



Massachusetts Bay Transportation Authority Discussion with Those Charged with Governance

Audit plan and strategy for the year ending June 30, 2022

September 2022



Engagement scope and deliverables- Planning 2022

Applicable financial reporting framework

- U.S. generally accepted accounting principles (GAAP)
- Governmental Accounting Standards Board (GASB)
- OMB Uniform Guidance

Audit reports

- Report on the Annual Financial Report of Massachusetts Bay Transportation Authority
- Report on Compliance for Each Major Program and Report on Internal Control over Compliance Required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Single Audit)
- Report on Internal Control over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*
- Agreed Upon Procedures Report for procedures performed and included in the Uniform System of Accounts and Records and Reporting System

Agreed Upon Procedures Report

Applicable auditing standards

- Auditing standards generally accepted in the United States of America
- *Government Auditing Standards*

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



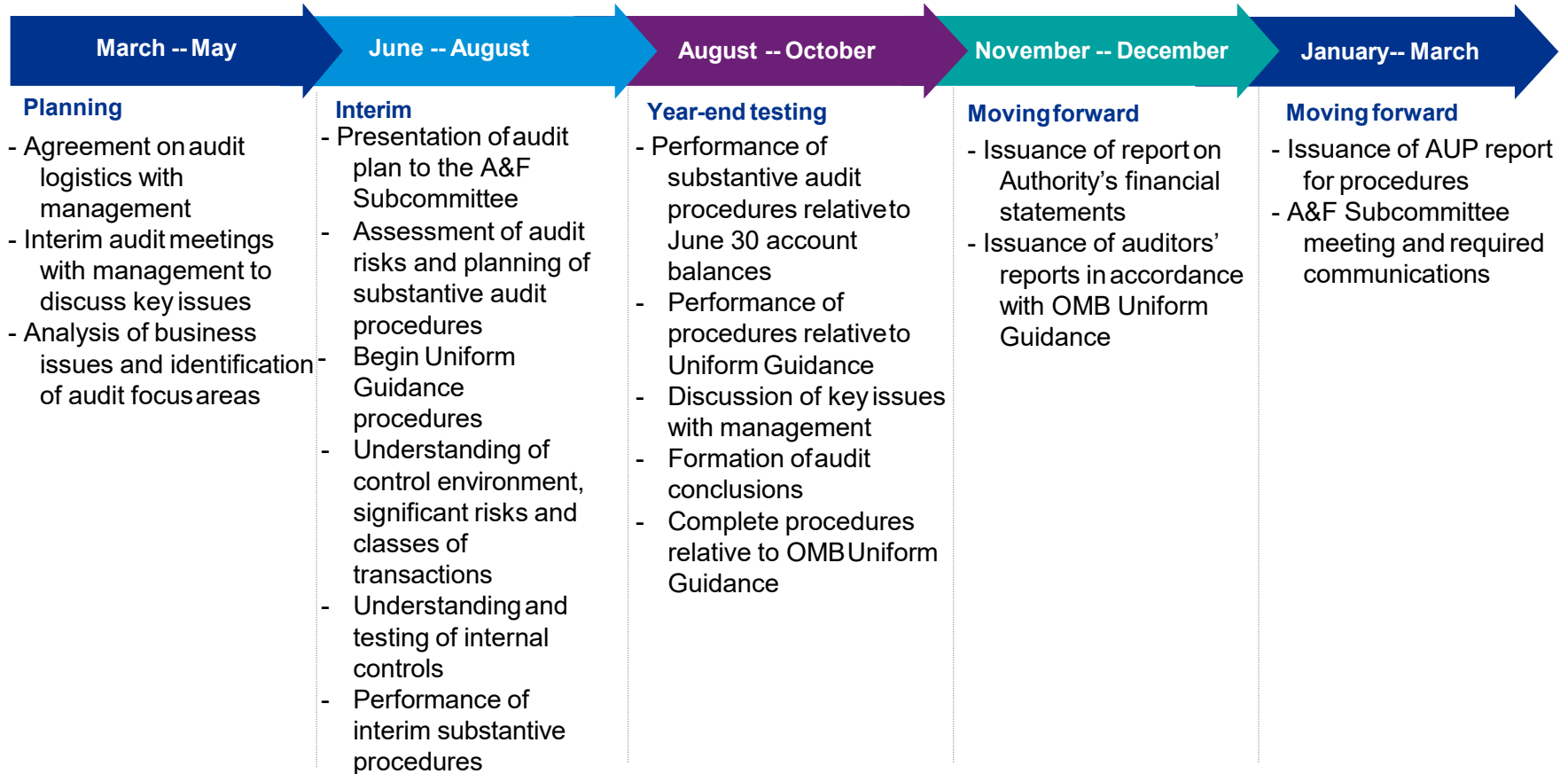
- Communicating clearly with those charged with governance the responsibilities of the auditor regarding the financial statement audit and an overview of the planned scope and timing of the audit.
- Obtaining from those charged with governance information relevant to the audit.
- Providing those charged 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, 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.

