



Long Island Power Authority Report to the Finance and Audit Committee

Audit plan and strategy for the year ending December 31, 2022

With you today:

Edward Lee – Lead Audit Partner

Maureen Evers-Willox – Client Service Partner

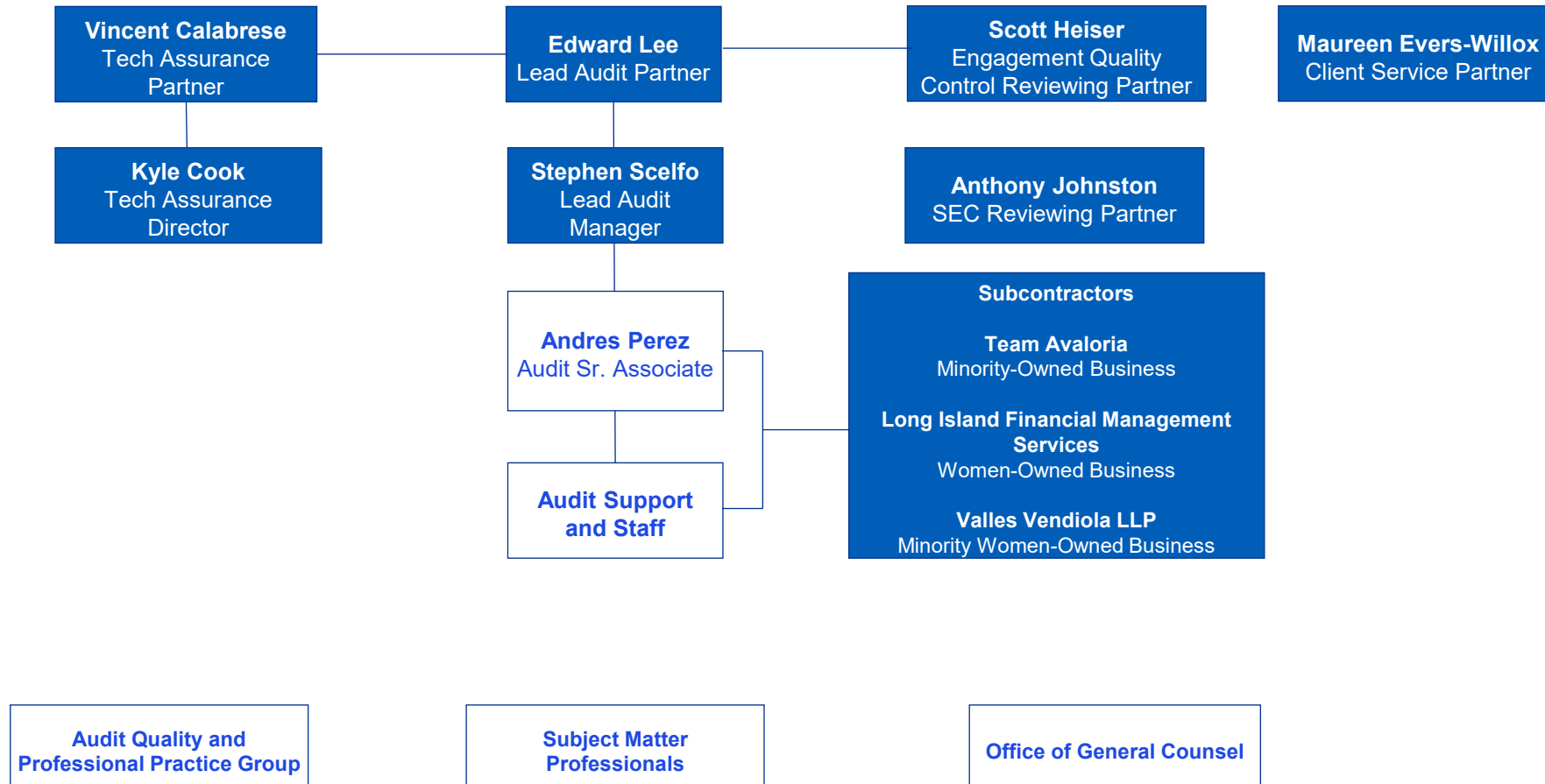
Stephen Scelfo – Lead Audit Manager

December 14, 2022



Client service team

Team members with continuity are designated in blue.



Our commitment to you

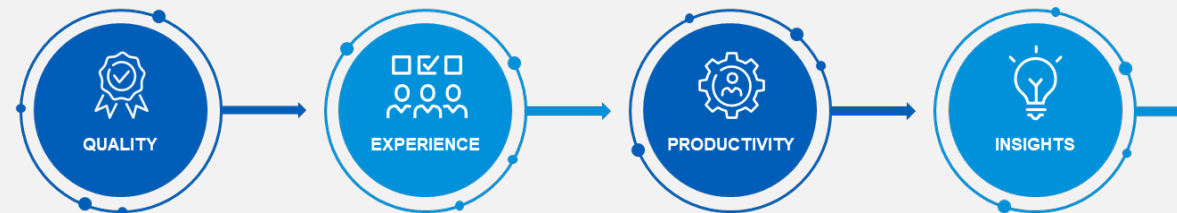


Delivering a better audit experience drives us.

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 LIPA by focusing on:



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.

KPMG implemented KPMG Clara on the 2021 financial statement audit of LIPA. In 2022, KPMG will implement the Single Audit version of KPMG Clara.

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

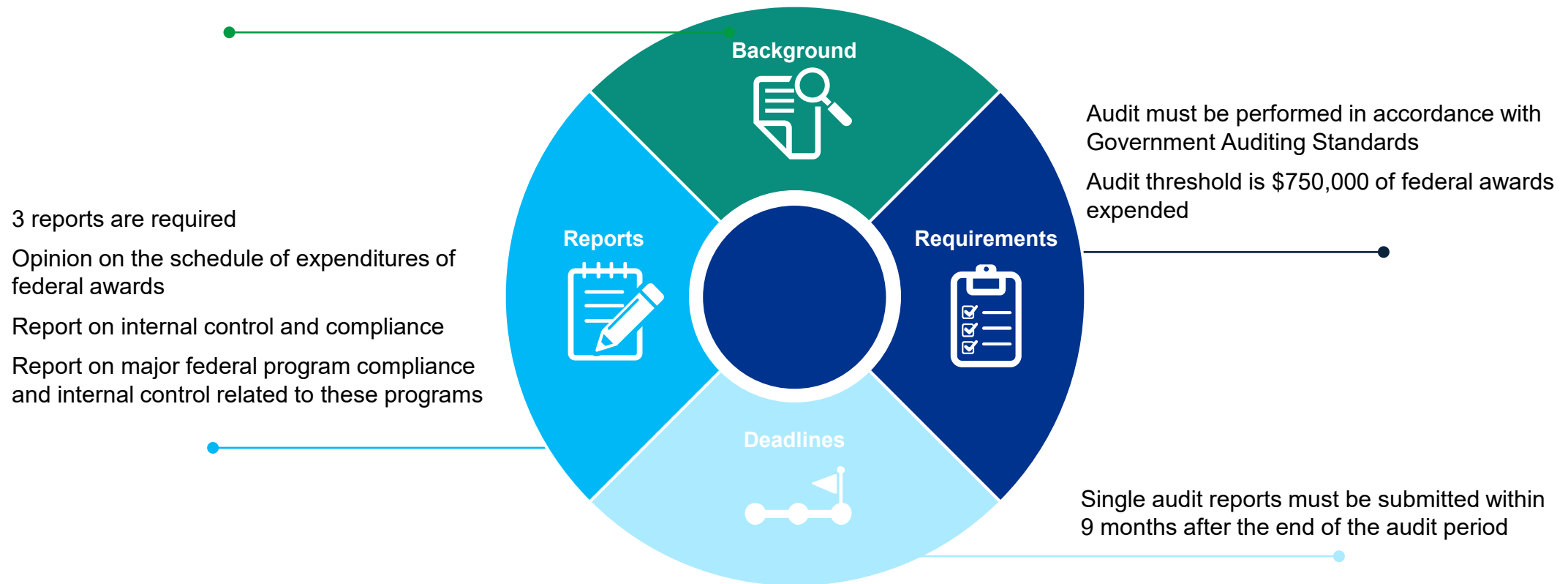
End-to-end automation enabling a consistent and efficient response.

Single Audit

The Uniform Guidance was passed in 2014 that defines the requirements and scope of single audits

Focus of a single audit is compliance requirements that may have a direct and material effect on a major program

Determining when an award is expended is based on when the activity related to the federal award occurs.



Scope of the audit

- **Our audit of the financial statements of LIPA and its blended component unit (UDSA) as of and for the year ended December 31, 2022, will be performed in accordance with auditing standards generally accepted in the United States of America.**
- **Performing an audit of the 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.**
- **Our 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, will be performed in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance).**

Other reports

LIPA

- **Investment Guidelines Compliance Report**
- **Debt Compliance Report**
- **Agreed-upon Procedures Report related to the Rate Covenant Calculation and Amounts held in Rate Stabilization Fund**

UDSA

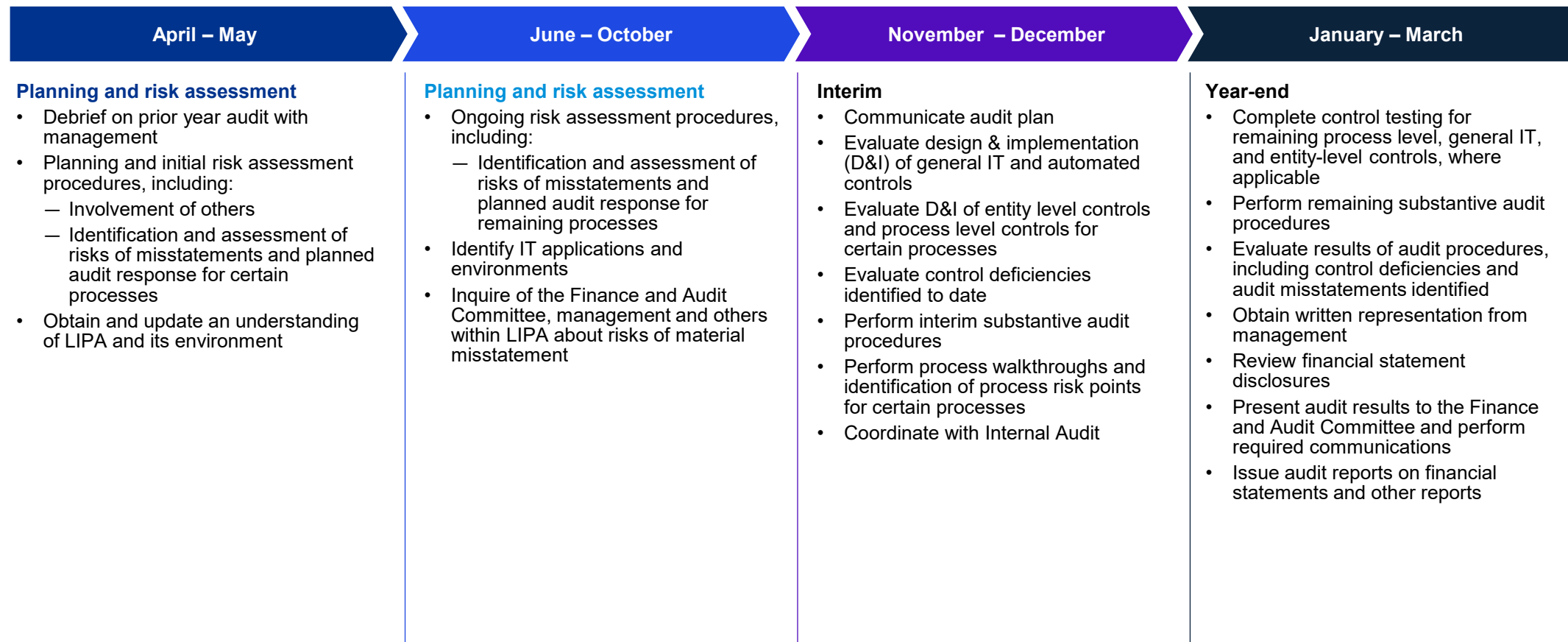
- **Investment Guidelines Report**
- **Agreed-upon Procedures Report related to UDSA's Restructuring Property Servicing Agreements (6 reports)**



Required Communications to the Finance and Audit Committee



Our timeline



Filing date: Issue financial statement audit reports and agreed-upon procedures on or before March 30, 2023

Materiality in the context of an audit

We will apply materiality in the context of the preparation and fair presentation of the 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

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

Risk assessment: Significant risks, audit areas, and accounting estimates

Significant risks	Susceptibility to:	
	Error	Fraud
<p>Management override of controls</p> <p>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.</p>		Yes

Significant Audit Areas	Accounting Estimates
Revenue recognition, including unbilled revenue & recognition of FEMA related funding	Marketable securities
Long term debt, including 2022 UDSA securitization	PSEG pension and postretirement obligations
Utility plant and property and equipment, including depreciation	Leases
Regulatory assets and liabilities	Valuation of commodity derivatives and financial derivatives

Relevant factors affecting our risk assessment

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

Newly effective accounting standards

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

Effective for December 31, 2023

GASB Statement No. 100 – Accounting Changes and Error Corrections – an amendment of GASB Statement No. 62

GASB Statement No. 99 – Omnibus 2022

Note: New GASB statements for fiscal year 2022 and 2023 are not expected to have a material impact on the LIPA's financial statements.

