



cutting through complexity

Power Authority of the State of New York

2012 Audit Plan

Meeting with the Audit Committee

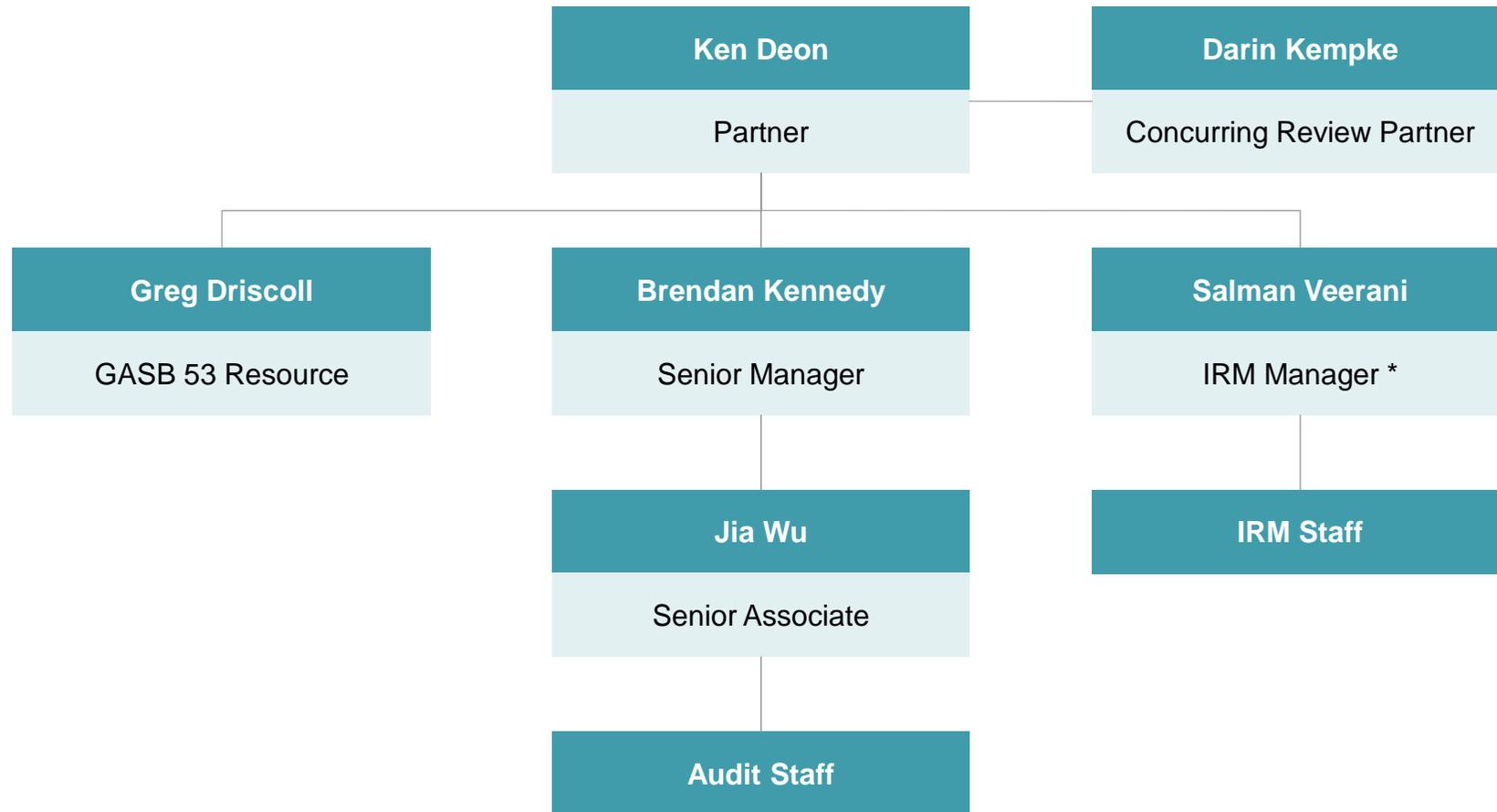
September 24, 2012



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KPMG engagement team



* Information Risk Management.