Audit timeline



**Year-round liaison with Authority senior management.
Continuous identification and resolution of key risks and issues.**

Significant accounts and planned approach

The following pages discuss results of our preliminary risk assessments, including the significant accounts, our primary planned procedures, and whether a significant risk has been identified.



Significant accounts/transactions

Cash and Investments

Capital assets and related depreciation

Debt and compliance with covenants

Federal grants, sales tax revenue and capital grants and contributions

Wages and employee benefits and related liabilities



Primary planned procedures

- Confirm balances with financial institutions
- Review year end reconciling items between book and bank
- Review disclosures with applicable GASB standards

- Test fixed asset additions on a sample basis
- Review fixed assets for impairment, as applicable
- Perform a reasonableness test over depreciation expense

- Confirm outstanding debt with financial institutions
- Test reasonableness of interest expense
- Review required financial statement disclosures to ensure presentation was in compliance with GASB standards and U.S. GAAP

- Perform a test of details over federal grants, sales tax revenue and capital grants and contributions

- Perform a test of details over wages and benefit expense
- Review pension and OPEB disclosures with applicable GASB standards

Significant accounts and planned approach

The following pages discuss results of our preliminary risk assessments, including the significant accounts, our primary planned procedures, and whether a significant risk has been identified. For each area, we will consider the impacts of COVID-19 and the current environment as we perform our testwork.



Significant accounts/transactions



Primary planned procedures

Leases

- Review operating and capital leases to ensure proper classification and related accounting and disclosure
- Review and test managements analysis of GASB 87 implementation

Commitments and contingencies and other

- Evaluate outstanding legal and regulatory matters
- Confirm with legal counsel
- Evaluate financial statements disclosures

Management override of controls is presumed to be a significant risk as 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.

Uniform Guidance (single audit) overview and scope

- The Single Audit is required by federal regulation and is focused on compliance and internal control over compliance for programs that are federally funded
- “Major programs,” those subject to audit, are determined based on defined federal regulations utilizing quantitative and qualitative risk considerations. Larger programs (Type A programs) must be audited at least once every three years.
- Audit opinion is issued for each major program
- The following major programs are in scope for FY22:
 - Federal Transit Cluster (ALN: 20.500, 20.507, 20.525, 20.526)
 - Disaster Grants-Public Assistance (Presidentially Declared Disasters)(ALN:97.036)
 - Federal-State Partnership for State of Good Repair (ALN: 20.326)

New auditor reporting standards

SAS 134*, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements*, aligns the content of the auditors' report under US GAAS with the equivalent ISAs. The revised auditors report will:

- Present the opinion section first, followed by the basis for opinion section.
- Include a statement that the auditor is required to be independent of the entity and to meet the auditor's other ethical responsibilities relating to the audit.
- Expand the statement of management's responsibility to include assessing the entity's ability to continue as a going concern.
- Expand the description of auditor responsibilities to include exercising and maintaining professional judgment throughout the audit, concluding on whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern, and communicating with those charged with governance regarding, among other matters:
 - The planned scope and timing of the audit,
 - Significant audit findings, and
 - Certain internal control-related matters that are identified during the audit
- When engaged by the entity, key audit matters are communicated within the auditors' report.

SAS 137*, *The Auditor's Responsibilities Relating to Other Information Included in Annual Reports*, amends the definition of an annual report and clarifies the auditor's responsibilities for other information included in the annual report, including when auditors reporting is required. The revised auditors report will:

- Include a separate 'Other Information' section when the annual report is available before the date of our auditors' report.

Effective for years ending on or after December 15, 2021.

* Conforming changes were made to AU-C 800, 805, and 810 to incorporate Auditor Reporting Changes from SAS 134. Conforming changes were made to AU-C Sections 725, 730, 930, 935, and 940 to incorporate auditor reporting changes from SAS 134 and 137.



Newly effective accounting standards

Effective for 2022

GASB No. 87, *Leases*

GASB No. 89, *Accounting for Interest Costs Incurred before the End of a Construction Period*

GASB No. 92, *Omnibus 2020*

GASB No. 93, *Replacement of Interbank Offered Rates*

GASB No. 97, *Certain Component Unit Criteria and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*

Effective for 2023

GASB No. 91, *Conduit Debt Obligations*

GASB No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*

GASB No. 96, *Subscription –Based Information Technology Arrangements*

GASB No. 99, *Omnibus 2022*

Effective for 2024 or later

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

GASB No. 101, *Compensated Absences*

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 Authority?
 - 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 Authority?
- 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 Authority'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 Authority'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 Authority 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?

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

This presentation to those charged with governance is intended solely for the information and use of those charged with governance and management and is not intended to be and should not be used by anyone other than these specified parties. This presentation is not intended for general use, circulation or publication and should not be published, circulated, reproduced or used for any purpose without our prior written permission in each specific instance.



© 2022 KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization