

Utility Debt Securitization Authority

Report to the Board of Trustees

Audit plan and strategy for the year ending December 31, 2020

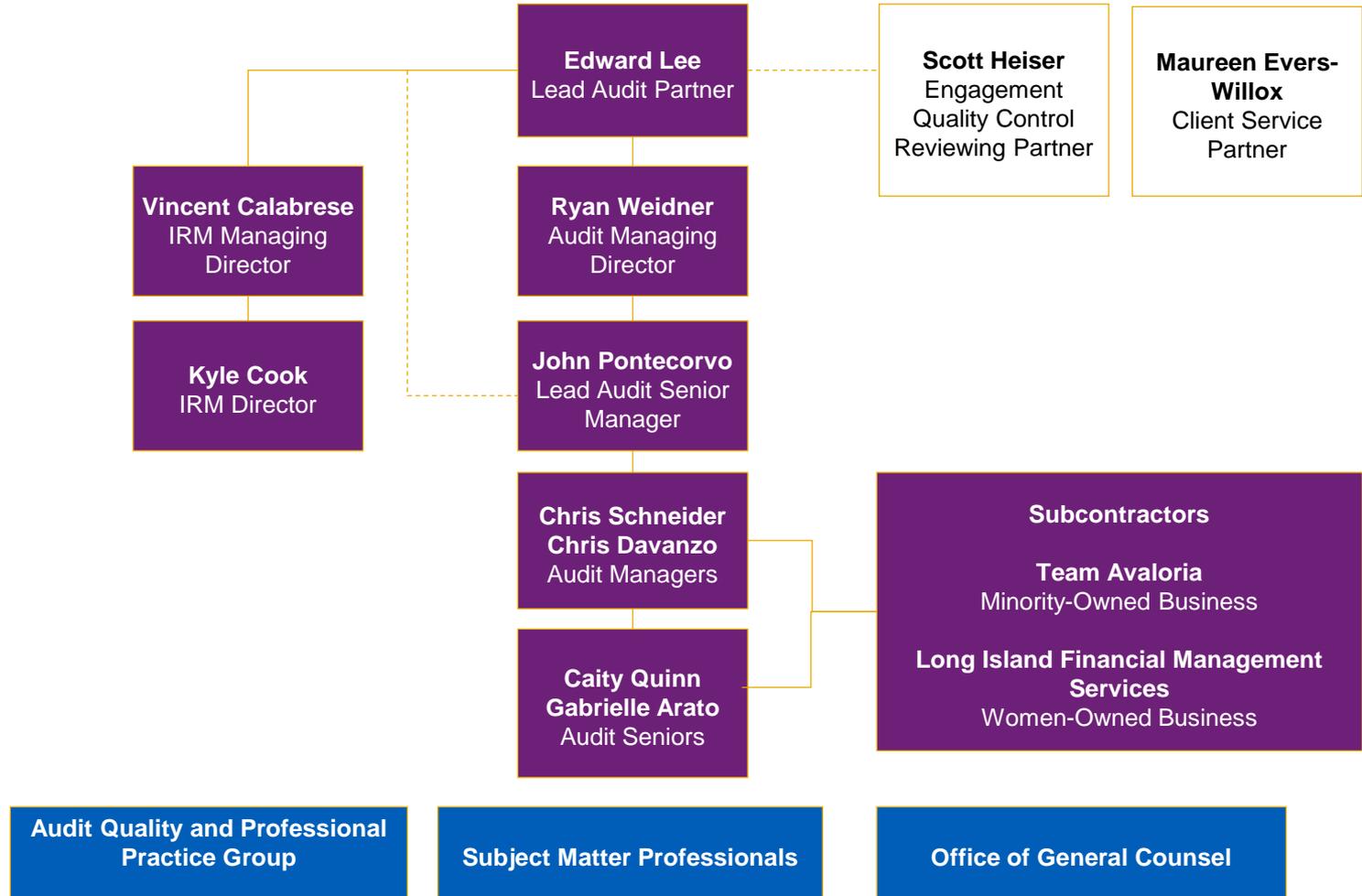
November 16, 2020





Client service team

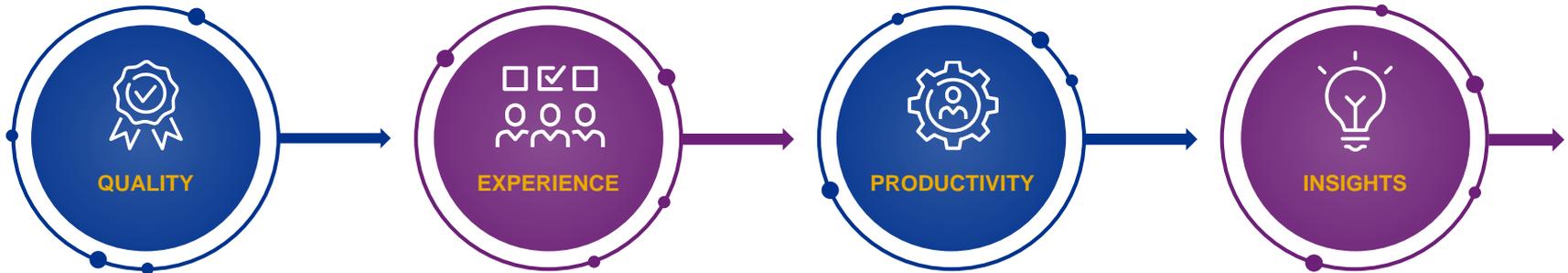
Team members with continuity are designated in purple.





Our commitment to you

We aim to deliver an exceptional client experience by focusing on



Quality in all that we do and how we deliver

We are committed to delivering a thoughtful, transparent and coordinated approach

Risk and insight-based auditing through the design, execution, and automation of our processes

Best-in-class industry and topical insights, which help our auditors make better decisions and share those relevant insights



COVID-19: Resilience & Readiness

COVID-19 is truly a unique and demanding challenge with severe human consequences. We place the highest priority on the health of our people and yours, and continue to take action based on guidance from public health authorities.

Key Insights For Your Organization

- Our team is producing insights and providing perspectives on actions we can all take to respond with resilience.
- Our [Audit Committee Institute](#) and [Board Leadership Center](#) is producing insights on oversight of companies' pandemic response.
- Our [COVID-19 resource center](#) also covers topics such as financial reporting, global economic impacts, financial management, contingency planning and business continuity, and more.



Business Continuity Excellence

- Our business continuity plan is working effectively and we have taken steps to prepare for future, potentially longer-term, alternative work arrangements.
- We are coordinating with your teams to best work together and communicating frequently to keep each other informed.
- Our Heads Up Thinking culture vision is helping to shape the way the firm responds to challenges like this to the benefit of our clients.



COVID-19 is a major consideration in the development of our audit plan in 2020. We are focused on understanding the impact of COVID-19 to your business, and coordinating and adjusting our audit plan as appropriate.

The background is a solid teal color with a faint, abstract network diagram. The diagram consists of several nodes, represented by small circles, connected by thin lines. Some nodes are larger and more prominent, while others are smaller and less distinct. The lines form a complex web of connections, suggesting a network or communication structure.

Required Board of Trustees Communications



Scope of audit

Our audit of the basic financial statements of UDSA as of and for the year ended December 31, 2020 will be performed in accordance with auditing standards generally accepted in the United States of America.

Performing an audit of the basic financial statements includes consideration of internal control over financial reporting (ICFR) 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 ICFR.



Materiality in the context of an audit

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

Misstatements, including omissions, are considered to be material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the basic 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 materiality involve both qualitative and quantitative considerations.

Judgments about matters that are material to users of the basic 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.