2012 audit objectives

To Opine on:

- Fair presentation, in all material respects of the Power Authority of the State of New York's, d.b.a. the New York Power Authority (NYPA) December 31, 2012 financial statements in accordance with U.S. GAAP

To Comply with:

- The 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
- Independence requirements
- KPMG's approach to quality control

To Support Management by:

- Bringing to management's attention weaknesses in, and suggestions for improving NYPA's internal accounting controls and financial reporting policies and procedures
- Advise NYPA on the interpretation and implementation of new accounting or reporting requirements
- Maintaining proactive working relationships with senior management and the Audit Committee

We plan and perform the audit to provide reasonable, not absolute, assurance that the financial statements taken as a whole are free from material misstatement, whether from error or fraud

Other Deliverables:

- Investment Guidelines Compliance Report
- Report on Internal Control over Financial Reporting and Compliance on Other Matters
- Required Communications to the Finance and Audit Committee

Management and audit committee responsibilities

General Responsibilities

- Adopting sound accounting policies
- Fairly presenting the financial statements in conformity with generally accepted accounting principles
- Identifying and confirming that NYPA complies with laws and regulations applicable to its activities
- Making all financial records and related information available to the auditor

Providing the auditor with a letter confirming certain representations made during the audit that includes, but are not limited to:

- Disclose all of significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect NYPA's ability to record, process, summarize, and report financial data; and
- Acknowledgement of their responsibility for the design and implementation of programs and controls to prevent and detect fraud

Management and the audit committee are responsible for:

- Establishing and maintaining internal controls prevent, deter, and detect fraud
- Setting the proper tone and creating and maintaining a culture of honesty and high ethical standards

The audit committee is responsible for:

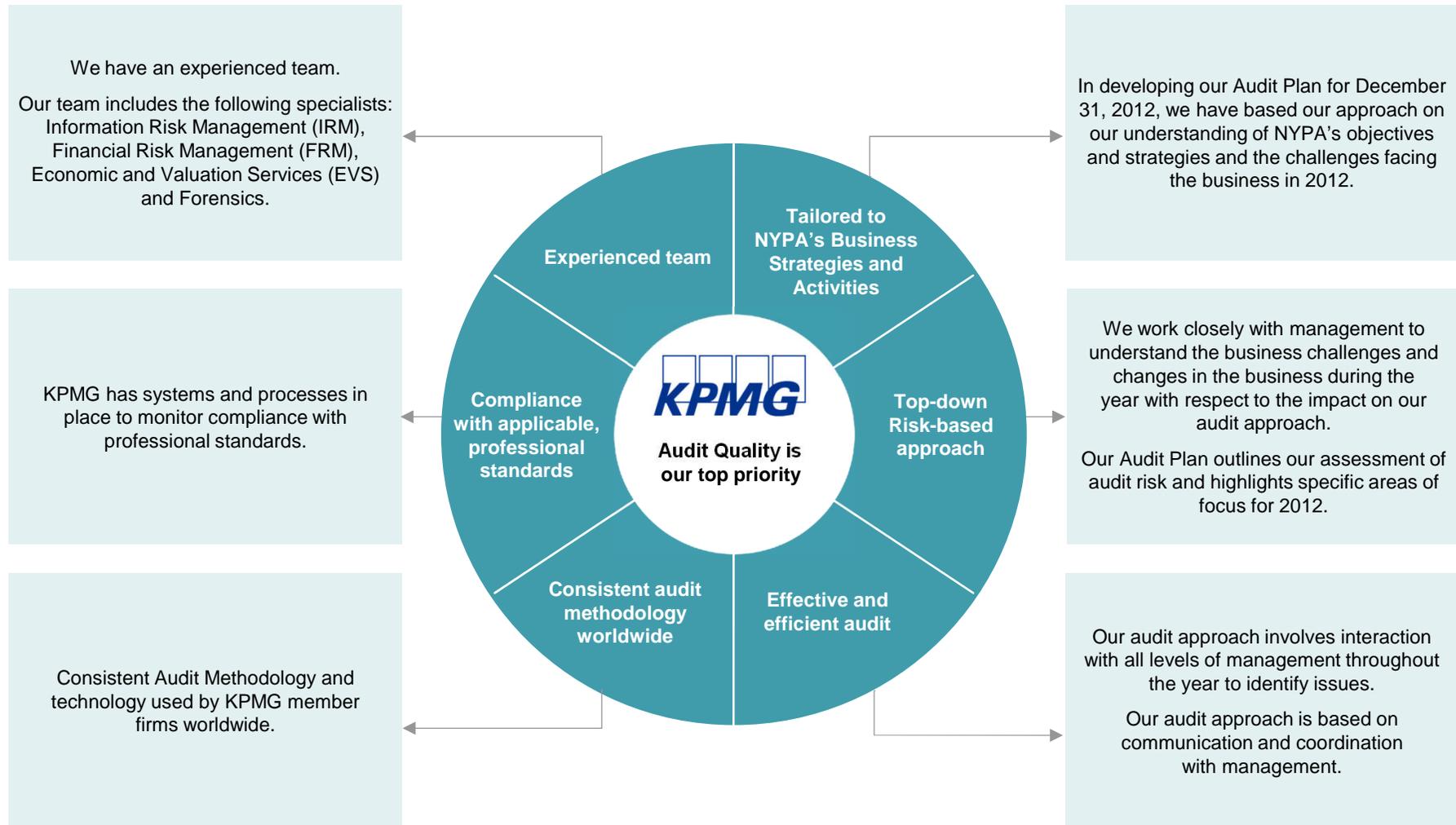
- Oversight of the financial reporting process and internal control over financial reporting

