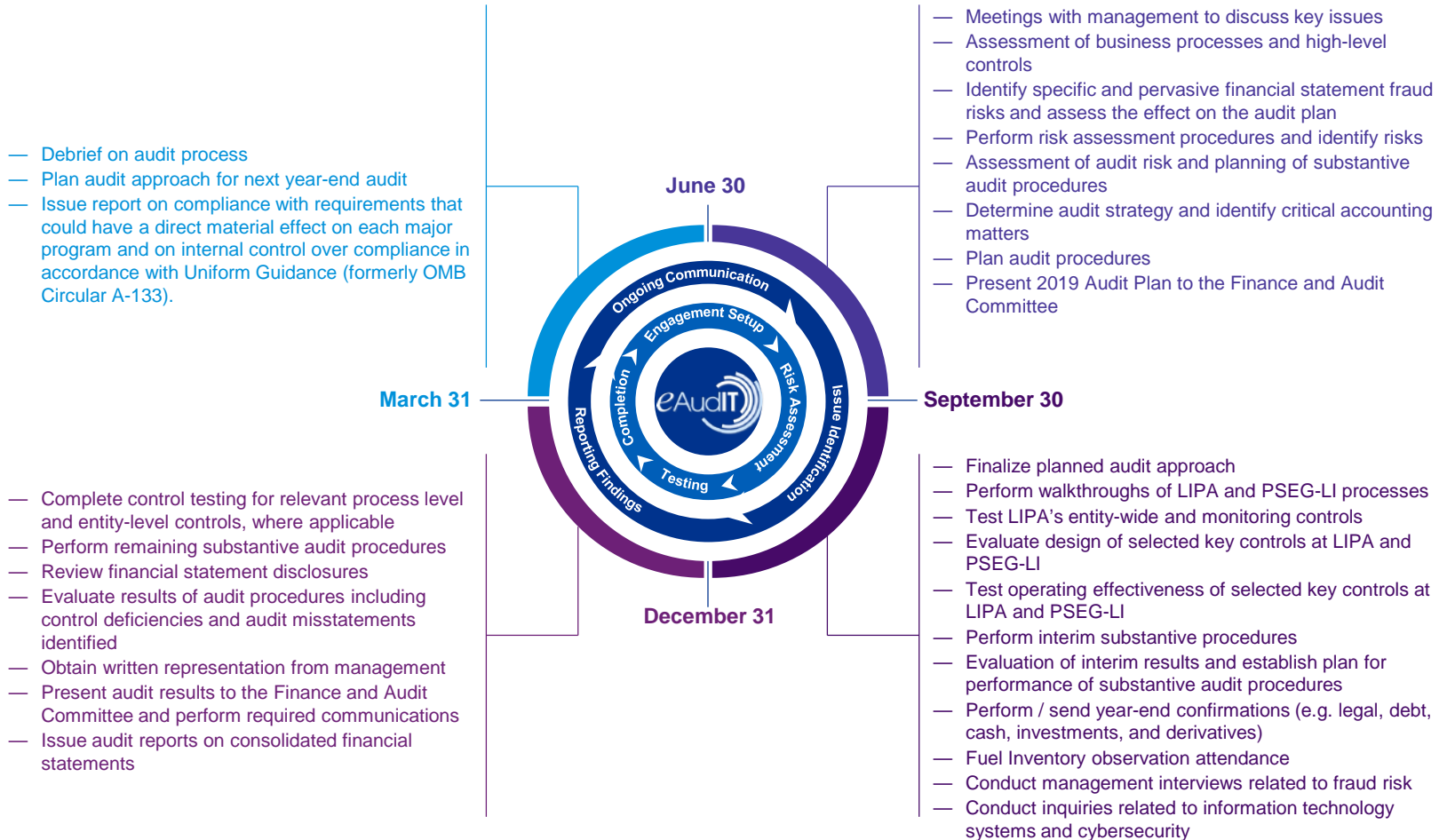
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Client service team



Planned timeline



Risk assessment

Significant risk	Susceptibility to	
	Error	Fraud
Management override of controls – Management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk nevertheless is present in all entities.	N	Y

Other significant audit matters	Susceptibility to		Relevant factors affecting our risk assessment:
	Error	Fraud	
Estimates include the following: <ul style="list-style-type: none"> — Derivative Valuations — Accounting for regulatory assets and liabilities — Pension and postretirement obligations — Unbilled revenue 	Y	N	KPMG considered the relevant qualitative and quantitative factors affecting our risk assessment, including, but not limited to, size, complexity, exposure to losses, measurement uncertainty, possible significant contingent liabilities, and related party transactions
Significant audit areas include the following: <ul style="list-style-type: none"> — Revenue recognition — Long term debt — Investments — Utility plant and property and equipment, including depreciation 	Y	N	

Newly effective accounting standards

Recent accounting pronouncements	Effective for years ending December 31	
	2019	2020
GASB Statement No. 84 – Fiduciary Activities	✓	
GASB Statement No. 87 - Leases		✓
GASB Statement No. 88 – Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements	✓	
GASB Statement No. 89 – Accounting for Interest Cost Incurred before the End of a Construction Period	✓*	

✓* - Early adopted for year ending December 31, 2019

Audit strategy

Involvement of others

Audit of consolidated financial statements	Plan to involve?	Extent of planned involvement
Internal Audit	Y	Inquiries of Internal Audit, Review Internal Audit Plan, and Review results of Internal Audits performed
KPMG Risk Analytics Valuation Specialists	Y	Testing the valuation of Financial and Commodity Derivative Instrument selections
KPMG National Pricing Desk	Y	Testing the valuation of Investments
KPMG Actuarial Specialists	Y	Testing the valuation of OPEB liability
KPMG Information Risk Management - IT	Y	Understanding the IT environment

Y = Yes **N** = No

Other audit procedures

- Analytically compare the consolidated statements of net position, statements of revenues, expenses, and changes in net position, and statements of cash flows
- Select a sample of journal entries throughout the year, if deemed necessary, as well as closing and post-closing entries
- Obtain an understanding of the design and implementation of controls to address risk of management override of controls
- Obtain an understanding of transactions with related parties, if any
- Read minutes of Board of Trustees and selected committees
- Send legal letters to external attorneys to determine litigation exposure and assess financial statement impact, if any
- Consider developments in financial reporting, laws, accounting standards, corporate governance, and other related matters
- Obtain copies of significant communications with regulators, if any

Audit fees

2019

LIPA Financial statements

- Independent Auditors' Report
- Report on Internal Control over Financial Reporting and Compliance on Other Matters
- Investments Guidelines Compliance Report
- Agreed Upon Procedures Report related to Rate Covenant Calculation and Amounts Held in the Rate Stabilization Fund
- Required Communications to the Finance and Audit Committee
- Management letter, if necessary

UDSA Financial statements

- Independent Auditors' Report
- Report on Internal Control over Financial Reporting and Compliance on Other Matters
- Investments Guidelines Compliance Report
- Agreed-upon procedures related to the UDSA's Restructuring Property Servicing Agreements (5 reports)
- Required Communications to the Finance and Audit Committee
- Management letter, if necessary

Total fees

\$785,000

The following reports will be billed separately:

- 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 Uniform Guidance (formerly OMB Circular A-133)
- Series 2019 General Revenue Bond Issuance consent letter



Supplemental communications

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Materiality in the context of an Audit

We will apply materiality in the context of the preparation and fair presentation of the consolidated financial statements, considering the following factors:

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 consolidated 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 consolidated 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.

Judgments about the size of misstatements that will be considered material provide a basis for

- a) Determining the nature and extent of risk assessment procedures;
- b) Identifying and assessing the risks of material misstatement; and
- c) Determining the nature, timing, and extent of further audit procedures.

Responsibilities

Management responsibilities – Consolidated financial statements	<ul style="list-style-type: none">— Fairly presenting the financial statements, including disclosures in conformity with U.S. GAAP— Adjusting the financial statements to correct material misstatements and affirming in the representation letter 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
Management responsibilities – ICOFR	<ul style="list-style-type: none">— Design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.
Management responsibilities – other	<ul style="list-style-type: none">— To provide the auditor with:<ul style="list-style-type: none">(1) Access to all information of which management is aware is relevant to the preparation and fair presentation of the consolidated financial statements, such as records, documentation, and other matters;(2) Additional information that the auditor may request from management for the purpose of the audit; and(3) Unrestricted access to persons within the Authority from whom the auditor determines it necessary to obtain audit evidence— 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

The audit does not relieve management or the Finance and Audit Committee of their responsibilities.

Responsibilities (continued)

Management responsibilities – other (continued)	<ul style="list-style-type: none">— Providing the auditor with a letter confirming certain representations made during the audit, that includes but is not limited to management's:<ul style="list-style-type: none">(1) 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(2) Acknowledgement of their responsibility for the design and implementation, and maintenance of internal controls to prevent and detect fraud
Finance and Audit Committee responsibilities	<ul style="list-style-type: none">— Oversight of the financial reporting process and ICOFR— Oversight of the establishment and maintenance by management of programs and controls designed to prevent, deter, and detect fraud
Management and the Finance and Audit Committee responsibilities	<ul style="list-style-type: none">— Setting the proper tone and creating and maintaining a culture of honesty and high ethical standards— Ensuring that the Authority's 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 consolidated financial statements.

The audit does not relieve management or the Finance and Audit Committee of their responsibilities.

Responsibilities (continued)

KPMG – Audit objectives

- The objective of an audit of the consolidated financial statements is to enable the auditor to express an opinion about whether the consolidated financial statements that have been prepared by management with the oversight of the Finance and 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, rather than absolute, assurance about whether the consolidated financial statements taken as a whole are free from material misstatement, whether due to fraud or error.
- 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 consolidated financial statements.

Responsibilities (continued)

KPMG responsibilities – Audit

- Forming and expressing an opinion about whether the consolidated financial statements that have been prepared by management, with the oversight of the Finance and Audit Committee, are presented fairly, in all material respects, in conformity with GAAP.
- Planning and performing our audit with an attitude of professional skepticism to obtain reasonable—not absolute—assurance about whether the consolidated financial statements are free of material misstatement, whether caused by fraud or error. Because of the nature of audit evidence and the characteristics of fraud, we are able to obtain reasonable, but not absolute, assurance that material misstatements will be detected. Our audit is not designed to detect error or fraud that is immaterial to the consolidated financial statements.
- 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 Authority's ICFR.

Responsibilities (continued)

KPMG responsibilities – Audit (continued)

- Communicating to management and the Finance and Audit Committee all required information, including significant matters.
- Communicating to management and the Finance and Audit Committee in writing all significant deficiencies and material weaknesses in internal control identified during the audit and reporting to management all deficiencies noted during our audit that are of sufficient importance to merit management's attention. The objective of our audit of the consolidated 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 consolidated financial statements.

KPMG responsibilities – Other information in documents containing consolidated financial statements

- The auditors' report on the consolidated financial statements does not extend to other information in documents containing the audited consolidated financial statements, excluding required supplementary information.
- We are required to:
 - Read the other information to identify material inconsistencies with the audited consolidated financial statements or material misstatements of fact, and
 - Make appropriate arrangements with management or the Finance and 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.

Responsibilities (continued)

KPMG responsibilities – Communications

- Communicating significant matters related to the financial statement audit that are in our professional judgment, relevant to the responsibilities of the Finance and Audit Committee in overseeing the financial process. U.S. GAAS does not require us to design procedures for the purpose of identifying matters to communicate to the Finance and Audit Committee
- Communicating if we suspect or identify noncompliance with laws and regulations exist, unless matters are clearly inconsequential
- Communicating to management and the Finance and Audit Committee in writing all significant deficiencies and material weaknesses in internal control identified during the audit, including those that were remediated 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 consolidated financial statements is not to report on the Authority's internal control
- Conducting the audit in accordance with professional standards and complying with the rules and responsibility of the Code of Professional Conduct of the American Institute of Certified Public Accountants and the official standards of relevant CPA Societies, and relevant state boards of accountancy
- Communicating to the Finance and Audit Committee circumstances, if any, that affect the form and content of the auditors' report
- Communicating if we plan to withdraw from the engagement and the reasons for the withdrawal

Responsibilities (continued)

KPMG responsibilities – Communications (continued)

- Communicating to the Finance and Audit Committee if we conclude no reasonable justification for a change to the audit engagement exists and we are not permitted by management to continue the original audit engagement
- Communicating to the Board of Trustees in writing any conclusion(s) that the Finance and Audit Committee's oversight of external financial reporting and internal control over financial reporting is ineffective
- When applicable, we are also responsible for communicating particular matters required by law or regulation, by agreement with the Authority, or by additional requirements applicable to the engagement
- Communicating if we have identified or suspect fraud involving; (a) management, (b) employees who have a significant role in internal control, (c) others, when the fraud results in a material misstatement in the consolidated financial statements, and (d) other matters related to fraud that are, in the auditors' professional judgment, relevant to the responsibilities of the Finance and Audit Committee
- Communicating significant findings and issues arising during the audit in connection with the Authority's related parties.

KPMG independence quality controls

KPMG maintains a comprehensive system of quality controls designed to maintain our independence and to comply with regulatory and professional requirements.

- Submission of all worldwide engagements through Sentinel, a KPMG independence and conflict checking system (includes services for/relationships with the audit client, its affiliates, and its affiliated persons)
- Tracking partner rotation requirements using PRS (Partner Rotation System), the firm's automated partner rotation tracking system
- Automated investment tracking system used by all KPMG member firms (KICS)
- Training and awareness programs, including a required annual independence training deployed globally and trainings specific to interactions with public officials and government entities
- Annual independence confirmation required for all existing partners and employees and for all new individuals who subsequently join the firm
- Compliance testing programs
- Formal disciplinary policy and process
- Annual reporting to the Finance and Audit Committee regarding independence

Independence of mind and appearance

- Independence consists of independence of mind and in appearance. Independence in appearance is the avoidance of circumstances that would cause a reasonable and informed third party who has knowledge of all relevant information, including safeguards applied, to reasonably conclude that the integrity, objectivity, or professional skepticism of the firm or members of the audit engagement team is compromised.
- Close personal relationships between firm personnel and audit client personnel can impact the appearance of independence or an auditor's independence of mind.

Breaches of independence

KPMG policies regarding breaches of independence:

- For any breaches of the Independence rules, as soon as practicable 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 Finance and Audit Committee
 - Obtain concurrence from the Finance and Audit Committee on the auditor's conclusion regarding the breach (i.e. that the actions taken satisfactorily address the consequences of the breach and the impact of the breach on KPMG's objectivity and impartiality with respect to the audit)
 - Document the details of the breach, the actions described above and the result



Questions?

For additional information and Audit Committee resources, including Director Roundtable Series in approximately 25 cities each Spring, a Quarterly webcast, and suggested publications, please visit KPMG's Audit Committee Institute (ACI) at www.kpmg.com/ACI.

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KPMG's experience serving the power and utilities industry

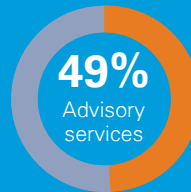
KPMG Global Energy Institute

Launched in 2007, the KPMG Global Energy Institute (GEI) is a worldwide knowledge-sharing forum on current and emerging industry issues. This vehicle for accessing thought leadership, events, webcasts, and surveys about key industry topics and trends provides a way for you to share your perspectives on the challenges and opportunities facing the energy industry.

KPMG Global Energy Conference

Presented by KPMG's GEI, the Global Energy Conference attracts more than 700 professionals each year. It brings together energy executives from around the world in a series of interactive discussions with industry luminaries. This premier event for executives in the energy industry will be on May 20-21, 2020, at the Post Oak Hotel in Houston, Texas.

KPMG provides the following services to Global 2000 energy and natural resources companies



Source: Global 2000, 2017-18

Representative energy clients

Acciona Energy USA
Alaska Energy & Resources Co
Apex Clean Energy
Aria Energy
Atlantic Power
Avangrid
Berry Petroleum
Big Rivers Electric
Brookfield Renewable Energy
Caithness Energy
Chugach Electric Association
Citizens Sunrise Transmission
Clearway Energy
Competitive Power Ventures
Cooperative Energy
Corn Belt Power Cooperative
COSO Geothermal Power
CPV Hydro Partners
CPV Power
CPV Renewable Energy Company
Cypress Creek Renewables
EDF Trading Holdings
EDP Renewables North America
El Paso Electric Company

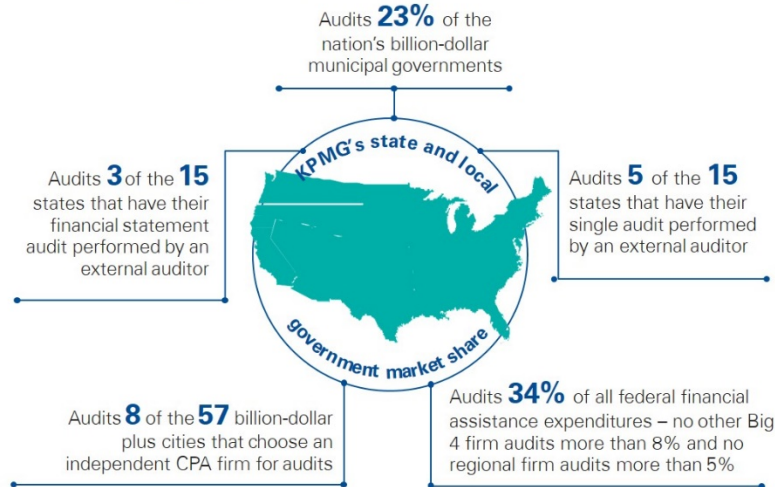
EPS Cogen Holdings I
Freeport LNG Development
GCE Holding
GenOn Holdings
Golden Spread Electric
Green Plains
Green Plains Partners
Hanwha Q Cells USA
Hawaii Gas
Innergex
Innory Renewables US
JERA Americas
Keystone-Conemaugh Projects
Linden VFT
Lonestar Generations
Long Island Power Authority
LS Power Development
Mayflower Energy Partners
Mitsubishi Hitachi Power
Northern Virginia Electric Cooperative
NRG Energy
Ocean Power Technologies
Olympus Power

Perennial Power
PNM Resources
Recology
Phoebe Energy Project
Poet Biorefining
Renewables USA
Shady Hills Power
SJW Group
South Texas Project Nuclear
Suffolk County Water Authority
Sunflower Electric
Summit Brazil Renewables I
TAE Technologies
TCT Generation Holdings
Transcanada Pipeline
Vermont Electric Power
Wellhead Electric
TerraForm Power
Western Farmers Electric Cooperative
Western Oilfields Supply
Ygrene Energy Fund

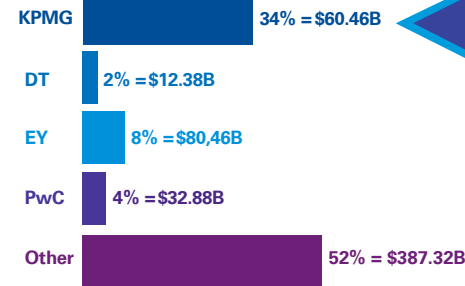
Bold = Audit Clients

KPMG's experience serving the public sector

KPMG's experience serving the public sector



KPMG is the leading firm in providing Single Audits. We perform more Single Audits than any other accounting firm.



KPMG audits 34%* of all federal financial assistance expenditures (grants, etc.) – no other firm audits more than 8%.

**The 34% share value is calculated based on total value of all federal financial assistance for audits filed in 2016 and excludes state audited entities.*

The above chart represents total Federal Expenditures of \$743.03B representing over 34,000 entities audited by over 3,700 auditing firms.

Source: Harvester – 2016

Representative state and local government audit clients

- Burlington Electric Department
- Central Utah Water Conservancy District
- Chesapeake Bay Bridge-Tunnel District
- City of Atlanta
- City of Boston
- City of Cambridge
- City of Long Beach
- City of St. Louis
- Commonwealth of Massachusetts
- Connecticut Retirement Plans/ Trust Funds
- **Dormitory Authority of the State of New York**
- E-470 Public Highway Authority
- Employee Retirement System of Hawaii
- Harris County Metropolitan Transit Authority

- Illinois Auditor General – State of Illinois single audit, Illinois Department of the Lottery, Illinois State Board of Investment, Illinois Housing Development Authority
- Los Angeles Department of Water & Power
- Massachusetts Bay Transportation Authority Retirement System
- Navajo Nation
- NE Illinois Regional Commuter RR Corp.
- New Jersey Turnpike Authority
- **New York Power Authority**
- **New York Racing Association, Inc.**
- **New York State and Local Employees' Retirement System**
- **New York State Energy Research and Development Authority**

- **New York State Environmental Facilities Corporation**
- **New York State of Health (NYSOH)**
- **New York State Teachers' Retirement System**
- Norfolk Airport Authority Omaha Airport Authority
- Pennsylvania Employees Retirement System
- Pennsylvania Housing Finance Agency
- **Port Authority of New York & New Jersey**
- Seattle Housing Authority State of New Hampshire **State of New York**
- **State University of New York**
- **Suffolk County Water Authority**
- Washington, DC Water and Sewer Authority

Bold = New York State agencies





Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.



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