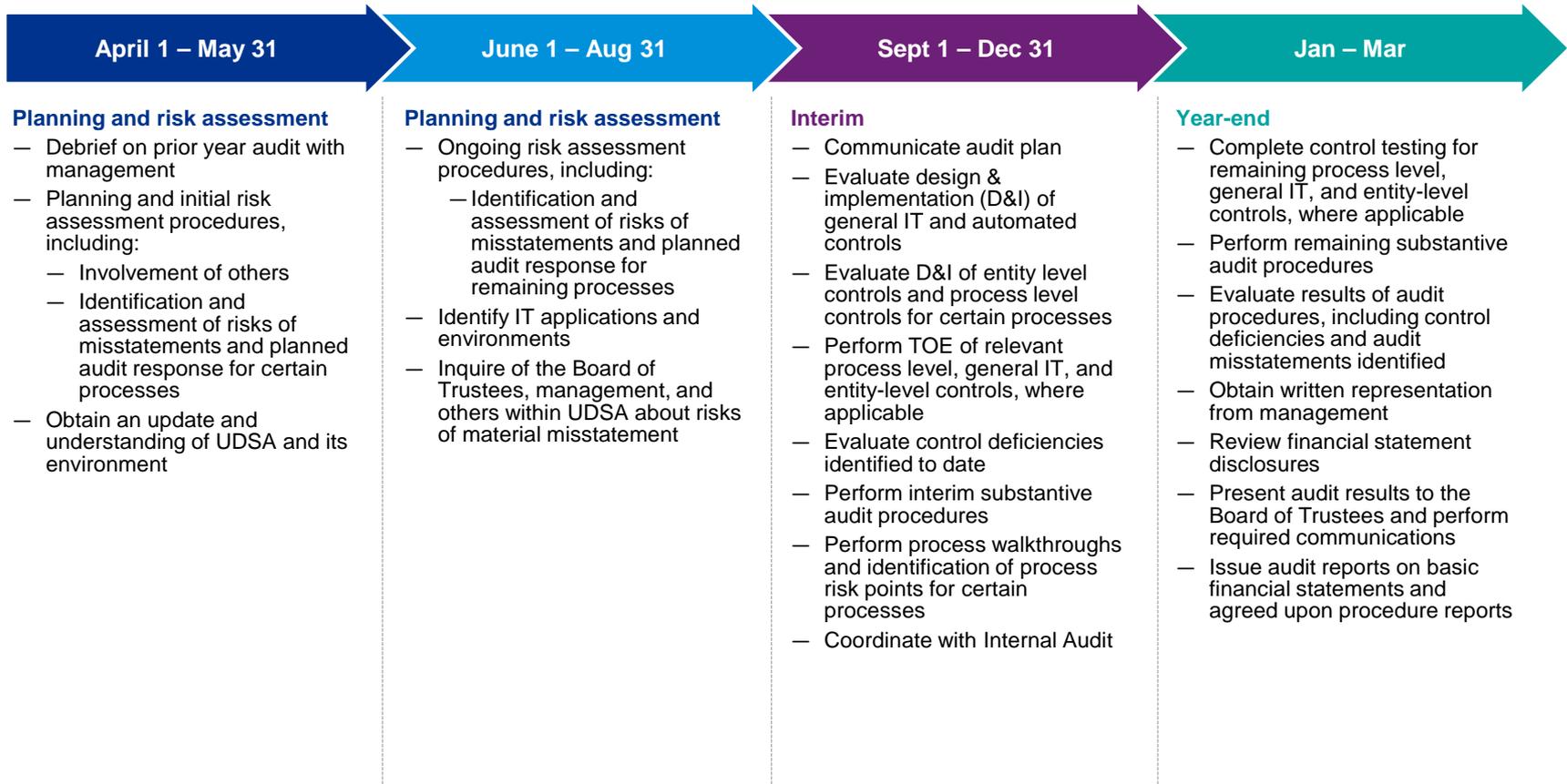
Determining materiality is a matter of professional judgment and is affected by the auditor's perception of the financial information needs of users of the basic financial statements.

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.



Our timeline



Filing date (Before March 31, 2021): Issue audit reports on basic financial statements.



Risk assessment: Significant risks

Significant Risks

Management override of controls

Management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent basic 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.

Susceptibility to:	
Error	Fraud
	Yes



Risk assessment: Other significant audit matters

Additional risks identified	Relevant factors affecting our risk assessment
<i>Significant Audit Area - Revenue recognition</i>	<ul style="list-style-type: none"> • Size and composition of the account • Volume of activity processed through the account • Nature of the account and disclosure
<i>Significant Audit Area - Long term debt</i>	<ul style="list-style-type: none"> • Size and composition of the account • Issuance of Debt AUP Reports
<i>Significant Audit Area – Restructuring Property</i>	<ul style="list-style-type: none"> • Size and composition of the account • Volume of activity processed through the account
<i>Significant Audit Area – Investments</i>	<ul style="list-style-type: none"> • Size and composition of the account • Issuance of Investment Compliance Report



Involvement of others

Audit of financial statements	Extent of planned involvement
Internal Audit	Inquiries of Internal Audit, Collaboration on Walkthrough Process, Review Internal Audit Plan, and Review results of Internal Audits performed
KPMG Information Risk Management – IT	Understanding the IT environment, and testing the system implementation of Microsoft Dynamics
KPMG Tax	Review the entity's basic financial statements to determine tax-exempt status is appropriate



Accounting pronouncements

GASB Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance

The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.



Shared responsibilities: Independence

Auditor independence is a shared responsibility and most effective when management, the Board of Trustees and audit firms work together in considering compliance with the independence rules. In order for KPMG to fulfill its professional responsibility to maintain and monitor independence, management, the Board of Trustees, and KPMG each play an important role.