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 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 Risk Analytics Valuation Specialist	Testing the valuation of Financial and Commodity Derivative Instrument selections
KPMG Actuarial Specialist	Valuation of the PSEG OPEB and Pension liability

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 officers or directors with the ability to affect decision-making, beneficial owners with significant influence, 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.
- LIPA 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 LIPA?
 - 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 the LIPA?
- Who is the appropriate person in the governance structure for communication of audit matters during the audit?
- How are responsibilities allocated between management and those charged with governance?
- What are the LIPA'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 those charged with governance's attitudes, awareness, and actions concerning (a.) the LIPA'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 the LIPA 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?

2022 audit fees

Fees for the FY 2022 audit will be billed according to the Cost Proposal dated May 15, 2019, and amended June 23, 2019

LIPA Financial Statements

- Independent Auditors' Report
- Report on Internal Control over Financial Reporting and Compliance on Other Matters
- Investment Guidelines Compliance Report
- Debt Compliance Report
- Agreed-upon Procedures related the Rate Covenant Calculation and Amounts held in 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
- Investment Guidelines Compliance Report
- Agreed Upon Procedures related to the LIPAs Restructuring Property Servicing Agreements (6 reports) (UDSA)
- Required Communications to the Board of Trustees
- Management letter, if necessary

2022 Fees for above deliverables

Per Cost Proposal

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)
- General Revenue Bond Series - Issuance Inclusion Letter, as needed



Appendix



KPMG thought leadership resources

KPMG Institute Network <https://institutes.kpmg.us/>

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.

Trends on ESG

01

Regulatory landscape is evolving quickly

02

Shareholders are demanding investor-grade ESG reporting

04

Science has taken a more prominent role in target-setting

05

Established ESG governance structures include cross-functional teams and an ESG controller

03

Increased focus on action plans



“No regrets” moves on ESG reporting

1

Understand what ESG – and specifically, climate-related – reporting you are currently doing and any commitments you’ve made, whether or not these are separately called out as ESG.

2

Educate management and the board on the current landscape and the new proposals (including international requirements, if applicable).

3

Have the financial statement disclosure committee review and understand current climate-related reporting and start the process of developing what is appropriate for the Form 10-K and what is not.

4

Assemble a cross-functional task force that will implement the reporting revisions.

5

Take the next step on your greenhouse gas emissions inventory.

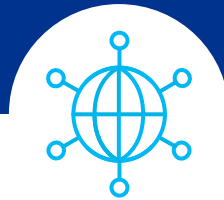
Transparency report

2021 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

2022 Impact plan

- U.S. Impact Plan spotlights
 - Audit quality
 - Accelerate 2025
 - Reducing our carbon footprint
 - Community impact



In addition to this report, we are providing you with our Transparency Report Supplement: Assisting audit committees in meeting NYSE rules on auditor communications

Reports and supplements available at:
audit.kpmg.us/auditquality/transparency

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.



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.
<h2 data-bbox="303 446 535 508">Integrity</h2> <ul data-bbox="214 582 624 1022" style="list-style-type: none"> • Has a moral compass that does not waver in any situation, big or small • Does what they say and takes accountability when they don't • Is honest and forthright, even when it's difficult • Is not a bystander; takes action in the moment to do what's right and speak up • Upholds the letter and spirit of our ethical and professional standards, even under pressure 	<h2 data-bbox="690 446 998 504">Excellence</h2> <ul data-bbox="639 582 1049 1022" style="list-style-type: none"> • Demonstrates a passion for quality • Pushes individuals and teams to reflect and evolve, learning from both success and failure • Shares knowledge patiently and generously • Advocates for and role models life-long personal, technical and professional growth • Invites feedback and constructive challenge, and promptly acts on it 	<h2 data-bbox="1149 446 1396 508">Courage</h2> <ul data-bbox="1065 582 1467 1022" style="list-style-type: none"> • Thinks big, pursuing innovative ideas and solutions • Openly questions actions inconsistent with our values, even when it isn't popular • Engages in candid conversations, caring personally and challenging directly • Has a bias for action and makes tough decisions • Acknowledges mistakes and limitations; asks for help 	<h2 data-bbox="1569 446 1829 508">Together</h2> <ul data-bbox="1490 582 1893 1051" style="list-style-type: none"> • Treats everyone with respect and dignity, always • Fosters an environment of inclusion, safety and belonging • Builds and nurtures meaningful relationships with people of all backgrounds • Embraces our 'One Firm' approach, involving those with different backgrounds, experiences, and capabilities • Actively listens and acts with empathy to drive better outcomes 	<h2 data-bbox="1982 446 2270 504">For Better</h2> <ul data-bbox="1913 582 2328 1022" style="list-style-type: none"> • Puts the work we do every day into context • Generously helps out and cares for others • Acts today to strengthen the firm for the future • Does small things everyday that make a difference • Looks beyond themselves to make a broader impact – from the individual, to local communities, to the world at large



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

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