



# Utility Debt Securitization Authority

## Report to the Board of Trustees

**Audit plan and strategy for the year ending December 31, 2021**

With you today:

Edward Lee – Lead Engagement Partner

John Pontecorvo – Lead Engagement Senior Manager

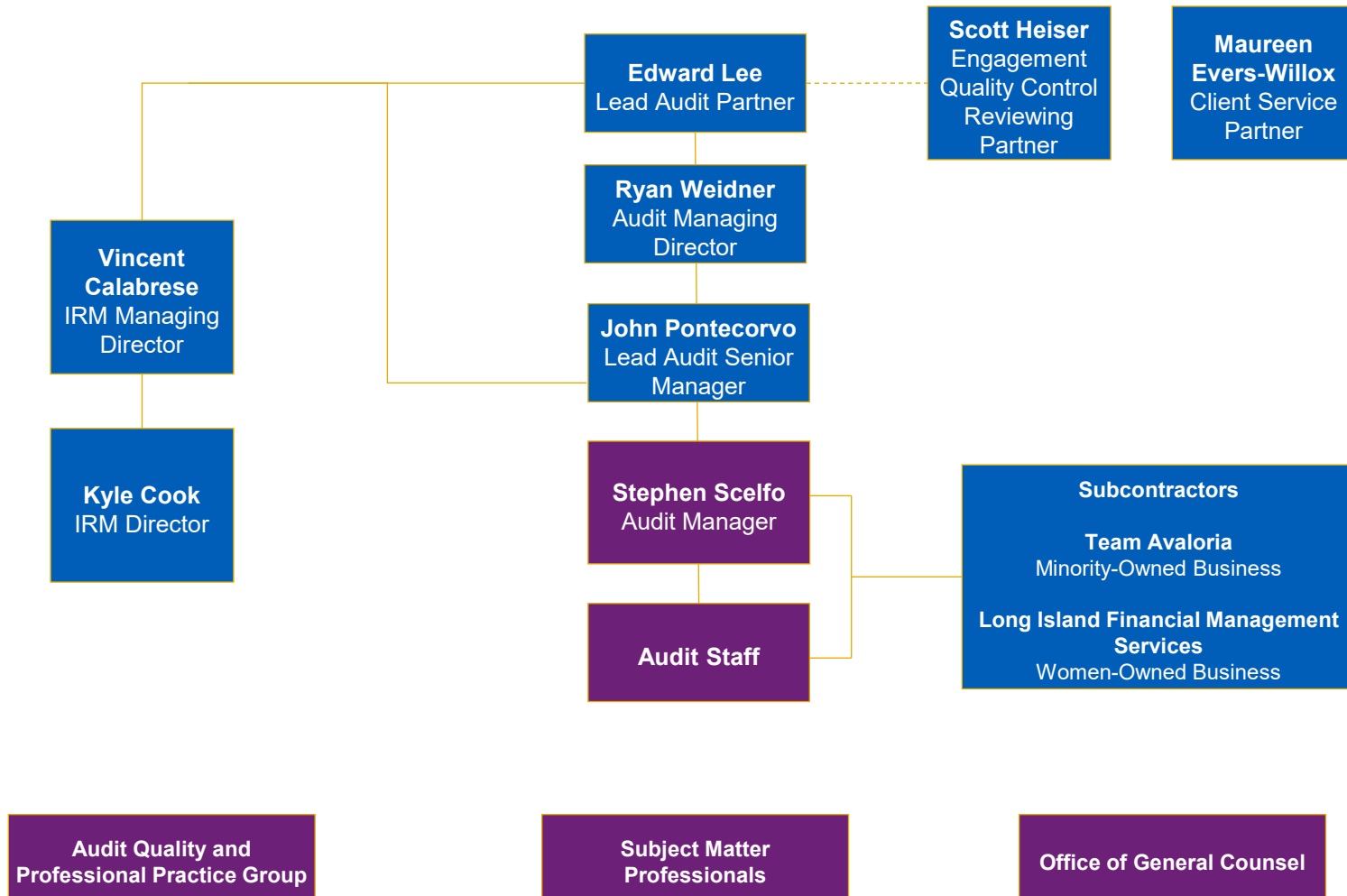
Stephen Scelfo – Audit Manager

November 16, 2021



# Client service team

Team members with continuity are designated in blue.