System of independence quality control

The firm maintains a system of quality control over compliance with independence rules and firm policies. Timely information regarding upcoming transactions or other business changes is necessary to effectively maintain the firm's independence in relation to:

- New affiliates (which may include subsidiaries, equity method investees/investments, sister companies, and other entities that meet the definition of an affiliate under AICPA independence rules)

Certain relationships with KPMG

Independence rules prohibit:

- Certain employment relationships involving directors, officers, or others in an accounting or financial reporting oversight role and KPMG and KPMG covered persons.
- The Company or its directors, officers, from having certain types of business relationships with KPMG or KPMG professionals.



Responsibilities

Management responsibilities



- Communicating matters of governance interest to those charged with governance.
- The audit of the basic financial statements does not relieve management or those charged with governance of their responsibilities.

KPMG responsibilities – Objectives



- Communicating clearly with those charged with governance the responsibilities of the auditor regarding the financial statement audit and an overview of the planned scope and timing of the audit.
- Obtaining from those charged with governance information relevant to the audit.
- Providing those charged with governance with timely observations arising from the audit that are significant and relevant to their responsibility to oversee the financial reporting process.
- Promoting effective two-way communication between the auditor and those charged with governance.
- Communicating effectively with management and third parties.

KPMG responsibilities – Other



- If we conclude that no reasonable justification for a change of the terms of the audit engagement exists and we are not permitted by management to continue the original audit engagement, we should:
 - Withdraw from the audit engagement when possible under applicable law or regulation,
 - Communicate the circumstances to those charged with governance, and
 - Determine whether any obligation, either legal contractual, or otherwise, exists to report the circumstances to other parties, such as owners, or regulators.
- Forming and expressing an opinion about whether the basic financial statements that have been prepared by management, with the oversight of those charged with governance, are prepared, in all material respects, in accordance with the applicable financial reporting framework.
- Establishing the overall audit strategy and the audit plan, including the nature, timing, and extent of procedures necessary to obtain sufficient appropriate audit evidence.
- Communicating any procedures performed relating to other information, and the results of those procedures.



Inquiries

The following inquiries are in accordance with AU-C 260

Is the Board of Trustees aware of:

- Matters relevant to the audit, including, but not limited to, violations or possible violations of laws or regulations?
- Any significant communications with regulators?
- Any developments in financial reporting, laws, accounting standards, corporate governance, and other related matters, and the effect of such developments on, for example, the overall presentation, structure, and content of the basic financial statements, including the following:
 - The relevance, reliability, comparability, and understandability of the information presented in the basic financial statements?
 - Whether all required information has been included in the basic financial statements, and whether such information has been appropriately classified, aggregated or disaggregated, and presented?

Does the Board of Trustees have knowledge of:

- Fraud, alleged fraud, or suspected fraud affecting UDSA, including misconduct or unethical behavior related to financial reporting or misappropriation of assets?
 - If so, have the instances been appropriately addressed and how have they been addressed?

Additional inquiries:

- What are the Board of Trustees views about fraud risks in UDSA?
- Who is the appropriate person for communication of audit matters during the audit?
- How are responsibilities allocated between management and the Board of Trustees?
- What are UDSA's objectives and strategies and related business risks that may result in material misstatements?
- Are there any areas that warrant particular attention during the audit and additional procedures to be undertaken?
- What are Board of Trustees attitudes, awareness, and actions concerning (a) UDSA's internal controls and their importance in the entity, including oversight of effectiveness of internal controls, and (b) detection of or possibility of fraud?
- Have there been any actions taken based on previous communications with the auditor?
- Has UDSA entered into any significant unusual transactions?
- Whether the entity is in compliance with other laws and regulations that have a material effect on the basic financial statements?
- What are the other document(s) that comprise the annual report, and what is the planned manner and timing of issuance of such documents?



FY 2020 audit fees

Fee Discussion

Fees for the FY 2020 audit will be billed according to the Cost Proposal dated May 15, 2019, and amended June 23, 2019.

UDSA Financial Statements

- Independent Auditors' Report
- Report on Internal Control over Financial Reporting and Compliance on Other Matters
- Investment Guidelines Compliance Report
- Agreed Upon Procedures related to the USDA's Restructuring Property Servicing Agreements (5 reports)
- Required Communications to the Board of Trustees
- Management letter, if necessary

Fees for 2020

\$ 150,000



Questions?

For additional information and audit committee resources, including National Audit Committee Peer Exchange series, a Quarterly webcast, and suggested publications, visit KPMG's Audit Committee Institute (ACI) at www.kpmg.com/ACI

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