KPMG responsibilities

Responsibilities:

- We have a responsibility to conduct our audit in accordance with professional standards
- We comply with the ethical standards of the CPA societies, state boards of accountancy, and the Comptroller General of the United States
- We plan and perform our audit with an attitude of professional skepticism
- In carrying out this responsibility, we plan and perform the audit to obtain reasonable—not absolute—assurance about whether the financial statements are free of material misstatement
- We have no responsibility to obtain reasonable assurance that misstatements that are not material are detected
- We design tests of controls to obtain sufficient evidence to support the auditor's control risk assessments as part of the audit of the financial statements

KPMG's audit approach and methodology



Determination of audit approach

We design our procedures based on an entity-wide risk assessment

KPMG's risk assessment process includes our consideration of the following factors:

- Identification of significant accounts and transactions
- Significant or unusual events or transactions
- Changes in internal controls or the control environment
- Restructurings and/or business combinations
- Results of prior year audits
- Internal control deficiencies
- Changes in management
- External environment factors
- Fraud risk factors

Audit risk

Audit risk is defined as the combination of:

- The possibilities that material errors or irregularities may occur in NYPA's financial records
- That such errors will not be discovered through NYPA's own controls
- Audit procedures performed will fail to uncover them

KPMG's approach to reduce audit risk to an acceptably low level is to focus on understanding and assessing:

- NYPA's organization and operational risks
- NYPA's "tone at the top", control environment and monitoring controls
- NYPA's core business processes and related internal controls
- NYPA's significant accounts and disclosures

Detailed procedures at NYPA to mitigate audit risk to an acceptable level include:

- Evaluation and review of entity level controls at NYPA, and the control environment including fraud at NYPA
- Evaluation of management's risk assessment process to assess and test key controls over financial reporting
- Test of controls and tests of details over significant NYPA risks, accounts and disclosures as identified

Entity-wide and monitoring controls

Audit approach is to rely on NYPA's key entity-level and senior management's monitoring controls identified as follows:

- A Code of Conduct has been effectively implemented and the control environment has appropriate policies in place
- A Board of Trustees and an Audit Committee exist that is independent of management
- Management has undertaken a detailed risk assessment and monitoring controls exist to mitigate the risks identified
- Management has controls in place to ensure effective compliance with laws and regulations including areas impacting financial reporting
- Management has information and reporting systems that are responsive to achieving entity-wide and activity level objectives and produces the necessary information to manage NYPA's operation
- Results of NYPA's operations are measured against objectives and expectations including analyzing variances and key performance indicators on a monthly basis
- Key controls exist over the safeguarding of NYPA's assets

Scope for 2012 assumes reliance on entity level controls to ensure a top down approach

Audit risks and issues

The following are significant audit risks and issues:

Audit risks	Issues
Current economic environment – Liquidity	<p>We will design audit procedures to understand NYPA’s exposure to the current economic environment and perform appropriate procedures to ensure account balances are appropriately stated and the proper disclosures are made. The following issues will be addressed:</p> <ul style="list-style-type: none"> ■ Impaired investments ■ Access to credit markets ■ Derivative collateral requirements ■ Fair value of assets ■ Accounts receivable aging and related allowance for doubtful accounts
Management judgments and accounting estimates	<p>Appropriate methodologies and assumptions in assessing exposures/liabilities: ISO Reserves, Bad Debt Reserves, OPEB obligations, self insured reserves, legal injuries and damage</p>
Fuel, purchased power, and interest rate derivatives	<p>Proper determination of fair value and accounting and disclosure requirements as required by GASB 53</p>
Revenue recognition	<p>Appropriate revenue recorded as energy is delivered including unbilled revenue accounting</p>
Other considerations – NYPA’s business risks	<p>Transactions with New York State</p> <p>Volatility of fuel due to macro economic factors regarding oil, natural gas prices and power and its impact on derivatives or risk management model utilized by NYPA (i.e., exposure to new risk)</p>