# Our commitment to you

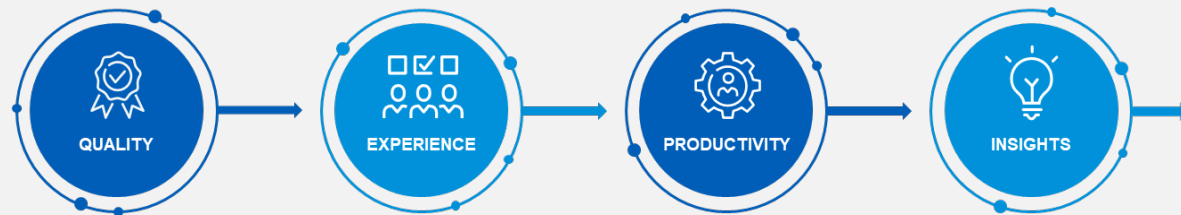


## Delivering a better audit experience drives us.

With KPMG you can expect an experience that's better for your team, organizations and the capital markets. An experience that's built for a world that demands agility and integrity.

See patterns in what has passed. See where risks may emerge. See opportunities emerge. See opportunities to optimize processes. And see ahead to new possibilities.

## We aim to deliver an exceptional client experience for UDSA by focusing on:



# 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 2021. We are focused on understanding the impact of COVID-19 to your business, and coordinating and adjusting our audit plan as appropriate.**

# Digitizing our audit platform



## Accelerating our innovation

Over the past year, we have deployed multiple new audit technologies within the KPMG Clara ecosystem to enhance your audit experience.

Built on an agile, integrated, and secure platform, KPMG Clara combines a client-facing portal, data extraction, a comprehensive suite of tools to evaluate and respond to risk, and a workflow to guide our teams through it all. These capabilities help us deliver with quality, efficiency, and insight, leading to an exceptional experience.

### Collaboration Platform

A next-generation audit facilitated by a digitized, efficient and transparent audit process.

### Our risk assessment approach:

Same high standards.  
More precision.  
Powerful technology.  
Tailored testing.

### The result:

More targeted and effective audit response.



### Data Extraction & Transformation

No matter your technology environment, we streamline data extraction and transformation to power the audit.

### Automation Throughout Our Response

End-to-end automation enabling a consistent and efficient response.

# Scope of the audit and other reports

## Scope of the audit

Our audit of the basic financial statements of UDSA as of and for the year ended December 31, 2021, 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.

## Other Reports

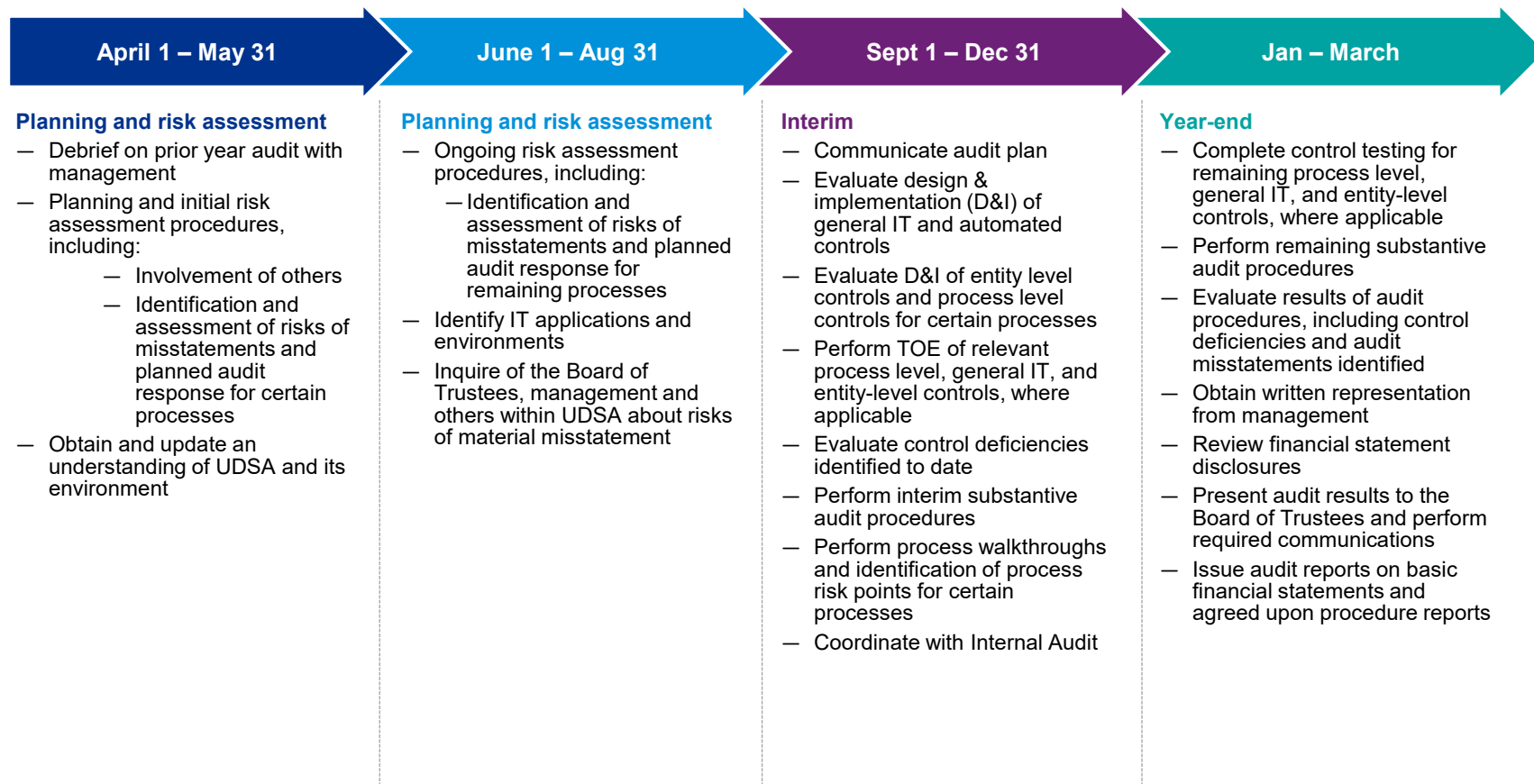
- Investment Guidelines Compliance Report
- Agreed-upon Procedures Report related to UDSA's Restructuring Property Servicing Agreements (5 reports)



# Required Finance and Audit Committee Communications

Presented on: November 16, 2021

# Our timeline



**Filing date (Before March 31, 2022): Issue audit reports on financial statements.**



# 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:**

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 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 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 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.

# Risk assessment: Significant audit areas and accounting estimates

| Significant audit areas  | Accounting estimates    |
|--------------------------|-------------------------|
| ➤ Revenue recognition    | ➤ Marketable Securities |
| ➤ Long term debt         |                         |
| ➤ Restructuring property |                         |

## Relevant factors affecting our risk assessment and planned response

- Size and composition of the account
- Volume of activity processed through the account
- Nature of the account and disclosure
- Measurement uncertainty (estimates only)

# Our approach to fraud risk

## Quality in all that we do

- Audit quality remains our highest priority and is critical to fulfilling our role in the capital markets.
- To deliver on our audit quality commitment, we are focused on consistently planning and executing our audits, in line with the requirements of applicable professional standards within a strong system of quality control.
- Core to actions to drive quality are a culture of integrity, innovation, including our smart audit platform KPMG Clara, and nurturing and supporting our talented professionals.

- Financial fraud can be complex and sophisticated and it is essential that businesses, those charged with governance, and their auditors assess the risk of financial fraud and respond accordingly.
- The auditors' responsibility is to plan and perform an audit to provide reasonable assurance that material misstatements are detected, whether caused by error or fraud.
- At KPMG, we are focused on exercising professional skepticism, and executing fundamental audit procedures and collating evidence, aligned with the professional standards, to seek to detect material misstatement as a result of fraud.
  - We share our planned audit approach and responses with those charged with governance every year.
  - We perform risk assessments, including conducting interviews within the company, assessing management's fraud risk, and running analytical procedures, as appropriate under the standards.
  - And when fraud risk is identified, we perform incremental procedures at the highest level of risk.
- As part of our commitment to sustaining audit quality, we recognize nothing remains static. We are committed to continually improving the quality, consistency, and efficiency of our audits, enabled by our technology, including our approach to fraud risk.

# 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 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

# 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   |
| KPMG Tax                              | Review the entity's financial statements to determine tax-exempt status is appropriate   |
| KPMG National Pricing Desk            | Test the valuation of Investment selections  |
| KPMG Forensics                        | Assist in brainstorming sessions related to fraud risks and fraud risk factors   |

# Cybersecurity considerations

## Factors and forces elevating cybersecurity risks:

- Shifts to remote work, online customer engagement, digital finance – “remote everything”
- Acceleration of digital strategies/transformation
- Surge and sophistication of cyber attacks
- Risks, vulnerabilities posed by third-party vendors

## Considerations for robust oversight:

- Focus on internal controls, access, and security protocols
- Increase diligence around third-party vendors
- Insist on a robust data governance framework
- Clarify responsibilities for data governance across the enterprise
- Reassess how the board—through its committee structure—assigns and coordinates oversight responsibility for cybersecurity and data governance frameworks, including data privacy, ethics, and hygiene

## Audit considerations:

- Evaluate risks of material misstatement resulting from, among other things, unauthorized access to financial reporting systems (e.g., IT applications, databases, operating systems)
- Determine whether there is a related risk of fraud
- Develop audit approach based on risk assessment
- If a cybersecurity incident occurs, we understand and evaluate its effect on our audit approach, as well as evaluate management’s assessment of the effect on the financial statements and disclosures

# Shared responsibilities: Independence

Auditor independence is a shared responsibility and most effective when management, those charged with governance 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, those charged with governance, 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)
- New directors, officers, owners of 10% or more of the Company's equity securities or ownership interests, and persons in key positions with respect to the preparation or oversight of the financial statements

## 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.
- UDSA 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 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 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

### Are those charged with governance 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 financial statements, including the following:
  - The relevance, reliability, comparability, and understandability of the information presented in the financial statements
  - Whether all required information has been included in the financial statements, and whether such information has been appropriately classified, aggregated or disaggregated, and presented?

### Do those charged with governance have knowledge of:

- Fraud, alleged fraud, or suspected fraud affecting the Company?
  - If so, have the instances been appropriately addressed and how have they been addressed?

### Additional inquiries:

- What are those charged with governance's views about fraud risks in UDSA?
- Who is the appropriate person in the governance structure for communication of audit matters during the audit?
- How are responsibilities allocated between management and the finance and audit committee?
- 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 the finance and audit committee's attitudes, awareness, and actions concerning (a.) the Company'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 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?

# Newly effective accounting standards - GASB

## Effective for December 31, 2021

GASB Statement No. 92 – Omnibus 2020

GASB Statement No. 93 – Replacement of Interbank Offered Rates

GASB Statement No. 97 – Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32

## Effective for December 31, 2022

GASB Statement No. 91 – Conduit Debt Obligations

GASB Statement No. 94 – Public-Private and Public-Public Partnerships and Availability Payment Arrangements

GASB Statement No. 96 – Subscription-Based Information Technology Arrangements

# FY 2021 audit fees

## Fee Discussion

Fees for the FY 2021 audit will be billed according to the Cost Proposal dated May 15, 2019, and amended June 23, 2019.

### USDA 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

### 2021 Fees for above deliverables

Per Cost Proposal



# Appendix



# KPMG thought leadership resources

## **KPMG Institute Network** <https://portal.us.kworld.kpmg.com/scripts/index.aspx/md/institutes/pages/home>

KPMG's Institute Network brings together thought leadership, insights, and knowledge about the issues and topics that matter most to our clients. So whether it's insight into industry trends or the interpretation of new regulatory requirements, the KPMG Institute Network is the place you can turn. It's also a destination that offers an open forum where clients can exchange information and share leading practices with their industry peers through audio and video Webcasts, share forums, roundtables, conferences, surveys, and more.

The KPMG Institutes include: Advisory Institute, Audit Committee Institute, Financial Reporting View, Global Energy Institute, Private Enterprise Institute, Government Institute, Healthcare and Life Sciences Institute, IFRS Institute, Shared Services and Outsourcing Institute, Tax, US Manufacturing.

## **Board Leadership Center** <https://boardleadership.kpmg.us/>

Engaging with directors and business leaders. Articulating boardroom challenges. Delivering practical thought leadership—on risk and strategy, talent and technology, globalization and compliance, financial reporting, and more—all through a board lens.

## **Audit Committee Institute** <https://boardleadership.kpmg.us/audit-committee.html>

As part of the KPMG Board Leadership Center, the Audit Committee Institute (ACI) provides audit committee and board members with practical insights, resources, and peer-exchange opportunities focused on strengthening oversight of financial reporting and audit quality, and the array of challenges facing boards and businesses today—from risk management and emerging technologies to strategy, talent, and global compliance.

## **Government Institute** <https://institutes.kpmg.us/government.html>

The Government Institute has been established to help federal, state, and local governments, and higher education and not-for-profit organizations meet their mandates to achieve unprecedented standards of transparency and accountability.

## **COVID-19: Reaction, Resilience, Recovery, New Reality** <https://www.kpmg.us/insights/2020/covid-19-resilience-readiness.html>

KPMG has created a COVID-19 landing page to share the latest insight into the unprecedented challenges of the rapidly changing landscape to establish clarity, emerge with strength, and inspire the future of business. This website includes links to our latest COVID-19 thought leadership and webcasts, and includes industry sector specific content, such as Asset Management, Consumer & Retail, Energy, and Insurance to name a few.

# Audit quality and transparency

## 2020 Audit quality report

- Highlights the steps we have taken in 2020 to evolve and enhance our audit practice and our firm
- Provides an overview of how we are strengthening our culture, continuing to invest in our people, and the new technologies that will enable our workforce



## 2020 Transparency report

- Provides more granular detail on our commitment to continually enhance audit quality
- Outlines KPMG LLP's structure, governance and approach to audit quality
- Discusses how the firm aligns with the requirements and intent of applicable professional standards

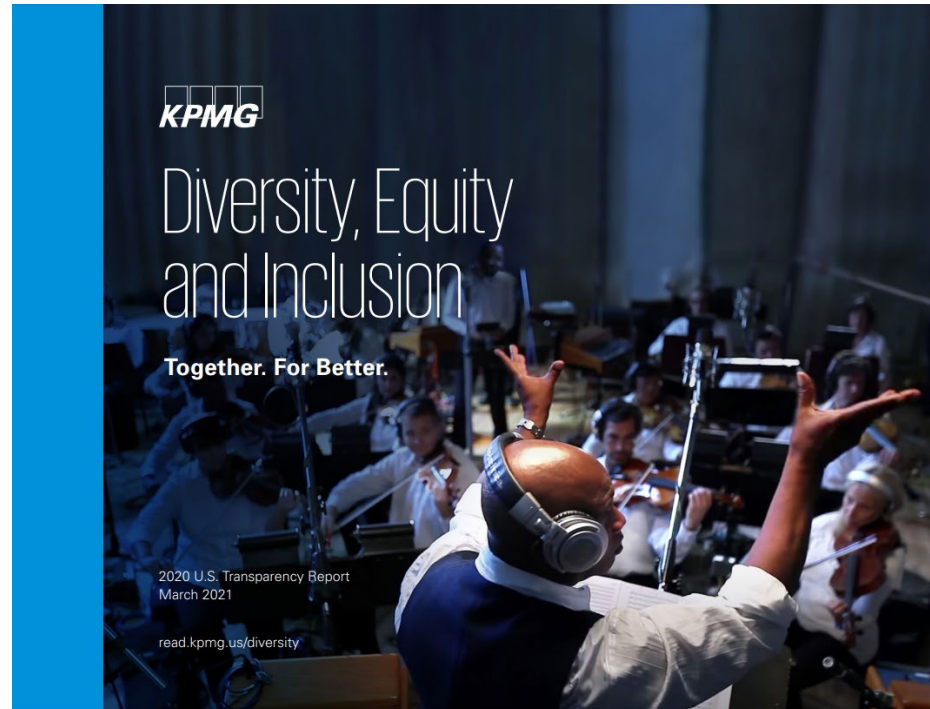


Reports and supplements available at:  
[read.kpmg.us/auditquality](https://read.kpmg.us/auditquality)

# KPMG Diversity, Equity and Inclusion Transparency Report



“KPMG is pleased to share our first US Diversity, Equity and Inclusion Transparency Report. The report shares information related to the progress we’ve made and where we want to further catalyze change to achieve our aspirations and is a critical milestone in ongoing transparency. We are excited to embark on this journey – our aspirations are ambitious, but we are intent on attaining them. We will be guided by our Values as we drive measurable and sustainable change – Together, For Better.”



<https://www.kpmg.us/content/dam/global/pdfs/2021/kpmg-us-2020-dei-report.pdf>

# KPMG Environmental Sustainability

## Mission and vision



At KPMG, we're focused on **managing and reducing the environmental impacts** of our business decisions.

We focus our efforts on reducing our own environmental footprint, educating our people, addressing local challenges through grants and pro bono support, and working with clients to advance environmental sustainability through their strategies.

## Achievements

Since 2019, operating on **100%** renewable energy



Reduced electricity consumption by **8%** year over year



Planted over **46,000** trees, one for every new hire since 2013



1

**Purchase**  
100% renewable energy for our offices

Achieved

2

**Reduce**  
carbon emissions by 10% per employee

Achieved

3

**Build**  
major construction projects to U.S. Green Building Council LEED standards

Achieved

4

**Promote** new technologies, processes, and workflows to help reduce travel

Achieved

"KPMG has announced its intention to become a **net-zero carbon organization by 2030**, as part of our continued focus on delivering growth in a sustainable way and providing climate solutions for member firms, clients and society."



# Community impact

We believe **Lifelong Learning is a journey of growth** where knowledge and skills make all the difference.

Our Community Impact efforts are aimed at **creating equity by providing access** to transformational learning opportunities for all.

Together with our KPMG U.S. Foundation, we support our most vulnerable populations and **foster growth and systemic changes in education, business and society.**



# Global commitment

KPMG has a documented history of being engaged on issues of social significance. We **use our skills and passion to find sustainable solutions** to global issues.

Inclusion demands we see beyond differences to create a culture which unlocks the power of diversity. We believe **a future of inclusion is better for all.**

We convene world leaders and change makers to share alternative opinions on **securing equality for all by 2030.**

At KPMG —

## We listen and act with empathy

Leading during a time of incredible challenges, Bill took action to help rally our global firm to come *Together, For Better*. Through interactive forums such as Courageous Conversations, the first ever Global Pride Conference, and a World Mental Health Day Summit, Bill has deepened relationships with many of our colleagues around the world.

As I continue championing a culture of inclusivity, I am inspired by Bill's example. His openness and leadership is a constant reminder of the power and impact our firm can have when all of our people's voices are heard and we create space for meaningful connections.

Thanks for inspiring me,  
**Paul Knopp**  
Chair and CEO



Story inspired by  
**Bill Thomas**  
Global Chairman and CEO

# Our values

| We do what's right.   | We never stop learning and improving.   | We think and act boldly.   | We respect each other and draw strength from our differences.   | We do what matters.  |
|---|---|--|---|--|
| <p data-bbox="198 582 359 644">Integrity</p> <ul data-bbox="112 696 440 1103" style="list-style-type: none"> <li>— Has a moral compass that does not waver in any situation, big or small</li> <li>— Does what they say and takes accountability when they don't</li> <li>— Is honest and forthright, even when it's difficult</li> <li>— Is not a bystander; takes action in the moment to do what's right and speak up</li> <li>— Upholds the letter and spirit of our ethical and professional standards, even under pressure</li> </ul> | <p data-bbox="513 582 726 644">Excellence</p> <ul data-bbox="455 696 772 1103" style="list-style-type: none"> <li>— Demonstrates a passion for quality</li> <li>— Pushes individuals and teams to reflect and evolve, learning from both success and failure</li> <li>— Shares knowledge patiently and generously</li> <li>— Advocates for and role models life-long personal, technical and professional growth</li> <li>— Invites feedback and constructive challenge, and promptly acts on it</li> </ul> | <p data-bbox="875 582 1045 644">Courage</p> <ul data-bbox="797 696 1114 1079" style="list-style-type: none"> <li>— Thinks big, pursuing innovative ideas and solutions</li> <li>— Openly questions actions inconsistent with our values, even when it isn't popular</li> <li>— Engages in candid conversations, caring personally and challenging directly</li> <li>— Has a bias for action and makes tough decisions</li> <li>— Acknowledges mistakes and limitations; asks for help</li> </ul> | <p data-bbox="1209 582 1392 644">Together</p> <ul data-bbox="1136 696 1464 1103" style="list-style-type: none"> <li>— Treats everyone with respect and dignity, always</li> <li>— Fosters an environment of inclusion, safety and belonging</li> <li>— Builds and nurtures meaningful relationships with people of all backgrounds</li> <li>— Embraces our 'One Firm' approach, involving those with different backgrounds, experiences, and capabilities</li> <li>— Actively listens and acts with empathy to drive better outcomes</li> </ul> | <p data-bbox="1547 582 1740 644">For Better</p> <ul data-bbox="1477 696 1806 1053" style="list-style-type: none"> <li>— Puts the work we do every day into context</li> <li>— Generously helps out and cares for others</li> <li>— Acts today to strengthen the firm for the future</li> <li>— Does small things everyday that make a difference</li> <li>— Looks beyond themselves to make a broader impact – from the individual, to local communities, to the world at large</li> </ul> |



# Questions?

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

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